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Interview with

LESLIE A. SMITH

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Place of Interview: Greenville, South Carolina

Interviewer: Dr. Ronald E. Marcello

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Caltex Oral History Project

Leslie A. Smith

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Dr. Marcello: This is Ron Marcello interviewing Leslie A. Smith for the Caltex Oral History Project. The interview is taking place on August 1, 1985, in Greenville, South Carolina. I'm interviewing Mr. Smith in order to get his reminiscences and experiences concerning his career at Caltex.

Mr. Smith, since researchers may not read your resume', I think what we'll do is to start off by having you give some background information. Why don't you tell me when you were born and where you were born and a little bit about your education.

Mr. Smith: I was born on June 5, 1909, in London, at a place in London within the sound of the Bow bells, which qualifies me as a cockney.

Marcello: Tell me a little bit about your education.

Mr. Smith: My folks moved from London to Leigh on Sea, Essex, during the First World War--1917, in fact. I went to an elementary school in Leigh on Sea, Essex. Later on I went to high school in the nearest big city to where we lived, which was Southend on Sea, Essex. I graduated from high school

in 1926.

I followed evening classes and correspondence courses to qualify as a member of Bankers Institute and, also, of the Chartered Institute of Secretaries. I worked for two small outfits in London in 1926-1927, and then I joined a bank in London which became the Chase Manhattan Bank, with which I stayed until 1937.

Marcello: What kind of work were you doing when you were associated with Chase Manhattan?

Smith: Various jobs including bookkeeper, foreign exchange clerk, securities investment clerk, and so on.

My reason for leaving the bank was that even after the best part of ten years, my young lady--my future wife--and I were not earning enough to get married. As was the case with many banks in London at that time, the bank had to give the employee approval to get married based upon his income. Since we were not in a position to get married, we decided I should seek employment overseas in order to supplement our income so that we could get married. In fact, we were married eleven days before I left for Bahrain in December,1937.

Marcello: Describe the process by which you became initially associated with Caltex.

Smith: I applied for positions through memberships in the Institute of Bankers and the Chartered Institute of Secretaries and

eventually obtained an interview through the Chartered Institute of Secretaries with a company in London called California Standard Oil Company, Limited--a subsidiary of Standard Oil of California. One of the things that decided me to go to Bahrain was that when I told a senior manager in the bank that I was contemplating taking a job overseas and revealed to him that it was in Bahrain, he said, "Oh, that's strange. I have an interview with someone from Bahrain in the next half an hour. I will call you in so that you can see this gentleman." This gentleman was Major Holmes, who was the original holder of the concession for Bahrain. He, of course, was very enthusiastic about my accepting the offer of a job in Bahrain as an accountant.

Marcello: Is there anything else you'd like to add relative to the initial association with Caltex before you actually went to Bahrain?

Smith: I really had very, very little knowledge of Bahrain or the oil business or, in fact, any overseas positions at that time.

Marcello: To your knowledge did Caltex make any efforts to check up on your background or anything of that nature?

Smith: They checked references, in some depth. At this time they were very actively recruiting prospective employees from England because in Bahrain the construction of the first refinery was advanced in progress and was expected, even

with an extension to the original plan, to be completed by late 1937. In fact, the official opening of the Bahrain refinery took place in December, 1937, when the first phase and the second phase both combined to produce 24,000 barrels a day of refining capacity. One of the first things I remember about Bahrain was the occasion when the refinery was officially opened by the Sheikh of Bahrain, Hamid Bin-Isa, at that time.

Marcello: The answer to this in part you've given before, but let me ask you this. Why would anybody want to go to Bahrain in 1937?

Smith: Desperation. Britain was still suffering severely from the Great Depression of the early 1930's, and jobs were hard to come by, particularly jobs paying living salaries. The initial salary offered me in Bahrain was roughly twice what I was getting with the bank, and there was good reason to expect that this starting salary, which was base salary without cost-of-living allowance or other allowances, would be increased within a year or two after joining Bahrain, and this actually turned out to be the case.

Marcello: So did you then get married before you actually went to Bahrain?

Smith: Yes. Eleven days before I went to Bahrain, we were married, and a week later we said farewell at Southampton, to which I was transported by rail and there to board one of the earlier

seaplanes operated by Imperial Airways (the predecessor to BOAC and British Airways), which flew to the East as far as Singapore. In fact, the flight on which I traveled was by way of delivering a seaplane in Singapore to the Australian airline, Qantas. It was carrying passengers to the Persian Gulf and to Singapore by way of making that delivery. The journey from Southampton to Bahrain took seven-and-a-half days by air with overnight stops in hotels and two delays resulting from minor breakdowns.

Marcello: And your wife accompanied you?

Smith: No. I accepted the job on the basis that she couldn't join me in Bahrain for three years.

The seaplane trip was such that the plane put down every afternoon about four to five o'clock. The passengers were removed from the plane and taken to one of the prime hotels in the stopover area. Imperial Airways took us out to dinner and a cabaret show before putting us to bed, getting us up about five in the morning to join the plane again for a six to seven o'clock takeoff.

The first day's flight was to Marseilles in France. The next day we flew to a lake outside Rome and refueled. The intent for the next stopover was Piraeus, Greece. However, the weather--this was December--over Italy was bad, and the maximum altitude of the flying boat, as I recall, was somewhere around 3,000 feet. Ice accumulated on the

wings, which had the effect of forcing the plane lower and lower until the captain decided that he shouldn't continue with these conditions. He reduced altitude to a few hundred feet and changed course flying over the sea, whereupon large chunks of ice broke off the wings and slapped against the fuselage scaring all the passengers to death, including a especially a French countess who was in the next seat to me. As it turned out, we couldn't make Piraeus, so an emergency landing was made in the port of Brindisi in southern Italy.

The following morning we departed from Brindisi enroute for Piraeus. Shortly after reaching the Greek mainland, the left float strut snapped, and the captain decided that he must land. We were close by the island of Corfu, and although he had never done so before, the captain decided to land in the bay where the capital of Corfu is situated. It transpired that he was apprehensive about landing in this bay--insufficient landing area--so, in fact, we landed out in the sea and then taxied in through the entrance to the Bay of Corfu. We stayed in Corfu until a replacement of the float strut could be flown in from Alexandria, Egypt. After a full day-and-a-half delay, we proceeded to Piraeus for refuel and on to Mirabella, Crete, for another refuel.

Our next stop was in the harbor at Alexandria, Egypt, for another night stop. The next day's flight was to the

Sea of Galilee, Palestine, where we refueled. Shortly after takeoff over the Syrian Heights,the strut on the float broke again. We returned to the Sea of Galilee, Tiberius, where Imperial Airways accommodated us and entertained us for two days, showing us the Holy Land.

Ultimately, we took off again for Baghdad. We landed in the Tigris River in Baghdad for a refuel and then proceeded to Basra for an overnight stay. At that time the only accomodation available was in the Royal Air Force base outside Basra. The next day we took off again and ultimately arrived in Bahrain.

Marcello: Now before you left, did you know anything about what to expect in Bahrain so far as living conditions were concerned? And did Caltex in any way prepare you for what to expect?

Smith: Some information was given, but it was very sketchy and proved to be only partly correct. My efforts to gather information in London about Bahrain--in libraries or whatever--uncovered only brief information that had been filed in past years by captains of ships that had sailed up the Persian Gulf and had seen Bahrain, including men who had participated in the First World War campaign in Iraq, then called Mesopotamia. Those reports indicated that in the opinion of the writer, Bahrain was a hell hole. One person that I talked to that had been there said that I must be a madman to go there and to think of having my wife with me.

Marcello: What was to be your initial function or assignment when you got to Bahrain?

Smith: The title was accountant, and it was to aid in and supervise the collection of information on expenditures in Bahrain. To some extent I was preparing the data myself, but mainly I was to develop a system for and supervise and guide Indian clerks and a few Bahrainis, who were in the early stages of finding out what bookkeeping was all about.

I emphasize that the only records at that time kept in Bahrain were the expenditures that were summarized, allocated to various cost accounting sub accounts, and then mailed to San Francisco, where the full accounts for the Bahrain Petroleum Company, Limited were prepared at that time. Although the books were later moved from California to New York, where the Bahrain Petroleum Company set up an office in the Texaco Building, it was several years after the end of World War II before Bahrain actually had its own full set of accounting records.

Marcello: So is this an indication that the home office kept a pretty tight rein over things that were happening in Bahrain?

Smith: Exactly. To a great extent (at least at my level) we were kept unaware of what the global plans and developments of Caltex were.

Maybe here I should interject that the California Texas Oil Corporation was founded in 1936, and at that time

it was a subsidiary of the Bahrain Petroleum Company, Limited. The California Texas Oil Corporation was the channel through which the profits, etc. from Bahrain--and they were fairly substantial at that time--were funneled into the marketing and later the refining operations in various countries.

Upon arriving in Bahrain and getting down to the job, I had several surprises. One was that all of our accounting records were prepared and maintained in pencil. Having worked for several years in a bank where ledgers and so on were always posted in ink so that the erasures and the alterations were perfectly obvious, this went considerably against the grain, and I decided that my records were going to be in ink. And I proceeded accordingly. This turned out to be okay in the months of December, January, February, March, but when June came along and the humid weather was such that we had a weekly issue of three towels--one around the neck, and one around each arm to keep the perspiration off the accounting records--this soon proved that pencil was the only reasonable medium. My records in ink were smudged and useless (laughter). We had no air-conditioning at this time.

Marcello: Just for the record, what would be the average temperature for this period of time?

Smith: By June the temperatures were everyday beyond a hundred

degrees and more often in the 110-degree range. At times it even reached 120 degrees in the shade. But the worst part of it was the humidity, which was extremely high, so high that while standing and without exertion the perspiration would drip off your fingers and the cuff of your shorts (we all wore shorts, not longs).

Another procedure that had some surprise to me was the procedure for paying the Bahrainis that worked for the company. Paydays occurred twice a month--on a Thursday (Thursday being the day before the off-day Friday, which is the Muslim sabbath). The workers would line up at the pay office window--one of them in Awali, the headquarters, and one of them in the refinery. To receive their pay, they would be required to imprint a thumb print on a receipt for the amount of their wages, and the wages were handed to them in silver coin, rupees. The currency in Bahrain was the Indian rupee, and the workers would accept nothing but silver rupees. Paper was absolutely refused. They also wanted to be certain that the rupees that they got were not counterfeits. There was quite a flood of counterfeits in the market. So immediately beside the pay office window were four large rocks, each approximately a foot square, on the ground. Each employee, after receiving his pay, crouched down and bounced each rupee coin on a rock to make sure it was good. Those that didn't ring true were immediately

returned to the pay windows.

This practice went on into the war years, and our bankers, the Eastern Bank, warned us that they were having difficulty in getting the rupees in India or elsewhere to ship them to Bahrain. Sufficient rupee coins for several paydays were completed by the skin of our teeth. So we persuaded the captain of one of our small, very old tankers that periodically came to Bahrain to load with oil products for India, Bombay or Karachi,to help us. We lined the captain up together with our Caltex representative in Bombay to collect rupees in the market in Bombay, put them in boxes, and transported them on the tanker to us.

However, this didn't completely solve the problem. After doing this for a while, we were at the point where we had a payday coming up and we had no reason to believe that we would have sufficient silver rupees. So I went to the pay window and had the paymaster announce in Arabic that, as a special favor, we were now going to allow a small amount of the paper rupee currency to be distributed to the workers if they were in senior or supervisory positions. This impressed many of the workers to indicate that the more important members of the work force were taking paper, so maybe they could be priviliged and get paper currency. At that payday and subsequent paydays, increasing numbers elected to have paper. We solved the silver rupee coin

currency problem.

Marcello: What other concessions or adjustments did one have to make to the local culture in going to Bahrain?

Smith: Religion was very important. It was absolutely taboo to interfere with their prayer times or anything associated with their religion. In the early days particularly, but even in later times, too, many of them would want to pray five times a day, and it was imperative that you allowed them to cease work, go to a selected area nearby the job, and say their prayers whenever they wanted to. At times of their religious feasts--three important ones a year--the practice was a visit to each other to extend good wishes and we, particularly the management of Bapco, always went and called on the sheikh and his family on these occasions. There was, what I think, an excellent relationship between the expatriate members of the company, including the management of the company, and the government and the ruling family, too. The company did not allow the expatriates to interfere with the religion or customs of the Bahraini employees.

Marcello: So in other words, when one of the religious holidays came along, the workers would perhaps be allowed a day off.

Smith: Yes. Oh, yes. But the refinery and other essential operations were continued on a three-shift basis, and they were paid overtime for such work.

Marcello: You mentioned a moment ago that you also had to import Indian workers, and I'm sure it was because of the small population and the labor shortage on the island.

Smith: Much of the population on the island was untrained, and so had to be trained to perform various skills. Until they were trained we recruited expatriates, mainly Indians (the partition of Pakistan and of India hadn't occurred at that time).

Marcello: Now just out of curiosity, did the company take pains to make sure that the Indian workers who were imported were also Muslims?

Smith: No. No, not at all. Indians were hired depending upon their job skills irrespective of religion. Perhaps, I should mention that in the very early days the employees were classified in three groups: class one, class two, and class three. Actually, they were recorded that way on the records. Class one were American and European expatriates; class two were the Indians; and class three were the Arabs. However, these classifications were discontinued in the early 1940's.

Marcello: Were there ever any problems between the Indians, most of whom, I assume, were Hindus and Christians, and the Bahrainis, who were, of course, Muslims?

Smith: Very little. Very little. Many of the Indians were Christians because a lot of the clerical types and so on came from Goa

in the southern part of India, and they were taught English by the missionaries. So they came out with a good knowledge of English.

Marcello: You also mentioned something awhile ago that I want to pursue. You were commenting about the lack of skilled laborers and personnel among the native population. What efforts did Caltex make to train a native work force?

Smith: This is an area in which I think Bapco did a tip-top job. This was before the days of workers' rights to get training as part of their union contract. The company, Bapco, and the workers--the expatriate workers in particular--in general were personally interested in training the Arabs, the Bahrainis, in their jobs or anything else they could help them with. On a volunteer basis, in the early stages, expatriates--Americans and British, particularly--ran courses teaching English and some bookkeeping and typewriting; and arising out of that, the company organized a fully-fledged training scheme. This training facility had between five and six hundred Bahrainis, learning garage mechanics, plumbing, pipefitting, carpentry, welding, and other subjects such as typewriting, English, and some bookkeeping.

Marcello: And you mentioned that this was one of your responsibilities upon arrival there?

Smith: No, not upon arrival--later on. When I became assistant to the general manager,I became responsible for the Personnel

Department, in addition to the Accounting Department, the Employee Services Department, etc. The training program was operated through the Personnel Department.

These training programs were designed in cooperation with the Bahrain Government Education Department and much later merged with them. A Bahrain government education system was in existence in the 1930's but was a bit "ragged." We provided them with advice on how to organize more schools, including a trade school. The company built small schools in several outlying villages and partially subsidized the expense of running them. We had a very close relationship with the minister of education of the Bahrain government and exchanged thoughts and periodically inspected the Bahrain schools to see if we could offer them more advice and/or assistance.

Marcello: Were all of these things conscious policies dictated from the parent company, or were these things that Bapco itself independently undertook? Again, I'm referring to either the job training program or the general education programs.

Smith: They arose out of the local management's thinking and in discussions between the local management with government representatives and the sheikh.

Marcello: Describe in more detail the relationship that developed between Bapco and the royal family in Bahrain. I'm referring mainly to the working relationship.

Smith: Well, it wasn't prescribed, but it developed from time to time as some need arose for discussion. The ruler--the sheikh--had an Englishman as his advisor, Sir Charles Belgrave. He was in quite frequent contact with the management of Bapco and was a channel through which the sheikh's views, opinions, requests, and suggestions were funneled to the Bapco management.

Marcello: He was employed by the sheikh,not by Bapco.

Smith: He was an employee of the sheikh. The relationship of Bapco and its management with him and through him with the Bahrain government and royal family was excellent. It was all done on a very informal basis, but it achieved results. It seems to me that neither side felt restricted in going to the other if they had some problem.

Marcello: On the other hand, who would normally represent Bapco in these talks that would have to take place from time to time?

Smith: Within the provisions of the Concession Agreement, formal contacts with the ruler had to be conducted through a special representative of Bapco on the company side and through the British government's resident representative in Bahrain. The Concession provided that the Bapco special representative must be a British subject. However, the latter requirement was modified in later years. The Bapco special representative was employed by Bapco but was not involved with the day-to-day

operations of the company. Several years after the end of World War II, Mr. Edward Skinner was appointed as the Bapco special representative (it was he who persuaded the California Standard Oil Co. to come to Bahrain to look for oil). But for less formal matters meetings were often conducted with the ruler and Sir Charles Belgrave by the general manager and/or other senior members of the Bapco management.

Marcello: Now you arrived there in 1937. By that time was the union between Texaco and Socal pretty much in place?

Smith: No. The partnership between Texaco and Socal had only occurred in mid-1936, and in 1937 it was just beginning to be known that it was in existence. The origin of Bahrain's oil was the taking by Socal of a concession from the Bahrain government in the early 1930's. The exploration, drilling, and discovery of oil was by Socal all the way through until in 1934 or 1935 when Socal found that it had oil but no market nearby. Texaco, who had markets in South Africa, Australia, Belgium, Holland and elsewhere, needed a source of supply, so their respective needs matched. That was the origin of the 1936 combination.

There were occasions for friction between Socal employees transferred to Bahrain and Texaco employees transferred to Bahrain, particularly because the Socal people were more numerous and they had been there for several years.

Marcello: Can you be more specific about some of the friction that

occurred in Bahrain between the original Socal people and the incoming Texaco people?

Smith: I could probably dredge up the sources of that, but I'd rather not. There were incidents at the club, for example, when a few extra drinks came to the surface every once in a while. It wasn't serious. It was there. Sometimes it would show its face, but generally speaking they got on fairly well.

Marcello: In one sense you were not really a Texaco employee or a Socal employee.

Smith: Correct.

Marcello: You were one of the independents.

Smith: Right. Let me explain how that occurred. The concession for Bahrain had a clause in it inserted at the demand of the British government. I should intervene here and say that formal meetings and agreements between the Bahrain government and Socal-Texaco and the Bahrain Petroleum management were required to be in the presence of the British political agent in Bahrain. When the concession was drawn up, British government representatives participated in drawing up the concession. One of the clauses of the concession provided that while the essential technical and professional requirements of the company could be supplied by the parent companies from America,all other jobs, apart from those that could be provided by Bahrainis,

must be provided from British Empire countries. That is why I got to Bahrain, along with hundreds of other British, Australian, New Zealanders, and Indians from British India. That requirement was removed in the late 1940's. It was a sore point with one member of the Caltex New York management whose name I won't mention. He was mad about it. But that's how the British got into Bapco.

Marcello: Correct me if I'm wrong, but Bahrain was a British protectorate at that time. Is it correct?

Smith: Almost. The description was not a protectorate. The description was "an independent sheikhdom with treaty relationship to Great Britain," the difference being that Bahrain as a protectorate, Britain could send in armed forces to support Bahrain immediately. But under the "independent sheikhdom" arrangement Britain would not send in any armed forces until requested by the sheikh. That was the difference. Of course, Kuwait was the same. I think Muscat was the same, too.

Marcello: Now in this concession, what was in it for the sheikh and the royal family?

Smith: The royalties on oil produced went to the sheikh.

Marcello: What percentage of the royalties?

Smith: All of them. But there was an agreement with the British government--between the sheikh and the British government. I'm not sure of the percentages now, but I believe it was

one-third to the sheikh, one-third to the sheikh's entourage--his family members and so on--and one-third to the government for the benefit of the inhabitants. I'm not sure of those percentages now, but it was split three ways. The company paid the whole amount of money to the Bahrain government and Sir Charles Belgrave, who distributed it.

Marcello: So where did the company's cut come in?

Smith: There is no company's cut. The company produced the crude oil and gas. The crude and gas belonged to the company as a result of the Concession Agreement, so the company could do what it liked with it. If it was able to sell it to sombody for more than the cost of drilling the well and producing it and running through the refinery and so on, that was the company's profit.

Marcello: But the division of money that you were talking about earlier was the division that was paid by the company to the sheikh and to the government.

Smith: The royalty payment was three rupees and eight annas (that is three-and-a-half rupees) per ton, payable to the Bahrain government. Then the distribution of that was in accordance with the agreement I mentioned, not the company's decision.

Marcello: That's what I was trying to understand. You have to remember that I'm a historian and not an oil man (chuckle), so I needed to get that clear simply for my understanding.

Smith: There was also an overriding royalty that was payable to the

Eastern and General Syndicate, a British investment syndicate, arising out of the fact that they originally had the concession to peddle. The concession was firstly peddled to Gulf Oil Eastern. After it was peddled to them, they found out that Gulf was a signatory to an agreement between a large group of international oil companies, called the Red Line Agreement, which prohibited the signatories from competing in obtaining and exercising concessions in certain Middle East areas without consulting with each other. Gulf made the mistake of getting that concession without realizing they were violating the agreement, so Gulf had to get out of it. They sold their concession to Standard Oil Company of California. That's how California got into it. California was not a signatory to the Red Line Agreement. When the Red Line Agreement was written, Socal was so far away from getting into the international oil market that nobody ever thought they would.

Marcello: Now at least up until World War II, was the royalty that was paid to the government more or less static?

Smith: Right. Even after World War II. It was some years later before it was varied. The decision whereby the Bahrain government became part owner of Bapco is much, much later.

Marcello: In fact, as I recall, in looking at the record, that really took place after you had left Bahrain.

Smith: Oh, yes. Yes, it did. It occurred shortly after I left, I think, but that was the first move whereby they got 60

percent of the profits of the production, not the refinery at that time. Now the Bahrain government has 100 percent of the crude production and gas production and a percentage of the refinery.

Marcello: Now it's my turn to jump around a little bit. Earlier we were talking about the training of nationals. Were there any efforts made by the company during that pre-World War II period, at least, to train any nationals for at least middle management positions?

Smith: Yes. There were programs that took promising Bahrainis and sent them to educational facilities in Britain, in Beirut, and in the U.S. The majority of them, I would say, went to Britain and to Beirut.

Marcello: In my conversations yesterday with Mr. Fish, we were talking about the importance of these middle management people to the smooth relationship between the company and the government, wherever the subsidiary was located. Did you find out that to be the case here in Bahrain, also, and was that something that the company realized quite early on?

Smith: I wouldn't say specifically that the company thought of it early on. I think it evolved out of desires of the people --expatriates and natives--who were there and recognition that we were in someone else's country and that we should do what we could for them. There was a great deal of good feeling there. One of the general managers at that time,

Russell Brown, was a great believer in this kind of relationship.

Marcello: Again, that kind of a relationship would be mutually beneficial to both.

Smith: Yes.

Marcello: That is, to both the company and the local population.

Smith: Yes. I did hear criticism from some local Bahraini merchants about how the company conducted business with them in Bahrain, but it was minor. I did also hear criticism saying, "Well, you'll spoil the markets by bringing these people along," because Bapco was accused of--and, I think, rightly--of paying higher wages than other businesses locally. They were not exorbitant, but certainly significant. We always justified it on the fact that the workers had to come from their homes to the various work sites, which involved bus trips provided by the company, maybe one to two hours a day each way.

Oh, there's another thing you may be interested in here. Built up from past ages, there was the system, and I've forgotten the Arab word for it, whereby Bahrainis went out into the Persian Gulf and dived for natural pearls. This has gone on for hundreds of years although now greatly reduced. The diving season was roughly in the summer months, starting from July through September, and the men who did the diving as well as others who operated the dhows received prescribed percentages of the total take of the vessel as their wages. The captain (nakhuda) was responsible for

assembling the pearls, selling them to the pearl dealer, arriving at the total value, and distributing it according to this formula.

Many of the men that worked for the company were pearl divers, and when July came around, they quit their jobs, some of them without even telling their supervisors, and went on the "dive," as it was called. They would then reappear at their jobs after the "dive" was over, quite disrupting to the job performance. Now before these fellows had jobs with the company, they had to exist for the months of the year when they were not diving. So the nakhudas would lend them money to buy food for their families. As a result they incurred an obligation to the nakhuda to turn up for the dive next year. This had gone on for generations, and the Bahrain government introduced regulations so that when a diver died still owing the nakhuda for his loans, the responsibility to report for the"dive"passed to his son. Many of these divers had accumulated debts to the nakhuda that were never going to be paid, but he had a hold on them to go on the"dive."

After some bitter negotiations with the nakhudas, Belgrave, in consultation with Bapco, made an arrangement which provided that if the Bahraini employee allocated "X" rupees--depending on the amount of his pay--out of his pay each payday to be paid to the nakhuda, he was no longer obligated to go on the

"dive." After several years this died out, but there was a lot of argument because the nakhudas and the pearl merchants lost much of their business

Marcello: Did the pearl diving season play havoc so far as the operations of the refinery were concerned? In other words, were there sufficient number of workers in perhaps key positions who would have in one way or another affected the operation of the refinery?

Smith: We got by, but in the earlier years it hurt because quite a few of the divers were better workers.

Marcello: What other effects did the coming of Bapco have on the local economy? I would assume that it may have caused some inflationary pressures.

Smith: Yes, but the local economy was Bapco, and particularly when the pearl diving decreased, the oil became more and more important. Practically all of the other businesses on the island were derived directly or indirectly out of Bapco being there.

Marcello: How much interest did the royal family have in the day-to-day operations of Bapco?

Smith: None. Oh, well, only a relationship. Every once in a while perhaps the sheikh or the other members of the family might have something on their mind and relate that to Belgrave, who channeled it to the company.

Marcello: In other words, as long as the royalties came in at the

prescribed time and in the proper amount, that was basically all the royal family was worried about at that time.

Smith: Yes, basically, but there were members of the family who would sometimes intercede on behalf of employees and general well-being of the Bahraini people. Often on the side there would be a little bit of "How about increasing it?"

Marcello: And what normally would be the company's reaction?

Smith: The company's reaction was, "We'll take it under consideration, but this is the agreement," until after World War II and the impact of worldwide inflation. It was only right that wage rates should be increased, and they were periodically, often in substantial amounts.

Marcello: What was the length of the original agreement?

Smith: Oh, dear.

Marcello: Was there a time limit put on it?

Smith: Yes, there was, but I don't remember. It was long,anyway. I'm not sure if it was sixty years, but it was a long time.

Marcello: Well, so far as pricing policies were concerned, the company had a pretty good thing going.

Smith: Well, yes, but the company in Bahrain knew virtually nothing about it. It was all done in New York and/or San Francisco. We didn't even know what was being received for the oil. We were only assembling the records of the expenditures--the costs --and transmitting those records back. What the refined products were selling for, we didn't know.

Marcello: So all Bapco was doing was extracting oil and refining it.

Smith: Yes, right. Delivering it to ships that were owned or chartered by the parent and subsidiary companies.

Marcello: Like as you say, that's as far as your relationship went. You had no control, no idea, how the ultimate price of that oil was determined.

Smith: We began guessing after getting little bits of information in the latter years, but in the early days we had no idea.

Marcello: What can you tell me about the refining policies in that pre-World War II period?

Smith: Well, not very much because, as I had said earlier, the refinery really only went on stream in 1937, and we were in the war in 1939--Britain was and so Bahrain was. Then through the war years and particularly after the U.S.A. became involved, Bahrain was running at as full a capacity as it could.

Marcello: How close were you to the actual operations of the refinery itself?

Smith: Me, personally?

Marcello: Yes.

Smith: Not very close, only in the matter of accounting, record keeping, and employee relations.

I'll tell you another little anecdote here (chuckle). Each worker had an identification card with his picture and number on it which he had to show to get in and out of the refinery. It was found that monkey wrenches were disappearing,

screw drivers were disappearing, various things were disappearing. So at the entrance gate to the refinery, where the workers had to go through a line, they would show their identification card, and a Bahraini Security Department employee would search them--a very brief search --and look in their tiffin carrier, a tiffin carrier being the container for the food that they brought for their meal while on shift, to see whether there were matches or cigarettes being taken into the refinery--because they were dangerous--and again when they came out, to see that there wasn't anything that belonged to the company in there. There were often arguments.

But the funniest time I remember occurred when the workers were coming off shift one day. A Bahraini was walking through the lines to get out of the refinery, carrying his tiffin carrier. The Security Department employee looked into the tiffin carrier, and there was nothing there, so the security man patted him on the head. He had his khaffir (headcloth) on his head, and underneath the cloth was a monkey wrench (laughter).

There's another story along this line. The workers in the refinery who were working around the units were required to wear work boots because they were walking on hot pipelines and other hot equipment. These work boots were sold to the employees at a highly discounted price,

but a price was charged so that they wouldn't treat the work boots carelessly. It was found that several of the men who lived in small villages within walking distance of the refinery or even farther out would arrive with their work boots on their heads and then put them on as they came through the check-in gates because they didn't want to wear the boots out too quickly (laughter).

Marcello: Other than these incidents that you have just mentioned, did you for the most part have a fairly docile labor force during that pre-World War II period?

Smith: Yes. Difficulties that occasionally arose were often the result of a clash between the two sects of the Muslim religion--the Shii and the Sunni. There were villages where all the inhabitants were Shii and other villages where they were Sunni. Occasionally there would be a difference of opinion between two individuals from the different sects that would develop. But these were usually settled fairly quickly by just separating the two groups.

Marcello: Is it safe to say, then, that during that period before World War II, and maybe even during World War II and a little bit after World War II, that the relationship between Bapco, the parent company, and the government of Bahrain was pretty well cut-and-dried.

Smith: Yes.

Marcello: It was pretty stable.

Smith: Yes, it was.

Marcello: Long-range accounting or trends perhaps didn't need to be taken into too much consideration. Is that safe to say?

Smith: Yes. Really, there wasn't any serious friction until, as I told you, the strike in 1956. There were one or two occasions, but the real serious one was that one in 1956.

Marcello: And like you pointed out awhile ago, for the most part, the parent company back in New York was more or less taking a hands-off policy toward Bapco so long as things ran rather smoothly.

Smith: Yes.

Marcello: Let's talk about the relationship between Bapco...

Smith: Let's distinguish when you say the parent company. Now the parent companies were two--Socal and Texaco. But then there was the New York office of the Bahrain Petroleum Company, as it was at first. It became Caltex later because when it was originally formed the California Texas Oil Corporation was a subsidiary of Bapco.

Marcello: So let's talk about that early relationship, then, between the various elements.

Smith: The New York office held a pretty tight rein on Bapco in the field. Part of that was directly from the two parent companies, and part originated in the New York office.

Marcello: So in other words, no major decisions were made without the consultation of and approval of the New York office.

Smith: New York at least. Then New York referred it most of the time to the two parent companies. This situation was going right on even when I was working in New York. Anything of significance had to be referred to the two parent companies in writing.

Marcello: What kinds of problems could that possibly create back in Bahrain?

Smith: Well, it generated a tendency...for example, the budget was a necessity but a damn nuisance. Like the U.S. Government budgets here, if a sum of money is allocated to a particular project in one year and you don't spend it, you've lost it for next year. So the rush is, when you get toward the end of the year, to spend it on anything just to be able to justify next year at least the same amount of money you got this year. That occurred, and despite efforts to try to vary that or adjust that, we never did achieve it. I feel that some of the restrictions were detrimental to the best operation of Bapco.

Marcello: Can you mention any of the other restrictions that perhaps were detrimental?

Smith: Well, manpower. Whenever there was a suggestion to introduce a new benefit or improve a benefit, it had to go to the two parent companies. If the result of the improvement was that you got a better benefit than one parent company, even though it was less benefit than the other parent company, it would

be refused. So we had the worst of both pictures.

Marcello: So I get the impression that somewhere this organization reminds one of a slow-moving giant.

Smith: Yes.

Marcello: Ponderous, slow-moving giant.

Smith: I would criticize both the parent companies. They did not not have a feeling, or create a feeling, of any confidence in the local people to know what they were doing. Many times we knew a damn sight better what we were doing than they could possibly. Representatives of the parent companies came out to Bahrain periodically. But during the early war years, nobody came out because it wasn't possible for transportation reasons.

Oh, this gives me a thought I want to mention, and it is indicative of the relationship between the company and the ruling family and the sheikh. One of the senior executives of Bapco in New York, in fact, the senior executive, named Max Thornburg, was given a small island by the sheikh of Bahrain, called Umm as-Sabaan, the Mother of Shells. You don't know about this, do you?

Marcello: No, I don't know about the story.

Smith: The island lies off the west coast of Bahrain, between Bahrain and the Saudi Arabian coast. The island was subsequently after a number of years given back. It was a desert island, nothing growing on it.

Thornburg arranged that one of the exploration wells be drilled on the island. The chances of finding any oil were remote because the geology didn't indicate there was anything there, but it did drill into the artesian water supply in the structure 100 to 200 feet below the surface. So that well became a water source, and Thornburg had dhow loads of camel manure and clay and sand sent over. They made soil and built a garden and a house and a swimming pool for Thornburg.

Marcello: There's one thing else that I want to ask you before we get off conditions in Bahrain before World War II. When was it that your wife finally joined you?

Smith: November, 1938. I went to Beirut to meet her. Would you like to hear the mode of travel?

Marcello: Sure.

Smith: In those days the cost of an air trip was a very expensive way from moving from A to B. The company-preferred route for Bapco employees from the United Kingdom was overland, and when time came for the wives from Britain to come out, they were required to go by ship to Bombay and by B.I. Steamship-line up the Persian Gulf to Bahrain. We're talking about 1937, 1938, 1939 now. The company was not going to pay the extra costs by air. So overland meant this: Take a train from London down to the south coast to Dover, where the train would join a ferry to Calais in France. The train

would then take you to Paris, and there you would join another train, the Simplon-Orient Express. That took you through France, Switzerland, Italy, Trieste, Greece, eventually Istanbul, Turkey,where you switched to another train and to a place called Tel Kotchek in Turkey. There you boarded a bus that took you to Mosul in Iraq; there you joined another railway--a small-gauge railway--that took you to Baghdad and ultimately to Basra. There at Basra you joined the British India Steamship Line, and it took you to Bahrain. That was the overland route--nineteen days, twenty days, something like that.

When my wife came out to Bahrain, she traveled by that route but disembarked from the Orient Express at Trieste and there got an Italian Lines ship that took her to Alexandria, Haifa, Beirut. I traveled from Bahrain to Beirut to meet her. We had a ten-day vacation in Lebanon, and then we took a taxi from Beirut to Damascus. There we boarded a bus--an overnight bus--that took us across the desert from Damascus to Baghdad (no roads, just desert tracks). We got a train from Baghdad to Basra and a B.I. ship from Basra to Bahrain.

The bus from Damascus to Baghdad had to travel at night--no road--with powerful headlights because desert tribes were marauding and holding up and robbing people. So the bus traveled overnight by compass. Halfway across

the desert we stopped by a place called Rutba Wells. There was a fort that was the origin of that filmed in the movie "Beau Geste." Do you remember that film? It had crenelated walls with soldiers on guard duty and large wooden doors. They were thrown open for the bus to drive in and immediately slammed closed. The soldiers on the walls were armed with rifles. In the courtyard there were two Rolls Royce armored cars used in World War I by Lawrence of Arabia. The occupants of the fort served us an eggs and bacon breakfast (chuckle).

The train from Baghdad to Basra was very modern--it had air-conditiong! The air-conditioning consisted of--and you paid extra for it--a cage in one corner of the compartment for which a railway employee brought a block of ice and there deposited it. Behind the cage was a oscillating fan that blew through the cage and ice some cooler air. Since traveling the Iraq desert churns up a dust storm, after a very short time, the block of ice became a block of mud (chuckle).

Marcello: What was your...maybe I ought to call her in. What was your wife's reaction upon arriving in Bahrain, this harrowing trip aside?

Smith: Well, let me tell you. We arrived in Bahrain on the B.I. ship, I told you. To welcome us were two accountants from the United Kingdom with whom I had made friends since coming

to Bahrain. They came down to the port...oh, maybe I should tell you this. The B.I. ship arriving at Bahrain anchored about two miles offshore. The water was too shallow to get any closer. Disembarking passengers climbed down a rope ladder from the ship into an Arab dhow, which conveyed you ashore.

Well, we did get ashore. It took us some time to get through the Bahrain customs. Then by arrangement with these two friends of mine, who had rented a taxi, we were driven through the outskirts of Manamah--the main town in Bahrain--where the poorest people lived in houses made of palm tree leaves woven together with mud floors and just one room. We stopped the taxi there and said, "Oh, well, this is where we get out." (laughter)

Marcello: What kind of housing was there for the employees of Bapco?

Smith: When I arrived in December, 1937, the accomodations we were given were barracks--bare barracks made of wood.

Marcello: You were in essentially a bachelor's quarters there.

Smith: Yes, a bachelor's quarters, with a bed and a blanket and a chair and a small table, and that was all.

Marcello: No privacy? No partitions or rooms?

Smith: A mass bathhouse where you stood in line to do whatever you had to do, whether it was shave or wash or anything else. The shamal is the north wind that blows from early in March until about July. Shamal in Arabic is north,

and this is a north wind--northwest in fact. It blows a sand storm for about three days,then eases up for three days before repeating the flow. The daytime temperatures vary from the 90's to the 110's. As the months pass it blows sand all over. These barrack rooms were only roughly constructed and allowed much sand to blow through cracks so that when you'd wake in the morning you couldn't tell where the sheet ended and blanket began because it was all covered with sand.

Marcello: So when your wife did get there, what kind of quarters did you then receive?

Smith: Well, before she got there, in the middle of 1938, the company had built some--what were called--bachelor houses. These consisted of four bedrooms, two on each side of a central room, two bathrooms, and a little outhouse. Each room had a portable air-conditioning unit in it. This was marvelous--the El Dorado (chuckle). I lived in one of those. We had two men to each room, so there were eight fellows in a house.

Before I went to meet Mrs. Smith, I vacated my half of the room, and a few days after we arrived the remaining occupants invited Mrs. Smith and I to come down, and they would find us something just to celebrate her arrival. Mrs. Smith and I were sitting in the common room, when out of one of the rooms on the other side of the house came one

young bachelor in his "normal" dress. He had just had a shower, and he had a towel around his middle and nothing else on. He sidles through and goes out in the kitchen, where there was a refrigertor, to get some ice water. It's not until he's got the ice water and turns around to come in from the kitchen that he sees Mrs. Smith there (laughter). The result? He climbed out of the window of the kitchen, clambered around the side of the house, and got someone to open the window into his bedroom, and he climbed in (laughter).

Marcello: There were just one or two other questions at this stage that I want to talk about. Then you and Mrs. Smith moved into one of these houses?

Smith: Into what was called a duplex-house. This consisted of two attached homes,each containing one bedroom, a living room with a dining alcove, a kitchen, and a bathroom.

Marcello: You did have indoor plumbing now.

Smith: Oh, yes, and an air-conditioning unit. The air-conditioning units were designed whereby cold water from a centralized refrigerated system was pumped through underground pipelines into the houses. There the water was run over a screen with a large fan behind it, blowing air through the screen and over the water into all the living and bedrooms. It was very efficient air-conditioning, too.

Marcello: What activities would the wives engage in while living in Bahrain?

Smith: Sewing, bridge, tennis, swimming, horse riding--a few of them--and just parties and general get-togethers. It was pretty normal.

Marcello: This was something I was meaning to ask you earlier. What were the policies relative to the use of alcohol?

Smith: Oh, that's an important one. Alcohol in a Muslim country is absolutely prohibited. The British governement representatives who were there had already persuaded the sheikh that there needed to be a slight variation of that because in their countries and in their tradition, they were allowed to have a drink. So a special permit was granted to each individual--I'm talking about downtown now, not the company --to have so much liquor. The European trading company there, Gray-Mackenzie Company, imported the liquor and distributed it. As far as the company was concerned, they allocated the liquor license, you could call it, to the general manager of the Bahrain Petroleum Company in person, so he was responsible if the liquor got into the hands of anybody who shouldn't have it, i.e., a Bahraini. So the rules of the club--I'm talking about the early days now--were that the U.S/European expatriates could buy it at the club, but you couldn't have it at the house. Later the families were allowed to have liquor in their homes but not the single employees. The amount was restricted, and the hours were restricted. In the earlier years, six o'clock until nine

in the evening was the only time you could buy drinks at the club, and there was a very close check on how much was supplied to the club. The hours were extended as time passed. I got into this, too, because the Audit Department of the company was made responsible for overseeing the record keeping, the sales, and the inventory security of liquor at the club. Later on, after World War II started, we had a big influx of construction workers, and I'll tell you about that in a minute. A year or two afterwards, all U.S./European expatriates including singles were allowed to have liquor in the house, and the club hours were extended to eleven o'clock on week nights and twelve o'clock on the weekend. But the rules were that if liquor got into the hands of an Arab, and the channel through which he got it was an employee of the company, he was on the next plane home. No discussion, no argument.

Marcello: Those were company rules?

Smith: They were company rules. Many a man was fired on that account because it got to a point where some members of the ruling family liked liquor, and they were willing to pay colossal sums to anybody who would get it to them. Also,there were some other Bahrainis who would get it from the Europeans or the Americans and sell it.

Marcello: From a practical standpoint, given the few outlets and activities available on Bahrain, I can see how the company's

policies relative to restricted hours at the club were practical, too. I would assume that under the circumstances, alcoholism could have become a real problem.

Smith: Yes, it was true occasionally. For example, during the major construction period--roughly 1943 to 1945--the construction workers and others would assemble at the club in the evenings to get their drinks. Quite often some consumed more than they could carry, and there were fights in the bar, the lounge, and the pool hall. In fact, there were fights on the pool tables. There was one case where a guy gouged another guy's eye out and another case where a guy bit a finger off another guy (chuckle). Some of the American construction fellows were pretty tough guys, I'll tell you.

The company decided they'd build them a boxing ring, so they could fight it out. So we built a nice boxing ring on the club terrace outside the club. It was four feet above the ground with the proper ropes and everything done just nicely. Well, there were a few occasions when they had boxing bouts, but soon it turned out that the boys who were playing the crap game played it on the floor of the boxing ring (laughter). That led to trouble because some of them would get liquored-up, and they'd toss each other out of the ring. In one case we had a concussion, and we had to take a guy to the hospital. He had been tossed out

of the ring for reaching for money that wasn't his, and he landed on his head.

Marcello: You mentioned something else, and I just want you to comment on it briefly. I gather that as much as possible the company tried to create a self-contained unit for its employees here on Bahrain. You mentioned the hospital; you mentioned the club; you mentioned other activities.

Smith: Yes. We had a children's school for the expatriate children that catered for about 200 children at its peak. It employed British school teachers--some of them employee's wives--who were certified under the British education system so that the children could take their elementary school exams in Bahrain and be qualified to move into the high school system in England.

Marcello: Okay, I think we're about ready to be talking about World War II.

Smith: Okay.

Marcello: Let me ask you a general question, and then we can probably break it down into more specific parts. Also, I have to keep in mind that World War II did start in 1939 and not 1941.

Smith: Right.

Marcello: How did the coming of World War II affect the relationship between Bapco, the Bahrain government, the New York office, and the parent companies? How is that for a very broad question?

Smith: It affected the relationship between Bapco and the Bahrain government very little. We were all in the same boat.

Marcello: In fact, if anything, it would've probably increased the royalties in terms of the quantity of the oil being taken out.

Smith: At the beginning, no, because there was the trouble of getting it out once it had been refined.

Marcello: A shipping shortage, in other words.

Smith: Yes. There was more military activity because the British government posted navy vessels in the Persian Gulf--sloops, they were called--and they patroled the Gulf looking for submarines or other enemy vessels. They found some later on during the war. The British Navy had a naval base outside the main town of Manamah but close by. Shortly after the beginning of the war, the British government posted an army Lieutenant Colonel Hewitt in Bahrain and also a regular Army sergeant who proceeded to organize a volunteer defense force.

Marcello: Civilian defense force or something.

Smith: Defense force from the Bapco employees, right. In later stages regular army, air force, and naval forces were stationed in Bahrain. They had an antiaircraft battery unit with... I don't know how many, but it had several hundred troops there on a rotating basis. They lived out on the desert in tents, and they couldn't take it for too long at a stretch.

Nineteen forty was the year of the bombing.

Marcello: Before we get to the bombing, we were just a moment ago talking about the changes in the relationships that may have occurred with regard to World War II. We mentioned that there was no change at all relative to the relationship between the company and the government. How about between Bapco and the home office in New York?

Smith: Not much change except for the fact that it took so much longer to make communications. By mail it would take six weeks and maybe six months. There was some communication arranged whereby we relayed messages to Saudi Arabia--to the company there--and they sent them by radio telephone to San Francisco. But by and large the relationship with New York was the same. We were only on an operating basis, and no new projects were coming up until it was decided to build an aviation fuels plant at the refinery. The construction started in 1943.

Marcello: So up until 1943, you were essentially doing the same sort of work?

Smith: Yes.

Marcello: The nature of your job didn't change any.

Smith: Yes, that's right, but the number of people with Bapco decreased considerably. Many of the Americans came home; all of the American wives went home. Remember, I told you the refinery officially opened in 1937. Several minor jobs of construction work were performed in 1939 and 1940. So

about the time World War II started, we were releasing construction forces that we didn't need for normal operations. By 1940 the number of wives there were reduced to forty-seven or forty-eight, I think it was. The expatriate men were about 200.

Marcello: How about Mrs. Smith? Did she remain in Bahrain?

Smith: Yes, she did.

Marcello: Let's talk about the bombing, which occurred in October of 1940.

Smith: Mrs. Smith and I were on vacation (laughter). This was 1940. I had been there three years. We were entitled to a leave. We couldn't go to England; we couldn't go anywhere except to India or Ceylon. So I persuaded a tanker captain who was taking a cargo of gasoline and kerosene and light diesel oil to Bombay and to Colombo, Ceylon, to take us, too. It was the MS Arena, a Norwegian tanker.

After two days in Ceylon, we heard on the news radio that the Bahrain refinery had been bombed and had gone up in flames. We tried to make contact with Bahrain, without success. So we had to decide whether we should return to Bahrain or proceed with our vacation. Well, that day the manager of the Caltex company in Ceylon got a cable message saying, "Tanker so-and-so had loaded a cargo of so-and-so-and-so-and-so-and-so and is expected to arrive in Columbo on such-and-such a date." We decided that if they were still shipping

out products from Bahrain, there was no point in going back just now. So we went on. In fact, we went to Singapore. We weren't supposed to, but we did. We went to Singapore on a Japanese passenger ship (the last voyage before Japan entered the war) and later returned from Singapore to Bahrain on another tanker.

As for the bombing of the refinery, a flight of Italian planes flew from Rhodes Island in the Aegean to Bahrain. I'm not sure of the number--it was reported to be five--but they dropped something like thirty or forty bombs. They hit a small pipeline out in the desert.

Explanation? Italy didn't come into the war immediately in 1939. Bapco questioned the British government authorities whether an Italian tanker that was coming in to load products should be supplied because it was obviously imminent that Italy was coming into the war. The British government said, "Load it," and a second Italian tanker was also loaded. It is evident, in retrospect, that the captains of one or maybe both of those vessels took sightings on the refinery with reference to the flares that burned off the surplus gas from the refinery systems.

The bombers were obviously not expected; Bahrain was far too far for bombers to come from Italy. So the refinery was running normally--three shifts a day, seven days a week. At night it was lit up like a Christmas tree--all the lights

on as needed for normal operations. The planes had their riding lights on. They flew around and around the refinery several times and eventually dropped all their bombs outside of the perimeter of the refinery.

The theory is that the captain of the tanker gave a sighting on the refinery vis-a-vis the three gas flares. As it happened, just a few days before they came, one of the flares got blocked. So the refinery had run a new gas line out to a new location for the flare. The refinery was now situated outside the triangle formed by the three flares. The planes dropped their bombs within the triangle formed by the flares positions. Apparently they decided that we were contending to deceive them by setting all the lights in a pattern outside the refinery. So they hoped to be smart by bombing the area of the triangle formed by the new gas line positions. But, in fact, the refinery was located where the the lights were. Now this is the story. It's been published, but I can't verify it personally. But it's the only solution you can get.

The volunteer defense force (laughter) was pressed into service by the defense officer to find and dispose of the unexploded bombs, of which there were many. This was attempted by engaging a pickup truck with a long chain trailing from the back, wrapped around a bomb, and driving it hell-for-leather across the desert until it exploded (laughter).

Marcello: Were you actually there when all this took place?

Smith: No.

Marcello: This is what you heard. You were actually on vacation.

Smith: We were in Ceylon, yes. It all happened before we came back, yes.

Marcello: Were you a member of this civilian defense force that you've talked about?

Smith: Yes. They taught us to fire machine guns and use gas masks, and we drilled.

Marcello: With what degree of seriousness was this being taken?

Smith: Initially, with a great degree of seriousness, which lagged as the war went on.

Marcello: What changes or modifications took place in the refinery operations as the war proceeded into 1943 or even before that?

Smith: As a direct result of the bombing raid--I think it was the British government that demanded this--blast walls were built around all of the essential plants and the big tanks. These walls were twenty to thirty feet high extended to limit the extent of damage to the equipment if more bombs were dropped. That was a hell of a job, and the walls interfered with the efficient operation of the refinery, too. Eventually the walls were pulled down.

Also, it was decided before 1943, but started in 1943, to build a substantial extension of the refinery to manufacture

aviation gasoline and jet fuel for the war aircraft. Several hundred construction workers were hired from the United States, almost entirely from the United States, to do this job. The workers had to travel out from the United States in liberty ships, cargo ships, in which they were accommodated in the hold of the ship in tiered bunks. Many of the men were at sea for six weeks, the ships traveling around Africa enroute to the Persian Gulf. The men were tough characters, and they were in a rough state-of-mind when they arrived. Actually, there were dozens--that's not an exaggeration--who just came for the trip to avoid the draft in the United States. They took six weeks to reach Bahrain. They fiddled around on the job and didn't do anything for another two or three months until the company finally put them on another freighter returning them to the United States. So they spent maybe the best part of a year just coming and going. They were prominent among those who caused trouble in the club.

Marcello: So when was it that this operation was put on the line, that is, the operation for the manufacture of aviation gasoline?

Smith: It came on the line in 1945. The start-up refinery runs had just about filled the tanks when the war in Europe was over. The manufacture of aviation gasoline in Bahrain really didn't influence the outcome of the war.

Marcello: How about overall oil production? Now a moment ago you

did mention that it did pick up after 1943, when, I assume, shipping was available.

Smith: Yes, yes.

Marcello: In the meantime were you pumping a lot of oil out of the ground and storing it for the eventuality of the coming of the tankers.

Smith: No, it was being refined in Bahrain. There were some other expansions to the refinery between December, 1937, which, I told you, was the official opening of the first part of the refinery...then between then and 1939 and 1940, some other features were constructed that increased the capacity to 50,000-60,000 barrels a day. This was more crude than could be produced from the Bahrain wells, so crude oil from Arabia was shipped by pipeline. Before the pipeline was constructed, crude oil from Arabia was shipped in barges owned by the Gray-MacKenzie and Company, Limited. They were chartered to ship crude oil from the coast of Saudi Arabia to the west coast of Bahrain, at a village called Zallaq. Also, a pipeline across Bahrain from Zallaq to the refinery was built to convey the Arabian crude oil to the refinery at about 10,000 barrels a day. That allowed a greater output of products by the refinery. The production from the Bahrain wells was increased a bit, but in those days, I think, about 30,000 to 40,000 barrels a day was all the Bahrain field could produce.

Marcello: Now was there some period in here that a pipeline was constructed from Arabia to Bahrain?

Smith: Yes, right. After it was found that shipping the crude by barge wasn't enough to fulfill their needs, a submarine pipeline was built from Al Aziziyah in Saudi Arabia, near Al Khobar,and joined up with the pipeline that already ran from Zallaq. The submarine line came ashore near a village on the west coast of Bahrain, Budaya.

Marcello: What role would your operation have played in the construction of this pipeline?

Smith: Assembling and recording the costs and other normal accounting functions.

Marcello: Do you recall when this pipeline went on the line?

Smith: It must have been in 1940, 1941--somewhere in there.

Marcello: So it was shortly after Great Britain got in the war that it was constructed.

Smith: Oh, yes, yes. Yes, because Britain was counting on Bahrain to supply the maximum products capacity.

Marcello: My next question is one that I think you answered earlier, but I'm going to ask it a second time, anyhow. You mentioned previously that Bapco had nothing to do with the pricing and marketing arrangements. Did that same thing hold true during the war, also?

Smith: Yes, and after the war, too.

Marcello: How about any financial arrangements? You really had nothing

to do with any of the financial arrangements other than the actual operation of the refinery there in Bahrain.

Smith: Yes. Anything to do with financing the construction projects was handled by the New York office. We received remittances of funds necessary to pay the workers and make minor local purchases, but they came from New York.

Marcello: Now obviously this was a period of somewhat rapid expansion with the addition of the aviation gas producing facilities, the pipeline, and several other things. Did the home office in New York loosen the purse strings a little bit, or were the same kind of stringent cost accounting measures still in effect?

Smith: They were much the same. I should mention that part of the major expansion program required a mile-plus causeway to be built from the refinery side of the island out to deep water. Several pipelines paralleled the causeway extending to a wharf where the tankers loaded. There were also submarine pipelines extending to an island wharf where the tankers could be loaded with products. This older wharf was constructed in connection with the construction of the first refinery project. The two wharves could accommodate as many as six vessels. After the war ended, there were several more expansions to the refinery. Eventually, as I recall, its capacity was 278,000 barrels a day.

Marcello: What kind of accounting or activities would you have had

to engage in relative to the actual loading of the tankers and so on? Would that have come within your operation?

Smith: Yes, it did. The Accounting Department had to prepare all the papers, bills of lading, loading certificates, invoices, and so on. The actual selling and the nominations of the cargoes and the tankers was done in New York and the information cabled to us, and we conveyed it to the refinery management. When the ship arrived, the refinery was already prepared with the cargo to be shipped. They pumped it aboard, kept checks on quantities by gauging the tanks--the tanks on land and the tanks in the tanker--to make sure they balanced. The pumphouse personnel supplied figures from which the Accounting Department prepared the loading certificates, bills of lading, and invoices. The prices for the invoices were called to us by New York.

Marcello: By 1945 you had been working for the company about eight years.

Smith: Seven years, yes.

Marcello: Seven years, eight years. During that time did you have the impression that the home office back in New York was receptive to whatever suggestions you personally had for changing the accounting methods or making modifications or improving the accounting methods? Did they listen to you?

Smith: To a limited extent--a limited extent. We set up a cost accounting system in Bahrain that was very similar to

systems that we had seen and learned of in our education in Britain. I participated in the introduction of a cost system that was very similar to what I had learned in the United Kingdom. That didn't seem to cause any difficulty in taking the figures that we produced and incorporating them into the overall accounts of the company in New York. I remember that we found out some years later that perhaps we developed more datail than was really needed; but as far as I and the other accountants were concerned, we had no idea how our records and reports were being used in New York. We had to hope that what we were doing was fitting in with what they wanted. By process of trial and error, when we did something or sent them something they didn't like, we found out about it and modified it.

Marcello: On the other hand, getting back to my question, did you feel that New York was receptive to any of the things that you suggested?

Smith: Yes, pretty much, pretty much. I think by and large they were almost as much babes-in-the-woods as we were (chuckle). They were happy to find people who were trying to make it work.

Marcello: At this stage I'm going to turn over the tape.

Smith: Okay.

Marcello: Is there anything else you'd like to say relative to World War II before we get off that topic?

Smith: Yes. In the early days of the war, a number of the fellows from Britain working at Bapco felt that their services would be more beneficial if they joined the armed forces rather than staying in Bahrain on their job. These thoughts were made to the British consul in Bahrain--Political Agent, to give him his official title. The official response was, "No, stay where you are." In fact, he conducted a meeting at the club and gave the British government's reasons. However, some of the young fellows who worked in the refinery felt that they would rather spend their time in the forces than in Bahrain, so they maneuvered trips on tankers or other ships back to England to get into the forces.

Well, it wasn't many weeks after that that two or three of them were found on a British India Line ship coming into Bahrain from India. These young fellows had been taken into the army in Britain. They were now going to Abadan in Persia to work in the refinery there, and now they were on soldier's pay rather than (chuckle)...

Marcello: ...rather than on company time.

Smith: ...yes. That was the end of that movement. Have you heard about Well 52?

Marcello: No, I sure haven't.

Smith: I'm not sure which year, but say in 1938, 1939, sometime about then, Well 52 blew out. As a result a stream of gas and crude oil spewed out of the drill pipe rising some 200

feet. It blackened the desert for a square mile or more. The Drilling Department had difficulty in trying to figure out how to "kill the well." A young British petroleum engineer volunteered to go down into the cellar below the drilling rig where the valves on the well casing were situated in a diver's suit and turn off the valve. The cellar was full of black crude oil. He couldn't see anything, of course. He could only feel his way, and after the second or third attempt, he managed to turn it off. Such an action had never been heard of then, and I'm sure it has never been done since. If one rock had been blown out in that stream of oil and hit the drilling rig, the sparks would have caused it to blow up.

Marcello: Do you recall what that fellow's name was?

Smith: Yes, C.R.B. Hopper. He was a Cornishman. Do you know where Cornwall is? He had worked in a tin mine as a geologist; that was his qualification.

Another example of the cooperation between Bapco and the Bahrain government and the British Indian government occurred in the early days of the war. We were having trouble getting our mail. An Indian postal supervisor--from the British Indian Postal Service--was in charge of the post office in Bahrain. I inspected the Post Office facilities in Manama one day and found them in a room of an old building below the ground level very close to the

coast. There was no furniture or equipment, and ten bags of mail just received off the mail ship had been spread on the floor. As the tide was high, it had seeped through the walls. The pile of mail was partly in the water. For the Indian who was in charge, and a couple of Bahrainis working with him, to sort the mail was impossible. I said, "Why don't you get some furniture or other equipment from the Indian Post Office?" He said, "That's impossible. I can't even get a reply from them for months and months." So we rounded up some Bapco carpenters, designed a set of sorting racks, and installed them in the post office. No charge. This was part of our contribution. We got a dirty letter from the Indian Post Office that we were interfering with their business (chuckle).

Marcello: I think we're ready to move into the post-World War II period. Let me just ask you a couple of general questions here, and maybe you can answer these, and maybe you can't. What do you know about the development of the tanker fleet that began in 1947 and then proceeded from the old World War II tankers up to the modern super tankers. How did that affect Bapco or your operation personally?

Smith: Not very much. There were a number of those T-2 tankers acquired by the company from the United States government. They were owned by one of the Caltex group of companies, called the Overseas Tankship Corporation.

Marcello: So you would really have had no role in any of that expansion.

Smith: No.

Marcello: Now when we get into the postwar period, we're also into that period when the European colonies in Africa and Asia were beginning to receive their independence. How did that affect the operations of Bapco?

Smith: I don't know. Very little. There were a few Bapco employees who got transferred to other companies of the Caltex group, but not many.

But after the war, Caltex embarked upon a program of building refineries in partnership with other companies, most of them in various countries--Italy, France, Holland, South Africa, East Africa, Japan, and New Zealand. Because Bapco was the place where employees had been working in the refinery for several years now, lots of them were spread out to the various refineries to advise during the construction period, start them up, and train local employees to run them. In practically every one of those that I mentioned, there were men from Bahrain. Spain is another one, and Italy. In Italy there was not only the refinery, but there was the pipeline from Savona, on the coast, to carry the crude oil to Trecate, where the refinery was constructed between Milan and Torino. I got a little ahead of myself. The first one was in France, Bec D'Ambes at Bordeaux, which was destroyed

by the Royal Air Force in the war years. Immediately after the war the parent companies decide to rebuild it. A bunch of the fellows from Bahrain went there. Particularly on the refinery side of things, there was a great deal of movement of the Bahrain force to other countries.

Marcello: What effect, if any, did this manpower drain have on the operations of the Bahrain refinery?

Smith: Not too much because we were getting new people in. The Bahrainis were beginning--more than beginning by this time--to be more more skilled. We were able to leave things--not decisions--to their working, and after the war we were able to get new people in, too, not only from the United Kindom, but from the United States and Canada. We had a group of Canadians at one time, some during the war and before the war, even. So Bahrain was regarded by the Caltex group as a source of experienced manpower. Today there are numerous ex-Bapco employees spread through the Caltex organization.

Marcello: How about the accounting methods and so on that you had built up at Bahrain? Were these used as a model for these other operations, or don't you know?

Smith: Yes, mainly the cost accounting for the construction projects. We developed what we called an item list, segregating the various phases of the refinery construction, so that we could develop a record of the cost of constructing

the various facilities. That item list was used in the construction of several other refineries.

Marcello: Let me ask a personal question. Did this refinery expansion and the subsequent adoption of the cost accounting methods that you had helped work out contribute to your success or promotions within the company?

Smith: Yes, I suppose. I couldn't put my fingers specifically on it. In the years subsequent to the war in particular, my area of responsibilities extended beyond the Accounting Department. I told you I was responsible for the Personnel Department; Employee Relations Department, including the schools; the training program; the hospitals; the camp housing; the club and other recreational facilities. So by this time I had turned over the direct supervision of the Accounting Department--to someone else who reported to me, but he was running it. I think my progress in Caltex initially was derived from what I did during the war years.

It was arranged that I and my wife should visit the New York office and the parent companies in 1948. That was my first visit. One of the things we talked about then was this item list system for construction projects, and I guess we modified some of the cost accumulation instructions. It was the occasion for me to be introduced to the top management of Socal and of Texaco. In fact, I visited their offices in San Francisco and in Houston, which at that time was the

headquarters of Texaco--to be seen, I guess. They didn't put it that way. That was 1948. The outcome of that was, as I say, that I got these other assignments. In 1951 I again visited the New York office. Later on, in 1951, I was assigned to Indonesia to help direct the development of their accounting system. Then in 1957,I was transferred to the New York office,at first in a purely accounting function but later moved over more and more into finance. My advancement in the later years in Caltex was on the financial side rather on the accounting side. It involved visiting with bankers in various European countries, South Africa, East Africa. I also participated in several surveys of Caltex companies in Holland, Belgium, Denmark, Sweden, Switzerland, and Italy.

Marcello: And this would have basically had a relationship to the various subsidiaries in those countries?

Smith: Yes. Oh, directly, considerably. In some cases it meant borrowing or other financial arrangements, but it was directly concerned with Caltex New York, often with reference to borrowing by the local company in connection with construction of a refinery or other major facility. In this respect I might say that the parent companies kept us on a very short lead. We were expected to find our own financing for all our projects.

Marcello: That is, once the decision was made to put a refinery in a

particular location?

Smith: Yes. The off-takers of the crude oil from Saudi Arabia were the parent companies. They in turn billed Caltex and required us to pay according to their credit terms, sixty days or ninety days. We had to do what was necessary to accumulate the funds with which to pay them. This is the reason we borrowed from the banks in Switzerland and most countries that Caltex had operations. In Switzerland, particularly, we had international banking relationships with the Swiss bankers. But Caltex also developed financing arrangements in Australia and the United Kindom.

Marcello: Now you were doing most of these things after you had moved out of operations in Bahrain, is that correct?

Smith: Yes. Oh, yes. This was after I was transferred to New York. I would say it was several years after I moved to New York. I moved to New York in 1957, so this must have been maybe 1961, 1962, 1963, 1964, something like that.

Marcello: Before we get to that point--and I want to come back to that because obviously that's an important part of your story--awhile ago we were talking about the independence movement among the Asian and African countries. Now at the same time that we saw this independence movement, we also saw a rise of nationalism, for want of a better word. What was happening on the political scene in Bahrain in those postwar years? Describe for me the evolving relationship

between the company and the government taking place in those postwar years.

Smith: Not very much. Really, the change whereby the government acquired the crude oil production came later, after that same change had been made in Saudi Arabia. The nationalistic thinking didn't arise too much in Bahrain, certainly not during the time I was there. The change in crude oil production ownership happened several years after I had been moved to New York. But with all countries, our plans were always discussed with the government representatives. For example, whenever I went to South Africa, we always met with the finance ministry if we were planning some financing.

Marcello: Let me ask you a more specific question along these lines. Was the government in any way putting pressure on Bapco to hire and train more nationals for positions of authority and decision-making within the company itself?

Smith: Yes. I wouldn't say pressure, but they encouraged it, and within the company there was no resistance. In fact, most of the time we were ahead of them in the planning and the implementation. We might have had some difference of opinion on an individual, whether he was ready or whether he was worthwhile pursuing. I don't think there was any serious difference of opinion. There were times, I think, when some of the British employees and, even more so, some of the Indian employees felt they were being forced out of

a job by the Bahrainis coming along. But that wasn't a very reasonable complaint. Obviously, the company was going to bring along the local people as far and as fast as possible.

Marcello: Now you left Bahrain for the first time in 1957.

Smith: Well, I was transferred in 1959 but had made trips to the United States in 1948, 1951, and 1956.

Marcello: You were transferred, yes. So you really weren't in Bahrain during that period when OPEC was formed.

Smith: No, no, I wasn't. There were signs of it, I think, but it hadn't been formally established as it was later on.

Marcello: Mr. Smith, in our conversation during our break, you were mentioning that at various times in that postwar period, you were called back to New York for one reason or another. These occurred in 1948 and in 1951 and then again in 1956. What was the purpose of the company calling you back to New York during those periods?

Smith: I think to familiarize me with the New York setup, to discuss specific problems or recommendations or suggestions in Bahrain, not only insofar as the accounting was concerned, but also dealing with personnel matters, training, and employee benefits. It was also because of the 1954(?) strike problems and also, leading out of that, the drafting of a labor law for Bahrain.

Marcello: You mentioned that 1954(?) labor problem, and, of course,

this is something that occurred back in Bahrain. Discuss that labor problem as it developed and what the result of it was.

Smith: In Bahrain?

Marcello: Yes. And then we'll talk about your recommendations based on your experiences there.

Smith: There developed in Bahrain some resistance--objections--by certain members of the Bahraini population to the actions and mode of living by the ruling family and their hangers-on, and there were a lot of hangers-on. This finally developed into a crisis where the leaders of the protests amongst the people decided the way to get at the sheikh and the ruling family was to cause troubles with Bapco.

So they decided to put on a strike. The strike was pretty completely respected by the Bahrainis but not by the expatriates, the Indians or the Europeans or the Americans. With the Indians and the other expatriates, the company found it was able to continue the operation of the refinery without the Bahrainis. This continued for several weeks. It was apparent that the strike really was not against the company, but it was merely a means of making problems for the company, which would reflect on the ruling family.

The effort began to run out of steam after a couple of weeks at which point much of the population was suffering from the lack of wages as well as of gasoline and kerosene,

which ceased being delivered from the refinery through the normal outlets to the local population.

In this connection one of the leaders of the strike movement telephoned me one night and asked if I would arrange for the tank trucks to deliver kerosene in Manama, the main town, or in an area close to the main town, if he would guarantee safe conduct and protection for the trucks while they were down there. I agreed to this after some discussion, and several deliveries were safely made in the next few days.

The outcome was that the strike collapsed, and the Bahrainis returned to work. However, as an outcome of that incident, the Bahrain government decided that it was necessary to have some rules or law dealing with the right of workers to strike.

Marcello: Am I to assume that this greatly disturbed the government in that it had never happened before?

Smith: Right. The British political representatives in Bahrain and elsewhere in the Persian Gulf were disturbed at this development. So the sheikh decided to appoint a commitee to draft a labor law. The members of the committee were to represent the workers, the Bahrain government, and industry. There were three members of the workers, one of which was an employee with Bapco, another one was a senior employee of the Bahrain government, and the third one was

the leader of the strike (the same fellow who had telephoned me regarding the kerosene deliveries). The industry representatives were an Arab merchant--one of the most influential merchants--and myself, representing Bapco. There were two government representatives. One was the director of customs, and the other was a cousin of the ruler. The committee met every second week for one to two hours and many wordy battles between the three sides ensued.

Marcello: What role did you play as a representative for the company?

Smith: A very difficult role (chuckle). The other member representing business, the Arab merchant, his life was threatened several times, and he dropped out. The second of the government representatives, the relative of the sheikh, was only slightly interested and did not appear at many of the meetings. As an advisor to the committee, but not a member of the committee, the British government appointed a representative who had knowledge and experience of labor laws in Egypt, Iraq, and elsewhere in the Middle East. The working committee developed into five members: the director of customs, two representatives of the workers, the leader of the union movement, and myself.

Marcello: Why was it that the merchant was threatened, and by whom was he threatened?

Smith: He was threatened by the promoter of a union movement.

Marcello: I assume they belived that he was handpicked by the sheikh himself.

Smith: Yes, and because he was expected to side with the employers.

The procedure of the meetings was strange inasmuch as the discussion and the drafting of the labor law was carried on in English. It was subsequently translated into Arabic for further review. This lengthened the proceedings greatly because there was frequent discussion as to whether the Arabic version of the proceedings at the previous meeting was the same as the English version. The English version was written each fortnight by myself, aided by a British employee from Bapco who took shorthand notes and typed them up for distribution to the committee members. As might be expected we were accused of revising the text to suit our preferences. The meetings of the committee went on for more than a year, meeting every second week.

Marcello: What were some of the specific issues that this committee was haggling over?

Smith: Representation, right to strike...oh, I've forgotten many of them, but there was a myriad of them. The ruler himself had expressed the opinion that there should be no right for anybody to strike (chuckle).

Marcello: Anything that was done was going to be a concession on his part. He had everything to lose and nothing to gain.

Smith: Right. He did not believe that historically the workers had any reason to want to strike. The draft of the labor law was in its final stages when I went to New York in 1956.

The conclusion of it was handled by another Bapco employee who stood in for me. But the labor law, as such, was never put into force.

Marcello: I was going to ask you...whatever the committee decided was still subject approval by the ruler.

Smith: Right. And I later heard that he wouldn't approve it. Despite all the efforts expended for months and months, and, as I say, some threats were made on some people, the labor law did not materialize.

As I mentioned previously, I'm sure that one of the reasons we got as far as we did with drafting the law was my relationship with the leader of the union movement. He wasn't an employee of the company, but he and I had had personal contact on the soccer field in the early years of my employment in Bahrain. This enabled me to talk with him in a way and reason with him in a way that if I had been purely and simply a member of the Bapco management I couldn't have achieved.

Marcello: Was soccer one of your recreational activities in Bahrain?

Smith: Yes. It was very popular with the Bahrainis, and Bapco had a soccer team. It played teams from various towns and associations in Bahrain.

Marcello: Is this how you met this strike leader?

Smith: Yes. He played the center-half position for the Muharraq team (Muharraq is a large town to the north of Manamah). He

was a good soccer player--he really was. In my position as one of the Bapco forward line, we made contact frequently (chuckle).

Marcello: So this was one of the reasons that you were called to New York.

Smith: Yes.

Marcello: What did they want to know about this situation? What went on there?

Smith: Well, where were we getting with the labor law. What was it going to mean: a complete upheaval of Bapco's operations there, or was it going to evolve into something that could be reasonably implemented and followed in future years.

Marcello: Did what went on or what resulted from those labor negotiations result in any long-range policies being adopted by Caltex?

Smith: Not to my knowledge. Nothing really significant, anyway. Maybe there were some employee relations that developed, but nothing significant at that time, anyway. I think in subsequent years, after I had left Bahrain, there was some impact from it, yes.

Marcello: But for the most part, despite what when on in Bahrain, the company evidently had decided to simply meet these crises as they occurred.

Smith: Yes. This was found to be the most realistic way to handle them.

Marcello: Do you think that was true?

Smith: Yes. Actually, this leader of the union movement was expelled from Bahrain by the sheikh, and he pursued his theories outside of Bahrain, part of the time in Kuwait. Then later he returned,and as I told you, he was in Bahrain when I visited there in 1973, just prior to my retirement. He was back in the Manamah bazaar, but apparently he had recovered from his union activities (chuckle).

Marcello: You had more or less been in Bahrain for twenty years. You started in 1937 and were there until 1957, when you were recalled to New York. At the time, like you mentioned off the tape, you didn't know how long you were going to be in New York.

Smith: Right.

Marcello: What was the immediate reason for bringing you back to New York again in 1957 for an extended stay that lasted until 1973? Was it ultimately a promotion as such and new responsibilities for you?

Smith: (Chuckle) This is a difficult one for me to answer. I think there were people in New York who thought that I was too persistent in some of my recommendations for the benefit of the employees of Bapco.

Marcello: When you speak of the employees of Bapco, are you speaking of all the employees whether they be American, British, or nationals?

Smith: In this connection, yes. This focused particularly--not

entirely, but particularly--on benefits.

Marcello: Could you elaborate on this? In other words, what were some of your recommendations or opinions relative to benefits for employees?

Smith: (Chuckle) Living allowances, pension benefits, pay scales--these were some of them.

Marcello: And these areas would have been recommendations for all workers of whatever nationality.

Smith: Well, the recommendations for one group were not necessarily the same as those for another group, but they were recommendations that covered the whole spectrum of the different nationalities of employees.

Marcello: What were some of your recommendations relative to the Arabs?

Smith: We had what was called the thrift plan that gave them some measure of help toward retirement. There were questions of what to do with the funds of the savings plans, which were contributed by employees and also by the company for the benefit of some groups. But there were no contributions required of the Bahraini employees. There was an arrangement whereby the groups of Bahraini employees could present problems or queries to the company for consideration. We developed plans, in fact, introduced plans, whereby we would aid the Bahraini employees to build and acquire their own homes. This was promoted to a far greater extent in

the years after I left.

Marcello: Were these things that were developed by Bapco independently of the home office? Obviously, there had to be some sort of approval for them.

Smith: They had to be approved in New York before they were introduced, but the origination of the ideas came from the local management.

Marcello: And were you one of those who was primarily responsible for these recommendations?

Smith: Well, I was involved, yes. We were discussing these things with Aramco, who had similar arrangements. In fact, Aramco introduced far more elaborate arrangements in later years.

Marcello: Now you mentioned that there was opposition to these recommendations or ideas, and you seemed to imply that the opposition was coming mainly from the home office in New York.

Smith: Yes, with some coming from the parent companies, I'm sure, although I can't be specific about that. But the consultation between the New York management and the two parent companies was such that I'm sure that it was involved.

Marcello: To your knowledge what were the major objections to these employee benefit plans?

Smith: More costs to the company.

Marcello: So it was looked upon strictly from the bottom line, so to speak.

Smith: Yes, yes. There was some consideration given to employee relations.

Marcello: Did you detect whether most of the opposition or objections were what was being done for the expatriates or the benefits for the Arabs?

Smith: Whew! I'd say both but on a different plane. But both, really. Legitimately, there were great efforts by the New York management and the parent company managements to increase profits.

Marcello: Going back to my original question, did you say that you think that one of the reasons you possibly were recalled to New York was maybe to get you out of Bahrain because of your thoughts and feelings relative to personnel matters?

Smith: I've always had the feeling that that may have figured in it.

Marcello: So what assignment, then, did the company have for you when it brought you back to New York?

Smith: It worked out all right because the New York office had a survey made by an outside organization of advisors which reorganized the top management of Caltex in New York. We then had Caltex East, Caltex West, and Caltex Services--three groups that each had their own organization and their own top executive, but all funneling into the top management of Caltex and back to the parent companies. At this time they were sorting and shuffling employees in the New York office and from elsewhere to fill the spots or organize

these three groups, and they found that they needed somebody in Fiscal West. So they plugged me into that hole. This was a financial rather than accounting function.

Marcello: Now Caltex West, I assume, had to do with Europe.

Smith: Europe and Africa. Europe in the wider sense of the word. Not the communist countries, but all the rest of Europe. And Egypt, Lebanon, and the African countries.

Marcello: So what kind of new responsibilities did you now have as being associated with Caltex West Fiscal?

Smith: Well, we received the budget proposals and the profit forecasts from the various countries in Caltex West. We had to analyze and consolidate them, present them as a total picture of all Caltex West, and follow through with continuous monthly reviews of actual performance, what the earnings were, how financing was going to be provided, and so on.

Marcello: Now are you developing any long-range policies in this capacity?

Smith: Not really. They were fed to us by the parent companies and the top management. We would make suggestions, perhaps, of where we should get some financing, but it wasn't a major factor in the total picture.

Marcello: Exactly what was your relationship to the parent companies in this new position?

Smith: It was only assembling the information that was presented to the parent companies for them to make the final decision,

by and large.

Marcello: In other words, suppose that a refinery in Europe wants to modernize or expand or whatever. This is obviously going to take money. That refinery would then present a proposal to your office?

Smith: They really would present it to the top management group of Caltex West. We might be involved in checking or reviewing some of the figures and factors that went into it, but it would be presented to the management of Caltex. It would then be sifted over, and eventually it would get back to the two parent companies to decide and usually with plenty of back and forth before you arrived at any point. Then when it was decided, maybe we'd get back in the picture again to prepare the financing program and follow up on the implementation.

Marcello: This is what I was going to ask next. So you would actually be in on the financial arrangements for any of these plans.

Smith: Yes.

Marcello: Which would involve what? Can you be specific as to what would be involved in your participation in those financial arrangements?

Smith: Really only conveying to and checking with the local company as to what was possible and possibly making a trip there to review with the local bankers as to what was possible.

Marcello: What influence or role would fluctuating exchange rates

and so on play in the kind of work that you were doing?

Smith: Quite a lot. Quite a lot. We had to have some outlook on what exchange rates might do, what currencies might be affected, what interest rates were available in this country or that country. For example, most of the time we found that borrowing in Switzerland was far cheaper than borrowing anywhere else, but the strength of the Swiss franc against other currencies had to be considered in deciding where you would borrow.

Marcello: So if you were going to build a refinery in South Africa, you wouldn't necessarily borrow your money in South Africa.

Smith: Right.

Marcello: It would probably have been a politic thing to do, but, again, you were going to get it where you could get the best rate.

Smith: Yes. But one of the considerations was the belief in the future progress of the country concerned, its government and so on. In fact, to be specific about South Africa, we borrowed a lot of money in South Africa. It was mostly on short term. We had a big position with Barclay's Bank in South Africa.

Marcello: You mentioned that one of the concerns of your office here was the governmental situations in these various countries. During that period of time that you were with Caltex West Fiscal, which was in 1957-1973...

Smith: No.

Marcello: That wasn't the case?

Smith: No, not that long because the idea of Caltex West, Caltex East, and Caltex Services blew up in the early 1960's or maybe the middle 1960's. The divisions were merged again as one company. It was then that I was assigned to the position of financial coordinator for the whole company, not just Caltex West.

Marcello: What I was going to ask was, during that period from 1957 until the mid-1960's, what were some of the countries that seemed a little unstable.

Smith: Oh, dear! France always comes to mind.

Marcello: That was always unstable, I guess, until de Gaulle came to power.

Smith: Yes, and even so after him. And Italy, too. You never could rely on things being on an even keel in Italy. When I experienced the methods by which the amount of tax paid by the Caltex Italiana companies was arrived at, as an accountant, I was horrified (chuckle).

Marcello: When we stopped to take our break we were talking about how the stability or instability of various foreign governments affected the fiscal policies of Caltex, particularly when you were with Caltex West. It was also during this period, and actually even before, that many of the countries from Asia and Africa gained independence from their colonial

rulers. What kind of special situations did that present so far as the building of refineries and the location of refineries and the expansion of refineries and things of that nature?

Smith: Well, they were always financed by Caltex Petroleum Corporation out of general funds. There were very few occasions on which specific borrowing by the subsidiary company in the country concerned provided the funds. The same could be said, whether the expenditures were for refineries, service stations, depots, distribution systems, and so on. The standard procedure was that the subsidiaries remitted to New York every month any cash needs accumulated beyond their payroll needs and their normal expenditures for materials and supplies. The surplus cash was remitted to New York because there was always debt from the subsidiary to Caltex New York as a result of supplying them with crude and/or products, which they couldn't pay for immediately.

Marcello: In other words, if there were a refinery to be built, let's say, in some third world country, Caltex would do the financing or would arrange the financing.

Smith: Yes, almost always.

Marcello: And this is a very elementary question, but why was that?

Smith: Because that was the way the finances of the Caltex group were arranged. As I told you previously, the parent companies were supplying the crude oil to Caltex, who was supplying it

or refining it and supplying the products to the subsidiaries. The debt for the crude oil was owed to the parent companies, and we were required to maximize our remittances to them.

Marcello: Now you were probably out of this position by the time OPEC was formed and when we get into the oil embargoes and so on and so forth. But OPEC and the oil embargoes must have played havoc with the economies of those third world countries, especially relative to the purchase of petroleum and so on.

Smith: Yes.

Marcello: Did you have any experience with those activities?

Smith: No, I really didn't because in 1973, when the embargoes started, was when I retired. But I know that it became a terrific burden on Caltex as well as the subsidiaries and the countries. We can read in the newspapers almost every day that most of the "liberated" countries are in severe trouble being unable to meet their government borrowings from banks in the West. Personally, I see no way out of it; they're going to default sooner or later. This, it seems to me, is a potential crisis for the United States, in fact, for the western world generally, because I'm sure there are going to be many bank failures when the situation finally crystallizes. My view is that we have been, and are, far too liberal with lending to these third world countries. What the solution is, I don't know.

Marcello: How would third world debt affect Caltex both in the short

run and in the long run?

Smith: Well, the developing countries governments will go further in trying to milk the foreign companies operating in their countries, I'm sure. There has been in the last few years a withdrawal from third world countries and even some European countries by the large American oil companies who are cutting back their area of operations into much more concentrated and manageable groupings. The United States is in a position now of where third world countries are so much in debt to us that they've got us in a corner. They can dictate to us what they're going to do rather than we, who are the holders of the debt. This isn't getting easier, either.

Marcello: In other words, they can say, "We're going to default, and what are you going to do about it?"

Smith: Yes. Are we going to extend their payment periods for another ten years? If you say "no," they'll say, "Okay, then we'll not pay anything--we'll default."

Marcello: In the mid-1960's you were appointed to a new position within Caltex. What was this position, and what was involved in it?

Smith: I think that was when I was appointed treasurer. What was involved in it?

Marcello: Now this was treasurer for all of Caltex.

Smith: All of Caltex, yes. The area of responsibility comprised

two departments, one, the Banking and Credit Department that handled the flow of funds between the foreign subsidiaries and New York, the utilization in New York, and remittances to the parent companies.

The second department was Financial Planning. This involved obtaining forecasts from all of the subsidiary companies of the flow of funds, expenditures on capital improvements, maintenance, and so on, and what net cash inflow or outflow was likely to occur. The separate forecasts were consolidated then into a total overall Caltex position. Another feature was the communication with the subsidiaries and banks in various places toward arranging financing for the subsidiaries and for the New York company. We dealt in the London money market quite a bit. We were one of the first companies to participate in Eurodollar financing and borrowings.

Marcello: Were these things initiated during that period when you served as treasurer?

Smith: Yes, some. But some of it was started before I became treasurer. We would have bank representatives from England, Holland, Switzerland particularly, and South Africa visit us in New York to negotiate the various types of financing.

Marcello: As treasurer you were at the other end of the line from where you were when you started out at Bahrain back in 1937.

Smith: No, not really, because what I was doing in Bahrain really had very, very little to do with the financing of Caltex's group of companies. It was, as I said, just a straight-forward accounting function, and we were doing no selling (except for the minor sales in the local market). We just received remittances to cover our payroll and other expenses. In Bahrain we had virtually no financial responsibilities.

Marcello: What I'm saying is, the person or persons who were in Bahrain while you were treasurer were more or less in the same position that you were in when you were in Bahrain.

Smith: Right, yes. But since my retirement in 1973, the arrangements have been drastically changed by the major involvement of the Bahrain government in Bapco affairs.

Marcello: Were things still being done basically the same way, or were changes made?

Smith: No, it has changed drastically because the ownership of the Bahrain Petroleum Company is different.

Marcello: Now it is. But how about when you were treasurer and you were having to deal with the people at that time?

Smith: It was pretty well the same as when I was in Bapco, yes.

Marcello: Were you in a position now, since we're at the other end, to perhaps appreciate or still criticize the policies that your predecessors had established way back yonder?

Smith: If that was the position--of course, it isn't, and it wasn't--I'm sure I would have been more willing to leave

responsibility with the field than they were at the time when I was there.

Marcello: Did you try to do this when you were treasurer?

Smith: No. It was because Bapco was not a part of Caltex West or Caltex East or Caltex Services. It was a separate organization and was run by a group called Amoseas in New York. That company was directly owned by the two parent companies, not through Caltex. That company ran Bapco and the Indonesian company because they were the crude exploration and producers.

Marcello: Which particular refineries during this period seemed to be what we might call problem refineries?

Smith: I can't really put my finger on that. Speaking of the period up to 1973, and my retirement, I don't think any one of them was any more of a problem than any other. They had all been devised, planned, and constructed after the World War II years and wouldn't have been proposed unless there was a pretty clear need and use for them. There were one or two places where we weren't able to go ahead completely on our own say-so. For example, in Italy we were in partnership with Fiat, so they had a say. All too often Fiat and Caltex didn't see eye-to-eye because Fiat's interests and reasons for being were quite a bit different from Caltex.

With Japan we had to negotiate with them. I must say that from my point of view the Japanese were always very sensible, very good people to deal with, reliable. Then

with South Korea, the Lucky company were our partners, but our sailing was pretty easy there because the Lucky people were so uninformed about the whole oil business that they practically depended upon us for everything.

Marcello: Your comments relative to Japan confirm those that Mr. Fish stated yesterday. He, of course, was there duing the early years.

Smith: Yes. I think everybody would say the same thing about Japan. It was a very good deal for us with a huge volume of crude oil sold to them, and at reasonable prices, too.

Marcello: You talk about special prices. Can you expand upon that as opposed to full prices?

Smith: No, I can't because I was not involved there, but I know that every year or so, there were deep negotiations with the Japanese as to what the volume of crude would be and what the prices would be. They always got special prices because of the volume--hundreds of thousands of barrels a day.

Marcello: Now, of course, we've been talking mainly about Bahrain and the oil that was extracted from there. Was it still the major source of Caltex crude by this time?

Smith: Not by any means. Arabia was the main source, and then right behind them was Indonesia. Indonesia was producing a million barrels a day, and Saudi Arabia was up to ten million at one time. It was not all coming to the Caltex

Company, but to the parent companies and Mobil and Esso, too. There were also some local small amounts produced, too, in Australia, offshore New Zealand, offshore Spain.

Marcello: In 1967 Texaco and Socal decided to reenter the European market as independent entities. What do you know about it, and how did it affect Caltex? First of all, what do you know about the decision.

Smith: It was really the outcome of a continuing disagreement at very high levels between the Socal top management and the Texaco top management.

Marcello: Disagreements over what?

Smith: Almost everything (chuckle).

Marcello: Can you at least be a bit more specific (chuckle)?

Smith: No. More or less everything. Whether they should build a refinery; whether they should expand a refinery; whether you should spend more money on service stations and so on.

I must say, from my own point of view and in retrospect, I think Caltex, generally, worldwide spent far too much money on service stations. I can remember being in one executive meeting in New York, when the regional director for Australia was proposing spending a quarter of a million dollars on a service station, the payout for which was beyond twenty years. I voted "no," but they did it, anyhow. I think that somewhat similar expenditures were made in other countries. It was a wild desire to increase volume,

take away from competitors, almost irrespective of cost.

Marcello: Okay, so the decision to get back into European operations--European marketing by the parent companies as separate entities--was based upon disagreements at the top. Now how did it affect Caltex?

Smith: Oh, we had a greatly reduced area of business responsibility because, for example, we had no obligation to check the accounting system in Holland; rearrange the financing for a Dutch refinery; for Sweden or wherever. Caltex had concentrated all its efforts on Africa, Singapore, Malaya, Japan, Australia, and the Philippines. So the outcome of it has really been to Caltex's advantage because they can concentrate on the more worthwhile areas to them. It's the same idea of increasing your volume in the area that you economically can supply.

Marcello: Now it would also be sometime during your latter years with Caltex that the whole process of computerization would have taken place. What do you know about that, and what role did you play in whatever introduction of computers took place?

Smith: As I said, the first entry into the computer business in Caltex was by the Bahrain Petroleum Company in 1948-1949, and from then on it progressed to New York. We used some of the experience in Bahrain to help in New York. It spread to Holland--that was one of the things that I went to Holland

for--and it was introduced in one territory after another. The young fellow--he's not young anymore--that we used to spearhead this in Bahrain is now the financial vice-president in Dallas. He has been a spearhead with a lot of encouragement and a lot of ability in introducing all sorts of computer-type procedures throughout Caltex.

Marcello: And who was this individual?

Smith: Wiggins.

Marcello: And he worked under you...

Smith: Originally, yes.

Marcello: ...in Bahrain.

Smith: In the Bahrain Accounting Department. We ventured into the early computer procedures after my visit to IBM in 1948.

Marcello: What kind of a computer system did you set up there in Bahrain?

Smith: It was a punched-card system--payrolls, collection of cost data. I think they were the main procedures early on. You see, at the peak we had 9,000 employees in Bahrain, so a payday was a big operation. We must have had about 5,000 or maybe more Arabs--Bahrainis--all of whom were paid in cash.

Marcello: That is 5,000 Arabs in addition to the 9,000, or were they part of the 9,000?

Smith: No, they were part of the 9,000. There were approximately a thousand expatriate Americans, British, South Africans,

New Zealanders, Australians, a few Norwegians, Dutch. There were approximately 2,000 to 3,000 Indians and Pakistanis. Anyway, the total came to near 9,000 at the peak. Now it's way down from that. The Europeans and the Americans have been reduced drastically. Many of the jobs have been taken over by the Bahrainis.

Marcello: Was this computer system based upon the old keypunch cards?

Smith: Yes. Very primitive but it worked. Bapco hired several young women from England to operate the keypunch machines, but after the first year the Bahrainis were trained to keypunch.

Marcello: To your knowledge was Bapco one of the first to introduce computers into its operations?

Smith: Yes. It was definitely the first company in Caltex and in the Persian Gulf,Middle East area, to go computer. IBM publicized it after they had completed our installation. As a matter of fact, we had IBM representatives for well over a year, in Bahrain, introducing the system and at the same time trying to sell it to others. Aramco came over and inspected our system and eventually, as a result of seeing how it was working in Bahrain, went to computers. Abadan, which was the biggest refinery in the Middle East, sent people down to look over Bapco.

Marcello: Altogether you spent thirty-six years with Caltex.

Smith: I always like to correct with, "with Bapco and Caltex" (chuckle).

Marcello: All right. This brings up an interesting point, and it more or less leads to the question I was going to ask. You spent all those years with Bapco, and then you were transferred to New York. Now obviously this led to promotions, financial benefits, and all that sort of thing. I guess the question I'm trying to ask is, what were your feelings toward the transfer, promotions and salary aside.

Smith: Not very enthusiastic initially because I took a severe cut when considering salary plus the benefits, cost of living allowances and so on in Bahrain as compared with New York. In fact, as a basic salary, based on the rate of exchange between the dollar and sterling at that time, I took a cut in pay to go to New York.

Marcello: The company obviously didn't take that sort of thing into consideration. Transfers aside, did the good far out weigh the bad so far as your thirty-six years of association with Caltex were concerned?

Smith: Yes, in the long run, very definitely. The disadvantage was temporary. I would say it probably continued for three or four years, but in the long run, it was definitely a benefit. I got much further with Caltex than I ever could have done with Bahrain. I think I could have been in line in Bahrain for the general manager's job or the president, as he became called later on, except that I had a handicap. I was a British subject, and the general manager of Bapco

had always been an American and was always going to be an American. So that, I think, was a contributory reason for them wanting to move me out of Bahrain, because I was getting to the spot where I was the most senior, or one of the most senior people, in the organization.

Marcello: Well, I think you've basically answered the question I was going to ask. Now this wasn't necessarily a Caltex policy generally, was it, that is, that there would be an American at the head of every refinery?

Smith: No, I don't think so. I don't think so.

Marcello: But since Bahrain was still considered to be one of the most important, there would be an American there.

Smith: Undoubtedly, it was not one of the most important. It was the most important during most of the years I was there. It was the fountainhead of the whole Caltex business.

Marcello: Any particular reason for this?

Smith: Because it was the first company in the Caltex group and it was the place where the profit was generated, certainly for most of the earlier years.

Marcello: But was there any reason why this person had to be an American?

Smith: Well, just because it was an American organization. By using other expatriates the labor costs were reduced. The rate of pay in Bahrain even for the British expatriates versus the American expatriates was about half.

Marcello: What was the rationale for that?

Smith: The cost of living in England was less than in the United States. So the comparative standards of living were such that you did not need as much income in England, and as I told you,business conditions in England were such that there were far more people wanting jobs than there were jobs.

Marcello: At the time did you think it was a pretty fair policy?

Smith: No, but we didn't discover it until we got to Bahrain. This situation was accentuated by the fact that the exchange rate between the pound and the dollar was varying in these years to the detriment of the pound. In the middle 1930's, it was $4.86 equal to one pound. That decreased to $4.20, $3.80, $3.20 to $2.80 during World War II and subsequently has been as low as $1.10.

Marcello: Did this cause any kind of friction or resentment or morale problems among the various nationalities working for Bapco?

Smith: No. Well, there was some resentment, but it wasn't widely known. The accountants in the payroll office knew, but most of the others didn't.

Marcello: I have one last question, Mr. Smith. I've heard talk from various people about the so-called Caltex family. Do you think that's an accurate term to use relative to the people who were associated with Caltex for a long period of time?

Smith: Yes. The extent of this today, I'm not qualified to say, but in my days the Bahrain group in particular was very closely knit. The general Caltex area, I would say, was

pretty closely knit even though you had all sorts of nationalities--Dutch and Swedish and Norwegian and Belgian and Australians and South Africans. There was quite a esprit de corps amongst them all, I found out. This was also supported when periodically we would have conference in New York. They'd bring in refinery people or accounting people or marketing people and have a conference in New York during which you got to know your opposite numbers in other parts of the world. So when you visited their country or they visited you, you already had a connection, a contact. So I would think I'm right in saying an important factor in the success of Caltex has been these relationships.

Marcello: In other words, bringing these people together and conveying a sense of their worth and their importance and that they were going to be heard out?

Smith: And being a cog in the total wheel. Yes, I'm sure. Oh, yes, I'm sure. And this in the later years has certainly extended to the Bahrainis.

Marcello: Was this always the case with Caltex going back to 1937?

Smith: Oh, yes, it was. Back in 1937, there was only one company to work for in Bahrain, and that was Bapco. I'm sure the esprit de corps was probably the most important factor in the success of Caltex. You didn't think of it as being beyond the call of duty to work until twelve o'clock at night if there was the need to get the job done. People in the

refinery...I remember one occasion when there was a fire in the refinery; it was during the evening preceding the regular off day. Dancing was in progress on the club terrace. A large percentage of the men present rushed to their car, and drove to the refinery to offer their help--office people as well as refinery people. A great fellowship feeling. I'm sure it was the important thing at Bapco.

Marcello: Is there anything else that you would like to add to the record relative to this interview?

Smith: I think I've covered all the notes that I had here, and a lot more, too (chuckle).

Marcello: Okay. Well, on behalf of Caltex, I want to thank you very much for having participated in this very important project. I'm sure that your comments are going to be very important to the future understanding of the company.

Smith: I hope they won't be held against me--some of them.

Marcello: I don't think so (laughter).