'53 Oil Cartel Probe Killed

By Morton Mintz
Washington Post Staff Writer

By invoking the "magic words—'national security'," the Eisenhower adminstration killed a 1953 criminal case against seven giant oil companies for allegedly operating an international cartel to maintain high prices, two Justice Department antitrust prosecutors testified yesterday.

No explanation of how national security may have been at stake was ever given them by the National Security Council, the State Department or the Justice Department, David I. Haberman and Barbara J. Svedberg told the Senate Subcommittee on Multinational Corporations.

In a total of almost 100 pages of prepared testimony, the witness quoted heavily from papers subpoenaed from files of the companies.

They said the documents showed that, as far back as 1934, the companies drew up "one of the most explicit, detailed cartel agreements ever written"—which, among other things, provided for limiting production to prop up prices, maintaining prices in each market and even obtaining the consent of other companies for a member's advertising budget in each market.

They testified that because the antitrust case was killed, the companies won "carte blanche" to continue some of these same practices today.

Miss Svedberg recalled the "scare tactics" of company lawyers, such as telling government counsel that pressing the case would make it possible for "the Communists to come in and take over the Middle East." Haberman said defense lawyers "seemed to have ready access to inner councils of the government."

If U.S. interests were in fact imperiled, Haberman testified, no one ever explained why they should be entrusted to the protection of "a private supra-national government," including two foreign-based companies, British Petroleum and Royal Dutch Shell.

By Bob Burchette—The Washington Post

Attorney Barbara Svedberg describes cartel to Hill panel.

The other defendants were Exxon (which was Standard Oil of New Jersey then), Texaco, Gulf, Mobil and Standard Oil of California (SoCal).

Another mystery, said subcommittee Chairman Frank Church (D-Idaho), is how violations of the antitrust laws serious enough to lead the Justice Department to begin a grand jury investigation could be brushed aside without the laws being changed, without discussion with Congress and without public debate.

Miss Svedberg, replying to a question by Sen. Charles H. Percy (R-Ill.), indicated a general belief had prevailed in the department's antitrust division that political pressures had been brought to bear. Neither she nor Haberman supported such a belief with hard evidence.

Church told a reporter that the subcommittee will consider summoning Herbert Brownell, who was Attorney General at the time.

The witnesses said the aftermath of the case affected them personally, as well as affecting enforcement of the antitrust laws against the oil industry.

Haberman, after 19 years in the department, quit in October, 1972, having reached what he called "a point of no return". He is now an attorney with the Public Defender Service at St. Elizabeths Hospital.

Miss Svedberg reached her point of "utter frustration" in 1957, when she reached the conclusion that no real antitrust relief ever would be obtained from the defendant companies. She is now assigned to the San Francisco office of the antitrust division.

The criminal prosecution was replaced soon after it was filed with a civil suit.

The civil suit ended in the 1960s with consent settlements. These were "worse than nothing" because they may actually have immunized certain anticompetitive practices, Miss Svedberg testified.

Haberman, who also said that the settlements were at the least weak and ineffective, said that the decrees have

never been enforced by the department and led to a demoralization of the division staff concerned with the oil industry. Moreover, he said, the settlements have acted as a barrier to new prosecutions.

The witnesses traced the origins of the criminal case to 1928, when representatives of three of the firms gathered at an English castle, Achnacarry, to formulate the first agreement to maintain the worldwide supply and marketing position of each company "as is," Miss Svedberg testified.

She said that in 1930 the three firms—BP, Exxon and Shell—modified the agreement to admit all concerns "seriously engaged in the distribution of petroleum products." By 1932 all of the "Seven Sisters" but SoCal were members.

In 1934, she said, the companies met in London to draw up the detailed agreement.

From the start, Miss Svedberg said, the guiding principle of the cartel was to prop up prices for inexpensive Middle East crude to the level prevailing on the U.S. Gulf Coast—a level manipulated by cartel members.

She cited a Texaco document marked "personal and confidential," warning that a price determined "by agreement among Aramco [Arabian American Oil Co.] directors . . . who are also directors of four large oil companies doing business in the United States, is in effect an agreement in restraint of trade with the United States."

Yet, she testified, the Aramco board on Nov. 18, 1947, set the price of crude sold to its owners at $1.02 a barrel. Exxon and Mobil protested that it was too low; Aramco in January, 1948, raised it to $1.30. Exxon and Mobil complained again; Aramco in July, 1948, raised it to $1.40. That price, she said, "matched that of BP, Shell, and the Gulf Coast."

Haberman said the antitrust division launched a grand jury investigation in 1952 but it was "hobbled" by internal conflicts among the Justice, Defense and State departments. In 1953 the investigation was dropped in favor of a civil suit charging a conspiracy to fix prices and monopolize.

Also in 1953, because of a crisis in Iran, decisions about the case were transferred to the Defense and State departments and the National Security Council. These agencies, especially the NSC, "came to issue policy directives which . . . gutted the oil cartel case," and which were accepted by Attorney General Brownell, he said.

The directives precluded the Justice Department from challenging the legality of joint production, refining, storage and transportation ventures, he continued.

In addition, the NSC in 1957 —still not explaining why— also prohibited the department from seeking divesitture or other forms of effective relief, Haberman said.