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# An Oil Prediction That Went Begging

*By William Moore*

A top State Department official warned in the early 1950s that "monopolistic" oil company practices in the Middle East would inevitably end in Arab nationalization of production, according to classified documents The Chronicle has inspected.

The remarkable predictions of Richard Funkhouser, the government's highest ranking official on petroleum matters at the time, went unheeded by his superiors.

And what has happened recently in the Middle East — which is a matter of very public record — has borne out his dire forecast that the oil producing countries would take actions that would harm our national interest.

Im a series of top-secret State Department background papers, which are expected to be declassified and released to the public later this week, Funkhouser warned that there would be "explosive actions" in the Middle East unless the U.S. actively participated in oil matters and encouraged "a competitive environment" among oil companies.

Funkhouser, who served as state's petroleum adviser in both the Truman and Eisenhower administrations and is now U.S. ambassador to Gabon, specifically criticized — in a memo on Sept. 11, 1950 — a consortium of major American oil companies that controlled all production in oil-rich Saudi Arabia.

The consortium was the Arabian American Oil Co. (ARAMCO0 and them included Standard of California, Standard of New Jersey (now Exxon) and Texaco.

Funkhouser complained that ARAMCO's "monopolistic" control of Saudi production was akin to allowing one company to control "all the oil fields of Texas, Louisiana and Oklahoma.".

Funkhouser testily added in his memo: "There are obvious disadvantages to this arrangement."

He wrote that the U.S. government "should promote the entry of new competition into the Middle East, particularly of U.S. independent companies."

He said ARAMCO should relinquish control to other companies of any concessions it does not plan to develop in the near future.

Funkhouser's plan to take the heat off the major oil companies — which were then, as now, being asked by the Arabs to pay increasingly high taxes and royalties on crude production — was never supported by the big companies or the government.

A spokesman for Standard of California said here yesterday he disagreed with the idea that more industry competition in the Middle East would have forestalled the current moves toward nationalization of production.

"Where we have had the most competition — in Libya — we have had the most difficulty with nationalization," the spokesman said. (Last week, Libya nationalized Standard's concessions there.)

In another document prepared on Sept. 10, 1953. Funkhouser said:

"In view of the (trend toward nationalization), the U.S. . . . should get in the act to make such control as harmless as possible. It is hoped that this unfortunate alternative can be postponed."

But U.S. administrations in the 1950s and '60s, as has been revealed in numerous Senate hearings in the past few months, took a hands-off approach to oil company activities in the Middle East.

tion andconformity . . . and are insulated from politi... trends, such as nationalization.

"When they hearabout it, they see it as a scheme by local radicals to kill the goose that lays the golden egg. Consequently, oil policy discussions tend toward the restrictive, the unrealistic and the unimaginative. . . .

"Instead of depending on their own competitivevirility . . . there is a sign of old age in thebusiness. If this is true, companiessuch asARAMCO may look forwardto the ignominious end of the dinosaur family that sank in the mud when the weather changed."