

Fuel Bridge across the Middle East— Israel, Iran, and the Eilat-Ashkelon Oil Pipeline

“The pipeline is either unnecessary (in a rational and peaceful world) or unfeasible (in a world in which Israel and the Arabs are engaged in a power struggle).”

[Paul Frankel, British oil expert, 1956]

ABSTRACT

One of the most difficult problems Israel has faced has been securing sources of energy. That existential reality explains the secrecy that Israel has kept relative to the various means it has employed to overcome these difficulties. However, recent declassification of Israeli documents facilitated the publication of several academic works which emphasized and explained the major solution of the state’s oil problem during 1957–77—the evolving relations with Iran. Still, the climax of these economic relations, in the joint venture of the Eilat-Ashkelon oil pipeline during the late 1960s and early 1970s, has not yet been analyzed using the new government records. The article illustrates that Israel had been preoccupied with plans for the project long before 1967. It also provides an analysis of the intricacies of the Israeli-Iranian dialogue on the subject, and uncovers some unknown elements of Tehran’s and Jerusalem’s complementary and conflicting perspectives.

INTRODUCTION

FOR MANY YEARS ONE OF Israel's most vexing problems has been the need to guarantee its energy sources. Ironically, Israel's location in the heart of the oil-saturated Middle East was the major obstacle to realizing its goal.

Over the years, bitter conflict with the Arab world prevented Israel from acquiring an independent oil supply in the region and from international companies. This precarious situation was a strategic vulnerability which forced Israel from its early years to impose the strictest censorship regulations, which are still in effect today, to conceal its sources of oil. In recent years a number of studies, including some by myself, have revealed the hidden side of Israel's political-economic reality in its early years. The partnership with Iran, from the mid-1950s to the late 1970s, was the "golden key" to its oil supply—over ninety percent of Israel's oil imports came from Iran. It also guaranteed Israel first rights (in a 1963 agreement) to oil produced by Iran's national oil company—NIOC (National Iranian Oil Company)—whereby Israel was committed to purchase at least fifty percent of its oil from NIOC. The table in Appendix A, published for the first time, illustrates the *volte-face* in Israel's fuel reality, going from an overwhelming reliance on oil from the American continent in its first years to almost exclusive dependence on oil from Iran.

The fuel connection between the parties stemmed from the Iranian company's longtime difficulty in selling oil at posted prices because of the lower market rate and from Israel's cutoff (since the mid-1950s) from supply sources that had fed it from 1948. This severance had forced Israel—in the absence of a practical alternative—to purchase oil at high prices. Israeli-Iranian oil relations were characterized by a near-total media blackout by both parties, especially the Iranian fear of Arab pressure and their tenacious and persistent refusal to acknowledge publicly and officially their political-strategic relations which had begun to strengthen in the early 1960s.¹ Israel, for its part, was reluctant to expose its almost exclusive reliance on one source for its oil supply.

Until the mid-sixties, relations were badgered by other complications, such as NIOC's decade-long anomalous state of affairs in which it was promised an impressive percentage of exported oil from the international consortium (set up in 1954 to regulate the production and refining of oil in Iran following Musaddiq's failure to nationalize the state's oil industry) but without its own independent sources, a situation that spurred the company to cement its ties with Israel.

Until now, construction and operation of the 42" diameter oil pipeline from Eilat to Ashkelon—the crowning achievement of the Israeli-Iranian

partnership in the 1960s—has not received systematic historical treatment. This has been the result of Israel's stringent and narrowly-defined censorship regulations and the "Thirty Year" Law that prohibits the declassification of Israeli political material before the end of the cooling-off period, and also because of the absolute secrecy surrounding the Iranian documentation. This article is, to a great extent, a breakthrough in attempting to explain this cooperative venture based on Israeli and other documents that were partially made public in the second half of the 1990s, and on new evidence from individuals involved in the events. The documentation brings to light Israel's singular perseverance in dealing with the issue which began long before the Six Day War, the meandering path of Israeli-Iranian negotiations on oil matters, and, the most interesting revelation, hitherto unknown, the evolving positions of the Iranians.

HISTORICAL BACKGROUND

The idea of constructing an oil pipeline from Eilat to Ashkelon as a means of solving Israel's acute political-economic problem of importing oil, arose at the end of the 1948 War of Independence.² At that time Iraq vetoed the use of the Kirkuk-Haifa pipeline and Egypt prohibited passage through the Suez Canal of oil tankers bound for Haifa. Neither of these restrictions elicited a significant counteraction on Britain's part. In early 1950, Israel realized that acquiescence to these prohibitions could lead to a decision to shut down Haifa's oil refineries, which would completely cut off the young state's fuel sources. The fear of such a disastrous scenario led Israel to implement the revolutionary idea of building a pipeline from Eilat.

Israel's Minister to London, Mordechai Eliash, presented a comprehensive plan to Britain on January 26, 1950. The plan included an agreement to reopen the Iraqi pipeline (on the stipulation that it would not be used by Israel). It also contained parallel guarantees that the oil companies would supply Israel with fuel from sources outside the Middle East at current prices in the region in order to reduce economic damage to Israel because of its estrangement from natural energy sources. These proposals included the initial suggestion of constructing a pipeline from Eilat to the Mediterranean Sea that would receive oil from the Persian Gulf and would, to a certain degree, serve as an alternative to the Suez Canal. It is not clear to what extent Israel believed that Britain would agree but it hoped that broaching the plan would serve as a veiled threat to Iraq to alter its position. The British Foreign Office and the oil companies operating in Israel (Shell and Anglo-Iranian, which became British Petroleum in the mid-1950s)

adamantly refused to enter into what they perceived as a pernicious and futile "pipedream". Thus, the entire plan was scotched. The only consequence of Israel's effort was the decision in 1951 to ask the Anglo-Iranian Company to evaluate the benefits of building the pipeline. The results were eventually received and left to gather dust for six years due to Israel's success in late 1950 in halting the closure of the Haifa refineries and in linking the fuel companies operating in the country to stable contracts that included oil from Kuwait. Israel also managed to obtain oil from the Soviet Union. These supply lanes took the edge off the desire to pursue what was regarded as an unrealistic idea.

This reality radically changed in the mid-1950s due to a number of factors: the decision by international oil companies and Moscow to sever connections with Israel, Israel's acquisition of the Haifa refineries, and the possibility of reaching an independent and indirect strategic solution with Iran to supply Israel with oil. Thus, the idea of the Eilat pipeline became worthy of reconsideration.

The internal discussion had begun earlier. As Egypt's nationalization of the Suez Canal in July 1956 had shown, the main oil route to Europe could be threatened. The Israeli Foreign Ministry (hereafter MFA) renewed the proposal and dispatched Israeli Ambassador to Washington, Abba Eban, to hold talks with the US State Department on July 30. Five days later Ben-Gurion wrote in his diary that a cost estimate for the proposal would have to be prepared and the MFA became preoccupied with the issue for several months. According to the MFA's estimates, the western superpowers would profit from the project. First, it was likely to solve the "bottleneck" in transportation through the canal. Given the steep rise in the demand for oil in the world market, Eilat could serve as a suitable unloading station for the huge oil tankers (capable of carrying up to two hundred thousand tons) that were too large to "squeeze" through the Suez Canal. Second, the Eilat pipeline might be used by Persian Gulf states "to weaken the Arabs' potential to apply economic-political blackmail". Third, the Gulf of Eilat's depth made it less vulnerable than the canal to attempts at blocking it. Fourth, and most importantly, the Eilat pipeline might teach the Egyptians a lesson in the "unprofitability of nationalization". The nationalization of the Suez Canal did not pose an immediate threat to Israel's oil supply. Israel's goals were mainly political in nature: pressure to open the canal to Israeli shipping, a guarantee of freedom of passage through the Straits of Tiran, and the termination of what it perceived as unilateral aggression by an Arab state. These goals were not unrealistic. Technical difficulties in constructing the massive pipeline were viewed as more significant. A 32"

pipeline would cost \$65m, a sum far beyond Israel's financial ability. Israel was incapable of manufacturing such pipes and without tangible political support it justifiably feared that the oil companies would be reluctant to join the project. The timeframe needed to finish the pipeline (about two years) reduced the lure of the initiative, and cast the Iranians' willingness to participate in the project by supplying oil in serious doubt.

It soon became clear that Israel's fears were not exaggerated. The British Foreign Office claimed that the plan was "a white elephant" and that, *inter alia*, Egypt was perfectly capable of blocking navigation to Eilat. Opposition in the Arab world was expected to paralyze the willingness of British and other oil companies to support the project. The US response was more circumspect, but essentially the same. Britain and the US seemed to prefer the construction of an oil line from Iran to Turkey as a partial and more realistic alternative to the Suez Canal. US oil companies shared these views. One oil expert with whom Israel consulted claimed that the plan was "excellent . . . but utterly unrealistic". Another British expert argued that: "The pipeline is either unnecessary (in a rational and peaceful world) or unfeasible (in a world in which Israel and the Arabs are engaged in a power struggle)."

Arab opposition to the plan and aversion to it by the companies in the Iranian oil consortium was naturally expected. The only positive responses came from a number of French businessmen, and a handful of government officials who displayed an inclination "not to put all their eggs in one basket" and "to stab Nasser in the back". They were willing to partially finance a French company, Trapil, to draft blueprints for the plan.³ However, since the US companies pulled greater weight in the Iranian consortium, Israel stayed on the American track. Three months later the Suez War broke out and all activity ended abruptly. However, following the hostilities, the project received vital practical meaning for the first time.

The primary change was the Soviet Union's cancellation of its oil supply to Israel that was supposed to cover over one-third of the country's needs. The second change was the cutting off of two Middle Eastern oil lanes when the fighting erupted. In early November 1956, a section of the Iraqi line running through Syrian territory was sabotaged and, simultaneously, the Egyptians closed the canal to shipping. The third development resulted from the blocking of the canal. Oil tankers sailing from Iran to Haifa (via the Cape of Good Hope) were prevented from returning to their ports of origin through the canal. Israel was therefore forced to seek a much more expensive source of oil—Venezuela. At the same time, Israel hoped that its occupation of Sinai would guarantee Israel freedom of navigation

in the Straits of Tiran, which gave immediate operational impetus to the Eilat pipeline plan. Thus, a few days after the war broke out, Ben-Gurion informed IDF commanders that maritime freedom through the Straits of Tiran for the transportation of oil was a matter of “life or death” for Israel. Soon thereafter Israeli officials concluded that the “little” plan—that would provide for part of Israel’s fuel needs—was realistic and the “big plan” for the Eilat pipeline would also be pursued. Attempts to pursue the latter, however, came to naught despite the interest shown by the French company Lazard Frères. Britain maintained its previous position and France decided, as a result of US pressure, to abandon the pipeline scheme.

However, in light of the relatively low cost of laying an 8" pipe from Eilat to Beer-Sheva and a 16" line from Beer-Sheva to Ashkelon (it was estimated that the project could be completed in a matter of months), Israel gave the operation a “green light”. Israel expropriated construction equipment such as pipes—nearly 200 kms in length,⁴ pumps, and containers that belonged to an Italian oil company working with a Belgian company in Sinai at the still-inoperable Bilaim oil field south of Ras Sudar. Practical steps were taken even before the government decision in the first week of December 1956.

The potential profit for Israel seemed clear. A ton of Iranian crude oil cost \$21 in Eilat, \$28 in Haifa, and \$31 if imported from Venezuela. Despite Jerusalem’s skepticism regarding the big oil companies that were members of the Iranian consortium and their position on Eilat as a supply route, NIOC and the smaller members of the consortium had the right to nearly 18% of the overall output. They could also buy oil from the “big players” and market the oil as they saw fit. According to Israeli estimates, these companies had the potential of exporting five million tons of crude oil a year above Israel’s domestic needs. At least two million tons could be refined in Haifa.

Still some decision-makers in Jerusalem were skeptical about the project and considered it a “gamble”. Israel Kosloff, a leading oil expert, termed the pipeline scheme a “guinea pig test”⁵ mainly because the auspicious calculations were unable to clarify NIOC’s real position about providing oil to Israel. This became clear only in early 1957 when a “thumbs-up” sign was given to independent Israeli import after Shell left the country.⁶ A new period in oil supply dawned.

An uninterrupted flow of Iranian oil started reaching Eilat, although the deal was concealed from the public and vigorously refuted in Tehran. Within a short time Israel began manufacturing a 16" pipe to replace the old one, and by 1958 most of Israel’s fuel requirement was flowing in the

line. Two years later, two Israeli tankers were transporting oil from Iran.⁷ This flow enabled Haifa's refineries to boost their operations so that by 1966 almost 3.5m tons of oil were being refined, of which 200,000 tons were designated for export.⁸ Moreover, Israel induced the Iranians to participate in financing and operating the "intermediate pipeline". This occurred after Baron Edmond de Rothschild agreed to cover the lion's share of the cost and preside over the administrative company—Tri-Continental. Iran insisted that the firm would not be owned by the Israeli government. This stipulation was made to minimize political obstacles that could interfere with a regular supply of oil coming from a source east of Suez. The step also conformed to Israel's policy of trying to attract major international investors to the project.⁹

The Iranian-Israeli partnership agreement stemmed from a number of reasons: the collapse in 1958 of the plan to build an oil line from Iran via Turkey and Iraq; Israel's pledge of a generous return on the \$1.5m Iranian investment; and, above all, Iran's stubborn desire to gain experience—no matter how meager—in the international oil market for oil that foreign companies working in Iran actually produced. The agreement stipulated that Iranians would receive ten percent of the shares. In order to camouflage the deal, Iran insisted on setting up a "straw company" in Lichtenstein registered under the name Fimarco and legally approved on July 17, 1959. Beyond solving Israel's oil problem, the arrangement was a political and strategic windfall. As a senior MFA figure later defined it, "The movement of ships to and from the Persian Gulf exceedingly enhances our position in the Gulf of Eilat and the Straits of Tiran."¹⁰

HARBINGERS OF THE BIG PIPELINE

Given the benefit of an uninterrupted flow of Iranian oil to Israel from the mid-1950s, the fact that the highly ambitious plan for the big pipeline remained on Israel's agenda requires an explanation. Publicly, a project of this magnitude would transform Israel into a major player in the oil world and bring a political gain of inestimable value. A covert reason was Israel's absolute dependence on Iranian oil (50% from NIOC and nearly the same quantity from other members of the consortium) which was risky because of foreign and domestic pressure of interest groups opposed to ties with Israel. The Iranians were liable to demand and receive, *inter alia*, higher prices than those on the market for longer than a decade.¹¹ Despite the absence of official diplomatic relations between the parties, an internal

MFA document refers to the overall relationship with Iran as “friendly” and bound by “a mutual unwritten treaty”.¹² Israel was still of the firm opinion that the most powerful economic motivation to guarantee an ongoing oil supply from the Iranians would be the establishment of a joint company “for carrying out all operations, beginning with the transportation of the oil and culminating in the sale abroad of the distilled petroleum”.¹³ However, while the pipeline project remained the main objective, there was no sense in bringing it up for discussion until NIOC became an independent oil source, large enough to enter into such a partnership.¹⁴ The relative stability in the fuel demands of European countries, and the ability to supply them while maintaining the current price level, also reduced the motivation to resume activity in this area.

This reality changed in the mid-sixties. Israel realized that in a few years the Suez Canal would be unable to answer all of the needs of the oil tankers. The forecast was that the demand for passage through the canal would rise to over 250m tons in 1970 compared to the present volume of 230m tons, and that an increase in tonnage passage through the Canal would not be possible for technical reasons. Israel perceived the increased demand for oil from the Persian Gulf as a significant factor in this general trend. In 1964 nearly 145m tons of oil passed through the canal—twice the quantity prior to the 1956 Suez Crisis. The forecast for 1970 was a 70% increase in tonnage. Israeli figures showed that the transport of Iranian oil through the canal would increase from 5m tons in 1955 to 33m tons in 1964, with 60m tons forecast for 1970.¹⁵ This would undoubtedly heighten interest in building supertankers despite certain problems: the largest vessels would have to travel by way of the Cape of Good Hope because the Canal was too narrow and shallow, and many ports in Europe were incapable of docking such enormous ships. Furthermore, according to Israeli calculations the transport of oil in supertankers around the cape would be economically attractive only if the empty vessels could return to the Persian Gulf via the canal. Thus the Canal would fail to meet the tankers’ transportation needs. Estimates also showed that a 40" pipeline from Eilat could carry up to 45m tons of oil a year, costing approximately \$150m to build (only half that needed for adding to the cargo capacity of tankers bound for European ports via the cape). Such a pipeline could guarantee large-scale traffic of supertankers to the deep water port in Eilat, and the transportation of the oil from Ashkelon to European ports in smaller tankers which would have no trouble unloading their cargo.¹⁶ Most important—for the first time in its history, NIOC would attain a degree of independence in transporting part of the quantity required for the pipeline, which would make the company

economically profitable. Israel considered gradually increasing the initial quantity to 10m tons of crude oil when the pipeline was completed in two to three years. This was supposed to include Israel's annual need of close to 3m tons,¹⁷ the rest would consist of Iranian oil exported to Europe.¹⁸

The idea was raised in a closed-door meeting between Golda Meir, Israeli Foreign Minister, and the Shah in July 1965.¹⁹ The contents were also conveyed to Fatollah Nafici, one of the heads of NIOC and the official in charge of contacts with Israel, in a meeting in Tehran on August 15 with Israel's director of water planning.²⁰ Israel made a major effort in this direction, as clearly shown by the appointment two weeks later of Felix Shinar, the outgoing head of the Israeli delegation for German war reparations, to the post of project director.²¹ A committee prepared a paper during two days of discussions in mid-October containing detailed calculations that took into account both pipeline alternatives and the preferred pattern of contractual relations with NIOC.²² The first probes released by Israel dealt with financing and supply sources of 42" iron pipe that were beyond Israel's ability to manufacture.²³ Tehran made encouraging signs. The Shah "continues to display great interest in the plan" and desired additional technical details.²⁴ He wanted to review a work plan that contained the details of the initial aspects of the project, especially the potential sources of financing.²⁵

The project's complexity and secrecy demanded a high-level, *sub rosa* meeting. Zvi Dinstein, a senior defense ministry assistant to Levi Eshkol (the Prime Minister), was therefore dispatched to Tehran in the first week of January 1966. Following the meeting attended by the Shah, the chairman of NIOC, and members of the directorate, the MFA received a report stating that "the pipeline had been reapproved [and] willingness to implement it . . . now seems more likely than what we previously thought."²⁶ Israel's promise to obtain easy-term funding in The Federal Republic of Germany (hereafter FRG) and elsewhere at only 4% interest seemed to be the key factor that finally convinced the waffling Iranians to adopt a positive position.²⁷ The next step was supposed to be a visit by Nafici to Israel in the middle of January 1966.²⁸ For obvious reasons Israel was the driving force in this and later stages of the talks. Not surprisingly, beyond the basic agreement on partnership, more was demanded of her than of Iran. The initial agreements included instructions for clarifying the establishment of a joint company in Switzerland for advancing the project and setting a goal of \$80m as a general joint investment, in which each side would independently put up \$10m and divide the loan's outstanding \$60m over a fifteen to twenty year period at an annual interest rate of 4–5%. Both sides understood that



Meeting in Tehran, 1959: (from L to R), Yaacov Nimrodi (Intelligence officer), Avigdor Baor (Mossad agent), Dr. Zvi Dinstein (Deputy Minister of Finance, Deputy and Minister of Defence, responsible for all oil matters), Meir Ezri (Special Envoy to the Court of the Shah).

Courtesy of Meir Ezri, author of "Anyone of His People Among You" — Mission in Iran (Or Yehuda, 2001) [Hebrew]. The assistance rendered by Professor Amatzia Baram of Haifa University is most appreciated.

\$40m would come from Israel and the rest would be procured by Israel for Iran, which was prepared to give solid pledges for their part in the financing. This arrangement obligated Israel to find a solution to the project's main financial problems. Nor did Iran commit itself to another equally important matter that was an explicit condition for the pipeline's profitability: the volume of oil from Iranian sources that would pass through the pipeline was left for future discussion.²⁹

In the first week of February, Shinar and Nafici held talks in Geneva with Hermann Abs from Deutsche Bank regarding the financing of the project.³⁰ Abs was well acquainted with Shinar from their previous connection with reparations and, prior to the meeting, had been briefed by him on the details of the plan. Abs found it "interesting [and] feasible from his point of view". He also seems to have been satisfied with the explanations given to him by Nafici, which had been ironed out in preliminary discussions between the Iranian representative and Shinar during their train ride

to Basle. Nafici pointed to the growth rate of the quantity of oil that would be conveyed in the pipeline after the initial figure of 12.5m tons a year. He also promised to produce answers to Abs's questions on interest rate and pledges.³¹ Nafici returned to Tehran filled with "positive impressions" and promised to submit a favorable report to NIOC's directorate which would be handed to the Shah. The German bank's first official response arrived only in the middle of March. As expected it was basically positive, but regarding the critical issue—the conditions—no concrete figures were given, only indications in the appendix that the current interest rate was 8.5% percent, and a promise to try to improve the current conditions in the international (and German) money market.³² The German letter to Israel also referred to the need for Iranian pledges. Israel, however, feared that the German official response would be a ". . . shock and unexpected cold shower [for the Iranians] and might force them out of the deal" because of Iranian expectations for much friendlier credit terms, similar to those that they were used to (between 2.5% and 5.5%).³³ To soften the blow, it was decided to send Shinar to Tehran with a personal letter.³⁴

Tehran's response was, as expected, negative. This attitude was the result of the interest rate, especially the pledges that the German bank demanded from both governments and which created, according to the Israeli legation in Tehran, a seemingly uncompromising situation: "The deal could not go through without being publicized, however the principle of secrecy was and remained the *sine qua non* in all aspects of the transaction until some time in the distant future both sides decide in explicit and mutual agreement to publicize the deal."³⁵ Those Iranians privy to the contacts adhered rigidly to the secrecy principle not only vis-à-vis foreign elements but even toward NIOC itself, lest Iranian civil servants and politicians opposed to relations with Israel got wind of the deal. In mid-January 1966 they changed their initial agreement to establish a joint preparatory company and requested that Israel set it up and they would purchase half the shares. The Iranian explanation was that "in order to found a company, NIOC needed the approval of the directors' council and that this would not be forthcoming, whereas the acquisition of shares was not dependent on such an agreement."³⁶ In contacts with Israeli representatives Nafici made it absolutely clear that Iran "wanted the initiative to appear publicly, until decided otherwise, as an exclusively Israeli initiative" and that "they had kept their eyes on the Tri-Continental plan [the intermediate pipeline] which has remained successfully concealed until now."³⁷ The Israeli legation had the impression that "secrecy . . . really is a psychological complex and [the Iranians] are afraid of being personally responsible to the Shah in case

the deal sprang leaks.”³⁸ Understandably, Tehran responded by freezing the process (temporarily, at least) and refusing to bow to Israeli pressure to convene a summit meeting. The Israeli emissaries perceived such pressure as running completely counter to the Persian temperament and work timetable, and liable to anger them.³⁹ “In this situation,” they concluded that “the Iranians would understand that Israel is most desirous and keenly interested [in building the pipeline] when instead we should be acting as though both sides have an equal interest [in the project], otherwise [the Iranians] might be intimidated or come to the conclusion that they can saddle us with a one-sided burden”.⁴⁰ Nafici’s answer to the proposed interest rate left little room for optimism as it ran counter to “. . . the Shah’s credit policy and was liable to ruin other business deals for them”. Indeed, the Shah eventually considered the German bank’s answer “the polite end to the first stage in examining the possibilities”, and he made Israel responsible for “more agreeable” sources of financing—such as the US.⁴¹

Jerusalem rejected these assessments. The delegation was instructed to arrange Pinchas Sapir’s (Israel’s Finance Minister) visit to Tehran in an attempt to break the ice. The legation’s response reveals the complexity of Iran’s internal problems. “The [Iranian finance] minister doesn’t have a clue about the deal, and the Iranians have no intention of “enlightening” him until a final decision [on the project] is made . . . it is still uncertain to what degree, and in what manner, the Cabinet and finance minister will be involved.”⁴² The visit did not take place. However, because of Israeli pressure, separate meetings between Shinar and Nafici and between Shinar and Abs were held in Zurich in the beginning of the second week of May. In order to arrive at strategic decisions during a tripartite meeting in Europe, Iran agreed to examine the possibility of lowering the interest rate and guaranteeing the passage of a sufficient quantity of oil through the pipeline.⁴³ In the wake of these contacts, the new chief of the Israeli oil directorate, Dov Ben Dror, who was in Tehran at the time, received what seemed to be an ultimatum from Nafici to obtain a 5.5% interest rate coupled with the assurance that 12.5m tons of Iranian oil would flow annually through the pipeline (the minimum quantity needed, according to Jerusalem’s estimates, for operations to prove economically viable). Israel regarded this guarantee as a critical step in clinching the deal; Shinar believed it could prevent the pipeline remaining “sealed in a vacuum”. He therefore suggested covering the difference in interest rates, possibly 1.5–2% higher than Iran was willing to accept, and trying to influence the Germans to grant Iran a loan for development. This loan should be set at lower interest rates in order to free money for the pipeline and compensate the Iranians for the high credit rates

that they would have to pay to finance the project.⁴⁴ Abba Eban, the new Foreign Minister and senior officials expressed their support of this commitment “. . . lest the political atmosphere, which is currently conducive to implementing the plan, change.”⁴⁵

A high level meeting held in Jerusalem on June 27 focused on three basic problems: financing the project and covering the discrepancies in interest rates, guaranteeing a flow of oil, and marketing the oil once the pipeline was operational. Regarding the first issue, the majority opinion was that the differences between the sides could be hammered out even if Israel had to take responsibility for it. Far more complex was the problem of guaranteeing the flow of Iranian oil and the possibility that Egypt might sabotage the project. According to Israeli military intelligence, Nasser would not risk closing Sharm e-Sheikh; instead, he would most likely create an international crisis to intimidate Iranian oil suppliers from using the pipeline. The MFA shared this view. The effective way to stave off this development was to inform all of the partners in the project of Nasser's intentions and get them to cooperate in taking a courageous stand together with the international oil companies. This would also guarantee the minimum flow of oil needed to turn the pipeline into a sound economic investment. Eban apparently convinced the participants that too much publicity would only create unnecessary difficulties; therefore, it was best to assume that “once the pipeline was completed, oil buyers would be found”. The gist of the discussion was that “we have to roll the ball back into the Persians' court. This can be done if we yield on the question of financing, informing them that it's already been arranged (in any case, it's still not a matter of money) but that we demand the guarantee of an oil supply . . .” The proposal was phrased diplomatically, nevertheless it was a reminder that the conditions for credit stood at 6% and the quantity of oil being requested was 12.5m tons a year plus a guarantee for cooperation with international companies operating in Iran. Ben Dror delivered this message to Nafici in Tehran on June 2.⁴⁶ The Shah's official positive response arrived eight weeks later. The 6% interest rate was defined as “acceptable” and justifiable for continuing the negotiations. However, he also noted that “the Israelis should begin contacts with the international companies as though the project was an Israeli initiative, with specific reference being made to the Iranians' approval of it, and that the Iranians would become more actively involved at a later stage as necessity and circumstances dictated.”⁴⁷

The ball was once again in Israel's court and Nafici was invited to Tel-Aviv for talks on August 17, 1966. Israel probably had no choice but to accept the Shah's recommendations: Israel would submit what appeared to

be an independent request (but one that the Iranians regarded in a “favorable” light) to British Petroleum (BP) which seemed the most positively disposed toward supplying oil to the pipeline.⁴⁸ Israel and Iran also agreed that if BP refused to use its fleet of tankers for political reasons, NIOC would assume this task.⁴⁹

Consequently, on September 20, Ambassador Aharon Remez met in London with George Morgan Thomson (the Chancellor of the Duchy of Lancaster and a personal friend of Remez). Remez explained that partnership with BP would not only bring it greater commercial profit than whatever political loss it might incur, but that “NIOC would cover the difference”. He asked Thomson if “the British Foreign Office was so opposed [to the deal] that further inquiries were a waste of time”. The internal unofficial response was negative, nevertheless, since it was desirable that Israel should not conclude that the Foreign Office “had curtailed the plan”, BP was asked to drop the axe. In elaborating the matter a senior Foreign Office official commented sarcastically that he thought the company should give Iran the same evasive answer that they used when asked about their secret oil connections: “We were instructed by His Majesty the Shah that we do not sell oil [to Israel] . . .”⁵⁰ The Foreign Office was certain that BP would be unable to conceal its activity even if it decided to transfer oil clandestinely to NIOC for transport to Eilat.⁵¹ Soon thereafter, Ben Dror met with William Frazer of the BP directorate and showed him the plans. The Israeli official was surprised that “the British did not evince a negative approach” and that Frazer seemed willing “to learn more about the matter” including the question of Israeli guarantees not interfering with the source or final destination of the oil.

British documents reveal that the company’s traditional negative approach remained intact. Frazer’s main concern in the “game” with the Israelis was for them not to convey information to NIOC that was detrimental to BP’s interests in Iran. The company wanted to buy time to prepare an answer showing that their unwillingness to join the project stemmed from economic rather than political reasons. This required a second meeting, which was held the middle of October.⁵²

Israel’s representatives who met with British Defense Minister Denis Healey a few days later understood things differently. They tried to solicit Healey’s support of BP’s position as opposed to that of the Foreign Office. Dinstein, the deputy defense minister, told him that BP had been encouraging of the project’s economic benefits. However, Healey’s advisers told him later that the proposal was a “non-starter” and he eventually agreed that it “did not serve British interests”.⁵³

It is not certain that Thomson was instructed by the Foreign Office to carry out a “diversion operation”, but he told Remez that “the determining factor for advancing the proposal at this stage was BP itself, and that if [BP] took a positive position then the Foreign Office would not oppose it.”⁵⁴ On October 11 Frazer presented the official reply: BP’s calculations showed that at best the pipeline was not profitable and at worst would incur losses and reduce the company’s flexibility in market activity, therefore he could not submit a favorable answer. He reported to the Foreign Office that he had also given this information to Shell’s officials since, in his opinion, Israel would try to obtain an agreement from them.⁵⁵ Frazer expressed the professional conventional wisdom prevalent at the time. The closure of oil lines during Israel’s War of Independence and the 1956 Sinai Campaign taught many oil experts that these lines, and the canal, were unreliable routes of transportation, and the most effective solution to moving oil was to build a fleet of supertankers impervious to political vagaries in the Middle East.⁵⁶ BP’s answer obviously reduced the chances for advancing the Israeli pipeline. Although NIOC signed supply contracts with Romania and Bulgaria in early 1967,⁵⁷ the quantity of oil was insufficient to guarantee the minimum requirements of the planned conduit. The Shah, on his part, insisted that at least one member of the consortium had to guarantee its use of the pipeline if the project was to be economically viable, and he still felt “that this task was [Israel’s] responsibility”.⁵⁸

Understandably, Israel drew the conclusion that “the Shah had developed misgivings over partnership with us in the plan. He apparently felt . . . [that] partnership with Israel in the plan guarantees nothing in the way of Iran’s national interest, [and] on the other hand [was liable] to interfere with the Shah’s political plans in the region—forming an anti-Nasser front, drawing closer to Iraq, and separating [Iraq] from the Arab nationalist camp.”⁵⁹ The Israeli-Iranian negotiations thus renewed only after the Six Day War.

THE PROJECT SPRINGS TO LIFE

That war was a seminal event in Israeli-Iranian oil relations. At first it did not appear as such to Israel’s representatives in Tehran, who had warned a short time before the war that NIOC might cancel the transactions with Israel and sell the oil to other states, especially Japan.⁶⁰ The closure of the canal gave new impetus to Israel’s envoys. In unofficial talks with Nafici, they concluded

that he was of the opinion that it was “now or never”.⁶¹ They understood that blockage of the canal justified operating the “small” pipeline at full capacity for selling or transporting the crude oil to Europe, and strengthened the idea of setting a precedent of oil passage through Israel, which “could serve us well in negotiations over the big plan”.⁶² In a matter of days a “green light” came from the Shah and an Israeli delegation was expected to discuss the second issue.⁶³ In the initial talks, Nafici responded very positively to the idea that Israel would grant NIOC a concession for an extraterritorial strip of land, and that outwardly it would be the owner of the pipeline, so it would be easier for the company to secure the required throughput in the pipeline from the consortium.⁶⁴ Israel also received encouraging news from London and New York. Given the earlier Iranian position on the need for the consortium members’ support of the plan, and despite (or perhaps because of) the failure to enlist BP’s backing, Sapir instructed Remez to make a direct approach to a sympathetic mediator—Prime Minister Harold Wilson, known for his friendly attitude toward Israel—to learn his position and obtain advice on the most effective way to proceed in clarifications for an oil supply to the pipeline.⁶⁵ Wilson displayed “great interest” in the matter and recommended sidestepping the Foreign Office and BP by presenting a letter to him via Marcus Sieff, a leading member in Britain’s Jewish community.⁶⁶ According to Wilson’s instructions, on July 12, Sieff met Chancellor of the Exchequer James Callaghan and handed him financial information on the pipeline.⁶⁷ Simultaneously, Leon Hess, of Hess Oil and Refineries, informed an Israeli envoy in New York of his company’s willingness to invest “up to fifty percent” in the Eilat-Ashkelon pipeline.⁶⁸

At the same time Israel focused on renewing the Iranian track. Zvi Doriel, Israel’s semi-official delegate in Tehran, was informed of this decision in mid-July. The Shah dismissed the idea of having NIOC as the official owner of the pipeline because in the absence of formal relations he did not see how Iran could publicly admit to owning a concession in Israeli territory. Iran also turned down Israel’s earlier solution (based on a division of responsibility between the two parties) to the problem of the guarantees and oil flow in the pipeline, because it was unable to commit itself to an adequate throughput. Nafici also rejected the idea of approaching the oil companies a second time. Instead, he recommended seeking clarifications with the British and US governments since “. . . the American presidential elections are not far off and the Jewish vote pulls a heavy weight there, and in England public opinion leans toward Israel.”⁶⁹ The oil deal with the Iranians was therefore deadlocked. Moreover, in late July Iran tried to promote an idea that fizzled out—a pipeline to Turkey as an alternative

to the canal, and hid this effort from Israeli representatives in Tehran.⁷⁰ The clarifications with Callaghan also came to naught after his experts and the cabinet Committee on Foreign and Economic Affairs concluded that the project was economically unviable and “political volatile”.⁷¹ The idea of circumventing the Foreign Office and British oil companies was thus effectively stymied. Likewise, the US Hess Company canceled its plans to finance half of the pipeline’s costs.

These disappointments explain the pressure that Israel exerted in trying to get the Shah to agree to invite Sapir to Tehran.⁷² Israel was now willing to concede its demand to divide the cost of the project. It proposed starting construction on the pipeline even if Iran agreed to foot only 20–25% of the investment.⁷³ At present, we cannot say if Israel had at that time an alternative source for financing the pipeline, but it seems reasonable that this proposal was intended primarily to lure the Shah into a direct dialogue. If this was Sapir’s tactic, it was crowned with success. The director of NIOC expressed “his supreme happiness at the proposal”,⁷⁴ and the Shah looked forward to Sapir’s visit on September 12. Sapir proposed a plan to the Shah that, without the previous guarantee of throughput, Israel no longer insisted on a fifty-fifty partnership, but would be satisfied with an Iranian partnership of 20–30% in which each side was committed to fulfilling its part. The Shah was informed that a number of German (and other) firms were prepared to purchase oil from the pipeline at a yearly rate of 5m tons if it operated on an annual flow capacity of 10m tons. The loans would be paid within a relatively short time from the pipeline’s income. Israeli journalists Yuval Elizur and Eliyahu Salpeter quoted Sapir as telling the Shah on that occasion that “a person doesn’t take out an insurance policy because he fears dying, but in the hope of making a profit. Iran can surmount the western oil companies and—with the help of Israel and her friends—become an oil superpower on a global scale”.⁷⁵ The protocol reveals nothing of the Shah’s specific commitment, but all of his comments moved in a positive direction.⁷⁶ Before leaving Tehran, Sapir gave instructions to begin the process for acquiring the necessary equipment for the pipeline.⁷⁷ The information that reached the director of NIOC two days later shows that the Shah “. . . related to the matter with great seriousness and decisiveness, [and] regarded the matter as concluded.”⁷⁸

The message was basically accurate. A week later the Shah’s official reply stated that the general lines of the plan had been approved. The Shah requested that the project be announced as a purely Israeli affair “. . . without any mention whatsoever of Iranian partnership until the time was right.” Sapir was informed that “The matter remained an absolute

secret in Iran and NIOC, and that not a living soul other than Nafici and Manuchehr Eqbal [the company manger] had to know about it.” The company’s shares would be registered in Zurich under the name of an Israeli proxy, and after registration the proxy would sell half its shares to an Iranian company.⁷⁹ The Shah seems to have rejected the Israeli proposal for an asymmetrical partnership even though this step raised the financial investment that Iran was being asked to put up. Sapir understood that Iran had completely approved the deal. He set off for Europe and South America in the second half of September to find investors willing to purchase, as in the case of the “intermediate pipeline”, the majority of shares in Israel’s half of the project.⁸⁰ He failed, however, to enlist Baron Edmond de Rothschild’s support as he judged the venture unprofitable and destined to failure. He did not hide his opinion from government representatives long before the agreement with Iranians began to materialize. In order not to compromise the deal he was kept in the dark regarding its progress. Only when the agreement approached consummation did Israel inform the Baron of the negotiations and turn to him for support. He replied that he was still of the opinion that “. . . there was no economic justification for laying a huge pipeline without a guarantee from a party with independent oil sources to use it.”⁸¹ His decision also disappointed the Iranians who continued to pressure Israel, in vain, to find a way to satisfy the Jewish banker. The Iranians felt that Rothschild resented the fact that “they [the Israelis] hid the entire plan from him for two years”.⁸²

A parallel attempt to interest the American millionaire David Rockefeller in mutual partnership also failed. Rockefeller informed the Israeli representatives that the project was economically unsound “. . . because of the reality that had been created with the closure of the canal and the decision to build supertankers as an alternative to it”. However, he expressed his willingness to help in the loan. Israel’s fervid activity also included secret contacts with Shell regarding the leasing of their tankers.⁸³ On October 3, Sapir and Nafici met in London and agreed that the pipeline company would be divided equally among the partners; each side would purchase \$8m worth of shares and provide a guarantee for a loan of fifty percent of the outstanding amount. They also agreed that joint companies would be set up in a third country to camouflage the deal (as in case of the small pipeline) and a joint committee would be established to implement the project. The bilateral agreement contained Israel’s promise to help NIOC obtain the necessary loan to finance its part of the pipeline at a cost of \$22m. The question of the pipeline’s throughput was conspicuously absent. Israel’s decision to yield on this point was directly conveyed to the Shah.⁸⁴

Despite all efforts at keeping it secret this intense, behind-the-scenes activity was bound to be discovered. Given the leaks, and in order to minimize their damage, Israel announced on October 20, 1967 its decision “. . . to replace the existing oil line between Eilat and Ashkelon with a new 42" diameter pipe. This operation will enable a significant expansion in oil passage from the Port of Eilat to the Mediterranean. The finance ministry intends to channel part of the 1968–1969 budget at this point. . . . When completed, the pipe will be capable of carrying 50 million tons of oil a year.”⁸⁵ Iran accepted Israel’s reason for publicizing its plans.⁸⁶ The publicity was apparently also meant to signal that Israel was committed to implementing the project. Two days later the cabinet Committee on Economic Affairs prohibited further publicity on the matter.⁸⁷

The Iranians were also forced to expand the circle privy to the matter in order to advance the deal and obtain its official and domestic approval. In late October, Nafici informed Aharon Weiner, the manager of Tahal (Israel’s leading engineering firm in charge of national water resources) who was in Iran, of a scheduled meeting that would be attended by “a number of ministers whose ministries were represented on [NIOC’s] directors’ council. The pipeline plan would be discussed and Nafici would be given the authority to proceed as necessary so that he would not have to receive the council’s approval on every issue.”⁸⁸ On that occasion, Finance Minister Dr. Jamshid Amuzegar was negative toward the project, and posed “vexing questions” despite the opening statements by NIOC’s director that the Shah had already sanctioned the plan. The Minister of Economy was also unfavorably disposed toward allocating the investment among the partners. Nafici asked the Israeli delegates in Tehran for their indirect assistance in averting a “scene” in front of the Shah that “would put his head in a buzz”.⁸⁹ They were also asked to enlighten the Shah and prevent him from getting the wrong impression about Egypt’s military ability to derail the project, given the recent Egyptian sinking of the Israeli naval destroyer “Eilat”.⁹⁰

It is difficult to determine the contribution of this activity, but its economic value does not appear to have been immediately forthcoming. While the Iranian Minister of Economy seems to have changed his position, the Finance Minister stuck to his rejectionist view of the project even in the crucial cabinet meeting on November 13 (attended by the Shah and a small number of ministers). Amuzegar’s reservations revolved around two main issues: the position of the companies and the need to consult with them before deciding on the construction of the pipeline; and the position of the Arabs who undoubtedly knew about Iran’s involvement in the project. The Shah responded that the construction of the pipeline, in a partnership

of no less than fifty percent, was a foregone conclusion “regardless of any reservations—whether justified or not”. He told the forum that “even if the pipeline lies empty . . . and Iran loses several million dollars this year, the project will still have been productive . . . since this is the most important political step that Iran has taken in protecting its national interests.” When the Shah finished speaking, “everyone remained silent, and this was the sign for the start of action”.⁹¹ However, this was not the conclusion of the Iranian strategic agreement on the project, but rather the beginning of legal, economic, financial, and technical discussions that were the practical side of the bilateral understandings.⁹² During the three months of these discussions the signing of the agreement was often in serious doubt.

Understandably Israel pressed for a meeting at the highest level of government in order to secure a settlement. In late January 1968, Eban arrived in Tehran for a closed-door meeting with the Shah. The importance of the meeting which was held just one hour after the Iranian ruler returned to the capital on a flight from Bangkok, and which was attended only by the two, cannot be overstated.⁹³ Presenting the pipeline as the primary issue in Israeli-Iranian relations Eban stressed that “We must not withdraw from the project . . . which is of such tremendous political and strategic importance and economic advantage.” The Shah replied that, “Regarding the nineteen million [tons of Iranian oil that would pass through the pipeline], I am convinced of the project’s potential and I see no difficulties. Let us implement the first stage. As for what will happen later, the question is who will take the risk in buying from the pipe[line]? You, us, and Romania are not enough.” Despite the positive exchange of words, the following weeks demonstrated that there remained seemingly inextricable obstacles that required major efforts on Israel’s part.

One of these difficulties was the critical question of the German bank’s financing. This issue was resolved only on the very eve of the signing of the pipeline agreement. The bank had to receive government approval to grant credit for the project which was a complicated political matter for FRG. The timing was most inappropriate. In early 1968, the government embarked on a major effort to renew relations with the Arab world, which had soured following full diplomatic relations with Israel in 1965. Ten Arab states froze their ties with Bonn and three closed their embassies. FRG assistance to the Israeli project was liable to run afoul of its efforts. Initially the Government asked the bank to back down, a step that would have aborted the entire project.⁹⁴ Eventually it decided to honor its promises and recommend giving credit for 88m Deutsche marks (\$22m) at an interest rate of 6.5% *per annum*. The Foreign Minister stipulated that the creditor would

only give the loan directly to the Iranian national company or a subsidiary company registered abroad. “. . . no mention would be made of the pipeline project or the joint investment plan, only that the money would be used by the recipient of the loan for investment inside Iran or overseas.” The only guarantee from Iran should have come from NIOC—and not the pipeline company. This ran counter to the Iranian oil company’s position, which had been pressing for credit conditions that stated that the primary guarantee for the Germans as creditors, if the overseas company reneged on its commitments, would be the pipeline company’s assets and income, while NIOC’s guarantees would come only at the end if they were insufficient to cover the commitments for repayment of the loan.

Dinstein succeeded in a last-ditch effort in clearing away this critical obstacle only when he flew to Tehran.⁹⁵ This, however, still left a major unsolved problem. One week before the signing of the contract, Iran sent a draft detailing the financial matters which they posed as an ultimatum—Israel was asked to sign the contract “or to see the deal as null and void and return to square one”. With no alternative Israel accepted the draft in its entirety, but sought to add a section stating that Israel’s commitment to an intermediate loan would not be binding if the Iranians “. . . due to unexpected developments, suspended the export of oil through Israel.” Fearing that this addition might jeopardize the deal, the Israeli envoys in Tehran delayed conveying Eshkol’s request by raising a series of pretexts: The addition was “overtly political and would be rejected by oil businessmen”; the request would entail a lengthy bureaucratic process; the Shah was “liable to be offended by perceiving it as an expression of lack of integrity” and liable to induce the Iranians to present their own political conditions and propose that “Israel assume unilateral responsibility in the event that politics and its [Israel’s] political situation interfere with the production of the pipeline.”⁹⁶ Eshkol eventually conceded and withdrew his request.

The final agreement, (the official text is still classified) was signed in Tehran on February 29, 1968 by Eqbal, the president of NIOC, and Sapir, who officially inaugurated the jointly-owned Trans-Asiatic Company. The operational contract was for 49 years.⁹⁷ It stipulated that along with the Israeli general-manager, the company chairman had to be an Iranian. However, Iran’s obsession for secrecy was the reason behind their eventual agreement to have an Israeli (Dov Ben Dror) as company chairman. Disagreement arose over the price Israel would have to pay for Iranian oil. Sapir insisted that in light of Israel’s great risk, there was no place for Iran’s traditional adamancy on prices above those in the current market. It was only due to the Shah’s intervention that Iran acquiesced to Israel’s demand.⁹⁸

In the first stage, the pipeline would have a limited capacity of 9m tons of oil a year which would reach 16m within two years, of which 6m would be siphoned off for domestic needs and byproducts for export, and approximately 10m would continue in transit to other markets.⁹⁹ The pipe-laying began in June 1968 and was completed within a year. The first stream of oil went through the Eilat-Ashkelon line in early December 1969.¹⁰⁰ In 1970, 162 tankers unloaded nearly 10m tons into the pipeline.¹⁰¹ The “landlord”, as the Shah was occasionally termed in Israeli internal correspondence, in a secret meeting with Eban at the end of the year expressed his pleasure “. . . with the developments of the pipeline.” When Eban pointed out that there was no lack of demand, the Shah replied, “If there’s a supply, there will be a demand.”¹⁰²

In August 1971 Israel and Iran agreed to allocate additional investments for raising 1972’s production to 40m tons a year.¹⁰³ German financial credit totaled 30m marks. Later, additional credit of \$6.75m was obtained.¹⁰⁴ A large part of both the actual and planned growth was influenced by the steep rise in NIOC’s independent output of crude oil that started in 1969 at 7m tons and was expected to reach 29m in six years.¹⁰⁵ NIOC influenced foreign firms in Iran that had franchises for producing and searching for oil, to channel their oil through the pipeline. An internal report to the US State Department in early October 1970 thus states that Standard Oil Company (the second largest oil company in the US) had decided to convey most of its oil production from the Iranian coastal shelf through the Eilat-Ashkelon pipeline.¹⁰⁶ Documentation on the identity of non-Israeli oil buyers and their relative purchases is unavailable, but it is known that Romania was one of the biggest importers of Iranian oil that was being sent through the pipeline. The British ambassador to Israel claimed that this destination—Romania (an ally of the Arabs)—was the reason the Arabs refrained from protesting over the profit earned by Israeli-Iranian cooperation.¹⁰⁷ An expression of Israel’s high expectations from this development was the decision in 1969 to build another oil refinery in Ashdod. The rationale was also based on the need to supply employment in an area undergoing development, and for security and strategic considerations.¹⁰⁸

The aftermath of the 1973 War witnessed a record-breaking high in the company’s profits—\$20m.¹⁰⁹ However, the decline began even before the reopening of the Suez Canal in 1975, which placed the two routes for transporting Iranian oil in veritable competition for the first time. The entire project shut down after the Shah’s fall in 1978 and the decision of the revolutionary Islamic government to sever all ties with Israel.¹¹⁰

It should be noted that closure of the canal and the concomitant loss of income (\$300m a year), on the one hand, and the public announcement of the Eilat-Ashkelon pipeline, on the other, was behind Cairo's February 1968 decision to build a 42" pipeline in Egypt for transporting oil from the Gulf of Suez to the Mediterranean. The agreement was signed three years later. For reasons that partially recall the circumstances surrounding discussions over the Eilat-Ashkelon pipeline, the Egyptian line opened only in early 1977. It proved to be economically viable.¹¹¹ The difficulty in realizing the Egyptian project thus saved the Eilat-Ashkelon pipeline from competition that would have certainly lessened its economic value.

CONCLUSION

The parties' interests: The definition of the word "agreement" contains the obvious truth that it serves the objectives of the sides that are partners to it. The pipeline undoubtedly served Israel's political and economic needs as much as it served Iran's. Nevertheless, documents on the relations between the two countries show that the political-strategic interest remained a consistent factor for Israel, but greatly diminished for Iran after Nasser's departure in September 1970. Iran was left almost solely with economic interest. Until the Egyptian demise, the driving force behind the Shah, as British Foreign Office experts saw it, was ". . . to do Nasser in the eye by supporting an alternative route to the Suez Canal."¹¹²

This reality grew increasingly pronounced as the project went into financial and economic stagnation. Israel displayed a keen, almost fervid interest from mid-1965 until early 1968 in realizing the project and paid a high price for it. Iran was reserved especially in the first stage of the discussion, and maintained this posture until the beginning of 1967, expressed in the frequency of the contacts, especially the insistence on stringent financial conditions, and on an initial guarantee by the international oil companies operating in Iran to use the pipeline. These preconditions, especially the second one, paralyzed the initiative in the preliminary stages. The attitude of the respective sides was also conspicuous in the negotiations that began at the outbreak of the Six Day War: Israel's initiative and intense pressure for reaching an agreement versus Iran's fence-straddling. In this critical stage, Tehran relinquished its earlier demand for assured cooperation partnership with the large oil companies in order to guarantee the project's profitability, and showed a willingness to take a certain risk (reminiscent of Israel's

position). Irrespective of Egypt's closure of the canal in 1967, Iran held the keys to the entire project.

Israel consistently pressed for an increase in the volume of oil flowing in the pipeline and was even prepared to assume responsibility for the credit for the line's expansion after 1968. In the event that Iran failed to cover its loans in time, Israel would bridge the gap by obtaining intermediary loans.¹¹³ By cementing ties with Iran Israel was also interested in reducing Europe's dependence on Arab oil in general, and on oil that was defined as North African "blackmail" in particular. At the same time it hoped to increase Europe's dependence on oil coming from a country friendly to Israel.¹¹⁴ Iran was more circumspect and restrained. In July 1972, in light of NIOC's enormous commitment to the project, that had unexpectedly doubled, the Iranians pressed Israel to acquire Iran's part in it.¹¹⁵ Only after Israel engaged in "brisk, strenuous, and unsavory activity in the upper windows", was this Iranian proposal removed from the agenda of discussions between the two sides.¹¹⁶ Still, it resurfaced three years later when, due to a decline in the pipeline's activity, NIOC was hard pressed to honor its financial commitments and asked Israel to underwrite the debt, accompanying the request with a threat: if Israel's answer was negative, NIOC would be forced to ask it to acquire the company's shares.¹¹⁷ Moreover, Iran did not rule out the possibility of investing in the construction of the Egyptian oil line in 1971 ". . . so that it would be Iranian owned [and] . . . guarantee that the Egyptians would not damage Israel's or anyone else's pipelines, and in order to create another outlet for the export of oil." This flirtation faded *inter alia* because Egypt demanded ownership of the pipeline and insisted that foreign investors' money be considered as prepayment of transportation fees in the pipeline.¹¹⁸

Israeli-Iranian relations on the pipeline were asymmetrical. Israel was far more eager (if not desperate) to achieve this partnership, while Iran was skeptical and phlegmatic. Iran's interest in the project was primarily financial and economic; Israel's was economic-strategic of the highest order.

Despite this difference, both sides were equally discreet in keeping their relationship secret and prudent in employing a *modus operandi* in which the Savak and the Mossad cooperated in concealing the relationship.¹¹⁹ Recently declassified Israeli documentation sheds light on various aspects of Israeli-Iranian relations that, until now, have been the private domain of those people involved (although certain facts were known in foreign diplomatic circles). However, the press of that time occasionally supplied pertinent information, such as the accurate *Sunday Times* article,

“Mystery of the Disappearing Tankers” on December 13, 1970, about the methods of deception and dissemblance used by Israel and Iran.

The dynamics of the negotiations: Contact between the sides was mostly characterized by saddling Israel with the burden of finding difficult financial solutions. Not only did this critical element in the negotiations weigh heavily on Israel, but Tehran’s concrete demands were also a challenging task. NIOC refused to ask for development loans that had been approved by foreign governments because of the need to safeguard secrecy (a *sine qua non* for the Iranians) and forced the project’s planners to seek funding in the regular money market where the interest rates were relatively higher.¹²⁰ After the German bank finally agreed in the advanced stages of the discussions to demand interest at 6.5%, Iran refused to have NIOC directly involved as the recipient of the loan and rejected the idea that its Iranian subsidiary or a company contractually tied to it would benefit from the loan since Iran’s Oil Law required a parliamentary decision on such a matter. If this occurred, the entire Israeli-Iranian connection would be exposed.

At first the Shah did not agree that the loan should appear as aid to Iran within the framework of Iranian-German economic and financial relations. He also rejected the idea of the investment being made outside of Iran.¹²¹ Israel’s labyrinthine solution was that instead of the Israeli pipeline company receiving a direct loan from the Germans, a subsidiary company would be set up in Iran or Portugal with full ownership rights, and the loan would be given to this company with NIOC serving merely as its guarantor.¹²² Moreover, succumbing to NIOC’s pressure, Israel decided in February 1968 that should the pipeline company fail to honor its commitments, Israel would provide an intermediate loan to bridge the gap thereby freeing the Iranian company of its pledge to pay.

Three years later, Iran’s demands regarding additional loans accorded to the joint project were likewise answered positively.¹²³ Iran refused to guarantee cooperation of the oil companies until the pipeline was completed, insisting that Israel do its utmost to guarantee its part. Simultaneously, heavy pressure was applied on Israel to supply Iran with “safe clients” (as the Shah termed them) who would buy the oil once the pipeline was “open for business”.¹²⁴ Thus the MFA helped secure a major deal with Romania to guarantee its purchase of Iranian crude before the conclusion of the negotiations. Israel agreed to the sale of oil in Constanza, Romania, rather than in Ashdod, in order to minimize damage to Bucharest in the Arab world in the event of disclosure.¹²⁵ At a critical juncture in the negotiations Iran suddenly demanded that Israel pledge 8% profit to NIOC’s investment, that Israel

assume responsibility for financing the expansion of the pipeline, and that 50% of the ownership remain in Iranian hands (without their equal participation in the financing of the project). Israel rejected these demands outright¹²⁶ but was forced to yield on the financing of the pipe's expansion.¹²⁷ The short-term Iranian concession on the official price of oil to be supplied to Israel was therefore manifestly different from the long list of Israeli capitulations.

Israel made wise use of a number of clear-cut advantages during the negotiations. At their outset Israel had already managed to chalk up a decade of experience in its circuitous, yet richly rewarding, relations with NIOC.¹²⁸ In the late fifties, Doriel, who initiated and cultivated the Israeli-Iranian connection, was joined by two other envoys, Tehran-born Meir Ezri, who smoothly entered Tehran's high society and the Shah's court, and Yaacov Nimrodi, who had the same success with Iran's military and secret services. This helped detect fluctuations in Iran's political-economic pulse and the meanderings of the pipeline negotiations so that accurate messages could be relayed to Jerusalem. Thus, for example, Israeli officials faced the problem of how to interpret the ambiguous signals from Iran regarding the government's interest in establishing secret ties and its obstinate avoidance of publicly admitting this tendency. Nimrodi recalls his exhaustive efforts to convince the head of Israel's military intelligence, Aharon Yariv, that the source of Iranian behavior was ". . . the Persian philosophy of life: flexibility in everything, moving in such a way that the sheep remain alive, while the wolf is also satisfied."¹²⁹

Israeli representatives were also extremely effective as conduits for relaying Iranian sensitivities on oil matters. During a major crisis just before the signing of the agreement, Doriel and Ezri informed Eshkol of what they constantly heard in private conversations, That the Iranians felt that they were "taking a risk in pursuing a deal" with Israel a country that was "under a perpetual threat of war", with Arab oil and communist states, which were among Iran's foremost clients, while all of Iran's assets and investments would be in Israel under her "exclusive management".¹³⁰

Israel's presence in Tehran consisted of hard-pushing advocates of the project, which was an invaluable driving force. Material recently published reveals that in November 1968, after long and tortuous negotiations in which Nimrodi played a key role, Israel agreed to provide Iran with \$75m in credit (over a five year period at 6% interest) for purchasing what at that time was considered a huge quantity of military equipment. Equally surprising, Iran agreed to pay it off with oil after operations on the pipeline began. Although we still await the release of documentation on the exact nature of the linkage between this activity and the pipeline negotiations, it is most probable that Israel used the security credit as a "carrot" in order to obtain

Iranian concessions on partnership in the oil supply line.¹³¹ Israel very likely also compensated Iran in security-military intelligence and other areas.

Israel's second advantage was of inestimable importance: its ability to secure the cooperation of a number of minor international oil companies that operated in the Iranian market. This enabled it to acquire directly from them enough oil to cover its needs and guarantee an even greater supply in the soon-to-be-operating pipeline. In the late 1950s Israel had cooperated with two minor companies in the Iranian consortium: the Signal Company (which secretly and at a token price bought half of the government's shares in the Israeli oil company Paz) and the Richfield Company.¹³² These ties helped Israel fill its quota with enough shipments to make the pipeline economically profitable.

Israel's third major asset was not related to Iranian oil at all. Immediately after the Six Day War, Israel made a concerted effort to obtain the agreement of the two partners engaged in oil production in Sinai, the Italian ENI Company and (indirectly) Egypt.¹³³ Israel offered to buy the oil produced from the wells (of much lower quality than Iranian oil),¹³⁴ ship it to Eilat, and transfer it to Ashkelon via the pipeline. The success in reaching an agreement, at an undoubtedly equitable price, was one of the Israel's greatest diplomatic coups. Over 3m tons from this source were conveyed through the pipe in 1970, and 4m tons *per annum* within a few years.¹³⁵

The profit and loss balance sheet: In the absence of written documentation, calculating such a balance sheet is a precarious undertaking since it requires complex data systems and figures reaching back to the late 1970s. This difficulty is magnified in attempting to extrapolate figures from Iran's perspective. Still the project undoubtedly enabled NIOC to sell and market oil on the international market for the first time according to standard CIF (cost-insurance-freight) prices (defined as those that exist in the port of destination, including transportation expenses). This had been the company's primary goal since the Iranian oil industry was nationalized in 1951.¹³⁶

For several years Israel regarded the pipeline as one of its greatest successes. In late January 1968, the British embassy in Tel-Aviv, probably influenced by local enthusiasm, criticized the Foreign Office's traditional position of labeling the Eilat-Ashkelon pipeline a "pipedream" and of trying to prevent its development. The embassy also asserted that British companies should therefore be granted a political "green light" to gather up the "leftovers" of contracts from which other companies had profited.¹³⁷

The project declined following adverse developments in international oil in the wake of the 1973 war although indications of the decline had been observed earlier. The pipeline company had leased a fleet of tankers (with a

capacity of 1.5m tons) on long- and intermediate-term contracts when the price was at an all time high; this transaction accumulated heavy losses.¹³⁸ The pipeline carried far less oil than planned, and by the mid-seventies the project showed signs of lowering its volume of activity. Accumulated debts on the loans (the majority of them were from FRG) approached 90m marks at the end of 1975.¹³⁹ However the closing of the pipeline was the result of political events following the overthrow of the Shah in 1978. The skepticism that most oil experts felt toward the pipeline before it became operational thus proved correct, as did Rothschild's gloomy predictions. However, for Israel, the project's *raison d'être* was not solely economic profit. In early March 1968 the British embassy perceptively reported that, "nobody in Israel believes that the country will become wealthy because of the pipeline, or, on the other hand, that will it be a burden on the economy."¹⁴⁰ A guaranteed supply of Iranian oil was the main issue.

How much influence did the partnership in the pipeline have on Israeli-Iranian oil relations? The answers are sketchy because the relevant material is still classified. Nevertheless, a military intelligence report from March 1970 presents a picture very similar to that of 1960: "The Persians are willing to sell. Our problem is that [they] know that other supply sources are closed to us, so occasionally they demand not only the international price for oil, but also the price of their agreement to sell us oil when others are opposed [to selling it to us] . . .¹⁴¹ the Persians would like to see the Israeli market expand and have Persia their exclusive supplier, therefore they are disappointed that we are not buying the expected amounts (the oil we are taking out of Sinai has influenced this)."¹⁴²

Two years later, during a crisis between the two countries, senior Israeli officials argued that Iran "needed [Israel] for military intelligence and oil matters, but now that they have become independent in these areas their need for our assistance decreased. . . . At this stage of [oil] affairs, the most important and sensitive areas in our relations with the Iranians . . . are proceeding as they should be. . . . Nevertheless, we must take into account the possibility that changes in this area too will take place."¹⁴³ It took a while for this forecast to be realized and Israel's plan for importing a little over 8m tons of crude oil in 1975, included almost 4m tons of crude oil from Iran (and nearly the entire other half from Sinai).¹⁴⁴

We therefore conclude that the pipeline guaranteed an uninterrupted flow for most of Israel's oil needs in the decade following the Six Day War, and that from this point of view it was a considerable success. However, a higher price may have been paid because of human nature: a loss of motivation to invest time and energy in seeking alternative sources to Iranian oil.¹⁴⁵

APPENDIX A. SOURCES OF OIL IMPORTS TO ISRAEL 1952–1963.

Crude Oil

Year	Quantity	Persian	Other	Venezuela (thousands of tons)
1952	892	274		618
1953	872		478 (Kuwait)	394
1954	992		98 (USSR)	894
1955	1024	679	182 (“ ”)	163
1956	1931	1772	123 (“ ”)	36
1957	1212	845		367
1958	1256	1189		58
1959	1177	1076		101
1960	1375	1221		154
1961	1462	1352	73 (Yugoslavia)	37
1962	1463	1275	151 (“ ”)	37
1963	2574	2348	189 (“ ”)	and 37 (Gabon)

Heavy Industrial Lubricant (mazut)

Year	Quantity	Italy	Venezuela	USSR (thousands of tons)
1952	167	147	20	
1953	182	173	9	
1954	185		24	161
1955	382		85	297
1956	305		52	253
1957	429	74	355	
1958	446	377	69	
1959	491	491		
1960	572	553	17	
1961	613	560	73	
1962	389	389		
1963	335	299		36

Airplane Fuel

Between 4 (1955) and 20 (1958) thousand tons almost entirely from the Caribbean.

Benzene

Between 3 (1954) and 33 (1957) thousand tons from Venezuela and Europe. No import of benzene after 1957. Reliance on independent refining.

Kerosene

Between 17 (1954) and 30 (1957) thousand tons from Venezuela and Europe. There is no import of kerosene after 1957. Reliance on independent refining.

(Source: Oil Administration File 4475/7, Israel State Archive, Jerusalem.)

APPENDIX B. OIL MOVEMENT IN THE EILAT-ASHKELON OIL PIPELINE
FEBRUARY 13–DECEMBER 31, 1970.

Unloading of tankers in Eilat

Patria	40 times	37 from Sinai
Siris	34 times	25 from Sinai
Samson	13 times	5 from Sinai
Leon	14 times	
Ronitz	14 times	
Atlantic	13 times	3 from Sinai
Nivi	3 times	
Aquarius	7 times	
Taurus	12 times	
Nora	5 times	
Arges	3 times	
Oltania	3 times	
	161 times	70 times from Sinai

Quantity of crude oil unloaded in Eilat monthly (tons in round numbers)

February	337,581
March	838,807
April	1,090,380
May	951,576
June	1,092,569
July	1,093,289
August	1,233,915
September	898,138
October	968,409
November	1,124,386
December	1,047,255
Total	10,676,305

Grades of oil and their sources (tons in round numbers and percentages)

Agha Jari	3,854,654	(Iran)	36%
Sassan	1,541,917	(Iran)	14%
Darius	1,223,629	(Iran)	12%
Rostum	602,551	(Iran)	6%
Gash Saran	87,070	(Iran)	1%
Bel. M\Sidri	1,673,776	(Sinai)	16%
Bel. L\Bel. M.	1,629,709	(Sinai)	15%
Total	10,613,286		

Consignees of crude oil in Israel (tons in round numbers and percentages)

Delek	1,018,560	9.5%
Paz	1,571,573	14.7%
Sonneborn	798,998	7.5%
Trans Asiatic	4,204,876	39.4%
H.R.L.	1,365,903	12.8%
Netivei Neft	1,425,200	13.4%
Metra	291,196	2.7%
Total	10,676,306	100.0%

(Source: Oil Administration File, 4511/16/g1, Israel State Archive, Jerusalem.)

NOTES

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1. The edicts against publicity which appeared in the *Official Gazette*, July 1958 were still in effect in the 1990s.

2. Uri Bialer, *Oil and the Arab Israeli Conflict 1948–63* (London, 1999). The following analysis and excerpts are based on this work unless otherwise noted. Forthcoming, Uri Bialer, “The Formative Period of Delek—Israel’s National Oil Company,” in A. Beltran (ed), *Les Compagnies Pétrolières Nationales*, Paris, 2008.

3. On French-Israel relations see Binyamin Pinkus, *From Ambivalence to an Unwritten Pact* (Beer-Sheva, 2005) [Hebrew].

4. Yuval Elizur and Eliyahu Salpeter, *Israel’s Oil Adventures* (Tel-Aviv, 1999) [Hebrew].

5. When the idea of laying the pipeline was first raised in the early fifties director-general of the Finance Ministry, Pinchas Sapir, called it, building “castles in the air”. He apparently changed his view in late 1956. Elizur and Salpeter, *Israel’s Oil Adventures*, 80.

6. On Anglo-Israeli relations in this period, see Mordechai Bar-On, *Of All the Kingdoms* (Jerusalem, 2006) [Hebrew]; Natan Aridan, *Britain, Israel and Anglo-Jewry 1949–57* (London, 2004).

7. In 1963 Israel exported 200,000 tons of distillates, produced from Iranian crude oil, for Space Petroleum Company, Bahamas. Goldstein to Shapira, March 3, 1962, Israel State Archive [hereafter ISA] ISA 4665/9175.

8. Bartel to Moshe [Bartur?], January 12, 1968, ISA 4685/5.

9. Yaacov Arnon, “The Eilat Pipeline: Economic Analysis,” December 31, 1963, ISA 4664/910.

10. Bar-Haim to Eban, May 10, 1967, ISA 5256/4.

11. Sherman to Dinstein, January 5, 1964, ISA 4664/910.

12. Gazit to MFA, February 23, 1966, ISA 3998/6.

13. Dinstein to Giron, June 1965, ISA 4664/9106.

14. Israel started receiving NIOC-produced oil in late 1963. Bialer, *Oil and the Arab Israeli Conflict 1948–63*.

15. See the calculations made in October 1965, ISA 6437/4.

16. *Ibid.*

17. See undated table, probably from early 1966, ISA 4664/10.

18. Zvi Dinstein to Zvi Doriel, December 8, 1965, ISA 8437/4. Uri Bialer, “Fuel from Iran, Zvi Doriel’s Assignment in Tehran 1956–63, Part 1,” *Iyunim Bitkumat Israel*, 8 (1998) 150–80 and “Fuel from Iran, Zvi Doriel’s Assignment in Tehran 1956–63, Part 2,” *Iyunim Bitkumat Israel*, 9 (1999) 128–66 [Hebrew]; and Uri Bialer, “The Iranian Connection in Israel’s Foreign Policy 1948–1951,” *Middle East Journal*, 39.2 (1985) 292–315.

19. The date and transcript of the conversation were not found in the ISA. See references in Meir's dispatch to the Shah, July 25, and Ashbel to Amir, August 6, ISA 8437/4. In late July, Israel sounded out the US on the plan and concluded that the Americans had been "positive" towards it. Gazit to MFA, July 29, 1965, ISA 7228/28.

20. Weiner to Meir, August 24, 1965, ISA 8437/4. Engineer Fatollah Nafici directed the Department of Oil Production and Refining at NIOC, which was headed by Manuchehr Eqlal. Navon to the MFA's Economic Division, February 2, 1966, ISA 3165/3.

21. Shinar to Dinstein, September 13, 1965, ISA 8437/4. On Shinar's previous endeavors, see Yeshayahu Jelinek, "Implementing the Luxembourg Agreement: The Purchasing Mission and the Israeli Economy," *Journal of Israeli History*, 18, 2–3 (1997) 191–209.

22. Memo on profitability figures for constructing the Eilat pipeline, October 1965, ISA 8437/4; Gazit to MFA, February 23, 1966, ISA 3998/6.

23. Soroker to Dinstein, January 20, 1966, ISA 8437/4.

24. Legation in Tehran [hereafter Legation if not otherwise stated] to MFA, October 31, 1965, ISA 8437/4.

25. Doriel to MFA, November 30, 1965, ISA 8437/4.

26. Legation to MFA, January 5, 1966, ISA 8437/4.

27. Legation to MFA, March 29, 1966, ISA 8437/4.

28. Based on reports of discussions held on January 14 and 16, 1966, ISA 8437/4.

29. Gazit to Eban, May 30, 1966, ISA 8437/3.

30. Memorandum, February 5, 1966; Shinar to Sapir, January 30, 1966, ISA 8437/4. Hermann Abs joined the Deutsche Bank's board of directors in January 1938. During the Nazi period he managed the bank's foreign business department. After the war, following brief imprisonment by the Allies, he took part in the reconstruction of Germany and worked for the reunification of Germany's large banks that had been dismantled after the war. His efforts were successful. In 1957 he became the first spokesman of the reunited Deutsche Bank, a position he held until 1967 when he was appointed chairman of the bank's supervisory board. There has been a heated debate among historians regarding his role during the Nazi period. Lothar Gall, "Herman Josef Abs and the Third Reich: A Man for all Seasons?" *Financial History Review*, 6.2 (1999) 147–202; Harold James, *The Deutsche Bank and the Nazi Economic War against the Jews: The Expropriation of Jewish-Owned Property* (New York, 2001); Harold James, *The Nazi Dictatorship and the Deutsche Bank* (New York, 2004).

31. Shinar to Sapir, February 8, 1966, ISA 8437/4.

32. Shinar to MFA, March 13, ISA, 8437/4, and the bank's letter to Nafici and Shinar, March 15, 1966, ISA 8437/4.

33. Legation to MFA, March 28–29, 1966, ISA 8437/4.

34. The visit never took place. The legation handed the memo to Nafici with palliating explanations. Shinar to Legation, March 28, 1966, ISA 8437/3.

35. Legation to Sapir, April 21, 1966, ISA 8437/3.

36. Shinar to Sapir, February 7, 1966, ISA 8437/4.
37. Dinstein to Avigdor Baor, the Mossad agent in Tehran, March 15, 1966, ISA 8437/4. Baor's intensive involvement in oil matters stemmed from the fact that Savak, the Iranian agency responsible for intelligence and national security, was in charge of overall relations with Israel. Meir Ezri, *Anyone of his People Among You: Mission in Iran* (Or Yehuda, 2001) 63, 342 [Hebrew].
38. Legation to MFA, April 28, 1966, ISA 8437/3; Soharb Sobhani, *The Pragmatic Entente: Israel-Iranian Relations, 1948–1988* (New York, 1989) 78.
39. Legation to MFA, April 24, 1966, ISA 8437/4.
40. Legation to MFA, April 28, 1966, ISA 8437/4.
41. Legation to MFA, May 3, 1966, ISA 8437/4.
42. Legation to MFA, April 28, 1966, ISA 8437/4.
43. Shinar to MFA, May 10, 1966, ISA 8437/5.
44. Shinar to MFA, May 24, 1966, ISA 8437/3. He felt that the likelihood of improving the terms of the loan was minimal because the Bundes Bank had raised the interest rates on regular commercial loans to 8–9%. Shinar to MFA, May 27, 1966, ISA 8437/3.
45. Gazit citing Dinstein in his (Gazit's) letter to Eban, May 30, ISA 8436/3; Eban to Sapir, June 13, 1966, ISA 8437/5.
46. See transcript of the meeting, and Gazit to Ezri, June 28, 1966, ISA 8437/5.
47. Doriel to MFA, 8 June 8, 1966, ISA 8437/5.
48. For BPs' perspective, see Jim Bamberg, *The History of the British Petroleum Company*, vol. 2 *The Anglo-Iranian Years 1928–1954* (Cambridge, 1994). In 1955, the company agreed to sell Iranian crude oil to Israel: Bialer, *Oil and the Arab Israeli Conflict 1948–63*.
49. Memorandum, August 18, ISA 8437/5. The Shah approved the decisions in the Tel-Aviv meeting and, according to Nafici, ordered that "accelerated progress" be made. Doriel to Baor, September 1, 1966, ISA 8437/5.
50. Correspondence, September 20, 1966, Foreign Office, London [hereafter: FO or FCO] FO 371/187634, 10D1531/3.
51. Goodison to British Embassy, Tel-Aviv, September 28, 1966, FO 371/187634, 10D1531/3. Despite the improvement in Anglo-Israeli political relations from 1958, the FO retained its position on British oil policy towards Israel. On the subject see Orna Almog, *Britain, Israel, and the United States, 1955–1958* (London, 2003); Moshe Gat, *Britain and the Conflict in the Middle East, 1964–1967: The Coming of the Six-Day War* (Westport, 2003).
52. Ben-Dror to MFA, September 23, 1966, ISA 8437/5.
53. Correspondence, FO 371/187634.
54. Remez to MFA, September 24, 1966, ISA 8437/5.
55. Correspondence, October 11, 1966, FO 371/187634.
56. FO to the British Ambassador in Oslo, January 6, 1968, FCO 54/22.
57. Gilad to Gazit, January 8, 1967, ISA 3999/4.
58. Doriel to Baor, June 4, 1967, ISA 3165/3.

59. Ben-Haim to Eban, May 10, 1967, ISA 5256/4.
60. Legation to MFA, June 4, 1967, ISA 5256/4.
61. Legation to MFA, June 13, 1967, ISA 8437/6.
62. Legation to MFA, June 17, 1967, ISA 3165/3.
63. Legation to MFA, June 16, 1967, ISA 8437/5.
64. Ben-Dror to MFA, June 27, 1967, ISA 8437/6.
65. Harold Wilson *The Chariot of Israel: Britain, America and Israel* (New York, 1982). During his tenure as prime minister, the UK not only sold arms to Israel, it also supplied Jerusalem with plutonium. BBC Newsnight, March 10, 2006. See also Moshe Gat, "Britain and the Occupied Territories after the 1967 War," *MERLA*, 10.4 (2006).
66. Remez to MFA, June 25, 1967, ISA 8437/6. Sieff succeeded his father, Baron Sieff, and uncle, Simon Marks, in the family's retailing business Marks & Spencer, which was founded by his maternal grandfather, Michael Marks. Sieff was vice-chairman of the company from 1965 to 1967.
67. Soroker to MFA, July 13, 1967, ISA 8437/6
68. Shamir to MFA, June 27, 1967, ISA 8437/6.
69. Doriel to MFA, July 13, 1967, ISA 8437/6.
70. Doriel to MFA, July 27, 1967, ISA 8437/6.
71. Owen's memorandum, July 20, and Symons' memorandum, August 4, 1967, British Treasury Papers, (hereafter: T) T 317/1463.
72. Hillel to Legation, September 3, 1967, ISA 8437/6.
73. Sapir to Legation, September 4, 1967, ISA 8437/6.
74. Ezri to MFA, September 5, 1967, ISA 8437/6.
75. Elizur and Salpeter, *Israel's Oil Adventures*, 97. The sentence is absent in the declassified report.
76. Sapir to Eshkol, September 12, 1967, ISA 8437/6.
77. Sapir to Finance Ministry, September 12, 1967, ISA 8437/6.
78. Legation to MFA, September 14, 1967, ISA 8437/6.
79. Chelouche to Sapir, September 22, 1967, ISA 8437/6. In 1957, prior to his involvement in NIOC, Dr. Manuchehr Eqbal was a former prime minister of Iran.
80. See correspondence, ISA 8437/6.
81. Ravin to Sapir, October 16, 1967, ISA 8437/5.
82. Doriel to MFA, December 27, 1967, ISA 8437/5 On February 15, 1968, the apparently well informed British ambassador in Tel-Aviv sent the FO a long report on the sensitive and for Israel totally undesired affair which speculated that "the price to be paid [for it] may be Dinstein's head", FCO, 17/597. It stated that in September 1967 Israel realized that the early positive responses from foreign elements to the pipeline justified initiating a vigorous campaign for guaranteeing financial backing and the flow of oil when the line opened. A month later Dinstein reported that he was given responsibility for attaining these goals. Sapir, who was closest to Baron Rothschild, was asked to contact the Jewish banker and convince him to

join the project. Sapir did not divulge to Rothschild that Israel was deeply involved in the practical stages and in contact with other parties. Rothschild considered the project economically unviable. The affair erupted when Rockefeller, president of Chase Manhattan Bank, asked Rothschild for his support, and told him about the progress in the negotiations between him and Dinstejn on the pipeline. Rothschild was offended “having appeared as a fool in international financial circles, and having always regarded himself as a Zionist and privy to Israel’s most sensitive economic decisions”. He denied any connection to the pipeline and disparaged the entire project. Israel’s “tactless” counter-response was to make it known that it would pursue the project “with or without the baron”. He publicly criticized Israel for not informing him of the pipeline, which undoubtedly had an impact on Tri-Continental of which he headed. He threatened that the interests of the company’s shareholders would have to be taken into consideration. Sapir was dispatched to Paris to salvage something from this unfortunate crisis.

83. Sapir to Dinstejn, October 16, 1967, ISA 8437/5.
84. Chelouche to Doriel, October 8, 1967, ISA 8437/5.
85. Yaffe to Legation in New York, October 20, 1967, ISA 8437/5.
86. Ezri to MFA, October 23, 1967, ISA 8437/5.
87. ISA C 6357/3166.
88. Weiner to MFA, ISA 8437/5.
89. Ezri to Sapir, October 30, 1967, ISA 8437/5. Dr. Amuzegar became prime minister of Iran in August 1977.
90. Ezri to MFA, November 2, 1967, ISA 8437/5.
91. Ezri to MFA, November 26, 1967, ISA 8437/5.
92. Legation to MFA, November 14, 1967, ISA 8437/6.
93. Eban to Sapir, February 4, 1968, ISA 5256/4.
94. The analysis is based on Dinstejn’s dispatch to the legation, and on Shinar’s dispatch to MFA on February 6, 1968, ISA 6822/1. On Israel-FRG relations see Yeshayahu A. Jelinek, *Deutschland und Israel 1945–1965: ein neurotisches Verhältnis* (München, 2004 [German]); Otto R. Romberg, (ed), *Forty Years of Diplomatic Relations between the Federal Republic of Germany and Israel* (Frankfurt, 2005).
95. Doriel to MFA, February 11, 1968, ISA 6822/1.
96. Ezri and Doriel to MFA, February 24, 1968, ISA 6822/1.
97. Ezri, *Anyone of his People Among You: Mission in Iran*, 346.
98. Elizur and Salpeter, *Israel’s Oil Adventures*, 98–99.
99. Bar Zeev to Sapir, April 23, 1968, ISA GL 4665/9175.
100. British Embassy in Tel-Aviv to FO, February 16, 1970, T 317/1463.
101. Fuel Authority Report, December 1970. See Appendix B for the first-time publication of details on the use of the pipeline.
102. Eban to Meir, December 13, 1970, ISA 5256/4.
103. Turgeman to Vered, January 7, 1972, ISA 5316/4.
104. Fuel Authority correspondence, ISA 445/12.
105. Memorandum, January 26, 1970, FCO 67/429.

106. Report, October 8, 1970, State Department Papers, Washington, File PET 10–2 ISR.

107. Memorandum, June 15, 1970, FCO 17/1278.

108. On the general topic see Haim Barkai, “Israel’s Energy Sector in the 1960s and 1970s,” (Paper 84.03) Falk Institute for Economic Research in Israel (Jerusalem, 1984); Margit Cohn, “Fuzzy Legality and National Style Regulation: Government Intervention in the Israel Downstream Oil Market,” *Law & Policy*, 24.1 (2002) 51–88.

109. Elizur, Salpeter, *Israel’s Oil Adventures*, 102. The agreement between the Oil Consortium and Iran, finalized in late March 1973, substantially increased NIOC’s share of the local market. Israel estimated it would allow sales to reach 15m tons of crude oil *per annum*, compared to the previous 2.5m tons. The forecast for 1980 was 75m tons. Ben Yohanan to MFA, May 31, 1973, ISA 5315/35.

110. Yossi Melman claimed in his article “This is how we lost the Iranians,” *Ha’aretz*, December 6, 2006, that after the Shah’s fall, Israeli directors of Trans Asiatic tried to establish a secret dialogue with NIOC representatives in order to reach a divestment agreement, but Iran wanted nothing to do with Israel. According to Melman, the peace agreement with Egypt in 1979 saved Trans Asiatic from bankruptcy. It included an Egyptian commitment to sell Israel oil in place of the loss of the Sinai oil fields. Egyptian oil, at approximately 1.5m tons a year, was shipped to Eilat, from where it was piped to Ashkelon, and then carried to refineries in Haifa and Ashdod. For twenty years Iran and Israel have been legally contesting their mutual claims for compensation related to the cessation of the company’s activity in 1978. On later relations between Iran and Israel see Gwadat Baghat, “The Islamic Republic and the Jewish State,” *Israel Affairs*, 11.3 (2005) 517–534.

111. Elie Podeh, “Making a Short Story Long: The Constructing of the Suez Mediterranean Oil Pipeline in Egypt 1967–1977,” *Business History Review*, 78.1 (2004) 61–109. In 1966, following initial reports of Egyptian plans for an oil pipeline linking the Gulf of Suez to the Mediterranean, officials at the Italian oil company ENI, which had wells in Sinai, told Israeli officials that “there was no chance” of it materializing. Hadas to MFA’s Research Division, July 4, 1966, ISA 7029/12.

112. Fearnley’s analysis on January 15, 1968, FCO 54/22.

113. Ezri to Dinstein, April 22, 1971, ISA 445/12.

114. Memorandum, February 3, 1971, ISA 6822/1.

115. Ezri to MFA, July 30, 1972, ISA 6822/1.

116. Ezri to MFA, August 3, 1972, ISA 6822/2.

117. Lubrani to MFA, August 26, 1975, ISA 6822/2; Lubrani to Dinstein, August 9, 1972, ISA 6822/2.

118. Ezri to MFA, August 26, 1971, ISA 6822/1.

119. Shinar to Sapir, February 7, 1966, ISA 8437/4.

120. Shinar to Legation, March 28, 1966, ISA 8437/3.

121. Doriel to MFA, December 31, 1967, ISA 8437/5.

122. Dinstein to Legation, ISA 8437/5.
123. Dinstein to Legation in Australia, February 10, 1968, ISA 6822/1; correspondence in ISA 445/12.
124. Doriel to MFA, January 7, 1968, ISA 6822/1.
125. Dinstein to Legation, February 4, 1968, ISA 6822/1. Small quantities of Iranian crude oil were transported in 1967–68 to Romania through the “intermediate” Israeli pipeline. Legation in Bucharest to MFA, December 22, 1968, ISA 3204/18. The legation in Tehran was advised in mid-February 1968 by a Romanian diplomat of an impending agreement in which Romania was supposed to receive 10m tons of Iranian crude oil in five years, Tourgeman to MFA, February 15, ISA 3204/10. Israeli diplomats in Bucharest promised officials there that the transportation through the pipe “will always be cheaper” than through the Canal. Ilan to MFA, March 26 1968, ISA 3107/3. During 1972, over 1m tons of Iranian crude oil was transported to Romania via the Eilat-Ashkelon pipeline. Gazit to Eban, April 16, 1972, ISA 3107/3. On Israeli-Romanian secret relations see Radu Ioanid, *The Ransom of the Jews* (Chicago, 2005).
126. Dinstein to Legation, January 22, 1968, ISA 6822/1.
127. Doriel to MFA, February 15, 1968, ISA 6822/1.
128. See Bialer, *Oil and the Arab Israeli Conflict 1948–63*.
129. Yaacov Nimrodi, *My Life Story* (Tel-Aviv, 2003) 315 [Hebrew]. The Shah expressed this most pointedly when he explained to Eban in their closed-door conversation in late 1968, that “[Israel] had to understand that if the choice is between a shape without contents and contents without shape, then the second choice is preferable.” Eban to Sapir, August 23, 1968, ISA 5256/4.
130. February 24, 1968, ISA 6822/1.
131. Nimrodi, *My Life Story*, 296, 317.
132. Elizur and Salpeter, *Israel’s Oil Adventures*, 126; Bialer, *Oil and the Arab Israeli Conflict 1948–63*.
133. Francesca Carnevali, “State Enterprise and Italy’s ‘Economic Miracle’: The Ente Nazionale Idrocarburi, 1945–1962,” *Enterprise and Society*, 1.2 (2000) 249–278.
134. Report by the British Ambassador in Israel, October 30, 1967, FCO 17/568.
135. See Appendix 2 for the first-time publication of this material. Reports of the Fuel Authority’s meetings, December 29, 1974, ISA GL 4517/19 and December 30, 1968, ISA Gal 4664/910. Replying to a Romanian diplomat in Tehran about the fate of these endeavors once Sinai was returned to Egypt, the Israeli attaché claimed that such a step depended on a comprehensive peace agreement and that if and when this happened, Israel could purchase oil “even from Saudi Arabia and Kuwait”. Tourgeman to MFA, February 15, 1968, ISA 3204/10.
136. Mary Ann Heiss, *Empire and Nationhood: The United States, Great Britain and Iranian Oil 1950–1954* (New York, 1997); Mostafa Elm, *Oil, Power, and Principle: Iran’s Oil Nationalization and its Aftermath* (New York, 1992).
137. His dispatch, January 25, 1968, FCO 17/597.

138. Memorandum, H. Farkhan, NIOC's director, February 23, 1972, ISA 6822/1.
139. Ben-Dror to MFA, August 11, 1975, ISA 6822/2.
140. Hadow to Moore, March 7, 1968, FCO 17/597.
141. According to Israeli estimates, NIOC's selling price of crude oil in 1973 was 10% higher than the Consortium's. Bitan to Dinstein, June 14, 1973, ISA 4517/9.
142. Military Intelligence memo, March 17, 1970, ISA 3205/4. Israel's position, as in previous years, was that alongside its costly purchases from NIOC it could buy half of its Iranian fuel consumption from the consortium's smaller companies.
143. January 12, 1972, ISA 5316/5.
144. Discussion at the Fuel Authority, December 29, 1974, ISA Gal 4517/19.
145. Elizur and Salpeter, *Israel's Oil Adventures*, 105–6.

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