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Calouste Gulbenkian, Mr. Five Percent

Those who cannot remember the past are condemned to repeat it.
George Santayana.

Winston Churchill was instrumental in converting the British fleet from coal to "petrol" despite the fact that Britain had plenty of coal but no oil. The need for oil forced Britain to consider the search for oil "a first-class war aim."

From [The Prize: The Epic Quest for Oil, Money, and Power](#) by Daniel Yergin. This is part of the story of how the map of Mesopotamia was redrawn after World War One to create the modern Middle East.

The struggle would focus on that one particular region -- Mesopotamia. In the decade before the war [WWI], Mesopotamia had already been the object of intricate diplomatic and commercial competition for oil concessions, simulated by favorable reports of its petroleum potential. The wrangling had been encouraged by a dilapidated Turkish empire that was chronically in financial arrears and eager to find new ways to generate revenues. One player in the prewar years was a German group, led by the Deutsche Bank, which aimed to project German influence and ambitions into the Middle East. Arrayed against it was a rival group, sponsored by William Knox D'Arcy and eventually merged into the Anglo-Persian Oil Company. It was championed by the British government as a counterweight to Germany.

Then, in 1912, the British government was alarmed to discover a new player on the scene. It was called the Turkish Petroleum Company, and it turned out that the Deutsche Bank had transferred its claims for a concession in the entity. The Deutsche Bank and Royal Dutch/Shell each held a quarter of the new company. The largest share, half of the total equity, was held by the Turkish National Bank, which, ironically, happened to be a British-controlled bank set up in Turkey to advance British economic and political interests. But there was one additional player, a man who would be admired by some as the "Talleyrand of oil diplomacy" and scorned by others -- an Armenian millionaire named Calouste Gulbenkian. It

was Gulbenkian who had put the entire Turkish Petroleum Company deal together. Upon closer examination, it turned out that he was the silent owner of 30 percent of the Turkish National Bank, which made him a 15 percent owner of the Turkish Petroleum Company.

From 1912 onward, once the Turkish Petroleum Company had come into existence, the British government directed its efforts towards trying to force the company to amalgamate with D'Arcy's Anglo-Persian syndicate and jointly pursue a concession. Finally, the British and German governments were able to agree on a unification strategy, and to force its execution. According to the "Foreign Office Agreement" of March 19, 1914, British interests were to predominate in the new consortium, while the Deutsche Bank and Shell each had their 25 percent. There was still Gulbenkian to contend with. Under the agreement, the Anglo-Persian Group and Shell each gave up the "beneficiary interest" of 2.5 percent of the total shares to the Armenian. That meant that he could not vote shares, but would enjoy all the financial benefits of such a shareholding. And so Mr. Five Percent was born, and that is how he was known ever after.

Everything seemed settled at last, even the boundary with Turkey, except for one stumbling block -- Calouste Gulbenkian and his 5 percent. Throughout the negotiations, Gulbenkian had remained a strange and solitary figure. He went to great lengths to avoid meetings, but scrutinized every word of memoranda, and replied with a torrent of telegrams. Isolation also marked his personal connections. "Oil friendships are very slippery," he once said. That certainly proved true of his formerly close business relationship with Detering [the top dog at Shell], which ruptured in the middle 1920s. "We worked most harmoniously for over twenty years," Gulbenkian later explained, "but, as it has very often been the case in the oil business, personal jealousies, divergencies of opinions separated us." Others said that their quarrel was the result of a struggle for the affections of a White Russian lady, Lydia Pavlova, former wife of a Czarist general. For a time the two men collaborated on the lady, as on oil. Once, when Detering found that he could not come up with the three hundred thousand dollars he owed Cartier's for the emeralds he had impulsively bought for her, Gulbenkian arranged a bridging credit until Detering's next draw from Royal Dutch/Shell. But, in due course, Lydia Pavlova became the second Mrs. Detering, and the outcome led to bad blood between the two men. Detering and Gulbenkian also had

a nasty dispute over profits from a Venezuelan oil company that Gulbenkian had brought to the Royal Dutch/Shell Group.

With or without Detering, Gulbenkian continued to be involved in manifold business activities, including an effort to secure an exclusive concession for the marketing of Soviet caviar. He had left his wife installed among his art treasures -- his "children," as he called them -- in the mansion he had built on the avenue d'Iena in Paris. He himself alternated between between suites at the Ritz in Paris or, in London, at the Ritz or at the Carlton, attended by a succession of mistresses, at least one of whom at all times, on the basis of "medical advice," had to be eighteen years or younger in order to rejuvenate his sexual vigor.

Teagle [the top dog at Standard New Jersey, now EXXON] finally decided that he would have to see Gulbenkian in person. He arranged that they should lunch together at the Carlton Hotel in London. After working his way through many courses, Teagle got to the point. He adopted what he thought would be an appealing line in discussing the royalty that Gulbenkian demanded. "Surely, Mr. Gulbenkian, you're too good an oil merchant not to know that the property won't stand any such rate as that."

Gulbenkian's face went red, and he furiously banged the table. "Young man! Young man!" he shouted. "Don't ever call me an oil merchant! I'm not an oil merchant and I'll have you distinctly understand that!"

Teagle was taken aback. "Well, Mr. Gulbenkian," he began again, "I apologize if I have offended you. I don't know what to call you or how to classify you if you aren't an oil merchant."

"I'll tell you how I classify myself," the Armenian replied hotly. "I classify myself as a business architect. I design this company and that company. I designed the Turkish Petroleum Company and I made a room for Detering and I made a room for the French and I made a room for you." His fury was unabated. "Now, the three of you are trying to throw me out on my ass."

The leading question had been answered. There were petroleum resources in Iraq -- potentially so bountiful that they were, after all, well worth all the wrangling. Now a final settlement became urgent. The negotiations had to be completed. At last on July 31, 1928, nine months after the initial discovery -- almost six years to

the date since Teagle had first sailed to London to nail down an agreement -- the full contract was signed. Royal Dutch/Shell, Anglo-Persian, and the French would each receive 23.75 percent of the oil as would the Near East Development Company, which was created at this time to represent the interests of the American companies. As to the main sticking point, Gulbenkian would receive his 5 percent interest in oil, but he could immediately sell the petroleum to the French at market prices, thus transmuting rude oil into his desired and beloved cash.

There remained the question of the critical "self-denying" clause, by which all participants agreed to work jointly together -- and only jointly -- in the region. As Gulbenkian told it later, at one of the final meetings he called for a large map of the Middle East, then he took a thick red pencil and drew a line along the boundaries of the now-defunct Turkish empire. "That was the old Ottoman Empire which I knew in 1914," he said. "And I ought to know, I was born in it, lived in it, and served in it." Gulbenkian may have, however, been adding his own personal embellishment to what had already been decided. For several months earlier, the British, using Foreign Office maps, and the French, with maps from the Quai d'Orsay, had already fixed the same boundaries. Whoever the author of the boundaries, this far-reaching oil settlement was thereafter called "The Red Line Agreement."

Denny

"Demand creates queues. Supply gets rid of them."

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