

Authority: NNV 917368
By: SDM NARA Date 7/7/99

TOP SECRET SECURITY INFORMATION

Copy 1 of 8 Copies

DRAFT 8/10/53
FWilkins:dmh

*42 = messages
8/27/53*

42-46
R

MEMORANDUM

SUBJECT: Proposed Course of Action with Respect to Iran

*1 - Bureau
3
5
6
7
8*

POLITICAL SITUATION:

During the past six months, developments in Iran indicate a trend toward an authoritarian, reformist government.

Political power has been further consolidated in the hands of Prime Minister Mosadeq. The power of the Majlis has steadily declined, and Mosadeq has launched a nationwide popular referendum to give him authority to dissolve the Chamber. The Shah has been reduced to a symbolic representative of the institution of the Throne and defender of the Muslim Shiah faith. Mosadeq's principal political opponents among the traditional governing groups have been routed. The Government has gained more effective control of the army which constitutes the most important single deterrent to the communists. The Tudeh Party has re-emerged after a period of quiescence as a strengthened contestant for political ~~part~~ power.

COMMENT:

Prime Minister Mosadeq is presently in complete control of the political situation in Iran. The referendum regarding

TOP-SECRET SECURITY INFORMATION

the

Authority	NNV 917368
By	S/M NARA Date 7/7/99

TOP SECRET

-2-

the dissolution of the Majlis, which commenced in Teheran on August 3, resulted in a 99.93% vote in favor of dissolution. It will be continued in the rest of Iran on August 10 and will probably be equally decisive. Mosadeq will thereafter be able to set the date for elections for a new Majlis which, when held, will probably further consolidate Mosadeq's power. If, for some reason such as death or normal parliamentary procedure, Mosadeq should be replaced as Prime Minister, it is more than likely a successor would be selected who would be in sympathy with Mosadeq's basic objectives. It is unlikely that a coup d'etat by Mosadeq's opponents among the former governing groups or by the Tudeh Party would be attempted because neither is sufficiently strong or well-organized to attempt a coup. Furthermore, the Iranian Government is itself sufficiently alert and strong to anticipate and stamp out an attempted coup. The danger in Iran at the present time is that Mosadeq, having partially alienated the former governing groups and many of his own colleagues such as Kashani, may rely to an increasing extent on the Tudeh Party for political support. During this process, the Tudeh Party will have greater

opportunities

TOP SECRET

TOP SECRET

-3-

opportunities to infiltrate the various organs of government and may, during some future political crisis while Mosadeq is Prime Minister, be in a position to demand representation in his government. Meanwhile, in any event, Mosadeq's toleration of Tudeh activities and acquiescence in Tudeh political support increases the scope and prestige of the communists in Iran.

ECONOMIC SITUATION:

During the past six months the Iranian economic and financial situation has continued to deteriorate, although the Iranian Government continues able to finance current expenditures. Iran's foreign trade is approximately in balance. Inflationary pressures have increased but without apparent harm to any important segment of the population.

COMMENT:

It now appears probable that the Iranian Government can meet its fiscal needs, at least through March 1954, by measures such as (1) borrowing from the Bank Melli and other government banks, (2) issuing additional currency, (3) borrowing from the IMF, or (4) reducing its contemplated expenditures. This

expectation

TOP SECRET

TOP SECRET

-4-

expectation is based on the observation that the government is increasingly freeing itself from the political and legal restraints governing its fiscal and monetary policies, Iran's foreign trade is in balance and items other than "essential" are coming in because of (1) tightened controls over the allocation of scarce foreign exchange resources, (2) clearing payments agreements with Western Germany, France, and Italy and the barter agreement with the U.S.S.R. and (3) Point IV's ability to supply certain items such as sugar, which would normally require foreign exchange. Additional foreign exchange could probably be obtained from the IMF or from the gold reserve covering the currency. The Government's inflationary policies have on the whole been beneficial in stimulating domestic commerce, preventing significant unemployment and forcing increases in wages as well as in rents and profits. Indications are that the currency issue will be further increased but confidence in the currency remains fairly high and it does not now appear that run-away inflation is in prospect. In light of the foregoing, it does not appear that the economic and financial situation in Iran is one which is causing Mosadeq

undue

TOP SECRET

Authority	NNV 917368
By	S/D/M NARA Date 7/7/99

TOP SECRET

-5-

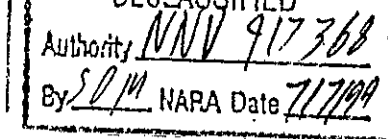
undue alarm. He apparently feels capable of meeting the minimum needs of the people from the resources of the Iranian Government other than oil.

LAST NEGOTIATIONS WITH IRAN:

Between December 1952 and February 1953, the United States and the United Kingdom made a concerted effort to reach agreement with the Iranian Government with respect to the oil controversy. This effort culminated in the U.S.-U.K. proposals of February 20, 1953 which provided for (a) determination through the International Court of Justice of compensation due the AIOC "for the loss of its enterprise in Iran" and of the validity of Iranian claims against the AIOC; (b) the establishment of a marketing organization of an international character to purchase Iranian oil; and (c) the purchase by the United States Government, immediately following agreement upon methods for determining compensation, of \$133,000,000 worth of oil and oil products. These proposals were rejected by Prime Minister Mosadeq on March 20, 1953. Subsequently, on May 28, Mosadeq wrote President Eisenhower that "the Iranian nation hopes that ... the obstacles placed in the way of sale of Iranian oil can be removed, and that

TOP SECRET

if



TOP SECRET

-6-

if the American Government is not able to effect a removal of such obstacles, it can render effective economic assistance to enable Iran to utilize her other resources." This communication was answered by President Eisenhower who explained why, in the circumstances, the Government of the United States is not presently in a position to extend more aid to Iran or to purchase Iranian oil. It was observed, among other matters, that it would not be fair to the American taxpayers for the United States Government to extend any considerable amount of economic aid to Iran so long as Iran could have access to funds derived from the sale of its oil and oil products if a reasonable agreement were reached with regard to compensation whereby the large-scale marketing of Iranian oil would be resumed.

COMMENT:

In February the United States and the United Kingdom made [an] extremely reasonable and fair proposals to Mosadeq to solve the oil controversy. These proposals provided for arbitration in the ICJ of the claims of both parties but were worded in such a way that Iran would not have been saddled with an impossible debt. They also made it possible for an

TOP SECRET

international

Authority NNV 917368
 By S/D/M NARA Date 7/7/99

TOP SECRET

international marketing company to be formed, consisting of British, Dutch, and American companies, which would purchase and sell Iranian oil. The proposals also provided for an advance of \$123,000,000 by the United States Government to Iran against future oil deliveries. This sum would have provided immediate financial relief to the Iranian Government. They also provided that 25% of the gross proceeds of the sale of oil would be set aside in escrow to be utilized in payment of the compensation to be determined by the ICJ. It was with great difficulty that the United Kingdom was persuaded to agree in all details of these proposals. Both in the past and in the future the lengths to which the United Kingdom may go in agreeing to an oil settlement are limited by reactions in England and in the Middle East. If the terms of an oil agreement with Iran appeared to be too liberal, the Conservative Government in London would subject itself to strong political opposition. Furthermore, capitulation to Iran would probably affect the relationship between British oil companies and other Middle Eastern oil producing countries such as Iraq. The Iranian Government rejected the February

proposals

TOP SECRET

proposals largely for political reasons. Mosadeq and nationalization of British oil, including the question of compensation, have become synonymous to such an extent that, unless the settlement were clearly favorable to Iran, Mosadeq would not be able to come to an agreement. Furthermore, the non-settlement of the dispute provides Mosadeq with a means whereby he can appeal to Iranians on political grounds and continue to count on their support.

OTHER SOLUTIONS TO OIL DISPUTE: 1) Lump-Sum Settlement

On various occasions during the past two years, reference has been made to the possibility of a lump-sum settlement between the United Kingdom and Iran. Although Prime Minister Mosadeq has from time to time vaguely mentioned the possibility of agreement on compensation by this means, the United Kingdom is firmly opposed. The reasons for U.K. opposition are: (1) The essence of the Truman-Churchill proposals of August 1952 was the prior acceptance of the principle of compensation awarded through impartial arbitration. To abandon this principle, following years of negotiation with the Iranian Government in terms of arbitration would undermine any possibility that Mosadeq would come around to arbitration and would

Authority	NNV 917368
By	SJM NARA Date 7/7/99

TOP SECRET

-9-

set an undesirable precedent in the event other Middle Eastern countries were tempted unilaterally to cancel existing oil concessions; (2) The abandonment of impartial arbitration would set in train a process of bargaining involving claims and counterclaims which would lead to no result and would probably worsen relations between the United Kingdom and Iran, prejudicing possible future negotiations. As late as March 1953 the British Foreign Secretary reiterated to the Department that the United Kingdom would be unwilling to consider or to discuss a lump-sum settlement with Prime Minister Mosadeq. In any event, even if the United Kingdom Government were willing to discuss a lump-sum settlement with Iran, it seems likely that Mosadeq would eventually reject it for the same reasons that he finally refused to refer the compensation question to the ICJ.

2) Moratorium:

On various occasions during the past two years, reference has also been made to other means of settlement of the oil dispute, including the possibility of a "moratorium," that is a setting aside of the question of compensation for a period of time,

TOP SECRET

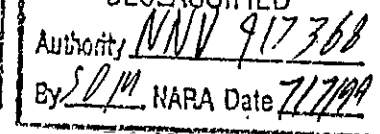
-10-

of time, coupled with the simultaneous arrangements to produce and market Iranian oil. Although this possibility is appealing in that it would temporarily remove the main question from the area of conflict and would permit the receipt by Iran of revenue from its oil resources, it is extremely doubtful if the United Kingdom would be willing to proceed on this basis because it would mean that the compensation question would probably be deferred indefinitely. Basically, it would subject the United Kingdom Government to strong political criticism at home and might affect the status of other oil concessions in the Middle East.

3) Purchase by U.S. of U.K. Equity in AIOC:

Another solution, to which reference has been made, is a lump-sum offer to the United Kingdom for the purchase of the United Kingdom equity in the AIOC interests in Iran in the belief that the United States could thereafter, unhampered by previous negotiations, make a settlement with Iran. Although it is possible that the substitution of the United States for the United Kingdom would simplify and might ease negotiations with Iran, the same political reasons which motivated Mosadeq in rejecting

TOP SECRET



TOP SECRET

-11-

in rejecting the February proposals would also apply to future United States proposals. Furthermore, the United Kingdom would probably refuse such an offer from the United States because it would be damaging to their political standing at home, their prestige in the Middle East, and the possibility of a settlement with some future Iranian Government favorable to the United Kingdom.

SALE OF IRANIAN OIL:

Following the nationalization of the AIOC in March 1951, the Iranian Government has made several efforts independently to market existing stocks of Iranian refined products and crude oil. Sales have ^{been} made to such countries as Italy and Japan in small quantities. In each case the AIOC brought suit in the courts of the respective countries and in each case the courts upheld the title of the NIOC. It would logically seem to follow that the Iranian Government or the NIOC would be able to sell further quantities of oil. This has not, however, been the case. The reason for non-purchase of Iranian oil by independent oil companies has probably been because of price factors and because these companies would

thereby

TOP SECRET

DECLASSIFIED	
Authority	NNV 917368
By	S/D/M NARA Date 7/7/99

TOP SECRET

-12-

thereby prejudice their relationships with and purchases from the British, Dutch, and American oil companies. It has been said that the United States Government has discouraged the free world purchase of Iranian oil. The record indicates, however, that the United States Government has neither encouraged nor discouraged the purchase of Iranian oil but has indicated to American independent oil companies and to foreign governments that the question of purchase was one for each to decide. It would accordingly be possible for purchases to be made by these companies if it was commercially feasible to do so. The fact that few purchases are made, although under some uncertainty, would seem to indicate that the purchase of Iranian oil is not sufficiently advantageous from a commercial point of view.

RECENT DEVELOPMENT:

During recent weeks there have been hints and indications through the Iranian Ambassador in Washington that Prime Minister Mosadeq was interested in the possibility of a settlement of the question of compensation along the lines of the arrangement reached between Mexico and the United Kingdom

TOP SECRET

Authority	NNV 917368
By	S/D/M NARA Date 7/17/99

TOP SECRET

-13-

Kingdom in 1947. As Mosadeq's interest was not expressed officially to either the United Kingdom or the United States Governments, it is not clear whether Mosadeq's interest is genuine or merely for some political advantage which Mosadeq hopes to achieve internationally or in Iran. On general principles, it would be desirable to investigate the extent of Mosadeq's interest and the possibility of a settlement of the question of compensation along the lines of the Mexican-United Kingdom arrangement. In view of the fact that the Iranian Ambassador made known Mosadeq's interest to an unofficial American, it would be possible to conduct the investigation through him or directly with Prime Minister Mosadeq in Iran. It is believed, however, that it would be desirable first to discuss Mosadeq's recent approach with the United Kingdom Government to obtain their reaction and approval because, in the final analysis, acceptance of such a proposal rests with it.

CONCLUSIONS:

1) Iran will be governed for the foreseeable future by Mosadeq or a successor who will pursue generally similar policies.

2) Iran

TOP SECRET

DECLASSIFIED
 Authority: NNV 917368
 By: SJM NARA Date 7/7/99

~~TOP SECRET~~

2) Iran seems able for the time being to function economically and financially without income from its oil resources.

3) The U.K. will continue for the foreseeable future to be unwilling to settle the oil dispute on terms which would cause strong political criticism in England or would upset existing oil concessions with the Middle Eastern countries.

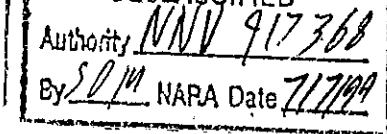
4) The United States should continue for the foreseeable future to maintain a friendly and firm position in relation with both Iran and the U.K. with the objective, in a changing international situation and a local situation in Iran, of bringing both together on the terms of an oil settlement.

RECOMMENDATIONS:

In the light of the foregoing developments, it is recommended that the following steps be taken at the present time:

1) Consultation with the United Kingdom Government to determine its current appraisal of the political and economic situation in Iran;

2) Further



TOP SECRET

-15-

2) Further exploration with the U.K. Government of the possibilities of a settlement of the oil dispute by the following means:

- a) Arbitration;
- b) Lump-sum settlement;
- c) Moratorium;
- d) Purchase by U.S. of U.K. equity in AIOC;

3) In the event the United Kingdom Government is unwilling to take any of the steps envisaged under 2) above, agreement by the United Kingdom Government that an unofficial American proceed to ascertain whether Mosadeq is genuinely interested in a settlement along the lines of the Mexican proposal.

TOP SECRET