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Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

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#### Empfohlene Zitierung / Suggested Citation:

Kuiken, J. (2014). Caught in transition: Britain's oil policy in the face of impending crisis, 1967-1973. *Historical Social Research*, 39(4), 272-291. <https://doi.org/10.12759/hsr.39.2014.4.272-290>

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# Caught in Transition: Britain's Oil Policy in the Face of Impending Crisis, 1967-1973

Jonathan Kuiken\*

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**Abstract:** »Gefangen im Übergang. Die britische Ölpolitik im Angesicht der drohenden Krise 1967-1973«. This paper examines the challenges faced by British policy makers in years preceding the 1973 oil crisis. Despite an acute appreciation of the impending changes to the structure of the international oil industry, British officials were unable to formulate new policies to mitigate the impact of this changing situation. The inability or unwillingness of policy makers to act stemmed from three interconnected factors: the Government's desire to transition away from its reliance on its two domestically-based oil companies, BP and Shell, for oil policy information and advice, Government confusion over how best to utilize the newfound resources of the North Sea, and a lack of clear lines of authority within the Government regarding oil policy decision-making.

**Keywords:** OPEC, North Sea oil and gas, Prime Minister Edward Heath, 1973 oil crisis.

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## 1. Introduction

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On 14 February, 1971 Britain's Prime Minister Edward Heath held a private luncheon at his country retreat, Chequers.<sup>1</sup> Heath's guest was Sir Eric Drake, the chairman of British Petroleum (BP), the largest solely British oil corporation and one of the largest petroleum companies in the world. Despite the idyllic surroundings, the lunch was held under a dark cloud. Drake and his company had just finished participating in a difficult set of negotiations with the Persian Gulf member states of the Organization of Petroleum Exporting Countries (OPEC) held in Teheran, Iran.<sup>2</sup> These negotiations had seen the companies forced to agree to a significant rise in the posted price of oil and contributed to

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<sup>1</sup> The article was written during my time as a postdoctoral fellow at Boston College. I would like to thank the History Department of Boston College for the support provided to me to make this research possible.

<sup>2</sup> The companies had negotiated collectively as the London Policy Group (LPG). Included in the LPG were BP, Shell, Exxon, Mobil, Texaco, Gulf, Chevron, CFP, Marathon, Continental, Nelson Bunker Hunt, Occidental, Amerada-Hess, Atlantic Richfield, Grace Petroleum and Gelsenberg. See Parra 2004, 128.

a sentiment that a major shift in the balance of power between the industry and the producers had occurred.<sup>3</sup>

Heath and his advisors had predicted an adjustment in this power dynamic, but the severity of the oil companies' defeat at Teheran and shortly thereafter in Tripoli came as a surprise.<sup>4</sup> Drake did little to calm their apprehensions as he warned the Prime Minister darkly that "the question of oil supplies and prices for Europe had now become a political problem for Governments, not a commercial problem for companies," going on to suggest that "Europe was in practice at the mercy of the whim of the oil producing states," and that "the oil companies could not see what more they could do."<sup>5</sup>

Drake's warning of impending changes was dire but not unprecedented. The British Government had been anticipating alterations to the international oil industry for over a decade. Committees and working groups made up of members from the three departments which handled oil policy – the Treasury, the Ministry of Power, and the Foreign and Commonwealth Office (FCO) – had been examining the changing realities of the oil industry periodically since the Iranian Nationalization Crisis of 1951. These assessments recognized that the growth of political and resource nationalism in the oil-producing states, coupled with the increase in world oil consumption, would eventually result in pressure on the oil companies regarding production and pricing issues. A constant fear of these policy-makers – and one that was reinforced by Drake's warnings – was that Britain's traditional approach to oil policy which relied on a liberal, open market for oil in Britain and strong support for the interests of BP and Shell in their affairs abroad was ill-adapted to handle these anticipated changes.<sup>6</sup>

But despite the forewarnings of Drake and others and the realization that "the days of cheap imported oil" were "over," the British Government had difficulty developing and implementing new strategies to guarantee their oil policy goals of a secure supply at an affordable price.<sup>7</sup> In the two years between Drake's meeting with Heath and the oil crisis of 1973, a major review of oil policy was conducted but few concrete proposals for change emerged from Whitehall. Numerous suggestions and proposals by BP and Shell for the creation of a bloc of consuming nations which could counter the negotiating strength of OPEC were studied but ultimately deemed too difficult or dangerous. Thus when the anticipated oil crisis arrived in October, 1973 Heath, his

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<sup>3</sup> The agreement resulted in both an immediate increase in the posted price of oil at Gulf terminals as well as regular scheduled increases until 1975.

<sup>4</sup> The Tripoli Agreement which covered the Mediterranean oil producers had increased the price of Libyan oil from \$1.40 to \$2.30 per barrel. See Schneider 1983, 161.

<sup>5</sup> The National Archives (TNA), CAB 184/10, Meeting of Drake and Prime Minister, 15 February, 1971.

<sup>6</sup> Royal Dutch-Shell was forty percent British-owned.

<sup>7</sup> TNA, PREM 15/1836, Energy Policy at ES, 21 April, 1972.

Cabinet and his civil servants were left scrambling for effective policies to meet the challenge.<sup>8</sup>

The disconnect between the British Government's early anticipation of impending changes to the oil industry and its inability to put into place policies to prepare for those alterations requires an explanation. While it was acknowledged at the time that the plans that would have truly helped Britain prevent or mitigate the 1973 crisis would have required international cooperation and thus remained outside the sole responsibility of the British, the fact remains that Heath and his predecessors were warned on multiple occasions of the nation's approaching vulnerabilities. On top of this, they had themselves conducted several major reevaluations of oil policy, none of which resulted in significant change to the country's approach to oil matters.

This uncertainty regarding oil policy can be explained by looking at several interrelated problems facing British policy-makers. One of the most important was that Britain lacked a clear decision-making apparatus when it came to oil policy. Decisions regarding oil matters were made by the Cabinet based on the advice of ad hoc working parties and committees made up of representatives from the Treasury, the Ministry of Power and the FCO. These groups received most of their technical data and guidance directly from BP and Shell.<sup>9</sup> This policy-making apparatus had been deemed sufficient during an earlier era when oil was a minor fuel and the operations of the oil companies seemingly required little oversight, but as Britain's dependence on oil increased, the ad hoc nature of oil policy-making became a major liability in the eyes of British officials.<sup>10</sup> Despite this, efforts to increase Whitehall's capabilities regarding oil and other energy issues were similarly haphazard, relying on the creation of a small new advisory body, the Central Policy Review Staff (CPRS), along with dependence on outside oil analysts such as Walter Levy to complement or counter the opinions of BP and Shell.<sup>11</sup>

The necessity of these professional views was further increased in the eyes of British officials as the development of North Sea hydrocarbons placed the Government and the companies on opposite ends of a bargaining table in the

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<sup>8</sup> See Venn 2002.

<sup>9</sup> The efficiency of this policy-making structure was also hampered by the departmental instability of the Ministry of Power which was subsumed first into the Ministry of Technology in 1969, the Department of Trade and Industry (DTI) in 1970 and finally into the new Department of Energy after the crisis of 1973.

<sup>10</sup> A former member of the Foreign Office and BP, Robert Belgrave, would claim in 1984 that "there was no government oil policy before 1973." See Belgrave 1984.

<sup>11</sup> Heath's attempts to professionalize the policy advice the Cabinet received provides an interesting comparison to later reforms instituted during the governments of Margaret Thatcher. While Heath was interested in increasing the capacity of Government to effectively manage business and economic affairs Thatcher's reliance on the Neoliberal think tank, the Institute for Economic Affairs, encouraged greater reliance on private corporations for policy-making advice. See Rollings 2013, 637-59.

late 1960s and early 1970s and called into question the assumption that “what is good for BP is by and large good enough for the UK.”<sup>12</sup> The demands and promise of the North Sea also served to move oil policy from the field of bureaucratic debate and into the realm of politics, drawing attention from politicians and the press. This scrutiny challenged the consistent approach to oil policy that the civil service had employed and threatened to create a greater discrepancy between a Conservative and a Labour Party oil policy than had been experienced during the previous two decades.

Added to these internal problems were several external brakes to rapid oil policy re-evaluation. Chief amongst these were Britain’s negotiation for entrance into the European Community (EC) and the difficult relations with the Administration of President Richard Nixon in the United States. The combination of these two issues militated against any dramatic new approaches to consumer cooperation or potential common energy policies as did the fear that such collaboration might threaten Britain’s control over its North Sea assets.

Together these factors served to complicate Britain’s decision-making at a crucial time of transition in the international oil industry. As the 1973 oil crisis unfolded, Britain was thus caught in its own transition moving away from a system of independent policy-making based mainly on advice from BP and Shell to a system in which the Government would itself have the competency to make major oil policy decisions in a broader, cooperative setting. The unfortunate confluence of these two transitions would make for a difficult period during the 1973 oil crisis.

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## 2. Traditional Policy-Making

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To understand how and why this policy-making transition occurred, and why it left Britain so unprepared for an oil crisis, it is important to understand the country’s traditional approach to oil matters. From the early days of the oil industry the Government instituted a liberal, open importation system allowing companies of any national origin to operate within the country.<sup>13</sup> The goal of this scheme was to use competition to keep prices low for British industry and consumers. BP and Shell had no objections to this approach – at least early on.<sup>14</sup> But since oil sales by BP and Shell, both inside and outside of Britain, helped significantly with the nation’s balance of payments, the second aspect of Britain’s oil policy was to support the interests of the companies wherever possible.<sup>15</sup>

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<sup>12</sup> TNA, CAB 184/61, Letter from Mayne to Wade-Gery and Rothschild, 7 April, 1972.

<sup>13</sup> For the early decades of the British oil industry, see Jones 1981.

<sup>14</sup> Through their joint marketing subsidiary Shell-Mex and BP, the two firms provided slightly less than 50 percent of Britain’s domestic oil consumption.

<sup>15</sup> TNA, T 317/134, The Oil Industry’s Contribution to the Balance of Payments, 1961-1962.

This was especially important in the Middle East where prior to 1971 Britain maintained an important political and military role. The deployment of British forces in the Persian Gulf was appreciated by some local rulers, but drew the ire of Arab nationalists, most prominently from the Egyptian President Gamal Abdel Nasser.<sup>16</sup> Because of this awkward position, Whitehall officials felt it was particularly important that the companies conduct relations with the oil-producing states on their own. In this way, it was believed that the commercial dealings of the oil companies could be kept separate from the political role played by Britain, at least on the surface.

The close link between the interests of BP and Shell and those of the British was strengthened by the fact that the Government maintained tight institutional connections to both firms. These contacts were important in both cases but also significantly different as Britain's relationship with BP was much more formal. From 1967-1973 the Treasury owned roughly 48 percent of BP's shares, a situation that stemmed from a purchase of 51 percent of BP's predecessor company, the Anglo-Persian Oil Company, in 1914. This position as the Company's major stockholder was governed by two documents, the Bradbury Letter of 1914 and the Bridges Letter of 1951, which stipulated that the British Government would not interfere in day-to-day commercial affairs of the company. These agreements also offered the option to veto any decision made by the company which was deemed to be against the interests of Britain. This was a seemingly powerful role, but in practice such a veto was never exercised and for all intents and purposes, BP operated as a purely private company.<sup>17</sup>

Shell's connections to the Government, while less formal, were similarly important. Royal Dutch Shell was actually 60 percent Dutch-owned and therefore not completely under the jurisdiction of the British, but strong connections had been forged with the company during the Second World War. Shell had partnered closely with the British Government, seeking its protection and cooperation in the conflict's aftermath. With the Dutch Government unable to meet the firm's foreign exchange needs, Shell bound itself to the British Treasury through the Shell-Treasury Agreement of 1946.<sup>18</sup> This deal allowed Shell to access the British Government's foreign exchange resources but also gave the Treasury a measure of control over how much foreign exchange the company would have available to it.<sup>19</sup>

These connections meant that the Government was quite comfortable working closely with the companies. Despite the fact that the FCO and the Ministry of Power maintained special divisions devoted to oil matters, neither had the

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<sup>16</sup> For Britain's role in the Persian Gulf, see Smith 2004 and Bismarck 2013.

<sup>17</sup> BP has a series of official histories which detail these arrangements. See Ferrier 1982; Bamberg 1994; and Bamberg 2000.

<sup>18</sup> The details of the Shell-Treasury Agreement of 1946 can be found in TNA, T 236/6129.

<sup>19</sup> Shell's four-volume history outlines these events. See Howarth et al 2007.

technical expertise required to make informed decisions about oil matters on their own. Instead, the British Government relied on information and advice from BP and Shell. During the Second World War, the two firms had even seconded staff to the Government in an effort to organize oil matters for the war effort.<sup>20</sup> This type of cooperation continued into the postwar era. In the eyes of Whitehall officials, developing an independent competency in oil matters was not a priority or even desirable, until the Iranian Nationalization Crisis of 1951-1953, the Suez Crisis of 1956-1957 and the Iraqi Revolution of 1958 revealed the potential dangers to the structure of the international oil industry.<sup>21</sup>

Following these events a full review of Britain's oil policy was launched in 1958. This review was conducted in cooperation with BP and Shell and the recommendation of the Whitehall officials involved was to work to strengthen communication with the oil companies rather than to free themselves of their influence. This was attempted through the institution of secret monthly meetings between civil servants and the leadership of both BP and Shell beginning in 1959. Code-named "tea parties," these meetings were meant to facilitate the transfer of the companies' most up-to-date intelligence on oil matters in the Middle East and to foster greater cooperation between the firms and the Government.<sup>22</sup>

While this idea was feasible in theory, it presupposed the existence of a unified Government view on oil matters. In reality, Whitehall was divided on what it wanted from the oil industry. The Treasury, Ministry of Power and FCO each had different priorities for oil and the oil companies, a disunity which gave BP and Shell even more influence over any final decisions made by the committees designated with the responsibility of reviewing oil policy. Disputes between the civil servants of the three departments often resulted in the embrace of the oil company position as a compromise.

This was the basic pattern and structure of oil policy discussion that was carried forward by the British Government throughout the 1960s. Periodic reviews, held in the wake of important changes to the oil industry, such as the creation of OPEC in 1960, the signing of royalty expensing agreements in 1965 and the abortive Arab oil embargo in the wake of the Six Day War in 1967, were all conducted with the full cooperation and advice of BP and Shell.<sup>23</sup> Unsurprisingly, these reviews all concluded that the status quo was the best possible policy.

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<sup>20</sup> This included the future chairman of BP, Maurice Bridgeman who worked with the Ministry of Fuel and Power and the Petroleum Board throughout the war.

<sup>21</sup> The historiographies of these events are extensive. For an illustrative look, see Marsh 2007, 25-53; and Kyle 2011. For a discussion of the Iraqi Revolution, see Louis and Owen 2002.

<sup>22</sup> TNA, FO 371/141193, Report on Middle East Oil, January, 1959.

<sup>23</sup> Examples of these reports can be found in TNA, FO 371/158050, The British Interest in Oil, 6 June, 1961; TNA, POWE 33/2529, Middle East Oil, January 1963; TNA, CAB 148/52, Middle East Oil, 3 August, 1965; FCO 54/61, Interdepartmental Working Party on Security of Oil Supplies, 7 May, 1968.

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### 3. Anticipating Change

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This embrace of the status quo did not mean, however, that British officials were blind to the changing international oil situation, especially in the Middle East. Beginning with the creation of OPEC, Whitehall faced a concern that BP, Shell and the other international oil companies were not adapting to the threat posed by the growth of resource nationalism in the region. Regular tea party meetings throughout the first half of the 1960s showed the difficulties the companies were having in negotiations with Iraq and other OPEC states over issues such as royalty expensing, increasing posted prices and marketing allowances.<sup>24</sup> To Middle Eastern nationalists – and the conservatives threatened by them – oil came to take an increasingly prominent and symbolic role as an example of the producing-states' subservience to the United States and Britain.<sup>25</sup>

The same nationalist voices calling for greater Arab sovereignty over the area's oil resources also chastised the increasingly wealthy oil-producing states for their lack of concern for the Palestinians. Thus when the Six Day War erupted in June 1967, the leaders of the Arab oil producers felt obliged, if reluctantly, to offer some sort of support.<sup>26</sup> Several Arab oil producers attempted to target the United States and the United Kingdom with an oil embargo but, though fearsome in theory, the "oil weapon" was ill-organized and quickly neutralized by increased production elsewhere and through the cooperation and coordination of the world's major oil companies.<sup>27</sup>

The fact that the Arab embargo fizzled did not minimize the alarm it created within the British Government about the future of its oil policy.<sup>28</sup> In the midst of the crisis, the Foreign Secretary, George Brown, wrote to Prime Minister Harold Wilson, declaring that the "events of the last few weeks have underlined our vulnerability to interruption of oil supplies in the Middle East and indeed to any general disturbance in that area."<sup>29</sup> In a paper for the Security of Oil Supplies Committee, set up in the wake of the abortive oil embargo, officials went even further, arguing that it could be "predicted with reasonable confidence, that the terms upon which the U.K. has been able to procure oil hitherto will worsen; and that the dangers of co-ordinated Arab action against

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<sup>24</sup> For an account of these changes, see Schneider 1983; and Yergin 2008.

<sup>25</sup> For example, Tariki, the former oil minister of Saudi Arabia, proclaimed in 1965 that "the might of Europe and America depends on Arab oil" and that "their oil companies had, in league with Western imperialism, created Israel." TNA, FO 371/183513, The Fifth Arab Petroleum Congress, 5 April, 1965.

<sup>26</sup> See Brenchley 2005.

<sup>27</sup> For Britain's diplomatic role in the crisis, see Gat 2003.

<sup>28</sup> For the Government's response to the 1967 crisis see Thorpe 2007, 201-22; and Klantschnig 2003, 131-50.

<sup>29</sup> TNA, PREM 13/2212, Letter from Stewart to Wilson: Oil Supplies from the Middle East, 19 June, 1967.

the economies of the U.K and the other Western countries will persist so long as there is no durable Arab/Israeli peace.”<sup>30</sup>

This realization fed into an already existing unease amongst the Labour Government over having such a large and important section of the nation’s energy supply solely in the hands of private enterprise. But as long as oil and gas were being produced far from the shores of Britain, greater control over companies such as BP and Shell was out of the question. This situation was dramatically altered, however, by the emergence of a key new hydrocarbon province – the North Sea. BP struck gas in the British sector of the North Sea in 1965 and several other major strikes were made in the months and years following. Some members of the Labour Party, particularly those on the left, saw the existence of huge gas deposits – and potentially oil as well – as a means through which the Government could take greater control of the nation’s energy future.<sup>31</sup>

The temporary instability in the international supply system during the 1967 crisis strengthened the interest of the Labour Party in Britain in the promise of North Sea gas. The political attraction of a domestic energy source meant that politicians who normally left the oil and energy policy-making decisions to civil servants now became actively engaged in debates about energy.<sup>32</sup> Of particular concern to the companies were the activities of the North Sea Study Group which had been set up within the Labour Party after the discovery of gas in 1965. This committee produced a report in 1967 calling for the creation of a National Hydrocarbon Corporation (NHC) to oversee the State’s interests in North Sea gas and any future discovery of oil and declaring that “the North Sea provides the opportunity” for “a valuable experiment in a new form of social ownership.”<sup>33</sup>

This idea won the approval of the Labour Party’s Conference in 1968 but was only cautiously received by members of the Cabinet. This hesitation was reinforced by the civil servants of Whitehall, particularly the Ministry of Power, who feared that “the establishment of an N.H.C. might be seen by the oil industry as the thin end of the wedge aimed at an eventual complete takeover of their interests and this could adversely affect their willingness to continue investing here.”<sup>34</sup> BP and Shell pilloried the idea, pointing out what they viewed as the Study Group’s unrealistic expectations for the recruitment of staff, the raising of capital and the conducting of exploration.<sup>35</sup> Ultimately difficult fiscal circum-

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<sup>30</sup> TNA, FCO 54/76, Oil Supplies: A Forward Look at Political Factors, 14 August, 1967.

<sup>31</sup> The existence of several promising geological structures in the north and central North Sea basin led to open speculation that the discovery of oil was possible. For early exploration efforts, see Kemp 2012.

<sup>32</sup> Oil was the only non-nationalized form of energy in Britain with coal, gas and nuclear power all being controlled by nationalized industries. See Posner 1973.

<sup>33</sup> TNA, POWE 63/345, Labour Party North Sea Study Group Report, June, 1967.

<sup>34</sup> TNA, POWE 63/434, A National Hydrocarbons Corporation: Brief on NCO (68)2, 6 September, 1968.

<sup>35</sup> TNA, POWE 63/434, Shell: National Hydrocarbons Corporation, 22 August, 1968.

stances forced members of the Cabinet to think hard about taking on the massive costs involved with an NHC and the plan was quietly shelved.

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#### 4. Changed Government, Changed Situation

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Despite the failure of the plan for a NHC, the combination of the rapidly changing international oil situation and the necessity of governing and regulating the development of the North Sea reinforced the sense within Whitehall that greater Government competency over oil matters needed to be established. This was a readily accepted fact amongst the Labour Party, but the politicization of oil policy brought about by North Sea hydrocarbons had also caused the Conservative Party, and its leader, Edward Heath, to reevaluate their hitherto *laissez-faire* approach.<sup>36</sup>

This proved significant when the Conservatives won a surprise electoral victory in 1970. Upon taking office, Heath sought to streamline and professionalize many governmental departments, a process which saw oil matters put under the purview of a larger, more powerful grouping known as the Department of Trade and Industry (DTI). Heath's desire to receive better and more professional advice on all policy matters also led to the creation of an entirely new advisory body known as the Central Policy Review Staff (CPRS). This group was to be based in the Cabinet Office and would advise the prime minister and his cabinet with the goal of enabling them "to take better policy decisions [...] and to ensure that the underlying implications of alternative courses of action are fully analysed and considered."<sup>37</sup> One of the chief policy areas that the CPRS was tasked with was energy policy. This fact was reflected in the man chosen to head this new enterprise, Lord Victor Rothschild. A scion of the famous banking family, Rothschild was also a longtime employee of Shell who had recently retired as the company's vice-director of scientific research.<sup>38</sup> The choice of Rothschild would give the CPRS, in the words of two former members of the think tank, "an enduring capability on energy matters," a perception generally shared by others within Whitehall.<sup>39</sup> Of particular concern to Heath was the need to boost the Government's capability when it came to designing a regime for the exploration and exploitation of the resources of the North Sea. The importance of this was reinforced when a little over three months follow-

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<sup>36</sup> BP had thinly veiled their support for the Conservatives in the election. In the preceding months a course organized by the company for Members of Parliament to educate themselves on oil matters had seen twenty invitations sent out, nineteen of which were to Conservative MP's.

<sup>37</sup> House of Commons Parliamentary Papers 1970, 13-4.

<sup>38</sup> See Campbell 1993, 317.

<sup>39</sup> Blackstone and Plowden. 1990, 28.

ing the election BP was able to definitively announce the discovery of a major oil deposit at the Forties Field off the coast near Aberdeen.

This discovery was a rare bit of good news for the British companies as matters in the Middle East and North Africa had continued to move against their interests. The accession of Algeria to OPEC in 1969 and the rise to power of Muammar Gaddafi in Libya that same year had given the organization a greater willingness to challenge the companies. This was demonstrated by Gaddafi in 1970 when he forced companies operating in Libya to renegotiate their concessionary terms. Gaddafi's victory prompted fears of price leap-frogging and ultimately led to the negotiations in Teheran and Tripoli which revealed the true extent to which power had shifted in the international oil industry from the companies to the producing states.<sup>40</sup>

Shortly after the signing of the Teheran Agreement, Sir Denis Greenhill, a top official in the FCO, wrote to his colleagues that "unless we give thought to these problems quickly, we may be caught short by some possibly early developments," or "may miss opportunities to steer our own policies in directions which will do most to mitigate the impact upon us of possible future changes."<sup>41</sup> To assess the situation and to plan the next steps for the Government, Greenhill suggested the creation of a new interdepartmental working group which would undertake a fundamental reexamination of Britain's oil policy. At the first meeting of this group, which included representatives of the FCO, the Treasury and the Ministry of Power as well as the CPRS, Greenhill argued that "we should consider what action we could take to anticipate future changes rather than allow them to overtake us."<sup>42</sup>

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## 5. The Struggle for Cooperation

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The early stages of this review were conducted with the assistance of BP and Shell who filled out detailed questionnaires prepared by the working group.<sup>43</sup> The main suggestion proposed by the companies for how to manage the ascent of OPEC and the politicization of oil was for Britain to actively push for the creation of a consumer bloc with their fellow members of the Organization for Economic Cooperation and Development (OECD). This was a suggestion backed by the oil analyst Walter Levy who along with BP and Shell, claimed that the creation of such a bloc would allow the members of the OECD to provide the international oil companies with firm support in their negotiations with OPEC by, for instance, setting price targets above which they would refuse to

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<sup>40</sup> For Gaddafi's views on oil see Gurney 1996.

<sup>41</sup> TNA, CAB 184/10, Oil Policy After Tehran, 9 March 1971.

<sup>42</sup> TNA, CAB 184/10, Note of a Meeting Held in Sir Denis Greenhill's Office, 27 March, 1971.

<sup>43</sup> TNA, FCO 67/806, Letter from Barran to Bullock, 22 December, 1971.

purchase OPEC oil.<sup>44</sup> Privately, Levy pushed Britain to make a common approach to energy a primary goal of their negotiations to enter the EC.<sup>45</sup>

But with the idea that the companies were no longer able to meet the challenges of a politicized oil industry – an idea that had been propagated by Drake himself – gaining traction throughout Whitehall, the review soon moved beyond these early suggestions. In fact, as the process continued, the significance of the questions being debated led Cabinet Secretary Burke Trend to upgrade the working group into a full cabinet committee in 1972, thus bringing the debate under closer supervision of more senior officials. The upgraded committee was tasked with the consideration of three major issues: how Britain could best protect itself during an oil shortage, how the consuming countries could bolster the oil companies during negotiations with OPEC, and finally whether or not the consuming states should simply bypass the oil industry altogether and seek out state-to-state accommodations with the oil producers.

The group was designated the Committee on Oil Policy, or GEN 123 for short. But even as a cabinet committee, the GEN 123 group still suffered from a lack of clear policy-making authority. Throughout 1972 and early 1973, the three departments, along with the CPRS, submitted various papers and proposals on the three questions before the committee. From the beginning, disagreements between the departments hampered decisive decision-making. The split was effectively over the proper role which the state should play in oil matters. On one side were those, including Lord Rothschild and the CPRS, who believed that BP, Shell and the other companies could no longer be trusted to protect the interests of Britain.<sup>46</sup> They suggested a more robust role for consumer governments in relations with the member states of OPEC with Rothschild going so far as to suggest the creation of an Organization of Petroleum Importing Countries.<sup>47</sup> On the other side were the DTI and the FCO which believed that placing the Government in the role traditionally played by private companies in terms of negotiating oil supplies and prices would radically escalate the politicization of oil.<sup>48</sup>

The balance tended to favor the established departments and their embrace of the status quo. After one particularly acrimonious meeting, Lord Rothschild wrote angrily to Heath that he was unsure if the FCO, Treasury and the DTI realized “that the policy of non-intervention between Government and the oil

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<sup>44</sup> Levy also made such arguments publically in an article in *Foreign Affairs*. See Levy 1971, 652–68.

<sup>45</sup> Levy had been employed informally by the British Government to provide expert advice on oil-related topics since the late 1960s. To prevent awareness of this role from becoming public – and potentially damaging his relations with the major oil companies – he was referred to as “our man in New York” by Victor Rothschild and others in Whitehall.

<sup>46</sup> TNA, CAB 184/61, Letter from Rothschild to Marshall, 10 April, 1972.

<sup>47</sup> TNA, CAB 130/610, Collective Defence Against Collective Attack (OPIC), 28 September, 1972.

<sup>48</sup> TNA, CAB 164/1196, Letter from Greenhill to Rothschild, 20 September, 1972.

companies (Shell and BP), not intervention between the consumer countries and the oil producers, is now out of date, first because the stakes have become so high, and, secondly, because the interests of the oil companies are not necessarily identical with those of Governments.”<sup>49</sup> While some within the civil service might have sympathized with Rothschild views, there was a stronger sentiment that radically altering oil policy would land Whitehall out of its depth. Despite trying to build up a greater oil policy capacity within the DTI and the FCO, there were simply too few civil servants with the type of experience necessary to challenge the opinions of BP and Shell, much less conduct negotiations with the member states of OPEC. Thus the prevailing attitude was summed up by the FCO, which noted that “in the short term there are real limitations to our ability to introduce major changes in our policies.”<sup>50</sup>

Some of these limitations had been revealed by a rapidly developing energy crisis inside Britain. This crisis was provoked not by a cut-off of oil supplies but rather a strike by coal miners. Negotiations had broken down between miners and the National Coal Board over pay increases in January, 1972 resulting in the first nation-wide coal strike since 1926. The standoff quickly escalated into a major energy crisis as stocks dwindled and flying pickets blocked the movement of coal to power stations. Heath, forced to declare a state of emergency in February, ultimately caved to the miners’ demands.<sup>51</sup>

The danger to Britain’s domestic coal supply made officials on the GEN 123 committee, and members of the Cabinet, particularly uneasy about the process of constructing a consumer bloc with which to confront OPEC. Officials, including Heath, expressed fear that that leading the charge for consumer cooperation would expose Britain to the ire of OPEC. Since any such cooperation system would take a great deal of work and diplomacy, and ran the very real possibility of failure, there were serious doubts as to whether Britain should take such a risk.<sup>52</sup>

There was another complicating factor that paralyzed decision-making – North Sea oil. An overarching sense in the GEN 123 committee, and indeed one of the few things that all the members of the committee agreed upon, was that Britain’s control of North Sea oil should not be sacrificed in exchange for consumer cooperation. This was already an issue with Britain’s negotiations regarding accession to the EC and officials were worried that the inability to keep North Sea oil in Britain during an emergency might actually make the country worse off.<sup>53</sup> The belief in the capacity of North Sea oil to save Britain

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<sup>49</sup> TNA, CAB 184/58, Letter from Rothschild to Heath, 22 June, 1972.

<sup>50</sup> TNA, PREM 15/1836, Letter from FCO to Lord Bridges, 22 June, 1972.

<sup>51</sup> For the cultural impact of this crisis see, Beckett 2009; and Sandbrook 2011.

<sup>52</sup> TNA, PREM 15/1836, Letter from Bridges to FCO, 10 May, 1973.

<sup>53</sup> The DTI reported to the committee during an OPEC cut-off after 1980 the UK would be able to meet 45 percent of its needs from North Sea oil whereas the sharing arrangements would return only 14 percent.

from any potential supply crisis actually led the committee to spend as much time debating whether Britain would be better off withdrawing from the limited consumer cooperation that already existed in the form of the OECD and EC's oil stockpiling and sharing plans. This proposal was given serious consideration but was ultimately rejected with the committee deciding that

although withdrawal after 1980 when our North Sea supplies were reasonably assured could bring us big advantages, it would cause great resentment among other OECD members, and [...] would be inconsistent with the spirit, and probably the letter, of the Treaty of Rome.<sup>54</sup>

The numbers used to make this claim, and indeed most of the information that the British Government was basing its decision-making regarding North Sea oil came from the companies themselves. This caused a degree of concern amongst the CPRS and others in Whitehall who felt that the Government was wrong to place too much trust in the companies when it came to the development of the North Sea. The CPRS concluded that perhaps it was time “to re-examine fundamentally our traditional attitudes to the major oil companies; and perhaps play a more active role than hitherto in influencing their decisions about production, refining, pricing and marketing which affect the U.K. economy.”<sup>55</sup>

This mistrust had been exacerbated by the results of the fourth round of licensing for blocks in the North Sea which had been conducted in 1971. This licensing round had featured an experimental auction system for a limited amount of territory.<sup>56</sup> The auction resulted in bids far beyond the expectations of the Ministry of Power which administered the licensing system.<sup>57</sup> The bids revealed just how attractive the North Sea was to the industry and also called into question the prevailing assumption that Government taxation and regulation of the North Sea needed to be limited in order to attract the necessary capital and expertise, an idea that BP, Shell and other companies had long pushed. This realization fed into a sense that Britain was being robbed of some of the benefits due to it. The press began screaming of a “North Sea giveaway” and called for investigations into the licensing process.<sup>58</sup>

Thus, simultaneous to the creation of the GEN 123 committee, Heath had also ordered a full review of North Sea oil policy with the purpose of finding

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<sup>54</sup> TNA, CAB 130/610, Oil Policy: GEN 123(72) 4th Meeting, 11 October, 1972.

<sup>55</sup> TNA, CAB 184/61, Letter from Rothschild to Marshall, 8 February, 1972.

<sup>56</sup> The first three licensing rounds had seen licenses awarded according to Ministerial discretion. This process had favored companies with some operating base in Britain. The second and third licensing rounds, conducted by the Labour Government, had actually required oil companies to partner with a nationalized industry in Britain such as the National Coal Board or the Gas Council to receive consideration.

<sup>57</sup> The 15 auction blocks received 78 bids from 73 different groups and companies. The highest cumulative was £37 million while the highest bid for a single block was £21 million. See Liverman 1982, 451-69.

<sup>58</sup> See Hamilton 1978.

ways to increase the Government's take. This employed the time of many of the same civil servants meant to be conducting the studies of the GEN 123 committee and served as a major distraction. It also fed into a growing antagonism between Whitehall and BP and Shell. The companies found it very difficult to cooperate with committee members working on international oil security issues while those same individuals were also working on plans to increase taxation on the firms.

The mixture of these reviews, combined with fear about renewed demands from the coal miners and the decline of Heath's political fortunes throughout late 1972 all combined to make the period an inauspicious one for bold action on oil policy. The GEN 123 committee compiled its final report and released it to the Cabinet in January, 1973. It was a mixture of dire warnings regarding the future of the international oil industry and tepid suggestions for how Britain could prepare itself. Although acknowledging the desirability of consumer cooperation, it also highlighted the difficulties that Britain would face in pursuing that policy. The report also demurred on the question of whether the Government should more actively direct the affairs of British firms stating, "while it is easy to visualize general guidance to our companies [...] it is a formidable prospect to embark on detailed intervention."<sup>59</sup> The major impediment to this detailed intervention was the fact that Whitehall lacked the necessary capabilities to more thoroughly direct the nation's oil policy. The report concluded that if the Government wanted to pursue the goal of actively directing oil affairs it "would need to equip itself to do so by recruiting highly skilled staff," but that "even then there is no reason to suppose that the Government's judgement of the conduct of negotiations would be any better than if as good as that of the oil companies."<sup>60</sup> The final conclusion was that the country would be best served by allowing BP, Shell and the other international oil companies to handle the bulk of the negotiations with OPEC while using their resources to guarantee the stability of Britain's oil supply and to prevent drastic price increases.

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## 6. Drifting towards Crisis

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Some observers, including the oil analyst Walter Levy, found the disconnect between the British Government's awareness of the impending changes to the international oil situation and their inability to take decisive steps to prepare for them to be striking. In a meeting with Secretary for Trade and Industry Peter Walker, in January, 1973, Levy made it clear that "the Western world was facing a major crisis over oil supplies," and argued that "in the absence of

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<sup>59</sup> TNA, CAB 130/610, Report on Oil Policy by a Group of Officials, 1 January, 1973.

<sup>60</sup> *Ibid.*

concerted pressure from the consuming countries there was a real danger in 1973 of the Western companies losing all their Middle East oil concessions.”<sup>61</sup>

BP shared Levy’s concern. One company official, Robert Belgrave, himself a former civil servant at the Foreign Office, wrote secretly to one of Heath’s advisors in March, 1973 regarding the imminence of the threat. Belgrave described how prevailing trends showed demand for oil outstripping supply by 1977, a fact which gave OPEC “the whip hand.” This situation meant that the OPEC could at any time “cut off supplies for political reasons, while the only apparent economic restraint on the prices they charge is represented by the visible prospect that steps are being taken elsewhere to develop non-conventional sources.”<sup>62</sup> Belgrave also believed that efforts by one OECD state “to ensure its own requirements bilaterally and at the expense of other consumers can have only one result, namely to strengthen still further the hand of OPEC.” Therefore, in his eyes, the response to the looming crisis was “to be of a critical importance comparable to Europe’s reaction to the proposal of the Marshall Plan in 1948.”<sup>63</sup>

During a visit to London in June, 1973, Levy met with Foreign Secretary Alec Douglas-Home and Thomas Boardman, the new Minister for Industry, as well as Heath in an effort to shake Britain from its complacency. Levy reaffirmed his belief that the governments of the consuming states could not put as much faith in the oil companies as the British Government planned to continue doing. He argued to the FCO and Ministry of Power that the “oil companies had no choice but to be increasingly subservient to the producing countries since their profits and their corporate property depended on maintaining supplies and good relations with the producer country governments.”<sup>64</sup> In his meeting with Heath, Levy reiterated his view “that the matter was getting too big to be left to the oil companies on their own,” and that “in this situation the consuming countries were short both of bargaining power and of time.”<sup>65</sup> Levy went on to encourage Heath strongly that it was “high time that the governments of consuming countries took a much more active and concerted interest in negotiations with the oil-producing countries.”<sup>66</sup>

In Levy’s view it was the British, more so than anyone else, who were best placed to lead this effort. If the Americans were to take the lead, it might be resisted by the other European states whose leaders were increasingly wary of

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<sup>61</sup> TNA, CAB 164/1196, Note of the Secretary of State’s Dinner Meeting with the American Oil Consultant, Mr. Walter Levy, 17 January, 1973.

<sup>62</sup> TNA, FCO 55/1059, Letter from Belgrave to Maitland, 1 March, 1973.

<sup>63</sup> *Ibid.*

<sup>64</sup> TNA, PREM 15/1836, Note of the Secretary of State’s Dinner Meeting with the American Oil Consultant, Mr. Walter Levy, 17 January, 1973, 19 January, 1973.

<sup>65</sup> TNA, PREM 15/1837, Note for the Record: Meeting between Walter Levy and Prime Minister, 19 June, 1973.

<sup>66</sup> *Ibid.*

the Nixon Administration. Nonetheless, such consumer cooperation was perhaps the only thing which could prevent calamity. Levy confided that Saudi oil minister Zaki Yamani had said to him that, “if the governments of the consuming countries formed a united organisation to deal with OPEC,” it “would mean war.” But Levy “judged from that observation that such a development was the one thing which Mr. Yamani feared.”<sup>67</sup>

But the dangers of leading such an effort remained a major concern. Heath himself argued “that the Arab oil producing states would come to learn of the suggestion we have made,” and “that the British Government would appear to the Arabs as advocating a hard line in relations with them.”<sup>68</sup> Taking fears such as these into consideration, the FCO pushed a plan which would be more in keeping with the conclusions of the GEN 123 committee. They wanted a loose understanding between the OECD members to control their own oil companies rather than any separate entity which would negotiate with OPEC. Rejecting Levy’s idea, they argued that “a formal organisation of petroleum importing countries might be provocative to the oil producing countries and lead to Governments supplanting oil companies in negotiations with the producers.”<sup>69</sup> Instead, the FCO suggested that “the Agreement be supported by normal consultative machinery relying as far as possible on existing diplomatic contacts, including EEC and OECD where appropriate.”<sup>70</sup> Even moves to strengthen the existing arrangements in these organizations were to be limited in the words of Burke Trend to anything which “does not damage the competitive position of Shell and BP *or threaten the independence of our own supplies of North Sea oil*,” and that “efforts to encourage international co-operation within the Community should be very much subject to these reservations” [emphasis original].<sup>71</sup>

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## 7. Conclusion

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Thus throughout the summer of 1973, mid-level company and Whitehall officials continued to hatch plans for more robust consumer cooperation, but serious progress appeared impossible. Any major move towards consumer cooperation required robust American participation, but with Nixon and his erstwhile Secretary of State Henry Kissinger increasingly unpopular throughout Europe such intervention was paradoxically unwelcome. The failure of Kissinger’s so-

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<sup>67</sup> Ibid.

<sup>68</sup> TNA, CAB 164/1197, Letter from Bridges to Alexander, 10 May, 1973.

<sup>69</sup> TNA, CAB 164/1197, Oil Consumer Co-operation, 7 May, 1973.

<sup>70</sup> Ibid.

<sup>71</sup> TNA, PREM 15/1837, Oil Supplies: Trend to Heath, 6 June, 1973.

called “Year of Europe” diplomatic initiative did little to ease this mistrust.<sup>72</sup> Heath’s poor domestic standing and his own predilection towards Europe prevented Britain from making bold diplomatic gestures and serving in its traditional role as a bridge between Europe and the United States. There was a strong impetus amongst officials, both British and Continental, that the Community should organize itself on matters of economic and foreign policy before seeking any broader agreements with the United States and others. But cooperation on energy matters within the EC was complicated by differing opinions amongst the member states as well as Britain’s desire to protect its North Sea assets.<sup>73</sup>

In recognition of the difficulties facing any move towards cooperation, Heath ordered the creation of a small task force to be led by the Secretary of State for Defence, Lord Carrington, which would analyze ways in which Britain could defend itself from an oil shortage independently of its partners and allies. One official summed up the fears percolating through Whitehall by stating that the “worst course of all would be if we were left still preaching consumer co-operation while everyone else had tied up their supplies bilaterally.”<sup>74</sup> Thus, after a summer of fruitless talks and meetings, very little progress had been made. This led an exasperated Sir Robert Marshall of the DTI to write to his colleagues that “much effort has been expended in Whitehall with remarkably little to show for it whether domestically in clarifying the relationship between our oil companies and Government in handling international crises; or in developing consumer co-operation to increase our ability to cope with OPEC threats and actions; or in thinking out and concerting policies aimed at creating some mutuality of interest between consumers and producers and thereby attempting to strike at the root of the trouble.”<sup>75</sup> This, in Marshall’s opinion, was due to “the harsh reality of the disparate situations and interests of the individual EEC countries, the USA, and Japan and the reluctance of any one of us to get out on a limb or sacrifice a possible advantage.”<sup>76</sup>

Meanwhile the policies being pursued by the Government continued to push BP and Shell further away from the close cooperation they had enjoyed with Whitehall in earlier decades. The two firms had a different vision for the future of the oil industry, one that was at odds with the growing role for the state in places like the North Sea. To them, the only protection for both their business interests and the stable supply of oil was in an international system that crossed

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<sup>72</sup> There is a growing body of work on the Year of Europe. For Britain’s role in this failed policy, see Hamilton 2006, 871–95; Hynes 2009; and Robb 2012.

<sup>73</sup> The European states had pursued differing approaches to oil and energy policy ranging from the more statist approach of France and Italy to the more liberal approach of West Germany and the Netherlands. See Labbate 2013.

<sup>74</sup> TNA, PREM 15/1837, Consumer Government Organization, 27 June, 1973.

<sup>75</sup> TNA, PREM 15/1837, Letter from Marshall to Greenhill, 31 August, 1973.

<sup>76</sup> *Ibid.*

national boundaries in the search for a more efficient and profitable distribution of product.

This was a policy that had been encouraged by earlier British Governments and one that fit very well with their traditional liberal approach to oil supplies. But just as this system was becoming more necessary in the eyes of the companies, it was falling out of favor in Whitehall. Economic calamity, industrial disputes and continued fiscal struggles called into question the old oil policy as early as the mid-1960s, a situation that grew more severe into the early 1970s. This crisis atmosphere only served to increase the mistaken belief in North Sea oil's importance. In the eyes of a prime minister and a Cabinet besieged by crisis, North Sea oil seemed not only a way of securing Britain's supply but a possible influx of wealth to rectify the country's myriad economic problems. Thus, just at the moment when cooperation between Britain and its companies was perhaps most vital, forces conspired to push them further apart than ever before. This, combined with the diffusion of authority regarding oil and energy matters in Whitehall, prevented decisive decision-making at the crucial time. Britain's oil policy was thus caught in transition in October, 1973 when the long-dreaded oil crisis arrived.

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