

Oil, State, and Society: The Political Economy of Iranian Petroleum

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Introduction

This book examines how a single resource—petroleum—has shaped the modern Iranian state, its economy, and its social fabric. From the first concessionary

arrangements that tethered subterranean hydrocarbons to imperial finance, to the contested nationalizations and renationalizations that followed revolutions and wars, oil has been more than a commodity. It has been an institution-maker, a hinge of sovereignty, and a crucible for class conflict. The argument advanced here is straightforward but far-reaching: control over oil revenues, and the infrastructures and alliances required to secure that control, have decisively influenced governance in Iran and reordered everyday life.

The study is anchored in political economy. It traces how rents generated by oil transformed fiscal capacity, public administration, and the relations between rulers and ruled. Oil income underwrote ambitious development projects and security apparatuses, but it also displaced taxation and diluted bargaining between state and society. This rentier dynamic did not operate in a vacuum; it interacted with global markets, shifting energy geopolitics, and the strategies of foreign powers. The result was a cycle of dependency and autonomy, extraction and resistance, that repeatedly reconfigured Iran's political institutions.

At the same time, oil reorganized social hierarchies and livelihoods. Company towns, pipelines, refineries, and ports remapped provinces like Khuzestan and Bushehr, creating new forms of labor, migration, and urbanization. Waged employment in the oilfields intersected with the bazaar economy, clerical networks, and emergent professional classes, yielding alliances that at times stabilized authority and at other times undermined it. Strikes and shop-floor negotiations in Abadan, price politics in Tehran, and the distributive struggles around subsidies became arenas where national questions were fought through local grievances.

Two case studies sit at the heart of the book. The first is the 1951–1953 nationalization crisis and coup, in which struggles over sovereignty, corporate power, and international law converged on the figure of Mohammad Mossadegh and the Anglo-Iranian Oil Company. The second revisits the revolutionary debates surrounding nationalization after 1979, when competing visions within the new state—technocratic, populist, clerical, and military—vied to define “ownership” and “control” in practice. In both moments, the politics of oil were inseparable from questions of constitutional authority, legitimacy, and Iran's place in the world.

Beyond these set pieces, the chapters follow the long arc of petroleum governance: the consortium era and its fiscal bargains; OPEC's emergence and the price shocks that rewired the global oil order; wartime extraction during the Iran-Iraq conflict; reconstruction and the evolution of contracts and buy-backs; the tightening grip of sanctions and the rise of shadowed logistics; and the distributive battles over prices and subsidies that have animated street politics. Along the way, the book engages classic theories of the rentier state while testing their limits against Iran's layered institutions and contentious politics.

Methodologically, the narrative weaves archival materials, economic data, legislative debates, and interviews with workers, officials, and industry experts. It treats oil not merely as revenue but as an assemblage—of wells and refineries, ministries and banks, trade routes and tanker fleets, legal clauses and everyday expectations. This approach allows us to see how decisions taken in cabinet rooms or foreign boardrooms reverberate through households, labor markets, and provincial ecologies, and how social actors in turn push back, adapt, and innovate.

Finally, the book asks what futures are thinkable “beyond the barrel.” Environmental costs borne by communities near extraction sites, the gendered distribution of opportunity and care work in an economy mediated by subsidies, and the strategic dilemmas of energy transition all press upon Iranian policy today. Whether diversification can be more than a slogan depends on institutional reform, regional diplomacy, and the reconstitution of state–society bargains. The chapters that follow trace how Iran arrived at this juncture—and what paths may lie ahead.

CHAPTER ONE: Concessions and the Birth of a Petroleum Frontier

The story of oil in Iran is inseparable from the country’s deeper history of foreign concessions, a practice that long predates the discovery of black gold. For centuries, Persia, as Iran was then widely known, occupied a pivotal geopolitical position between ambitious empires. Its vast and often sparsely populated lands, coupled with a series of financially struggling Qajar monarchs, made it fertile ground for European powers seeking economic and strategic advantages. These early concessions, primarily granted to British and Russian interests, set a precedent for external control over Iranian resources and laid the groundwork for the eventual arrival of the petroleum industry.

Before the late 19th century, Iran’s economy was largely agrarian and relatively isolated from the global market. However, the expansionist ambitions of the Russian and British empires, engaged in what became known as “The Great Game,” increasingly drew Persia into a web of diplomatic and economic rivalries. The Qajar dynasty, which ruled Iran from 1789 to 1925, faced internal instability and lacked a robust central army, bureaucracy, or effective taxation system, leaving it vulnerable to external pressures. The shahs often resorted to granting concessions to foreign entities as a quick, albeit short-sighted, means of generating revenue.

These early agreements were not about oil, but they established a template for how foreign enterprises would operate within Iran and how the Iranian state would attempt,

often poorly, to manage these arrangements. They covered a bewildering array of activities: navigation rights on rivers, telegraph lines, mining, banking, and even the lucrative tobacco trade. Each concession chipped away at Iranian sovereignty, creating pockets of foreign control and fostering a growing sense of resentment among the populace, particularly the merchant class and the influential Shia clergy (ulama).

Perhaps the most infamous of these early grants was the 1872 Reuter Concession. Naser al-Din Shah Qajar, desperate for funds during a lavish European tour, signed an astonishing agreement with Baron Julius de Reuter, a German-born British financier. This concession was breathtaking in its scope, practically handing over the entire industrial resources of the kingdom for 70 years. It granted Reuter exclusive rights to construct railways and tramways, exploit all mines (except gold, silver, and precious stones), manage state forests, build irrigation systems, and even control customs for 25 years. In return, the Shah would receive a fixed sum and a percentage of the net revenues.

The reaction to the Reuter Concession was immediate and fierce. Both domestic outrage from Iranian merchants, landowners, and the clergy, and strong diplomatic hostility from Russia, which saw it as an unchecked expansion of British influence, forced Naser al-Din Shah to cancel the agreement in 1873, just over a year after it was signed. Even Lord Curzon, a prominent British imperialist, described it as "the most complete and extraordinary surrender of the entire industrial resources of a kingdom into foreign hands that has probably ever been dreamed of, much less accomplished, in history."

While the Reuter Concession was ultimately annulled, it left a lasting scar and demonstrated the perilous implications of such sweeping grants. It also highlighted the precarious balance the Qajar rulers attempted to strike between rival European powers. Reuter, however, was not entirely defeated. Years later, in 1889, he secured a more limited, but still significant, concession to establish the Imperial Bank of Persia. This British-owned bank held a monopoly on issuing banknotes and effectively functioned as the state bank, further embedding foreign financial influence within Iran.

Another pivotal moment in the history of concessions was the 1890 Tobacco Concession. Naser al-Din Shah granted a monopoly over the production, sale, and export of all Iranian tobacco for fifty years to a British subject, Major G. F. Talbot. Tobacco was a significant part of the Iranian economy, affecting a wide range of people from wealthy landowners to small merchants and peasants. The terms of this concession, which effectively forced Iranian farmers to sell their tobacco to the British company and then buy it back, sparked widespread indignation.

News of the concession, initially kept quiet, eventually leaked, leading to widespread protests across major cities like Tehran, Shiraz, and Mashhad. The protests gained

immense traction, notably due to the intervention of prominent Shia clerics. Grand Ayatollah Mirza Shirazi issued a fatwa, a religious edict, in December 1891, banning the sale and consumption of tobacco. The boycott was remarkably successful, with even the Shah's wives reportedly refusing to smoke. This unprecedented display of national unity and clerical power forced the Shah to cancel the concession in January 1892.

The Tobacco Protest served as a powerful precursor to the Constitutional Revolution of 1906, demonstrating the potential for collective action against foreign infringement on Iranian sovereignty and the unpopularity of the Qajar regime's concessionary policies. These episodes, involving railways, banks, and tobacco, illustrate a recurring pattern: financially strained Qajar rulers granting extensive rights to foreigners, leading to public outcry, geopolitical maneuvering, and eventual, though often partial, retraction.

The lessons learned from these early concessions—the vulnerability of the state to foreign demands, the capacity for popular resistance, and the intricate dance between imperial powers—would profoundly influence the political economy of petroleum in Iran. The ground was being prepared, not for a simple commercial transaction, but for a deeply politicized struggle over the nation's most valuable resource, one that would echo the past while forging an entirely new future for Iran. The stage was set for oil to emerge not merely as a commodity, but as a catalyst for seismic shifts in state power and social identity.

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