



RESEARCH ARTICLE

The secret of September: The 1949 oil agreements between the United States and South Korea

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Abstract

After the Second World War, the US government established a new oil order, forming close ties with three major oil companies—Standard Vacuum, Shell, and California-Texas—referred to as the ‘Three Sisters’ in Korea, which was newly liberated from Japanese colonialism. Even after the South Korean government was established, the US government and the Three Sisters worked to maintain the order. Using the carrot of the Economic Cooperation Administration (ECA) funds, in 1949 the US government pressured the South Korean government into oil agreements that would facilitate the supply of petroleum products to the country. The 1949 oil agreements were completed after three rounds of negotiations. The process of signing the agreements was not limited to the import, storage, and sale of petroleum products in exchange for US aid to South Korea. It also sought to respond to the various interests of Koreans who wanted to create an independent economic structure in the midst of establishing a new government. This article explores the three rounds of negotiations for the 1949 oil agreements whereby the symbiotic relationship between the US government and the Three Sisters was realized in partnership with the interests of the South Korean government. Furthermore, it seeks to broaden the research on the history of Korean oil by promoting an understanding of how US oil policy affected Korea immediately after its liberation from Japanese colonial rule.

Keywords: US–Korea oil agreements; Korea Oil Storage Company; Three Sisters; US foreign oil policy; US liberal corporatism

Introduction

The twentieth century’s two world wars relied heavily on motorized machinery, leading to oil becoming recognized as the essential fuel for successful military operations. Moreover, oil’s increasing importance as a source of energy over the course of the twentieth century has meant that countries with better access to the world’s oil fields became global powers. This was particularly evident in the case of the United States, whose persistent endeavours to establish control over the international oil market

indubitably aided its post-war ascendancy to its current standing as an unassailable world power.¹

A notable outcome of this successful striving for hegemony over global oil was the nurturing of a close relationship between the US government and international American oil companies. This ‘symbiotic relationship’ allowed the United States to emerge as a world superpower after the Second World War. Maintaining American post-war dominance over oil was a central plank in the US government’s foreign policy, and it worked tirelessly to establish a mutually beneficial bond with oil companies both at home and abroad.²

The symbiotic relationship between the US government and the oil companies was also reflected in US foreign aid policy immediately after the Second World War. An example of this is found in the way American national security interests were aligned with oil companies’ profits in its foreign aid policy. Oil was treated as one of the most important foreign aid materials in the European Recovery Program of the United States, otherwise known as the Marshall Plan. The US government and the oil companies were able to seize control of oil markets and resources in Europe and the Middle East while pushing for the Marshall Plan.³

After the Second World War, the US government established a new oil order, forming close ties with its own oil companies in Korea, which was newly liberated from Japanese colonialism. Korea was a non-oil producing nation. With only one uncompleted oil refinery in Ulsan on the southeast coast, South Korea did not have the facilities necessary to independently produce petroleum products in the US-occupied area south of the 38th parallel. Accordingly, South Korea received petroleum products only through US military aid. Consequently, the US occupation forces brought three

¹For information about the importance of oil as a strategic material during the two world wars, refer to Daniel Yergin, *The Prize: The Epic Quest for Oil, Money and Power* (New York: Free Press, 2009), pp. 151–370.

²David S. Painter referred to the close cooperative relationship between the US government and international American oil companies as a ‘symbiotic relationship’ between the public and private sectors. David S. Painter, *Oil and the American Century: The Political Economy of U.S. Foreign Oil Policy, 1941–1954* (Baltimore: The Johns Hopkins University Press, 1986), p. 209; D. S. Painter, ‘The Marshall Plan and Oil’, *Cold War History*, vol. 9, no. 2, 2009, p. 160; D. S. Painter, ‘Oil and the American Century’, *The Journal of American History*, vol. 99, no. 1, 2012, p. 24. In addition to Painter’s research, representative studies on US foreign oil policy during the Second World War and the Cold War are as follows: Michael B. Stoff, *Oil, War, and American Security: The Search for a National Policy on Foreign Oil, 1941–1947* (New Haven: Yale University Press, 1980); Aaron David Miller, *Search for Security: Saudi Arabian Oil and American Foreign Policy* (Chapel Hill: The University of North Carolina Press, 1980); Irvine H. Anderson, *Aramco, the United States, and Saudi Arabia: A Study of the Dynamics of Foreign Oil Policy, 1922–1950* (Princeton: Princeton University Press, 1981); Stephen J. Randall, *United States Foreign Oil Policy Since World War I: For Profit and Security* (Montreal: McGill-Queen’s University Press, 2005). Recent important studies on oil and modern energy history include: Toby Craig Jones, *Desert Kingdom: How Oil and Water Forged Modern Saudi Arabia* (Cambridge and London: Harvard University Press, 2010); Timothy Mitchell, *Carbon Democracy: Political Power in the Age of Oil* (London and New York: Verso, 2011); Victor Seow, *Carbon Technocracy: Energy Regimes in Modern East Asia* (Chicago and London: The University of Chicago Press, 2021). Timothy Mitchell, in particular, has offered an important perspective on the energy transition from coal to oil through his analysis of the relationship between carbon energy and modern democracy.

³Painter, ‘The Marshall Plan and Oil’, p. 159. Mitchell also discussed the Marshall Plan, particularly in the context of attaching financial assistance to commitments to imported oil over domestically available coal. Mitchell, *Carbon Democracy*, pp. 29–31.

private companies to handle the region's petroleum products—the Standard Vacuum Oil Company, Royal Dutch Shell Petroleum Company, and California Texas Oil Company (hereafter referred to as 'the Three Sisters'), which had been operating in Korea during the Japanese colonial period, but had withdrawn from Korea during the Pacific War. The Three Sisters served on the Petroleum Development Agency (PDA), an independent agency of the United States Army Military Government in Korea (USAMGIK), as well as on the Petroleum Advisory Group (PAG) of the United States Armed Forces in Korea (USAFIK). The Three Sisters were responsible for all oil-related tasks, including import, storage, and distribution of the petroleum products used by the Korean civilian sector throughout the US military government period (8 September 1945 to 15 August 1948).

Even after the new South Korean government was established on 15 August 1948, the US government sought to maintain the structure established by the Three Sisters. The Three Sisters regained ownership of the properties they had previously held during the Japanese colonial period through the Initial Financial and Property Settlement (the Initial Settlement) between the governments of the United States and the Republic of Korea, signed on 11 September 1948. Acting on the Marshall Plan, which was administered by the Economic Cooperation Association (ECA), the two governments signed the Agreement on Aid (Aid Agreement) between the South Korean government and the United States on 10 December 1948. Separately from the Aid Agreement, using the carrot of the ECA funds, in 1949 the US government pressured the South Korean government into oil agreements to facilitate the supply of petroleum products to the country.⁴

In total, six oil agreements were signed in 1949, all of which were completed in three rounds of negotiations (for a timetable of the agreements, see [Table 1](#)). The first agreement was the 'Operating Agreement' signed between the Republic of Korea, the United States, and the Korea Oil Storage Company (KOSCO), which operated from January to June 1949. The second was the 'Extension Agreement', which extended the Operating Agreement. The last agreements were those between the Republic of Korea and KOSCO (Lease Agreement), including 'the License Agreement from [the] Korean Government to Each Oil Company' (License Agreement), 'The Consignment Agreement Covering Oil of [the] Korean Government on Hand June 30, 1949' (Consignment Agreement), and 'the Agreement with respect to Foreign Exchange between the Republic of Korea and each Oil Company operating in Korea' (Foreign Exchange Agreement). These last four agreements were signed on 13 September 1949 and were subsequently replaced with the 'Interim Agreement' shortly after the outbreak of the Korean War in 1950.

What is also noteworthy about the 1949 oil agreements is that a private oil company—KOSCO—participated directly in all the negotiation proceedings. KOSCO was a joint stock company founded by the Three Sisters under Delaware state law with the specific purpose of signing the oil agreements with Korea. After the Operating Agreement was signed in January 1949, KOSCO exercised exclusive authority over the operation of Korean oil, becoming responsible for the import, storage, and distribution

⁴For the process that led to the signing of the 1949 oil agreements, see Ohsoo Kwon, 'Machinations from on High: The U.S. Aid Plan and Oil in South Korea', *Diplomatic History*, vol. 46, no. 1, 2022. For the relationship between the Marshall Plan and the Aid Agreement, see Harry Bayard Price, *The Marshall Plan and Its Meaning* (Ithaca: Cornell University Press, 1955), pp. 179–200.

Table 1: 1949 oil agreements in South Korea.

Jan. to Jun. 1949	Jul. to Sep. 1949	Sep. 1949 to Nov. 1950
Operating Agreement	Extension Agreement	Lease Agreement License Agreement Consignment Agreement Foreign Exchange Agreement

of petroleum products—which were financed by US aid—on behalf of the South Korean government. The Three Sisters took exclusive control of the Korean oil market through the oil agreements in September 1949. Although each of the Three Sisters withdrew either to Japan or to their home countries at the outbreak of the Korean War, KOSCO prevailed once again after the Armistice was signed. This state of affairs continued until the South Korean government's state-owned enterprise Korean Oil Corporation (KOCO) was established in early 1962 in line with the heavy industry-centred investment planning established by the junta in 1961, which aimed to decrease Korean dependence on developed countries; it was further consolidated with the building of South Korea's first oil refinery in Ulsan in 1964.⁵ Until then, South Korea had only been able to receive petroleum products through aid from the US government. In other words, the 1949 oil agreements conformed precisely with US foreign aid policy, the purpose of which was to ensure US interests and to reflect the symbiotic relationship between the US government and American oil companies around the world.⁶

The details of the 1949 oil agreements are not, as yet, well known. In particular, the full text of the Extension Agreement and the September oil agreements were never publicly disclosed, but rather merely mentioned *en passant*. For instance, some Korean newspapers did report on the agreements as part of their daily government briefings but not as headline news. This gave rise to a general feeling among the Korean people that secrecy pervaded these agreements, so much so that Sangtae Jin, who was granted permission by Standard Vacuum in September 1949 to be an oil distributor in the Gyeongbuk region, referred to the agreements the 'secret of September'.⁷ Until now, the 1949 oil agreements have been overlooked in research related to US aid to Korea as well as that related to Korean oil history. Only one study has researched the mechanism underpinning the symbiotic relationship between the US government and the Three

⁵Under pressure from the US government, in 1964 the plan was modified to focus on export-oriented industrialization. For changes in South Korea's economic development plans in the late 1950s and early 1960s, see Tae-Gyun Park, 'Different Roads, Common Destination: Economic Discourses in South Korea during the 1950s', *Modern Asian Studies*, vol. 39, no. 3, 2005; Tae-Gyun Park, *Wonhyeong kwa Byeonyong: Hankuk Kyeongje Kaebal Kyehok ui Kiwon [Archetype and Metamorphosis: The Origin of Korea's Economic Development Plans]* (Seoul: Seoul Daehakkyo Chulpanbe, 2007).

⁶Meanwhile, it is noteworthy that Eric G. Dinmore's analysis of the long-standing oil relationship between Japan and Indonesia placed particular emphasis on the central role that Japan played in the development of the Indonesian petroleum industry during the Cold War. Eric G. Dinmore, 'The Hydrocarbon Ring: Indonesian Fossil Fuel, Japanese "Cooperation," and US Cold War Order in Asia', in *Engineering Asia: Technology, Colonial Development and the Cold War Order*, (eds) Hiromi Mizuno, Aaron S. Moore and John Dimoia (London: Bloomsbury Academic, 2018), pp. 113–136.

⁷Sangtae Jin, *Seokyu Insaeng Bansaegi [Oil Life for Half Century]* (Seoul: Youngin, 2001), pp. 20–21.

Sisters while analysing the process that led to the signing of the 1949 oil agreements;⁸ however, it did not specifically analyse the signing of the 1949 oil agreements.

The process by which the 1949 oil agreements were concluded was not limited to improving the import, storage, and distribution of petroleum products as part of US aid to Korea. It also tried to encompass the complex and wide-ranging issues and interests of all the parties involved, in which the interests of the US government, the Three Sisters, and the South Korean government somehow had to coincide with South Korea's desire to become an independent country. In the midst of significant changes, such as the establishment of a newly elected South Korean government and the avowed withdrawal of US forces from Korea, the US government sought to maintain political, economic, and security interests on the southern part of the peninsula through the 1949 oil agreements. To compound these difficulties, the Three Sisters wanted the two governments to guarantee stable, long-term profits, while the South Korean government sought to ensure continued assistance from the US government to bolster the political and economic stability of its new regime. This article seeks to shed light on the 'secret of September' by analysing the process through which these three parties' positions were paradoxically in conflict with one another while also inextricably bound together.

Therefore, this article details the three rounds of negotiations that led to the 1949 oil agreements whereby the symbiotic relationship between the US government and the Three Sisters was realized in partnership with the interests of the South Korean government. In doing so, this article asserts that public-private cooperation formed the essence of US foreign oil policy, which was applied in Korea after the establishment of the South Korean government. It also argues that the 1949 oil agreements were the result of self-interested collusion between the US government, the Three Sisters, and the South Korean government, which ran contrary to the nationalist demands of the Korean people. Finally, by bringing to the fore the pro-business nature inherent in US aid policy, this article provides a basis for understanding the nature of US aid

⁸Kwon, 'Machinations from on High'. For information about the Korean petroleum industry, refer to Fariborz Ghadar, *The Petroleum Industry in Oil-Importing Developing Countries* (Toronto: Lexington Books, 1983), pp. 155–181; Dong-Wook Kim, 'Enterprises in the Liberated Korea, A Study on the Disposing Process of the Vested', *The Kyung Je Sa Hak [Review of Economic History]*, vol. 13, 1989; Dong-Wan Gimm and Min-Ho Kim, 'Political Geography of Ulsan Oil Refinery', *Daehan jili Hakhoeji [Journal of the Korean Geographical Society]*, vol. 49, no. 2, 2014; Yeong-Seop Yeo, *Seokyu 135 Nyeon, Yi Tang eseoui Kilok [135 Years of Oil Records on This Land]* (Seoul: Jisik Kwa Kamseong, 2015); Kyeongsang Kwak, 'Post-Colonial Reorganization of the Oil Market in South Korea and the Refinery Factory Plan at Ulsan', *The Dong Bang Hak Chi [The Journal of Korean Studies]*, vol. 176, 2016; Ohsoo Kwon, 'American Oil Policy and "Three Sisters" in Korea during the U.S. Military Occupation Period', *The Korean Journal of American History*, vol. 47, 2018; O. Kwon, 'U.S. Oil Policy and Agreements in Korea, 1945–1949', PhD thesis, Dongguk University, 2020; O. Kwon, 'U.S. Military Oil Operation and PDA in Korea, 1945–1948', *Yeoksa wa Kyoyuk [The History Education Review]*, vol. 33, 2021. For information about US aid policy to Korea after the establishment of the Korean government, refer to Price, *The Marshall Plan*, pp. 179–200, pp. 367–393; Sung-You Hong, *Hankuk Gyeongje wa Mikuk Wonjo [The Korean Economy and US Aid]* (Seoul: Parkyoungsa, 1962); Jeom Sook Kim, 'Supply and Demand Policy for Commodities Between 1946 and 1950 in South Korea', PhD thesis, Ewha Womans University, 2000; Tae-Gyun Park, *Ubang kwa Jekuk: Han Mi Kwankye ui Du Sinhwa [Allies and Empire: Two Myths about US-Korea Relations]* (Seoul: Changbi Publishers, 2006); Hyun-Jin Lee, *Mikuk ui Daehan Gyeongje Wonjo Jeongchaek 1948–1960 [US Economic Aid Policy toward Korea 1948–1960]* (Seoul: Hyeon, 2009).

towards Korea after Liberation, an understanding that reaches beyond the limitations of existing research which is confined mainly to government-to-government relations.

An encoded oil plan

After the establishment of the Korean government, the US government and the Three Sisters originally planned to sign the Lease Agreement in preparation for the withdrawal of US occupation forces. However, the Operating Agreement was signed first. This section details the process of the signing of this, the first of the 1949 oil agreements.

After Liberation in 1945, most of the Korean Peninsula's energy infrastructure was located north of the 38th parallel, which was occupied by the Soviet Army.⁹ More than 90 per cent of the coal, which accounted for 80 per cent of Korea's energy requirements at the time, was produced in the North.¹⁰ Additionally, more than 90 per cent of the electric power plants were located in the North. Further, the Wonsan Refinery in the North produced the only petroleum products on the peninsula. USAFIK was self-sufficient in coal in the occupied areas and it continued to purchase surplus electricity from the North until it was cut off in 1948. Meanwhile, all petroleum products used in South Korea were supplied by the US military stationed in Japan under the control of the Supreme Commander for the Allied Powers (SCAP).¹¹

USAFIK established the Petroleum Development Agency (PDA) in December 1945. It was responsible for importing, storing, and distributing petroleum products throughout the period of the US military government. USAFIK granted Koreans the right to operate the Chosen Petroleum Company and Chosen Petroleum Distributing Company, which had been established by the Japanese Government-General of Korea during the colonial period. However, the companies' duties were limited to managing their own facilities. The people of South Korea wanted to build the Ulsan Refinery and produce their own petroleum products with help from the US military. However, USAFIK did not

⁹During the Japanese colonial period, most large-scale infrastructure was built in the northern part of the Korean Peninsula, including a fertilizer plant in Hungnam on the northeast coast, the Sup'ung Dam on the Yalu River between Korea and Manchukuo, and an oil refinery in Wonsan on the northeast coast. For more details about infrastructure construction in Korea during the Japanese colonial period, see Soo Youl Huh, *Gaebal eopneun Gaebal: Ilje ha Chosun Kyeongje Gaebal ui Hyeonsang kwa Bonjil [Development without Development: Status Quo and Fact of Korean Economic Development under Japanese Colonial Rule]* (Seoul: Eunhaengnamu, 2005); Aaron Stephen Moore, *Constructing East Asia: Technology, Ideology, and Empire in Japan's Wartime Era, 1931-1945* (Stanford: Stanford University Press, 2013).

¹⁰Coal continued to provide a large portion of South Korea's energy until the late 1960s, when the Korean government switched to oil. For details about the South Korean energy transition from coal to oil, see Ohsoo Kwon, 'Korean Electric Power Industry and American Oil Companies during 2nd 5-Year Economic Development Plan, 1967-71', *Dongguk Sahak [The Dongguk Historical Society]*, vol. 65, 2018, pp. 146-148.

¹¹Seung-Joo Ryu, 'A Study on Negotiations for Electricity Transmission between South Korea and North Korea, 1946-1948', *Uksa Wa Hynsil [Quarterly Review of Korean History]*, vol. 40, 2001. Chaisung Lim, 'The Postwar Energy Crisis and Development of Korean Coal Industry Policy in the Second Half of the 1940s', *Asea Yeongu [The Journal of Asiatic Studies]*, vol. 51, no. 4, 2008. Kwon, 'Machinations from on High', pp. 178-180.

comply with the aspirations of the people, but rather sought to facilitate and maintain private American oil companies' dominance in the region.¹²

The plan put in place by the Far East Command (FECOM) and USAFIK to anticipate the withdrawal of US occupation forces in Korea did not include agreements for any future oil alliance between the United States and South Korea.¹³ USAFIK planned to cover this eventuality by persuading a private oil company to send skilled employees to operate oil-related facilities, with their salaries to be paid by the South Korean government. The rationale presented for this plan was to prevent oil-induced fires. It was asserted that the risk of fire would significantly affect the aid plan while also imperilling the transfer of oil operations to South Korea. In short, if an oil-induced fire were to occur, South Korea's abilities to handle hazardous materials would be seriously called into question. Harry Martin, who arrived in South Korea immediately after Liberation, as PDA director and a member of the PAG, stated that '[most] Koreans ... had no knowledge of the oil business'. When negotiating the Operating Agreement, General Charles G. Helmick, a US chief negotiator, explained the necessity of signing the Operating Agreement, pointing out that 'there had been no Korean activities which had participated in the handling of petroleum'.¹⁴ Meanwhile, the Three Sisters proposed a plan to take over the oil facilities that they had owned during the Japanese colonial era and to jointly operate all oil facilities. This would be achieved by signing a 'lease' directly with the South Korean government. In addition, they envisioned that the sum of all petroleum products brought to Korea through US aid would be imported, handled, distributed, and sold—at an appropriate profit, of course—by the Three Sisters.¹⁵

Washington almost accepted the Three Sisters' proposal. The basic principle of Korean oil operations, which was to be established after the withdrawal of US occupation forces and then agreed upon by the US Department of the Army, the US Department of State, and the ECA, was to ensure that the oil companies were guaranteed a 'competent' operation in Korea during the period covered by the Aid Agreement. To this end, they decided to sign 'new arrangements' based on a 'loan' or 'lease'

¹²Kwon, 'Machinations from on High', pp. 177–178. The US military chose not to complete the Ulsan refinery for two reasons: to prevent military mobilization by Japan and to secure markets for US oil companies in Southeast Asia. For more information on US oil policy in Japan and oil connections between the United States, Japan, and Korea immediately after the Second World War, see Kwon, 'U.S. Oil Policy and Agreements in Korea, 1945–1949', pp. 37–40; Kwon, 'Machinations from on High', p. 180.

¹³Planning Document on Korea as Agreed to by Commander in Chief Far East and Commanding General, United States Army Forces in Korea, 14 July 1948', Entry CDF 1945–49, Box 3820, Record Group 59: General Records of the Department of State (hereafter RG 59), National Archives and Records Administration, College Park, MD, U.S. (hereafter NARA).

¹⁴'Interview with Mr. Harry Martin, Shell Oil Company, 8 December 1945', Entry A1 1256, Box 38, Record Group 554: Records of General Headquarters, Far East Command, Supreme Commander Allied Powers, and United Nations Command (hereafter RG 554), NARA. 'Minutes Prepared by United States Negotiating Committee, First Meeting, 21 December 1948', Entry 2849, Box 1, Record Group 84: Records of the Foreign Service Posts of the Department of State (hereafter RG 84), NARA.

¹⁵'COMGENUSAFIK to Dept of Army for CSCAD, 17 August 1948' and 'COMGENUSAFIK to CSCAD Dept of Army, 13 September 1948', Entry UD 237, Box 70, Record Group 469: Records of U.S. Foreign Assistance Agencies (hereafter RG 469), NARA; 'Conference Regarding Pol Distribution in Korea, 11 October 1948', Entry UD 44544, Box 8, Record Group 338: Records of U.S. Army Operational, Tactical, and Support Organizations (World War II and Thereafter), NARA.

between the South Korean government and private oil companies.¹⁶ These actions by Washington actively reflected the basic principle behind US foreign aid policy, which was 'to facilitate and maximize the use of private channels of trade'.¹⁷ An essential part of the US government's aid plan for South Korea required the cooperation of private oil companies to continuously supply and securely manage petroleum products in the country. In South Korea the private economy and trade had completely collapsed after colonial liberation, which meant that the US government was unable to apply aid policies that were reliant on normal private trade networks. However, in the case of oil, the US government actively used US private companies because they were already operating oil facilities in Korea. The US government's actions were also implemented as a means for preserving the property and trade rights of the Three Sisters, which owned about 50 per cent of Korean oil facilities before the Pacific War.¹⁸

The intention of the Aid Agreement was to transfer the responsibility for aid to Korea from the US Department of the Army to the ECA after 1 January 1949. However, the US government needed to ensure that the ECA aid funds to Korea would be paid from 1 July 1949, in line with the fiscal year 1950.¹⁹ Accordingly, Washington decided to sign the two agreements sequentially. The first agreement was a 'service contract' (Operating Agreement) between South Korea, the United States, and the Three Sisters, ensuring that the oil companies would handle government-controlled petroleum products during the 'interim period' up to 30 June 1949. The second agreement was a 'lease' (Lease Agreement) between the South Korean government and the Three Sisters, ensuring again that the companies would handle government-controlled petroleum products for the 'duration of [the] aid agreement', which would come into effect on 1 July 1949. Under the proviso that the two agreements were negotiated simultaneously with the South Korean government, the US Office of the Quartermaster General (OQMG) and the Three Sisters prepared two drafts of the agreement.²⁰

After agreeing to the deal with South Korea, the US government added the following line to Article 3, Clause 3, in the draft of the Aid Agreement: 'effectuate such mutually acceptable arrangements' with the South Korean government. Based on this, the US government officially declared that a separate consultation for oil operations would be conducted in the fourth set of negotiations on 14 October 1948. General Charles G. Helmick, the US negotiating representative, stated that due to a global shortage, petroleum products could not be purchased on the 'open market' and needed to be treated very carefully due to the risk of fire or explosion. Accordingly, unlike other aid supplies, oil products would be subject to separate negotiations. However, Helmick

¹⁶'FAOA to COMGENUSAFIK, 16 September 1948', Entry UD 237, Box 70, RG 469, NARA.

¹⁷*United States Statutes at Large*, Vol. 62, Part 1 (Washington DC: United States Government Printing Office, 1949), pp. 137–159.

¹⁸'COMGENUSAFIK to CSCAD Dept of Army, 13 September 1948'; 'Conference Regarding Pol Distribution in Korea, 11 October 1948'.

¹⁹'Minutes Prepared by United States Negotiating Committee, First Meeting, 4 October 1948', Entry 2849, Box 2, RG 84, NARA. 'Minutes, First Meeting, 21 December 1948'.

²⁰'FAOA to COMGENUSAFIK, 16 September 1948'; 'Memorandum: Colonel T. Scott Riggs, Civil Affairs Division, Department of the Army to Alden K. Boyd, Acting Director of Administration, ECA September 30, 1948', Entry UD 237, Box 70, RG 469, NARA; 'Supplemental History of the Petroleum Branch, G-4 Section, 1 July 1948–15 November 1948', Entry A1 1256, Box 54, RG 554, NARA.

made no mention of either the Operating Agreement or the Lease Agreement, which the US government and the Three Sisters were preparing. Surprisingly, the South Korean negotiators did not ask many questions; they confirmed that the talks were only about petroleum products.²¹

The US government took a very careful approach to signing the oil agreements. At the time, the Korean public was largely against allowing foreign companies to do business in their country. In the case of the oil industry, Koreans wanted to produce petroleum products by themselves and had already tried to complete the unfinished Ulsan Refinery during the Japanese colonial period. Although they saw US aid as a boon to establishing a self-sustaining economy, their main reservation was that Korea's economic sovereignty would be violated if foreign companies were permitted to do business in the country. Sunju Choi, the governor of Chosen Bank (later the Bank of Korea), said, 'The issue of admitting foreigners' business activity rights is undeniable in principle, but it will be a matter of how much the limits will be set in terms of specific operations.' He also advised that 'Korea should take the initiative'.²² Even when the Aid Agreement was ratified by the National Assembly of the Republic of Korea, the issue was often controversial, producing difficult emotions on both sides. At the Assembly's 121st plenary session held on 11 December 1948, assemblyman Gusu Lee (independent) poignantly lamented, 'The fact that foreigners will be granted all rights for commercial activities in our country means that we will not be able to last as an independent country.'²³

The issue of foreign companies' business in Korea was hotly debated during the Aid Agreement negotiations. Prior to this, US negotiators expressed concern over the issue of reciprocity, particularly noting that the draft of the Aid Agreement only provided for foreign private investments and economic activities in Korea. In this regard, Ernst Fraenkel, a member of the ECA legal counsel, and Paul Sturm, a member of the USAMGIK legal counsel, pointed out that 'at the moment at which the problem of reciprocity is mentioned, the Korean negotiators will open a general discussion on the status of Korean nationals in the United States; such a discussion may delay the signing of the Economic Aid Agreement for a considerable period'. Furthermore, Fraenkel and Sturm suggested that such provisions should 'be eliminated'.²⁴

The South Korean negotiators, however, were not unconditionally opposed to US business involvement in the country. Indeed, they generally agreed with the principle of using US foreign aid to encourage foreign investment and trade. However, they insisted on including basic 'safeguards' in the text of the agreement, not least because Korea was in no position to formulate a normal international trade structure, given its dire economic situation. To this end, the Korean negotiators wished to insert the provisional phrase 'subject to such restrictions as are prescribed in the Constitution and Laws of South Korea' or 'subject to such controls as are needed for the protection of

²¹'Minutes Prepared by the United States Negotiating Committee Economic Aid Agreement-Tab E, 14 October 1948', Entry 2849, Box 2, RG 84, NARA.

²²'Han Mi Kyeongwon Hoedam e Kukmin ui Yomang eul Deudja [Let's Listen to the Public Demand for the Aid Agreement]', *The Kyung Hyang Shin Mun* [*The Kyung Hyang Newspaper*], 17 October 1948.

²³*Kukhoi Sokkirok* [*National Assembly Minutes (South Korea)*], 11 December 1948.

²⁴'Memorandum [by Ernst Fraenkel and Paul Sturm]', Entry 2849, Box 1, RG 84, NARA.

the basic interests and rights of the Korean people'.²⁵ The reason the Korean negotiators needed these safeguards was to pre-empt negative reactions by the Korean people to the Aid Agreement. The Korean negotiators believed that if the commercial activities of US companies were directly guaranteed through the Aid Agreement, the people would object considerably more than they had already.²⁶

Reciprocity was raised as a substantial issue in the Aid Agreement negotiations awaiting ratification by the National Assembly. At the Assembly's 128th plenary session on 13 December 1948, assemblyman Taehui Kwon stated, 'Despite this condition (Aid Agreement) that foreigners can enter our land and engage in private investment or foreign trade, why can't Koreans do business in the United States which signed this law?' Yunho Hwang criticized the signing of the Aid Agreement, comparing it to the Japan-Korea Treaty of 1905. However, the minister of finance, Doyun Kim, focused on a single problem, saying, 'Even if we go to the United States as Koreans and do economic actions, and we Koreans, I believe, could do it generously to the extent that the U.S. law permits'; he did not, however, explain what he meant by this. Eventually, the Aid Agreement was ratified and passed quickly, in just two meetings, by the Assembly on the pretext that the US Congress's schedule required this expediency.²⁷

What worried the South Korean and the US governments most in the Initial Settlement and Aid Agreement negotiations was that any domestic backlash could be used by communists and anti-government groups which were only too eager to spread anti-American and anti-government sentiment.²⁸ In particular, since the Three Sisters had been tasked with oil-related work on behalf of USAMGIK, with Koreans completely excluded from the industry after Liberation, there was significant domestic criticism against the Three Sisters' activities in Korea. Koreans were willing to complete the Ulsan Refinery and produce and sell petroleum products themselves, but they thought they needed help from the US military to accomplish this. Even after the establishment of the South Korean government, the commitment to having self-sustaining oil operations continued. Finally, opposition to foreign oil companies was predicated on the tenet that establishing an independent economy is the cornerstone of an autonomous country.²⁹

USAFIK feared that the South Korean government would not accept the Lease Agreement due to internal opposition, and therefore proposed that the Three Sisters

²⁵For information on this issue, refer to the third, tenth, and eleventh minutes of the meetings of the Aid Agreement prepared by the United States. 'Minutes Prepared by the United States Negotiating Committee Economic Aid Agreement, Third Meeting, 13 October 1948', 'Minutes, Tenth Meeting, 1 November 1948', 'Minutes, Eleventh Meeting, 2 November 1948', Entry 2849, Box 2, RG 84, NARA.

²⁶*Kukhoi Sokkirok*, 18 September 1948.

²⁷*Ibid.*, 13 December 1948.

²⁸'Minutes Prepared by the United States Negotiating Committee, Proposed Initial Financial and Property Settlement Between the Government of the United States of America and the Government of the Republic of Korea, Fourth Meeting, 20 August 1948', Entry 2849, Box 1, RG 84, NARA. 'Memorandum'.

²⁹Saseol: Kyeongje Wonjo wa Han Mi hoedam [Editorial: Economic Aid and S. Korea-US Talks], *The Jayu shinmun* [*The Korean Free Press*], 10 October 1948; 'Saseol: Kyeongje Wonjo wa Uli ui Yogu [Editorial: Economic Aid and Our Demands]', *The Seoul Shinmun* [*The Seoul Newspaper*], 15 October 1948; 'Han Mi Kyeongwon Hoedam e Kukmin ui Yomang eul Deudja [Let's Listen to the Public Demand for the Aid Agreement]', *The Kyung Hyang Shin Mun*, 17 October 1948. For information on the Three Sisters' entry and activities in Korea during the US Military Government, refer to Kwon, 'American Oil Policy', pp. 217–228.

should sign a 'contract in lieu of lease'.³⁰ Although the Three Sisters agreed to minor amendments to clarify some of the wording in the Lease Agreement, they opposed the rewriting of the latter and rejected USAFIK's proposal.³¹ In addition, the Three Sisters announced that from 1 July 1949 onwards they would—through their own independent offices—pull petroleum products from the KOSCO and sell them under the umbrella of sales organizations owned by each of the Three Sisters companies.³²

In this situation, the Assembly unanimously passed 'the Recommendation on Petroleum Refining and Control', which focused on the nationalization of oil; it, in turn, pressured the Three Sisters, the US government, and the South Korean government, all of whom were promoting foreign oil companies' activities in Korea.³³ Right after the recommendation was passed, John J. Muccio, the special representative of President Truman, decided that it was not the right time to ask the South Korean government to negotiate the Lease Agreement. Accordingly, he advised Dean Gooderham Acheson, secretary of state, to negotiate only the Operating Agreement immediately after signing the Aid Agreement. He also proposed investigating what kind of oil agreements would be more advantageous during the Operating Agreement period.³⁴ The Three Sisters agreed to postpone the Lease Agreement negotiations. Accordingly, having been initially scheduled to be held at the same time as the Operating Agreement negotiations, they were postponed.³⁵

Negotiations to conclude the Operating Agreement were held on 21–22 December 1948. The draft agreement, consisting of 24 provisions, was ostensibly encoded to efficiently store and distribute petroleum products in Korea in accordance with the Aid Agreement.³⁶ However, the Agreement's decoded purpose was for the US government and the Three Sisters to gain control over Korean oil. During the negotiations, the US side led a meeting to conclude an agreement in favour of themselves and the Three Sisters. Although the Korean negotiators made keen objections vis-à-vis the protection of Korea's sovereignty, only a few minor amendments were reflected in the final agreement.³⁷

On 4 January 1949, the Operating Agreement was signed between the South Korean government, the US government, and KOSCO. Through KOSCO, the Three Sisters were granted considerable power and authority to operate all oil facilities in South Korea.

³⁰Dr. Paul Sturm, Denny F. Scott to General Helmick, 2 December 48', Entry 2849, Box 2, RG 84, NARA.

³¹KOSCO, Seoul to Commanding General, CIVIL AFFAIRS SECTION, HQ, USAFIK, 7 December 1948', Entry 2849, Box 2, RG 84, NARA.

³²California Texas Oil Co., C. D. Brown, Standard-Vacuum Oil co. D. G. Sanborn, Shell Petroleum Co., Ltd N. F. Webb to the Commanding General, Civil Affairs Section, HQ, USAFIK, 8 December 1948', Entry 2849, Box 2, RG 84, NARA.

³³*Kukhoi Sokkirok*, 4 December 1948.

³⁴Muccio, Seoul to Secretary of State, 10 December 1948', Entry UD237, Box 70, RG 469, NARA.

³⁵COMGENUSAFIK, Seoul, Korea to Dept of Army for Armed Services Petroleum Purchasing Agency Pass to Kavanaugh CALTEX Washington for KOSCO, 13 December 1948', Entry UD237, Box 70, RG 469, NARA.

³⁶The oil facilities transferred to the South Korean government through the Operating Agreement were nine large storage areas, including the Pusan petroleum terminal, Wangsimri petroleum terminal, and Incheon petroleum terminal as well as 25 small storage areas scattered across the country. 'Agreement between The Republic of Korea the United States of America and Korea Oil Storage Company—Appendix A', Entry 2849, Box 1, RG 84, NARA.

³⁷Minutes, First Meeting, 21 December 1948'; 'Minutes Prepared by United States Negotiating Committee, Second Meeting, 22 December 1948', Entry 2849, Box 1, RG 84, NARA.

In maintaining the oil facilities owned by the South Korean government, authority to make decisions was left entirely to the arbitrary decisions of KOSCO (Article 4). However, immunity was granted in almost all parts of the oil facilities' operations unless 'willful misconduct' or 'lack of good faith' by oil company personnel could be proven (Articles 7, 11, 13, 16). No solution was put forward to make amends for losses incurred by labour disputes—strikes that were, incidentally, largely caused by the unscrupulous actions of oil companies (Article 17). KOSCO also secured a mandate to participate directly in Korea's oil operations (Article 7). Moreover, it was granted the authority to intervene in the pricing of petroleum products.³⁸

This agreement legally guaranteed the Three Sisters the long-term running of South Korean oil operations. The agreement stated, 'it is the intention of the Government and the Contractor [KOSCO] to enter into a lease of the Facilities subject to this Contract', a condition which stipulated that a Lease Agreement would be concluded in the future (Article 2(b)). Although it contained the premise 'for a period conterminous with the aid program of the United States Economic Cooperation Administration', it was nothing more than subterfuge on behalf of the US government to offset an international and Korean backlash over its intentions to allow private companies to inveigle their way into using aid funds for profit.³⁹ Through the Operating Agreement, the US government also acquired absolute authority to use the petroleum products supplied to Korea. The US government, 'at all times' had a 'right to request' that the South Korean government provide it with access to the petroleum products supplied through US aid; indeed, this right to request took 'priority over all other requirements of petroleum products' (Article 6).

The Operating Agreement was a six-month temporary agreement. However, it laid the foundation for the US government and the Three Sisters to exercise significant authority over oil operations in South Korea. Also, the process of signing the Operating Agreement showed the development of a symbiotic relationship between US government and the Three Sisters in Korea, and their collusion against the South Korean position on oil operations in the country. This structure was then continued throughout the negotiations over and the signing of all future oil agreements, including the Lease Agreement.

The signing of the transitory agreement

Immediately after the Operating Agreement was signed on 4 January 1949, the ECA and Korean representatives of the Three Sisters began discussions to negotiate the Lease Agreement. Instead of the Lease Agreement, however, the Extension Agreement was signed to extend the Operating Agreement. This section analyses the process of the signing of the Extension Agreement, the second 1949 oil agreement.

After the signing of the Operating Agreement, the ECA was aware that it was not yet propitious to negotiate the Lease Agreement due to Koreans' opposition to foreign companies' business activities in Korea.⁴⁰ However, since the deadline for the

³⁸'Minutes, First Meeting, 21 December 1948'; 'Minutes, Second Meeting, 22 December 1948'.

³⁹'Minutes, First Meeting, 21 December 1948'.

⁴⁰'Muccio to ECA Administrator, 7 January 1949', 'Biddle to ECA Administrator, 14 January 1949', Entry UD 237, Box 70, RG 469, NARA.

Operating Agreement was 30 June 1949, the ECA needed the Korean government and the Three Sisters to sign a new agreement as soon as possible.⁴¹

The Three Sisters' original plans for Korean oil operations after 1 July 1949 were not limited to the Lease Agreement. They envisioned an oil distribution network whereby each oil company would individually sell petroleum products in South Korea. In the plan, KOSCO was simply a distributing agent of the Three Sisters—that is, it was responsible only for receipt, storage, and delivery of petroleum products.⁴² To realize this, the Three Sisters requested, together with the Lease Agreement, the following three legal guarantees: 1) a South Korean government 'licence' regarding the sale of petroleum products by each oil company, 2) the acquisition of South Korean government-owned stock by KOSCO through 'consignment', and 3) the 'allocation' of 'foreign exchange' to recover the dollar costs incurred by the oil companies' sales. The Three Sisters made it clear that KOSCO would not sign the Lease Agreement if these three issues were not satisfactorily resolved.⁴³ It might be said that the Three Sisters' agreement to postpone the negotiation of the Lease Agreement was in fact due to the need to have more time to prepare an agreement that would legally secure their business activities in Korea.

The ECA agreed to negotiate the aforementioned issues with the South Korean government. At the same time, the ECA and the Three Sisters busied themselves with drafting the individual agreements mentioned earlier (that is, the License Agreement, the Consignment Agreement, and the Foreign Exchange Agreement).⁴⁴ However, drafting the agreements was not easy and was significantly delayed due to several issues: 1) how licences were obtained from the South Korean government, 2) how the petroleum products inventory process worked, 3) how the method of reimbursement for transportation insurance by oil companies was realized, and 4) how the terms and methods of payment by oil companies were actuated in Korean won (the Korean currency).⁴⁵

Amid the delays in negotiating the Lease Agreement and other agreements, the US government came under pressure from both the South Korean government and the oil companies to reach an agreement soon. Even after signing the Operating Agreement, there was a consensus among the relevant Korean authorities that the South Korean government would be charged with leading the oil operations. However, various members of the government differed in their opinions as to what the distribution system should look like. The Ministry of Commerce and Industry, dominated by liberal economists, argued that they would bring oil directly from private oil companies and distribute it to oil sellers under designated supervision. The mainly right-wing liberal economists sought to operate the South Korean economy from a capitalist perspective and devised a government-led policy to nurture capitalist enterprises.

⁴¹Department of the Army to COMGENUSAFIK, 7 January 1949', Entry UD 237, Box 70, RG 469, NARA.

⁴²Dr. Paul Sturm, Denny F. Scott to General Helmick, 2 December 1948', Entry 2849, Box 2, RG 84, NARA.

⁴³Dept of Army OQMG Sup Div to COMGENUSAFIK, 17 December 1948', Entry UD 237, Box 70, RG 469, NARA.

⁴⁴Bunce to ECA Administrator, 8 February 1949', 'COMGENUSAIAK Seoul Korea from KOSCO sgd Schmitt to Dept of Army OQMG, 11 February 1949', Entry UD 237, Box 70, RG 469, NARA.

⁴⁵COMGENUSAIAK Seoul Korea from KOSCO sgd Schmitt to Dept of Army OQMG, 11 February 1949'; 'OQMG to COMGENUSAFIK, 24 February 1949', 'OQMG to COMGENUSAFIK, 29 March 1949', Entry UD 237, Box 70, RG 469, NARA.

Meanwhile, the Planning Board, dominated by planning economists, insisted on establishing the *Daehan seokyu hoisa* [Korean National Oil Corporation] which would have full authority over oil distribution. These planning economists, who were mainly centrists, opposed a system in which power was monopolized by one class and they sought instead to create a system in which there were trade-offs between capitalism and socialism. Meanwhile, KOSCO insisted that the oil dealers who had operated under the control of the PDA during the US military government should continue to handle oil distribution.⁴⁶ After all was said and done, on 4 February 1949, the South Korean government issued provisional oil distribution guidelines that followed the ones used by the US military government, but without reaching an agreement between the relevant authorities.

As a result, the oil distribution system and organization, which had been implemented during the US military government, was maintained,⁴⁷ and, because of the demand to quickly establish a stable oil distribution system, the South Korean government was under pressure to conclude the negotiations as soon as possible. On 25 February 1949, Arthur C. Bunce, the chief of the ECA Mission to Korea, said, 'The Korean government indicates readiness [to] discuss' and conveyed these glad tidings to Paul G. Hoffman, the ECA administrator. In response, Hoffman wrote, 'Expect [to] cable you final decisions within week' and called for an immediate agreement and action between the ECA and the Three Sisters.⁴⁸ Meanwhile, in April 1949, President Rhee called on Muccio to request the continued presence of US forces in South Korea, not only for the security of the country but also for the security of the United States. In addition, he expressed his wish for 'some kind of agreement' that would guarantee South Korea's independence and protection against North Korean invasion.⁴⁹ In other words, President Rhee sought to extend the stationing of US forces in Korea, at a time when they were scheduled to imminently withdraw from the country.

For the ECA, pressure from the Three Sisters' head offices was an even bigger problem than the South Korean government. As the oil negotiations were again delayed, the Three Sisters were unable to take any action to prepare for what would happen after the Lease Agreement was signed. Under these circumstances, Shell's London head office notified the ECA that there were no plans to supply oil to Korea after 1 July 1949.⁵⁰ This was clearly a pressure tactic exerted by the powerful oil companies

⁴⁶Seokyu Baegub kigwan Munje, Kwangye Dangjuk Uigyeon daelib [Conflict of Opinions from Relevant Authorities on Oil Distribution Issues], *The Dong A Ilbo* [The Dong A Newspaper], 2 February 1949. For information about the economic policy immediately after the establishment of the South Korean government, refer to Jin-A Chung, 'Syngman Rhee Government's Economic Policies in the First Republic of Korea (1948-1960): The State-led Industrialization Policies and the Economic Development Plans', PhD thesis, Yonsei University, 2007, pp. 38-58.

⁴⁷Seokyu Baegub Yogang Imsi Jochi Gyeoljeong [Decision on Temporary Measures for Oil Distribution Guidelines], *The Dong A Ilbo*, 4 February 1949. The Bank of Korea, 'Han Mi Kyeongje Wonjo Hyeopjeong ui Silhyeonhwa: Han Mi Seokyu Hyeopjeong [Realization of the Korea-U.S. Economic Aid Agreement: Korea-U.S. Oil Agreement]', *Monthly Statistical Review*, no. 19, 1949, pp. 85-86.

⁴⁸Bunce to ECA Administrator, 25 February 1949', 'Hoffman to Seoul, 1 March 1949', Entry UD 237, Box 70, RG 469, NARA.

⁴⁹The Special Representative in Korea (Muccio) to the Secretary of State', 14 April 1949, *Foreign Relations of the United States* (hereafter *FRUS*) 1949, Vol. VII, Part 2, doc. 209.

⁵⁰Bunce to ECA Administrator, 8 March 1949', Entry UD 237, Box 70, RG 469, NARA.

on the principal actors to move forward and sign a new agreement promptly. From the oil companies' point of view, conducting business in an economically and politically unstable country like Korea offered no guarantee that they could make sufficient profits to make the risks worthwhile. Moreover, they faced significant international criticism for using US aid funds to form an exclusive cartel in Korea.

In order for the US government to receive uninterrupted petroleum products, the Lease Agreement and other agreements had to be concluded as soon as possible. To maintain political and economic stability on the peninsula, the US government, in accordance with the 22 March 1949 National Security Council report (NSC 8/2), decided to continue to provide political, economic, technical, military, and other support to Korea regardless of US troop withdrawal.⁵¹ In this situation, if it was shown that private companies were disrupting the aid plan due to a lack of cooperation, the pro-business stance implicit in US foreign aid policy would be revealed.

The uninterrupted supply of petroleum products to Korea was also highly significant in terms of the continuous supply of strategic materials. This was seen to be of paramount importance due to the unstable situation on the Korean Peninsula caused by the country's descent into civil war. On 13 April 1949, the secretary of state, Dean Gooderham Acheson, delivered an aerogram to the American Mission in Korea (AMIK) stating that 'serious trouble' was expected to occur in South Korea within 60 days due to North Korea's increasing armed forces. Meanwhile, John J. Muccio, special representative of President Truman, was closely monitoring the oil supply from the Soviet Union and Hong Kong to North Korea, and was sending a full analysis to the Department of State. On 23 April 1949, Muccio sent a telegram to the secretary of state, declaring that although there was an 'incomplete date', the 'bulk of North Korean petroleum [products were being] imported from USSR, with Wonsan refinery processing some crude'. He then noted an 'unconfirmed report' which stated that the USSR and North Korea had signed an agreement to provide 'ten thousand metric tons gasoline and six hundred metric tons oil for use [by] the North Korean Armed Forces' for 12 months from 20 May 1949. In addition, Muccio stated that according to 'reports from Hong Kong', 'three cargoes petroleum product' were being shipped from Hong Kong to North Korea in January–February 1949.⁵²

Eventually, the Lease Agreement, the License Agreement, the Consignment Agreement, and the Foreign Exchange Agreement were framed in terms originally intended by the Three Sisters.⁵³ Drafts of these agreements were prepared by the Three Sisters to accommodate their plans and were coordinated in consultation with the ECA and the Department of State. The role of the ECA and the Department of State was merely to conduct the legal review of the draft agreements.⁵⁴ The draft of the Foreign

⁵¹Report by the National Security Council to the President: Position of the United States with Respect to Korea', 22 March 1949, *FRUS 1949*, Vol. VII, Part 2, doc. 209; 'Muccio to Secretary of State, 23 April 1949', Entry UD 237, Box 70, RG 469, NARA.

⁵²'The Secretary of State to the American Mission in Korea', 13 April 1949, *FRUS 1949*, Vol. VII, Part 2, doc. 209. 'Muccio to Secretary of State, 23 April 1949', Entry UD 237, Box 70, RG 469, NARA.

⁵³Bunce, Seoul to ECA Administrator, 7 April 1949', Entry UD 237, Box 70, RG 469, NARA.

⁵⁴'To Dr. Edgar A. J. Johnson, Director, Division of Korea Program, 12 April 1949', 'Memorandum regarding draft of oil company license agreement and consignment agreement, 12 April 1949', 'Hoffman to AMREP, SEOUL, 19 April 1949', 'OQMG to COMGENUSAFIK, 22 April 1949', Entry UD 237, Box 70, RG 469, NARA.

Exchange Agreement was completed while the others were still being negotiated with the Korean government.⁵⁵

On 9 May 1949, negotiations to conclude the Lease Agreement and other agreements began between the United States and South Korea. The delegations from the South Korean government and the Three Sisters were present as ‘conferees’, while members of the US government were present as ‘observers’.⁵⁶ The ECA and the Three Sisters tried to conclude the negotiations promptly, in order to prepare for any possible opposition from the Korean conferees and to carry out their defined positions as much as possible. Shortly before negotiating, Bunce stated that the opinions of oil company representatives ‘should be strengthened’ and suggested that Schmidt, a representative of Caltex in Korea, should ‘informally’ seek help from his head office. In response, it replied that ‘no major problems should arise’ and ‘there should not be much negotiation’ because Koreans could reject the agreement.⁵⁷

However, even after the Operating Agreement was signed, those Koreans who pursued independent oil operations continued to oppose the activities of the Three Sisters in Korea. One particular area of objection was with KOSCO, the company responsible for the domestic distribution of petroleum products, which also resulted in discord among the Korean people.⁵⁸ Those who vehemently opposed the Operating Agreement denounced the oil dealers who had formed close ties with the Three Sisters as ‘fraudulent’ dealers or ‘anti-national’ profiteers, and argued that they should not be allowed to continue in the oil distribution business. The oil dealers said they had not done anything illegal. They also claimed their innocence, saying that it was something they had to do for the effective distribution of oil, especially considering the faulty nature of Korea’s current oil operating structure. The oil dealers dramatically stated that they were doing this ‘with a sense of mission’, and denounced the detractors as ‘vicious profiteering scoundrels and their henchmen’. However, in a country that keenly remembered the recent era of colonization, the position of the oil dealers was not well received.⁵⁹

What played most on the minds of the Korean oil delegates involved in negotiating the agreements was the fear of a Korean backlash arising from the Three Sisters’ monopoly. In the lead-up to the signing of the Initial Settlement and the Aid Agreement, the South Korean government suffered considerable difficulties due to foreigners’ use of property and business activities in the country. Moreover, shortly before concluding the Operating Agreement, the Assembly had unanimously declared the nationalization of oil in the country. Therefore, the oil issue was regarded by the Korean conferees as having a ‘public nature’, resulting in their opinion that the Lease Agreement and other agreements proposed by the US government and the

⁵⁵‘Hoffman to AMEMBASSY, SEOUL, 2 MAY 1949’, ‘Bunce to ECA Administrator, 6 May 1949’, Entry UD 237, Box 70, RG 469, NARA.

⁵⁶‘Bunce to ECA Administrator, 9 May 1949’, Entry UD 237, Box 70, RG 469, NARA.

⁵⁷‘Bunce to ECA Administrator, 7 May 1949’, Entry UD 237, Box 70, RG 469, NARA.

⁵⁸‘Jugan Kyeongje Jeonmang, Han Mi Seokyu Hyeopjeong [Weekly Economic Outlook, Korea-U.S. Oil Agreement]’, *The Jayu Shinmun*, 19 January 1949.

⁵⁹‘Seokyu Hyeopjeong e Yugam [Deplore for the Oil Deal]’, *The Dong A Ilbo*, 6 February 1949; ‘Seongmyeongseo [Statement]’, *The Dong A Ilbo*, 18 February 1949; ‘Seongmyeongseo [Statement]’, *The Kyung Hyang Shin Mun*, 19 February 1949; Korea Oil Association, *50 years of Oil Distribution* (Seoul: Korea Oil Association, 2006), p. 100.

Three Sisters were unacceptable. Instead, the Korean conferees envisioned a plan for the South Korean government to directly operate oil storage facilities and distribute petroleum products. In other words, they proposed a *de facto* nationalization of oil operations.⁶⁰

However, President Rhee's views differed from those of his South Korean delegates and he rejected all their proposals, suggesting instead an 'extension' of the Operating Agreement.⁶¹ This was a reflection of his desire to maintain the presence of US forces in Korea and to ensure the continuation of US aid in order to overcome the unstable situation on the Korean Peninsula. It is also worth noting that the move was an attempt to secure his own unstable political position.

In the end, the Korean oil conferees made two proposals in the third series of negotiations held on 20 May 1949—namely, the nationalization of oil and the extension of the Operating Agreement. They proposed that the South Korean government hire foreign oil experts to operate oil facilities and distribute petroleum products. They also proposed a temporary extension of the Operating Agreement. However, the Three Sisters rejected this proposal. The Three Sisters' conferees stated that it was doubtful that the oil companies would be able to provide the experts needed by the South Korean government, and it was also unlikely that South Korea had the technical capabilities to manage the oil operations. Above all, the Three Sisters negotiators made it clear that they would not make any commitment to such requirements unless they were authorized to distribute petroleum products in Korea. However, they did express their willingness to conclude an extension agreement of one to two months on the premise that the South Korean government would agree to the proposals, including the Lease Agreement. AMIK observers supported the Three Sisters' position, stating that the agreements proposed by the Three Sisters did 'meet' the US government's requirements in terms of 'efficient handling and distribution' of petroleum products.⁶²

During the fourth negotiating session held on 25 May 1949, the Korean conferees stated that they would recognize the business activities of private companies after the Korean economy had stabilized. However, the US negotiators continued to adhere to their position. In subsequent negotiations, although the Korean conferees continued to argue in favour of nationalization, they gave the impression of being open to the participation of private companies. A new and additional proposal involved allowing oil companies to import and distribute petroleum products. This was contained in a list approved by the South Korean government and the US government 'over and above' ECA imports. In other words, the South Korean government accepted the position of the oil companies to some extent but tried to limit the involvement of the Three Sisters by thoroughly restricting their control over products imported through ECA aid.⁶³

This new proposal from the Korean conferees was again rejected by the Three Sisters' representatives. They argued repeatedly that they were not interested in continuing operations without specific distribution guarantees. AMIK observers also

⁶⁰'Bunce to ECA Administrator, 26 May 1949', Entry UD 237, Box 70, RG 469, NARA.

⁶¹'Bunce to ECA Administrator, 17 May 1949', Entry UD 237, Box 70, RG 469, NARA.

⁶²'Bunce to ECA Administrator, 21 May 1949', Entry UD 237, Box 70, RG 469, NARA.

⁶³'Bunce to ECA Administrator, 26 May 1949', Entry UD 237, Box 70, RG 469, NARA; 'Bunce to ECA Administrator, 9 June 1949', Entry UD 237, Box 70, RG 469, NARA.

opposed the Korean proposal. They stated that ECA aid supplies should be imported as they were deemed necessary for the Korean economy, and that Korean foreign exchange could not be allocated to petroleum imports exceeding the ECA imports. In addition, they defended the Three Sisters' proposal, saying that the United States had traditionally favoured private trade and that ECA legislation did not require all ECA imports to be run through government monopolies. They warned that these issues would 'adverse[ly] impact' the appropriation hearings in the US Congress.⁶⁴

At the sixth meeting on 9 June 1949, after the Korean conferees proposed a compromise between nationalization and privatization, negotiators on both sides seemed to reach an agreement. The Korean delegation proposed classifying petroleum products in two categories—'governmental use' and 'private use'—thereby suggesting that the oil companies could import and distribute products for private use. However, the Korean conferees demanded that the Three Sisters defer to the South Korean government's authority to inspect and supervise the Three Sisters' operations as well as to reorganize the wholesaler organizations. The Three Sisters' conferees accepted the Korean proposals as a basis for discussion, subject to 'clearance' from the head offices. AMIK observers also took a positive stance, stating that the South Korean proposals appeared to be consistent with 'US objectives'. Accordingly, all parties agreed to establish a 'working committee' for the implementation of the Korean proposals.⁶⁵

However, in the process of negotiating at the working-committee level, the Korean conferees returned to the principle of oil industry nationalization. Then, at the ninth meeting on 16 June 1949, the Korean conferees formally requested a three-month extension agreement.⁶⁶ Following an agreement between the US Department of State, the ECA, and KOSCO, and in response to the request from President Rhee, the Extension Agreement was approved for three months, from 30 June to 30 September 1949. However, it was KOSCO's opinion that negotiations for the Lease Agreement and other agreements should be completed before 31 July 1949. This was a prerequisite to secure sufficient time to plan for the supply of petroleum products after 30 September 1949.⁶⁷

After receiving the agreement in Washington, AMIK informed the Korean conferees that it agreed to extend the Operating Agreement. However, this was based on the premise that the prime minister would send a 'letter [of commitment]' to Bunce, agreeing to the following stipulations by July 31: '(A) the continued operation by KOSCO of the facilities mentioned in the operating agreement, (B) the distribution of petroleum products to govt depts and agencies, and (C) the importation, distribution and sale of petroleum products in Korea by private firms on a non-monopoly basis'. In other words, the Extension Agreement was approved on the premise that the Lease Agreement and other agreements would be signed. Bunce further clarified that 'only [in the case of a] recession' in Korea would the Koreans have exclusive rights to distribute all ECA-supplied petroleum products. The Korean conferees opposed the US proposals. However, after Bunce expressed a 'strong mission' to Prime Minister Lee, and Jones and Fraenkel to the minister of finance, the Korean conferees accepted the

⁶⁴Bunce to ECA Administrator, 9 June 1949'.

⁶⁵Bunce to ECA Administrator, 10 June 1949', Entry UD 237, Box 70, RG 469, NARA.

⁶⁶Bunce to ECA Administrator, 21 June 1949', Entry UD 237, Box 70, RG 469, NARA.

⁶⁷Hoffman to AMEMBASSY, SEOUL, 17 June 1949', Entry UD 237, Box 70, RG 469, NARA.

proposals.⁶⁸ On 29 June 1949, Prime Minister Lee sent a letter of commitment to Bunce and the Extension Agreement was concluded the very next day.⁶⁹

The difficulty inherent in the Lease Agreement negotiations was the South Korean government's and oil companies' difference in opinion about nationalization versus anti-nationalization, to wit: '*Tongje Panmae* [the controlled sale]' led by the government versus '*Jayu Panmae* [the free sale]' of oil led by private companies.⁷⁰ On the other hand, President Rhee, who sought to maintain the presence of US forces in Korea and ensure the continuation of US aid, suggested an extension of the Operating Agreement. In the end, the Extension Agreement was signed. However, it was predicated on the Korean government's commitment to recognize the free sale of oil by private companies.

Three-way collusion

Immediately after the Extension Agreement was concluded, negotiations began for the Lease Agreement and other agreements. However, the negotiations progressed slowly and there was no guarantee that a decision would be made before the originally agreed-upon date of 31 July 1949. This section explores the process involved in signing the last 1949 oil agreements, the Lease Agreement and other agreements.

The deadlock in the negotiations revolved largely around the terms of the Lease Agreement. There was also haggling over the maximum US dollar exchange amount that the South Korean government could afford to pay KOSCO each month. The agreement reached by the Three Sisters and the US government stipulated that its duration would be 18 months, followed by an additional 15 months, with a maximum payment of \$14,000 per month. However, the Korean conferees insisted on an initial lease term of 12 months and two additional successive periods (12 and 9 months respectively). It also asked that the maximum US dollar exchange amount be set to \$2,000 per month.⁷¹

However, the Three Sisters' stance was firm. The head office of each oil company threatened to withdraw from Korea on 1 October 1949 unless the terms were 'substantially' implemented as per each agreement. Meanwhile, the South Korean government was also holding firm. It insisted that there was no room for compromise on either the duration of the Lease Agreement or the maximum US dollar exchange to be paid to KOSCO. Even the Korean conferees expressed 'embarrassment' at the implacable stance of their 'principals'. As the negotiations continued to be both tortuous and protracted, Hoffman intervened 'to assist Mission in negotiations'. He told the US embassy in Seoul that the 'Companies again be requested to strengthen negotiation personnel'

⁶⁸Bunce to ECA Administrator, 21 June 1949', Entry UD 237, Box 70, RG 469, NARA.

⁶⁹Prime Minister, Lee, Bum Suk to Bunce, 29 June 1949', Entry 2849, Box 2, RG 84, NARA; 'Bunce to ECA Administrator, 30 June 1949', Entry UD 237, Box 70, RG 469, NARA.

⁷⁰Han Mi Sin Hyeopjeong eun Nanhang [New Korea-U.S. Oil Agreement is in Trouble], *The Yeongnam Ilbo* [The Yeongnam Newspaper], 24 June 1949; 'Mi Cheuk eun Seokyu Jayu Panmae Huimang [The US hopes for free oil sales]', *The Honam Shinmun* [The Honam Press], 28 June 1949.

⁷¹Bunce to ECA Administrator, 6 August 1949', Entry UD 237, Box 70, RG 469, NARA. 'Bruce, ECA to AMEMBASSY, SEOUL, 4 May 1949', 'Bunce to ECA Administrator, 16 July 1949', Entry UD 237, Box 70, RG 469, NARA. 'Bunce to ECA Administrator, 3 August 1949', Entry UD 237, Box 70, RG 469, NARA.

and requested that 'ECA-Washington prepare [a] cable stating position in respect to negotiations and results if negotiations fail'.⁷²

Since the Three Sisters' sales activities in Korea were already a *fait accompli*, the South Korean government's main goal was to demonstrate to the newly decolonized Koreans that it was an independent and self-reliant regime, no longer dependent on others, and that it was unafraid to show a firm resolve. Unlike the Initial Settlement and the Aid Agreement negotiations, the Korean conferees did not directly oppose foreign companies' entry into Korea during the oil agreement negotiation process. The License Agreement, an agreement to guarantee business rights for foreign private companies, was also not a problem. What the South Korean government viewed as most important was minimizing Koreans' antipathy towards foreign companies entering their country's market. The Korean conferees hoped to assuage such objections by providing the Three Sisters with minimal activity time and cost. Accordingly, the 'period lease' and the 'US dollar exchange' were the aspects of the negotiation that reflected the will of the South Korean government.⁷³

After June 1949, it became much easier for the South Korean government to change policy. By dint of a series of events in which President Rhee removed his political opponents in the so-called 'Yuwol Gongse [June Offensive]', including the assassination of Kim Koo, President Rhee's primary political rival, the anti-communist campaign and the president's political power were simultaneously strengthened. In particular, the Assembly, which hitherto had been the biggest stumbling block in signing the oil agreements, virtually lost its ability to act as a check on the government due to the so-called 'Kukhoe Feulakchi Sageon [Assembly Fraktsiya case]', in which progressive Assembly members were arrested on charges of being communist agents.⁷⁴ Nevertheless, the South Korean government needed to demonstrate its independence by dispelling public opposition and successfully concluding the oil agreements. In response to a journalist's question, 'Wouldn't the transfer of the right to sell petroleum products to Americans have a significant impact on the Korean economy?' President Rhee confidently remarked: '[Because of the signing of the oil agreements,] there might be some concern that in the near future we will lose our freedom to operate the oil market independently. That it could all soon be lost. But mark my words, in a year or a year and a half, things change, and they [the Americans] will have to listen to what we propose.'⁷⁵ He also emphasized the autonomy and ambition of the South Korean government in the oil agreements, maintaining that 'the oil agreement will open the door to our advantage, and we are trying to unshackle it by signing an agreement with the three companies'.⁷⁶

Meanwhile, the South Korean government increasingly worked on its plan to complete the Ulsan Refinery. The Refinery's completion was seen as a symbol of the

⁷²Hoffman to AMEMBASSY, SEOUL, 20 July 1949', Entry UD 237, Box 70, RG 469, NARA. 'Bunce to ECA Administrator, 3 August 1949', Entry UD 237, Box 70, RG 469, NARA.

⁷³Bunce to ECA Administrator, 3 August 1949', Entry UD 237, Box 70, RG 469, NARA.

⁷⁴Joong-Seok Seo, *Hankuk Hyeondae Minjok Undong Yeongu [A Study of the National Liberation Movement in Korea]*, Vol. 2 (Seoul: Yeoksabipyongsa, 1996), pp. 201–257.

⁷⁵Deatonglyeong kwa Ilmun Ildap, Mi Deahan Wonjo e Kidae [Question and Answer with the President, Expects U.S. Aid to Korea], *The Kyung Hyang Shin Mun*, 10 September 1949.

⁷⁶Ibid.

South Korean government's strong advocacy for the establishment of a self-sustaining economy—a position that was in defiance of the criticism for allowing the Three Sisters to re-enter Korea. Before the Extension Agreement was signed, the Ministry of Commerce and Industry had already established a 250 million won (Korean currency) subsidy for the Ulsan Refinery construction from its own 1949 budget. The Ministry predicted that the completion of the Refinery would not only meet South Korean demand for oil, thus preventing the import of approximately 10 billion won's worth of petroleum products per year, but also that it would bring significant developments in the domestic refinery industry.⁷⁷ Accordingly, even after the Extension Agreement was signed, the South Korean government continued to take steps to complete the Ulsan Refinery. The Ministry decided that the Chosen Petroleum Company, one of the companies with a vested interest, would take charge of both the construction and operation of the Refinery, and it prepared management guidelines for this purpose. Through the guidelines, Chosen Petroleum's chairman and executives were appointed, while a manager was dispatched to build and operate the Refinery under the guidance and supervision of the South Korean government. In addition to organizing an additional budget for the Refinery, on 28 June 1949, an industrial inspection group, comprising members of the National Assembly and experts from the Ministry of Commerce and Industry, was formed to inspect the Ulsan Refinery.⁷⁸

As the oil negotiations were delayed and the self-sustaining oil operating structure of the Ulsan Refinery materialized in South Korea, there was growing US concern about the suspension of oil supplies from the Three Sisters. In response, Bunce proposed the following alternatives: 1) the US Department of the Army would procure all petroleum products, while the South Korean government would distribute them; 2) the US Bureau of Federal Supply (BFS) would procure petroleum products, with commercial delivery arranged in Washington, while the South Korean government would store and distribute them; and 3) the South Korean government would distribute petroleum products, which they had procured through 'independent firms'.⁷⁹

However, as Bunce himself acknowledged, these alternatives had their own problems. To begin with, he thought that the Department of the Army was unlikely to accept these alternatives because it had been 'reluctant to do' so in the past. He also said that using the Department of the Army was not consistent with the ECA's basic policy of leveraging private trade, citing a critical report of *Le Fevre of New York* that said, 'if this happened, ECA would, in fact, be using U.S. funds to expropriate distribution facilities owned by U.S. firms'. In addition, regarding the South Korean government taking responsibility for the storage of petroleum products, Bunce said that it was neither practical nor efficient because it required 'tight scheduling' of delivery due to

⁷⁷'Ulsan e Seokyu Gongjang Jaegeon [Reconstruction of an Oil Plant in Ulsan]', *The Min Ju Jung Bo* [*The Democracy Newspaper*], 5 April 1949; 'Seokyu Deachaek e SeoKwang [A Ray of Light Has Finally Begun to Shine on Oil Countermeasure]', *The Dong A Ilbo*, 8 April 1949.

⁷⁸'Ulsan Jeongyu Gongjang Chosen Seokyu Hoisa eseo Chaksu [Ulsan Oil Refinery Started by Chosen Oil Company]', *The Dong A Ilbo*, 20 June 1949; 'Yulyu Gonggeup e Yeokhal Jungdae, Jaegeon doel Ulsan Seokyu Gongjang [Important Role in Oil Supply, Ulsan Oil Plant to be Reconstructed]', *The Min Ju Jung Bo*, 3 July 1949.

⁷⁹'Bunce to ECA Administrator, 6 August 1949', Entry UD 237, Box 70, RG 469, NARA.

the lack of oil storage facilities in Korea including ‘demurrage charges’ and ‘transshipments’. He believed that the oil companies would be more likely to turn down procurement contracts with BFS if the oil storage facilities were under South Korean government control. Finally, Bunce had serious questions about the capabilities of the South Korean government and independent oil companies to carry out business under such strictures.⁸⁰

Bunce deeply distrusted the South Korean government, especially President Rhee’s use of the ECA aid funds. For instance, each party maintained different positions regarding the way such funds were to be used. Bunce’s position was that the ECA aid funds should be used as a monetary stabilization programme, but President Rhee opposed this and instead wanted the funds to be under the direct control of the South Korean government. In addition, President Rhee strongly hoped that members of his Washington lobby group would participate in the management of the ECA funds and aid supplies project. The Washington lobby group, which included Robert T. Oliver and Preston Goodfellow, who were members of the *Jumi wiwonhoe* [Korean Commission] and *hanmi hyeophoe* [Korean-American Council] in Washington during the Second World War, now lobbied for President Rhee at both the level of the US government and the American public. In fact, Oliver and Goodfellow met with representatives of the US Senate and officials from the Department of State, and also campaigned against the ECA monetary stabilization policy in Korea. Through Goodfellow, President Rhee also had behind-the-scenes contact with Hoffman.⁸¹ For this reason, Bunce decided that if the South Korean government monopolized its oil operations, the efficient use of aid funds might be undermined, and thus he wanted the government to be excluded from oil operations.

Because of these complications, the US government came to see the Three Sisters as the only option to efficiently run oil operations in Korea. Muccio and Bunce actively intervened in the oil negotiations, even meeting with President Rhee to expedite the conclusion of the oil agreements and to enforce the position of the oil companies.⁸² As a result, in the 9 August 1949, negotiations, the two teams reached a compromise. They did this by setting the Lease Agreement terms to an initial period of 15 months, with a renewal period of 18 months. On the issue of the South Korean government limiting the US dollar exchange amount to \$2,000, the prime minister notified the Three Sisters that it would set a maximum of \$14,000 or less (a move that largely accepted the conditions set by the United States). However, the prime minister requested a letter of commitment that made it clear that the Three Sisters would not require the South Korean government to make payments on exchange dollars in excess of \$12,500 per month.

Meanwhile, concerns about the misuse of aid and the threat of civil war in Korea led Washington to continue to urge an expeditious signing of the agreement. The Department of State and ECA headquarters communicated to Bunce that the oil companies had urged the representatives to refrain from any demands that would delay

⁸⁰Ibid.

⁸¹For information about the conflict between Bunce and President Rhee over the ECA aid funds, see Jong Chol An, ‘Arthur C. Bunce’s Activities and the US Policy Toward Korea Around Korean Liberation from Japan’, *The Korean Journal of American History*, vol. 31, 2010, pp. 155–159.

⁸²Bunce to ECA Administrator, 6 August 1949’, Entry UD 237, Box 70, RG 469, NARA.

negotiations, warning that 'interruptions in the pipeline' were inevitable unless an agreement was reached immediately. They also emphasized that the following four main objectives must be fulfilled: 1) 'effective utilization of ECA funds', 2) 'adequate price and ration control', 3) 'minimum demands on Korean foreign exchange holdings', and 4) 'preservation of competitive conditions with avoidance of all monopoly elements'. The Department of State and the ECA put particular emphasis on the last objective, stating that the 'last point would exclude government as well as private monopoly'. However, they added that due to the 'myriad business activities' of the South Korean government, South Korea should be 'strongly discouraged from embarkation on additional government ventures' and 'encouraged to develop private enterprise to [the] maximum practicable extant'. These arguments reflected the US government's intention to oppose the nationalization of oil and to establish a monopoly market for the Three Sisters in the name of efficient management of the ECA aid funds.⁸³

Similar smoke-and-mirrors stratagems by the US government were also behind funding for the construction of the Ulsan Refinery. The Three Sisters did not envision a complete monopoly on the distribution of petroleum products in Korea. KOSCO New York planned to 'provide [petroleum products] for division between ROK [the Republic of Korea] or [a] company formed by ROK and private distributors on the basis of not more than 25 per cent government and 75 per cent private'. According to this plan, the South Korean government's quota was based on the uncompleted total output of the Ulsan Refinery; moreover, only petroleum products distributed by the government would be sent directly to government agencies. However, the US government made it clear that it would not make any promises about the provision of funds or the allocation of foreign currency for the completion of the Refinery. Nevertheless, on 1 October 1949, the South Korean government started construction on the Ulsan Refinery and a ceremony was held on 17 December of the same year.⁸⁴ Full construction was delayed, however, due to a lack of construction funds. The site was finally completed in 1964 through a joint venture between KOCO and Gulf Oil Corporation.⁸⁵

Right to the end of the negotiations, the Korean conferees tried to secure the maximum rights for Korean oil operations in the oil agreements. At the 'main negotiating committee' meeting held at the request of AMIK on 18 August 1949, AMIK observers 'strongly' emphasized the 'urgent situation' and 'necessity' of signing the oil agreements. Korean conferees indicated that the South Korean government sought to 'eliminate' the Consignment Agreement and 'make certain changes' to other agreements. AMIK observers reiterated that amending what had already been agreed upon could 'jeopardize' future economic revitalization plans. The Three Sisters

⁸³Bunce to ECA Administrator, 15 August 1949', Entry UD 237, Box 70, RG 469, NARA.

⁸⁴Bunce to ECA Administrator, 15 August 1949'; Cho Nyeondo e 10Man Ton Cheoli, Ulsan Jeongyu Gongjang 4Wol Joeop [Processed 100,000 Tons in the First Year, Ulsan Oil Refinery Starts Operation in April], *The Dong A Ilbo*, 20 December 1949; 'Jibang Sosik, Chosen Seokyu Gongjang Chankgong Kinyeomsik [Local News, Ceremony to Start the Construction of Chosen Oil Plant]', *Jayu Minbo* [Free People News], 22 December 1949.

⁸⁵KOCO and the Ulsan Refinery were acquired by Sunkyoung (currently SK Energy) following the South Korean government's privatization measures in 1980. The Ulsan Refinery is now one of the largest oil refineries in the world. Kwon, 'Machinations from on High', p. 181.

were also wary about removing the Consignment Agreement. When an agreement could not be reached between the two sides, the Korean negotiators suggested that Muccio and Bunce should talk 'personally' about the matter with President Rhee. The very next day, a 'conference' was held between President Rhee, Muccio, and Bunce. The president indicated that if the oil companies submitted 'appropriate accompanying letters' to the South Korean government, he would be willing to sign all agreements.⁸⁶

On 20 August 1949, a meeting was held to 'draft [the appropriate accompanying] letters' that would address the contentious issues between the South Korean government and the oil companies. The gist of the letters was that the South Korean government was requesting each oil company to work only 'within the limits of the allocated' use of petroleum products in the KOSCO oil storage facilities for its departments and agencies; further, the letters proposed that KOSCO ought to reduce the maximum foreign exchange requirement.⁸⁷ On 26 August 1949, after the letters had been prepared, the Korean conferees announced that the South Korean government was ready to sign. On 6 September, the government, along with oil company representatives, agreed that all agreements would 'become binding'. Pointedly, all the agreements were written only in English; none were written in Korean. Eventually all four English-text agreements were signed that day, followed by an official signing on 13 September 1949. Only then were the Korean texts of the agreements brought to the table.⁸⁸

After the Lease Agreement and other agreements were signed, the Three Sisters were able to create a monopoly structure for all Korean oil operations. Under the auspices of the agreements and in consultation with the ECA, each of the Three Sisters' companies prepared a procurement procedure for petroleum products. The supply of petroleum products to Korea was based on these procedures.⁸⁹ The petroleum products were stored in storage facilities leased by KOSCO from the South Korean government. Each of the Three Sisters' companies then received oil from KOSCO and sold it through their respective oil dealers across South Korea. After the Lease Agreement was signed, a total of 35 oil dealers were deployed in 10 Korean regions: Standard Vacuum had 14 dealers, Shell had 11 dealers, and California-Texas had 10 dealers.⁹⁰

Through the Lease Agreement, the South Korean government had the authority to receive reports from KOSCO about the performance of oil storage facilities, with the intent that the government could command and supervise them based on the report findings. However, it is uncertain whether these rights were ever exercised since all operation rights, from supply to sales of petroleum products, were transferred in their entirety to the Three Sisters. Moreover, the Three Sisters said that the operating profits would be used to improve oil distribution facilities, which in turn would help develop

⁸⁶'Bunce to ECA Administrator, 28 August 1949', Entry UD 237, Box 70, RG 469, NARA.

⁸⁷Ibid.

⁸⁸'Bunce to ECA Administrator, 7 September 1949', 'Bunce to ECA Administrator, 13 September 1949', Entry UD 237, Box 70, RG 469, NARA.

⁸⁹'AMEMBASSY, Seoul to ECA Administrator, 15 September 1949', 'AMEMBASSY, Seoul to ECA Administrator, 7 October 1949', 'AMEMBASSY, Seoul to ECA Administrator, 7 October 1949', Entry UD 237, Box 70, RG 469, NARA.

⁹⁰Korea Oil Association, *50 Years of Oil Distribution*, p. 100.

the Korean economy; however, this meant further expansion of the Three Sisters' business activities in Korea. Songyong Pai, a typical centrist intellectual at the time, heaped heavy scorn on the system, remarking that 'it is an extremely promiscuous system which has neither business nor agency'.⁹¹

After the outbreak of the Korean War, the Lease Agreement was terminated and replaced by an 'interim agreement' on 1 November 1950—with this agreement, most petroleum products were requisitioned and brought under US military control. Each of the Three Sisters' companies withdrew to their home country or to Japan, but throughout the War, although now under the control of the US military, KOSCO continued to be in charge of importing, storing, and selling oil. The interim agreement was subsequently replaced by a 'similar agreement' on 6 April 1952.⁹²

After the Korean Armistice Agreement was signed in 1953, the South Korean and US governments sought to convert the oil agreement signed during the Korean War into an official agreement. Accordingly, the Petroleum Operating Agreement Between the Republic of Korea and the United States of America (the 1955 Oil Agreement) was concluded on 31 May 1955. Through this agreement, oil storage facilities were handed over by the United States Forces Korea (USFK) to the South Korean government; crucially, the agreement stipulated that KOSCO would operate these facilities for the South Korean government and be responsible for the receipt, storage, and distribution of petroleum products. The 1955 Oil Agreement also stipulated that KOSCO would only be responsible for storage, whereas the import and sale of petroleum products would run in accordance with free market principles; that is, once a corporately minded, *laissez-faire*, free-market system for the import and sale of petroleum could be established.⁹³ Once again, parallel to the 1949 agreements, the South Korean government was given only nominal administrative powers.

In the 1955 Oil Agreement, although KOSCO was not directly involved in the signing of the agreement, it continued to have the exclusive right to oil operations in Korea. As the agreement reasserted the promise of private oil companies in the future, the re-entry of the Three Sisters to South Korea—after they had withdrawn at the onset of the Korean War—was slated. The South Korean government contacted each of the Three Sisters individually to arrange for them to re-enter the Korean oil market; however, they did not return due to poor economic conditions in South Korea.⁹⁴ Nevertheless, starting with the 1949 oil agreements, the structure of the Korean oil

⁹¹Songyong Pai, 'Han-Mi Seokyu Hyeopseong kwa Uli Saneopgye [Korea-U.S. Oil Agreement and Our Industry]', *The Min Seong [The People's Voice]*, vol. 5, no. 11, 1949, p. 13.

⁹²'Petroleum Operating Agreement between the Republic of Korea and the United States of America', *Han Mi ganwi Seokyu Uryoung Hyupjung, 1955 [Petroleum Operating Agreement between the Republic of Korea and the United States of America, 1955]*, management number: CA0002565, National Archives of Korea. Korea Oil Association, *50 Years of Oil Distribution*, p. 103.

⁹³'Petroleum Operating Agreement', National Archives of Korea.

⁹⁴'On the commencement of the second phase under the Korea-U.S. Oil Operation Agreement, August 20, 1956', 'On the commencement of the second phase under the Korea-U.S. Oil Operation Agreement, September 1956', 'The Shell Petroleum Company Limited to the Minister of Commerce and Industry, August 23, 1956', management number: CA0002565, National Archives of Korea. Caltex re-entered Korea in 1967 and established *Honam Jungyu* [LG-Caltex Oil Corporation] (currently GS Caltex Corporation) with Lucky (currently LG Chem). In 1969, Honam Jungyu built South Korea's second oil refinery in Yeosu on the south coast. Honam Jungyu also established *Honam Jeonlyeok* [Honam electric power company], and

industry, operated by KOSCO, was maintained until the conclusion of the Petroleum Agreement on 12 May 1964.⁹⁵

Conclusion

The International Petroleum Cartel published by the Federal Trade Commission in August 1952, and the subsequent 'antitrust action' against international oil companies, clearly revealed that the US government backed its international oil companies to secure exclusive status in the global oil market while operating on the pretext of national interests. Burton I. Kaufman, a US diplomatic historian, concluded that, 'In Truman's and Eisenhower's case, as in Wilson's, considerations of national interest instead of free trade ultimately determined their foreign economic policies and programmes to the benefit of the oil industry'. Further, Timothy Mitchell observed that 'after the Second World War, the construction of new energy networks replacing coal with oil was the basis for weakening the left in Europe and building there the corporatist forms of postwar democracy'.⁹⁶

Existing studies on US foreign oil policy, however, have rarely investigated cases of non-oil-producing and underdeveloped countries with colonial roots that received US aid after the Second World War, such as Korea. In addition, how the partnership between the US government and its international oil companies materialized in these countries has rarely been examined seriously.

This article has detailed the process by which the symbiotic relationship, forged by the US government and its international oil companies, was actuated in South Korea through three rounds of negotiations, concluding with the 1949 oil agreements. The process of signing the 1949 oil agreements was not limited to the import, storage, and sale of petroleum products for US aid to South Korea. The article thus explored the agreement process of the interests of the three main parties in response to the concerns of the Korean people, who wanted to establish an independent economic structure. Eventually, with the signing of the 1949 oil agreements, independent oil operations in Korea were thwarted, and the exclusive oil operations of the Three Sisters continued until the signing of the Petroleum Agreement of 1964.

entered the Korean electric power industry in 1968, in line with the government's electric power industry privatization policy. However, the company was acquired by the Korea Electric Power Corporation (KEPCO) in 1973, as the government adopted to a policy of unifying the country's electric power industry. For more details about Honam Jungyu, see Kwon, 'Korean Electric Power Industry and American Oil Companies', pp. 152–158.

⁹⁵Dahanminkuk kwa Mihapjungkuk ganwi 1964 nyun Seokyu hyupjung [*Petroleum Agreement between the Republic of Korea and the United States of America, 1964*], management number: CA0000135, National Archives of Korea; Han Mi ganwi 1964 nyun seokyu hyupjung kwa hapwi wisarok [*Petroleum Agreement and Record of discussion between the Republic of Korea and the United States of America, 1964*], management number: CA0000134, National Archives of Korea.

⁹⁶Federal Trade Commission, *The International Petroleum Cartel* (Washington DC: United States Government Printing Office, 1952), pp. 21–33. 'Report to the National Security Council by the Departments of States, Defense, the Interior, and Justice', 6 January 1953, *FRUS 1952–1954*, Vol. I, Part 2, doc. 159 (it is also in *FRUS 1952–1954*, Vol. IX, Part 1, doc. 279). Burton I. Kaufman, 'Oil and Antitrust: The Oil Cartel Case and the Cold War', *The Business History Review*, vol. 51, no. 1, 1977, p. 56. Mitchell, *Carbon Democracy*, p. 108.

By examining the process of the negotiations that led to the 1949 oil agreements between the South Korean government, the US government, and the Three Sisters, this article draws the following conclusions. First, after the Second World War, US foreign oil policy was based on nurturing a symbiotic relationship between its government and international oil companies. This policy was then surreptitiously applied to South Korea, a non-oil-producing and underdeveloped country. The US government needed the Three Sisters to continuously supply petroleum products to Korea as well as efficiently control them. In turn, the Three Sisters required the backing of the US government to protect their wealth and profits arising from oil. To realize these goals, the US government forced the South Korean government to sign oil agreements that allowed the Three Sisters to directly participate as negotiators. The US government also prepared agreements and led negotiations as secretly as possible to give the Three Sisters a monopoly over oil operations in Korea in all but name. In other words, the US sought to guarantee a monopoly without raising the ire of Korean nationalists.

Second, the 1949 oil agreements were the result of a three-way collusion between the US government, the Three Sisters, and the South Korean government. The South Korean government's intentions were threefold: 1) to obtain an early transfer of power from the US military, 2) to gain international approval of its new government, and 3) to seek economic revival through US aid. These intentions notwithstanding, it was necessary to show the Korean public that the government actively responded to its nationalist aspirations. This stance by the South Korean government was a decisive cause of the 'secret of September', which delayed the conclusion of the final agreements. Eventually, because of the tripartite structure of collusion between the US government, the Three Sisters, and the South Korean government, the Korean public's demands for independent oil operations were ignored.

Third, the US aid policy to South Korea reflected the pro-business nature of the US government toward its international companies. This position was evident in US oil policy in South Korea. The pro-business nature of the US government, which interestingly did not surface in the agreements between the South Korean and US governments before the oil agreements, was embodied in the manner in which the oil agreements were signed. The Three Sisters were granted exclusive control over all oil operations, including the supply, storage, and distribution of petroleum products. The pro-business nature of the US government, a lynchpin in its foreign policy, ensured that its interests were also guaranteed. In other words, after liberating Korea from Japanese colonial rule, the US government's priority in providing aid to South Korea was not to ensure the development of the nation, but rather to ensure the interests of US international companies.

Based on this historical investigation, this article has unravelled the external expansion of American liberal corporatism immediately after the Second World War. In particular, it has demonstrated how public and private interests were applied in the specific instance of one non-oil-producing and underdeveloped country. In addition, this article broadens the horizon of Korean oil history research by promoting an understanding of how US oil policy affected South Korea immediately after liberation from Japanese colonial rule, something that opens a new critical space in the research about US aid policy to Korea. Specifically, this investigation showed that the US aid policy via

the Three Sisters trumped any desire to help South Korea develop its own national oil industry champion.

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