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SECURITY INFORMATION

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CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

26 November 1952

STAFF MEMORANDUM NO. 290

25X1A SUBJECT: [REDACTED] Comments on the Iranian Situation

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[REDACTED]

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[REDACTED] came up with a strongly pessimistic view of the Iranian situation in a discussion with CIA representatives in the O/CI conference room Monday. He asserted: (a) that Iran could not sell substantial quantities of oil without access to British-controlled markets and facilities; (b) that Iranian oil officials understood this but the Iranian political leaders were still intent on making the British "crawl on hands and knees"; and (c) that the continuing lack of oil revenues would almost certainly lead to a Tudeh takeover within six months. [REDACTED]

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[REDACTED] felt that the only thing the US could do at this stage was to continue trying to bring the UK and Iran together -- his idea was that the US suggest the creation of a negotiating committee consisting of three men with full powers on each side which would meet in secret under the chairmanship of a US independent oil man [REDACTED] meanwhile being prepared to extend perhaps \$50 million in emergency aid to tide Iran over the period of starting up operations. He strongly urged that the US send in troops to hold the southern oil fields if Iran came under Tudeh domination, despite the likelihood of Soviet retaliatory moves.

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2. From a technical point of view, [REDACTED] stated that the 25X1A5a1 three principal problems, in order of importance, were those of obtaining markets and shipping, spare parts, and technical personnel. He felt that British cooperation was essential in solving the first two problems and that the US oil industry could assist principally by providing technical assistance (and in some cases operating personnel) for operation of the Abadan refinery.

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- a. Markets and Shipping. [REDACTED] was emphatic in stating that US firms could not market and ship substantial quantities of Iranian oil and that efforts of US independents and others to market consignments of Iranian oil would only raise Iranian hopes in vain and thus impede a more thorough solution. He asserted that the only logical market for Iranian oil was in Western Europe and Asia, where AOIC distribution channels are already well established, and that no US firm would be willing to undertake the heavy costs and risks involved in attempting to break into these markets on an adequate scale. He added that the job would take about five years, thus making it of no value in meeting Iran's immediate problems.

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[REDACTED], in contradiction to some of [REDACTED] recent [REDACTED] felt that little Iranian oil could be sold in the Western hemisphere, where the Iranian leaders still hope to obtain markets. He cited the heavy cost of transportation -- \$1.70 a barrel to the US East Coast as against \$.50 from Venezuela -- adding that Abadan, with a labor force ten times that of a comparable US installation, was a high-cost producer of refined products. Even if Iran were willing to provide the discounts necessary to make its oil competitive in the US, [REDACTED] thought that sales would be small in view of the fact that 80 percent of US East Coast refining capacity is controlled by firms with Middle East interests. He reiterated that adequate supplies of oil are being provided without Iran's production and that restoration of Iran's output would involve a retarding of the present rate of expansion elsewhere.

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In response to a question from Mr. Amory, who cited ONI's recent study of potential tanker availability, [REDACTED] agreed that a good deal of tanker capacity might be made available and that resumption of the shipment of Iranian oil might actually reduce total world tanker requirements owing to a shortening of routes. He indicated that the really important question was entry to markets, not tankers.

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b. Spare parts. [redacted] was highly impressed with the excellent condition of the Abadan refinery and other installations. He stated that the Iranian oil officials had done a thoroughly professional job of putting and keeping the machinery in first-class condition and had done some remarkable work in improvising replacement parts. He pointed out, however, that stocks of spare parts were low, that the costs involved in fabricating replacements on a large scale were prohibitive (he noted that a quarter of a million dollars had been spent repairing a \$25,000 compressor), and that in most cases US or other non-British parts could not be used. [redacted] pointed out trucks, of which he was told 2,000 would be needed when refinery operations resumed, as examples of the auxiliary equipment which would also need British parts.

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Personnel. [redacted] was extremely complimentary to the Iranian oil company officials, who he felt were well qualified and handicapped only by their inability under AIOC management to obtain experience in top management posts. He stated that the US could be of assistance in providing technical advice and perhaps in supplying some of the several hundred extra technicians who would be needed if full production were restored at Abadan, but he clearly assumed that the Iranians themselves were capable of retaining full control.

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[redacted] other US oil experts who have talked to the Iranians, expressed great discouragement over his inability to shake the preconceptions of Mossadeq and his political associates. Although [redacted] thought the Iranian oil men were thoroughly aware of the facts of the situation (notably Chairman Parkideh of the National Iranian Oil Company sales committee), he described the politicians as being ready to accept, one by one, the subsidiary points [redacted] but then refusing to accept the logical conclusion. He was discouraged about their ever being

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diverted from what he regarded as a suicidal course but felt the effort must be made. He considered that the compensation issue was by all odds the most important one and that agreement on prices and other details could be worked out if an agreement on how to tackle compensation were made. In this connection, he expressed the belief that Mossadeq would be able to secure popular acceptance of a deal with the British if he could assert that the UK was being forced to pay full price and was thus precluded from profiting at Iran's expense. [REDACTED] thought that the British would derive a good deal of benefit from the compensation obtained from a settlement but considered that, like the Iranians, they were holding out for more than was reasonable.

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4. Although [REDACTED] spoke with considerable conviction regarding Iran's political outlook, about which he was far more pessimistic than NIE-75, he was obviously not speaking as an expert and adduced virtually no new information. He based his recommendation that the US use troops in Iran if necessary on the importance of saving Iranian oil. In this connection, he noted the recent accomplishment of a successful exploratory drilling at Qum, 75 miles south of Tehran, and expressed the belief that additional fields could undoubtedly be opened up if the effort were made.

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