

IV International Workshop on Oil and Gas Depletion

ASPO Lisbon Meeting

Thursday 19th May

Opening Session

Calouste Sarkis Gulbenkian: a pioneer in the Oil industry

Senhor Secretário de Estado da Indústria e Inovação, Prof. Doutor António
Castro Guerra

President of ASPO, Professor Kjell Aleklett

Chairman of the Conference, Professor Rui Rosa

Ladies and Gentlemen

On behalf of the Board of Trustees of the Calouste Gulbenkian Foundation I am very pleased to welcome you to Lisbon and I express my wishes that these two days prove to be a valuable and forward-thinking occasion.

The hectic times we are experiencing in the oil and gas markets require an in depth debate.

Lisbon was the city where our founder, Calouste Gulbenkian, lived the last thirteen years of his life and where, according to his Will, was incorporated the Foundation that holds his name. But Calouste Gulbenkian went through a long, patient and unusually discreet journey from the banks of the Bosphorus, where he was born in 1869, to neutral Lisbon, in 1942, in the middle of World War II.

As Chairman of both the Calouste Gulbenkian Foundation and the Partex Oil and Gas (Holdings) Corporation, it is a great pleasure to address such a distinguished audience on Calouste Gulbenkian's pioneer role in the oil industry.

Someone once called him an oil businessman. Calouste immediately replied “I am not a business man! I am a business architect!”. He is in fact one of the architects of the oil industry in the Middle East.

When the strategic and economic impact of the area was relatively unknown, Gulbenkian foresaw the importance of the oil reserves in Mesopotamia and had the vision to mobilize both the Ottoman government and international investors for the urgency of its development.

Calouste Gulbenkian was born in Scutari, Istanbul, in a wealthy family of Armenian merchants. He made his secondary studies in Marseille, where he mastered his French. Then in London, he was awarded a diploma with distinction, from the Department of Engineering and Applied Sciences of the King's College, in 1887, with a thesis on the technology of petroleum.

At the early age of twenty-two (in 1891), Calouste Gulbenkian made his first step in the oil industry when he travelled through Transcaucasia and visited the oil fields of Baku. This journey led him to write "La Transcaucasie et la Péninsule d'Apchéron - Souvenirs de Voyage" two chapters of which were published as articles in the *Revue des Deux Mondes*, including "Le pétrole, source d'énergie".

At that time, Calouste Gulbenkian was still distant from what we can consider his “magnum opus” in the oil industry, the **Turkish Petroleum Company**, but the knowledge and vision he demonstrated along the lines he wrote, made him take the path of the Middle East. In fact, his articles were highly regarded by the Ministry of Mines of the Ottoman government, who asked the young Gulbenkian to investigate and report on the Ottoman Empire's oil resources, especially in

Mesopotamia. Thus began Calouste Gulbenkian's lifelong commitment to the Middle East oil industry.

Alongside with his decisive role at the highest level in the world of oil and finance, Gulbenkian also gained considerable importance in political spheres. He started working on behalf of the Ottoman Empire government, being appointed financial advisor to the government itself and "commercial attaché" at the London and Paris embassies, in 1898.

It was from this highly-ranked position that Calouste Gulbenkian started to design the solutions, which would bring together rival international interests on the oil concessions in the Middle East and would deeply reshape the oil industry. He also contributed to the creation, in 1907, of the Royal Dutch/Shell Group to incorporate the Dutch and British companies. Gulbenkian will work with this Group for several years, bringing deals and arranging financing.

The drilling in Mesopotamia was only a promise, but with so many interests competing for the concession, time was really an asset. There were the British, through the Anglo-Persian Oil Company, the Germans through the Anatolia Railway and its parent, the Deutsche Bank, the Dutch through Royal Dutch and Gulbenkian in between.

In 1910, following the Young Turks Revolution (1908), the National Bank of Turkey was set up to stimulate the country's economic development. Calouste Gulbenkian was appointed as a consultant to the bank and opened negotiations with the Deutsche Bank and the Anatolia Railway Company. Gulbenkian quietly worked to plan the framework of this alliance and to build up the legal entity that would back the regional oil monopoly.

By late nineteen-twelve, the Turkish Petroleum Company was finally incorporated with a single-yet-void mission: to exploit the rich oil fields of Mesopotamia. The National Bank of Turkey owned thirty-five percent of the company shares, the Deutsche Bank and the Royal Dutch/Shell equally held a twenty-five percent stake in the company, while the remaining 15% were in the hands of Calouste Gulbenkian.

The Turkish Petroleum Company “possessed everything it needed: Germany’s oil concession; Shell’s ability to explore, refine and market; the economic backing of both the National Bank of Turkey and the Deutsche Bank; and the political connections of Gulbenkian. Moreover, through an exchange of bidding letters of self-restriction among all parties, Turkish Petroleum Company shareholders all agreed not to engage in petroleum exploration, refinement or distribution anywhere in Mesopotamia except through their jointly owned Turkish Petroleum Company.” (E. Black)

The British and their Anglo-Persian Oil Company were out of this agreement. As oil control became more and more important for naval military reasons and following Churchill’s recommendations, diplomatic efforts from the British government began, either to gain the concessions in Mesopotamia alone or to merge with the Turkish Petroleum Company.

In nineteen-fourteen, following tenacious negotiations towards a corporate restructuring of the Turkish Petroleum Company, an agreement was finally settled. It involved the British government (which meanwhile decided to acquire the Anglo-Persian) the National Bank of Turkey, the Deutsche Bank and Royal Dutch/Shell. The Turkish Petroleum Company shares were doubled, half of which were granted to the Anglo-Persian. The National Bank of Turkey equally transferred all its shares to Royal Dutch/Shell and the Deutsche Bank, thus

eliminating its involvement in the company. Anglo-Persian and Royal Dutch “carved out two-and-a-half percent of their holdings to create a conjoint five-percent beneficial share for Gulbenkian” who “would enjoy the beneficial five-percent interest during his entire lifetime”(E. Black). Calouste Gulbenkian voluntarily agreed to reduce his participation in the Turkish Petroleum Company, so as to help to conclude the negotiations. Therefore he gained his reputation in the oil industry as “**Mr. Five-Percent**” (D. Yergin).

But in June 28 of that same year, Archduke Francis Ferdinand was assassinated in Sarajevo and Europe was thrown into the War, which put an end to the negotiations for the oil concessions in Mesopotamia and, apparently, blocked the Turkish Petroleum Company activities.

One of the casualties of the First World War was the collapse of the Ottoman Empire and the separation of Iraq. In addition, the growing awareness of the strategic and military importance of oil supplies triggered silent France into the Middle East oil competition. Calouste Gulbenkian advice was crucial to the creation, in 1917, of the French “Comité Général du Pétrole”, a government consultative body which would pull France’s influence in the international oil concessions. In nineteen-twenty, the San Remo Agreement settled a compromise: “France [through the soon-to-be constituted “Compagnie Française des Pétroles”] would get twenty-five-percent of the oil from Mesopotamia, which itself would become a British mandate under the League of Nations. The vehicle for oil development remained the Turkish Petroleum Company and the French acquired what had been the German share in it (D. Yergin) .

Although the question of proved reserves in Mesopotamia remained open, the struggle for this long-aimed concession continued. Once again, Calouste Gulbenkian led the negotiations between the Turkish Petroleum Company and the new Iraqi authorities, which finally led to Turkish Petroleum Company being granted a concession in nineteen-twenty-five.

But at that time a new player was becoming interested in the Middle East: the United States of America. The wartime experience, with the “Gasoliness Sundays”, and prospective rapid depletion of national oil resources, thrust the United States into the Middle East in search of new oil supplies. After a first refusal, the British government became conciliatory to the American participation in Mesopotamia. “Calouste Gulbenkian added his voice, advising the Permanent Undersecretary of the Foreign Office that it would be better to have the Americans “inside” than to have them “outside”, competing – and challenging - the concession” (D. Yergin). A syndicate of American companies was therefore formed to operate in Mesopotamia – the Near East Development Company - and the roundtable negotiations began with Calouste Gulbenkian performing a decisive role.

In nineteen-twenty-seven the drilling in Iraq began. It confirmed that there were petroleum resources in large commercial quantities. This achievement prompted the negotiations to a final settlement. On July nineteen-twenty-eight, nine months after the initial discovery, the Turkish Petroleum Company was again restructured: Royal Dutch/Shell, Anglo-Persian, Compagnie Française des Pétroles and Near East Development Company, would each receive 23.75 percent of the oil. Calouste Gulbenkian, on his side, would retain his five-percent shareholding of the newly renamed Iraq Petroleum Company, thus confirming his **Mr. Five-percent** nickname.

The only question remaining at this point was the critical “self-denying” clause, by which all the participants in the Turkish Petroleum Company agreed to work jointly together and only jointly in the region. «As Gulbenkian later told it, at one of the final meetings he called for a large map of the Middle East, then 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 now. I was born in it, lived in it and served in it”» (D. Yergin) This far-reaching oil settlement was thereafter called “**The Red Line Agreement**” and within the red line were to be found all the major oil-producing fields in the Middle East, with the exception of Kuwait.

Thirty-seven years since he had written his original report on Middle East oil to the Ottoman government's Ministry of Mines and more than fifteen years since he had settled the Turkish Petroleum Company, Calouste Gulbenkian could certainly claim a giant personal achievement. As Daniel Yergin wrote “It was certainly a great victory for Gulbenkian – the culmination of thirty-seven years of concentration, and a testament to his perseverance and tenacity. It was the deal for which he had waited his entire adult life” (D. Yergin).

In 1938, before the beginning of the Second World War, Calouste Gulbenkian incorporated in Panama a Company to hold his assets in the industry. It was Participations and Explorations Corporation from which came the name **Partex**. Today the Foundation subsidiary is called Partex Oil and Gas (Holdings) Corporation. The Iraq concession was nationalized in 73 but we go on active in Abu Dhabi and Oman and diversified geographically to other countries like Kazakhstan, Algeria and Brazil, holding on our shoulders the responsibility of an historical name.

The oil industry in the Middle East began thanks to the vision of one man. Calouste Gulbenkian could then devote more time to his other passion: art collecting. And you'll have the opportunity to acknowledge Calouste Gulbenkian's eclectic but discerning taste by visiting our Museum which houses his private art collection. It will give you a totally different perspective for the challenges of present times.

Thank you.

Emílio Rui Vilar