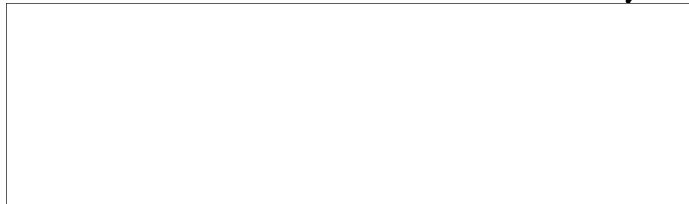


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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
6 August 1954



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TO: Deputy Director (Intelligence)
SUBJECT: Conclusion of Iranian Oil Negotiations*

The agreement in principle announced on 5 August concludes the major task of the Iranian and consortium negotiators. According to Ambassador Henderson's tentative schedule, the drafting of a final agreement will take from two to four weeks; the finished document is scheduled for submission to the Majlis early in September, and it is hoped that Majlis approval will be sufficiently prompt to permit actual operations by the consortium's two operating companies to begin about 1 October.

1. Law Applicable to the Consortium Agreement:

As provided in the aide memoire, the agreement will be governed by the principles of law "common to Iran and the several nations in which the other parties to the agreement are incorporated." In the absence of such common principles, however, the International Court's formula of the law of civilized nations will apply.

2. Convertibility of Oil Revenues Paid to Iran:

Iran reintroduced the subject of convertibility into the consortium negotiations during the past week and succeeded in embodying in an annex to the aide memoire a provision tying the consortium agreement to the separate,

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[redacted] agreement on convertibility. It is now provided that, in case of British termination of the arrangement permitting conversion of 40% of Iran's sterling receipts into dollars, the subject of convertibility shall be discussed by Iran and the consortium. Failing agreement on a new formula, the consortium members will consider paying Iran a percentage of total payments in "hard currencies" in proportion to "hard currencies" realized by the consortium's trading companies from its customers. In effect, this provision safeguards Iran's right to convert 40% of the consortium's payments into dollars.

The Iranian proposal concerning the rate of exchange applicable to the consortium's financial operations was withdrawn. The rate of exchange will now be the most favorable commercial rate. As of 2 August, that rate was 84.5 rials to the dollar.

3. Guarantee of an Oil Settlement:

Henderson and British ambassador Stevens approached Foreign Minister Entezam separately on 2 August regarding the proposed "umbrella" agreement. Entezam was noncommittal, but on the same day The Hague finally rejected the idea. Discussions are still taking place between Entezam, Henderson and Stevens, although the Iranians will presumably feel little compulsion to accept such a one-sided commitment after announcement of the consortium agreement.

The aide memoire establishes arbitration as the sole method for settling disputes which cannot be resolved by conciliation; only the arbitrator will have authority to terminate the agreement.

4. Compensation to Anglo-Iranian Oil Company:

London agreed to accept the Iranian offer of \$70,000,000 for losses to AIOC resulting from nationalization and for the Kermanshah refinery and oil facilities.

5. Prospects of the Oil Settlement:

Henderson's timetable for completing the oil settlement may prove over-optimistic. Many details of the agreement may require renegotiation in the final drafting, and the Majlis debates may be more protracted than expected. These

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obstacles will probably be overcome, however, though nationalist deputies in the Majlis are likely to keep alive a threat of later repudiation of the agreement.

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