Jack Blum: There had been a large study done by the Federal Trade Commission back in the 1920s and 30s, which led to something called the Petroleum Cartel Report.

Naomi Fowler: This is The Corruption Diaries from the Tax Justice Network. I'm Naomi Fowler.

Jack Blum: The further into it you got, the more you understood that these companies were acting almost like countries.

Naomi Fowler: Still with the Antitrust Subcommittee at the Senate, Jack Blum's work was now expanding into looking at financial crimes across borders. In one investigation he looked into the operation of the oil industry, and in particular, whether or not they'd engaged in a form of price fixing.

Jack Blum: The report itself was withheld from publication because of World War 2. And it was only after World War 2 that it surfaced. But what the report showed was the companies had come together at Achnacarry Castle in Scotland, and reached agreements on both division of market, and production, and pricing and had a very detailed agreement about markets and, and production around the world. The chief economist of the committee, a man named John Blair, was convinced this cartel was still in operation, but he didn't have any evidence of it. And my task was to go to the State Department and read the documents about the industry to see whether there was anything in those files that would give us a way of determining whether the cartel had continued in operation.

I got clearances, I got all the necessary security clearances and wound up going to the Office of Fuels and Energy, where I spent probably about five months reading, fourteen file cabinets, five drawer file cabinets of documents that went back to the late 19th century covering the petroleum industry. Several things became clear.

First, that even though there were people who were supposedly expert in the industry at the State Department, nobody had read the file. Second, that when you read the file, you discovered that, yes, the cartel had continued, and they had managed to morph from the straight out criminal stuff of before World War 2 to saying that what they were doing post World War 2 was in the national security interest and therefore antitrust laws shouldn't apply to them. And they had political emissaries who would go to the Department of Justice and say, look, we had this deal going during the war, and it's a deal that has to continue because we're up against the communists and we really have to maintain the stability and this is a vital natural resource so, let's forget about the antitrust laws. And they actually talked about the National Security Waiver. Now, there was no such waiver. There was nothing in the law that allowed the administration to decide, well, we're not going to look, we're not going to do anything.

In those documents, there were agreements among the major oil companies to vote on the amount of oil that would be produced in both Saudi Arabia and Iran, which were then the two biggest of the oil producers. And literally the companies all got a vote. And if anybody went beyond what they were allowed, allotted under the vote, they had to pay the profits back to the other companies. So it was a system that standardized what everybody could take and literally forced an agreement on price.

The Iranians got very angry. The Iranians kept saying, we're not getting to produce enough oil, we need more, we have the population, these guys are a very small population compared to ours. Give us more. The U.S. government actually had put Iran under an embargo after Mossadegh and there had been a revolution in Iran. And when the revolution was over, it was the U.S. government that negotiated the re-entry of Iran to oil markets.

The answer was they would get back in by setting up this voting arrangement and the companies would all then control the production. Of course, they never told the Shah about that, but that was the agreement. And, as part of it the people in Congress said, well, you've got to allow some of these independent oil companies to have a shot at production in Iran. So, you guys put these independent companies in the mix in the vote and allow them a share of the Iranian oil or the deal ain't gonna work. So, a number of independent companies got cut in, like Conoco. That set of arrangements held the price of oil stable all the way through the 1960s. And, in fact, maintained the stability pretty much until we had the amazing discovery of oil in Libya under King Idris, and that would have been in the late 1960s.

Now, what the discovery of oil in Libya did was make Libyan oil much cheaper than the oil in the rest of the Middle East. The reason being, it didn't have to be transported the same distance. And there was in fact, I believe, a pipeline from Libya to Italy that was sending the oil pretty directly under the Mediterranean. So the cost of shipping that oil was so low and the production so prolific that here was a competitor that was really rocking the market. That happened and then, then came the, the really major, major blow, which was the decision by the Saudis to embargo oil to the United States and limit production as a way of punishing the United States for supporting Israel. All of those things conspired to create a global oil crisis and price crisis. But the point of the agreements among the companies and the way they had divided up the markets and all of that was something that nobody knew about. And it was all in the State Department documents.

I actually deposed the former Attorney General of the United States, John Mitchell in his hotel room, this is after Watergate had blown up and he, he was now under indictment and he was living in a hotel, the Essex House in New York because he'd been booted out of the apartment by Martha Mitchell. It was quite a story at the time. But anyway, he very straightforwardly said, look, they came into my office and they told me there was a longstanding agreement that gave them an exemption. I had no reason to disbelieve it. The people who came in were entirely credible and we sort of let it go.

Now, the interesting thing is that even though I developed this information for the Antitrust Subcommittee, the process of declassifying the documents, of getting this all out on the table didn't really come to pass until later when and I got the same documents declassified and there were public hearings on them. And in addition to the public hearings on the documents, we made part of that a discussion of the tax problems surrounding the oil.

What went on there was the U.S. government, in the period when Saudi Arabian oil was really developing, had gone out of its way to be solicitous of the Arab governments. And the question was, how do you prop up the Saudi government that's sitting on the world's largest pot of oil without trying to get a foreign assistance bill through the Congress of the United States, and foreign assistance for a regime that is, to say the least antagonistic toward the new state of Israel and, really a problem child in the Middle East? So the answer was, we'll let the oil companies treat all of their payments to the Saudi government as a tax which is fully creditable against U.S. tax. So, if the oil companies pay a dollar to the Saudis, they get a dollar off their U.S. taxes. The upshot of that being the U.S. taxpayer, through the form of tax expenditure, is giving the financial assistance to the Saudi government. If that had been declared a royalty rather than a tax, it would have been deductible, but not creditable, which would mean that it would still require the payment of U.S. tax, and it wouldn't be a straightforward subsidy of the Saudi government by the U.S. government. And, and of course, this story of royalty versus tax turns out to be the kind of thing that the average American voter wouldn't understand even if you laid it out in big neon lights.

So, the issue of the oil industry's involvement in the Middle East, there were several pieces to and, the further into it you got, the more you understood that these companies were acting almost like countries. They had their own experts who dealt with foreign policy. They handled these different governments in, in ways that were advantageous to them. And you have to say that, yes, that was their business and they sure did a good job of it, but the fact is the U.S. government, which should have been on top of it, wasn't. And we didn't really understand fully, at least even in the government, what the stakes were and what they were getting out of it and how it all worked.

By 1972, I had pretty well run the course in terms of working at antitrust. I wanted to move on, I wanted to do other things and, the announcement came that the Foreign Relations Committee was going to set up a Subcommittee on Multinational Corporations, whose job would be to look at the role of major American corporations in influencing foreign policy.

Well, of course, it's kind of hard to investigate the role of American corporations in foreign policy without looking at what we knew about the oil industry because here was a set of companies that were capable of, over a 60 year period, manipulating the government to do what *it* wanted and controlling production of an important national resource, natural resource, and we really should lay out how that all worked and who did what to who and why. So, that's how those oil hearings came about.

Given what I had done with the oil work, I really wanted to go to work on that subcommittee and to dig into the problems of the corporate relationship to American foreign policy.

Naomi Fowler: The Corruption Diaries is a production of the Tax Justice Network, made by me, Naomi Fowler and Jo Barratt. Interviews with Jack Blum were recorded over several days at Jack’s home in Maryland by Zoe Sullivan.