This paper, previously approved by the Steering Group, has been revised to incorporate suggestions of the Joint Chiefs of Staff. It is now approved at the official level.

Robbins F. Gilman
Secretary
Problem

To work out with the British a coordinated approach to the Iranian question while maintaining United States freedom of action.

U.S. Objectives in Iran

(1) Our primary objective is the maintenance of Iran as an independent country aligned with the free world. A secondary objective is to assure access to the Western world to Iran's petroleum, and as a corollary to deny access to the Soviet bloc.

(2) In pursuance of our primary objective, it is the policy of the U.S. to extend to Iran, primarily through the Shah, the only present source of continuity of leadership, political support and military, economic, and technical assistance whenever this help will serve to: (a) Increase stability and internal security, and strengthen the ability and desire of the Iranian people to resist communist subversion; (b) strengthen the leadership of the Shah and through him the central government, and (c) demonstrate the intention of the U.S. to help preserve Iranian independence.

(3) The principal factor affecting the security of Iran and its alignment with the West is the oil controversy existing between Iran and Great Britain; thus it is the policy of the U.S. to bring its influence to bear in an effort to effect an early settlement of this dispute by agreement between the two parties.

(4) It is the desire of the U.S. in implementing its programs and policies, to seek close coordination with the British, insofar as this is not detrimental to U.S. objectives. In this connection, we would seek correlated political action and military discussions with the British in the event of a communist seizure, attempted seizure, or clearly imminent seizure of power in Tehran. In those circumstances the U.S. would give full political support and would consider whether or not military support would be desirable or feasible, for the dispatch of British forces to southern Iran at the request of the legal Iranian Government.

Probable Position of the British

The British may seek:

(1) Vigorous U.S. support for strong action vis-à-vis Iran in the oil controversy, including economic sanctions and joint political action to effect a change of government in Iran.
(2) Close coordination of all U.S.-U.K. policies in Iran, including consultation with the British in advance of any American aid programs, particularly the request of the Iranian Government for a loan for budgetary support to replace its lost oil revenues.

(3) Aside from the oil question, a definite military commitment on the part of the U.S. in the event of a Communist seizure of power in Iran.
Position to be presented: (On U.S. initiative)

We are deeply concerned over the situation in Iran. As we see it, the strategically soundest defense of the Middle East against a break-through of Communist power without overt aggression is in Iran. If an Iran oriented toward the West can be achieved between Turkey and Pakistan the strengthening of the position in the rest of the Middle East should become a problem of manageable proportions. If on the contrary Iran moves into the Soviet sphere, our task in the rest of the Middle East becomes immeasurably greater.

At the present time Iran seems to be narrowly balanced between the East and the West. In the world as it is today such a position is inherently unstable. Unless we are successful in moving Iran back toward the West, we fear events will force it to move more or less rapidly in the other direction.

If things continue in their present direction Iran will soon be confronted with four alternatives: (a) to face economic collapse with all of its implications, (b) to turn to the Soviet bloc for assistance or the sale of oil, (c) financial aid from the U.S., or (d) settlement of the oil controversy. These alternatives apply...
alternatives apply equally with Mosadeg in or out of power. While a settlement might be easier with Mosadeg replaced, neither is this certain nor is there any present indication that he will fall. The talks which both of our representatives in Tehran have had with the Shah concerning the possible replacement of Mosadeg have had no effect, and the position of the latter seems now to be as firm as ever.

We are fully aware of the immense problem that this whole matter has created for you and of the difficulties of reaching a settlement which would not seriously prejudice British prestige and economic interests. We think that, although Mosadeg would be prepared for either of the first two alternatives before he would openly capitulate on the basic principles of his nationalization program, he would much prefer a settlement which he could square with nationalization and with Iranian public opinion. It is possible that the International Bank, whose plan we understand will be submitted within a week or two, offers some chance of success, although we are frankly doubtful. We believe it extremely important that no time be lost in formulating another approach or approaches. This is particularly urgent since, once Iran begins selling oil in any quantities to the Soviet or its satellites, it
satellites, it may well be committed to a point where reversal will be difficult or impossible. Secretary Acheson recently suggested to Mr. Eden that a distinguished British citizen be designated to look into the matter and to discuss with US representatives a possible solution. We hope that this can be done, and that talks can begin in the immediate future. In this connection we understand that Mosaden recently sent an emissary (Prince Sarek-ed-Dawleh) to see your Charge in Tehran with a message that he realised the necessity of reaching a settlement and with a suggested solution. While the suggestion is in itself not all that might be desired, we believe that it has certain aspects which should be explored on an urgent basis, and hope that British and US representatives can discuss this in detail without delay.

Our fundamental objective in Iran is to prevent the loss of that country from the free world. We want a settlement of the oil controversy which would meet legitimate British interests. If, however, such a settlement is not possible we must explore other means of preventing a tragedy which would do incalculable damage to the entire West. We do not want to do anything to impede a settlement. At the same time we must consider what measures are essential to preserve Iran. We foresee a possibility that the US might have to render financial assistance to Iran, at least
at least on a limited scale, pending settlement of the oil issue. It would be our policy in this case to render such assistance only in amounts needed to prevent collapse and not unduly to relieve the pressure upon the Iranian Government to reach a settlement with you. Before actually implementing such a program we would of course discuss the matter with you in line with our "Prior consultation" policy, and would hope for your agreement that this step should be taken.

We are now having difficult negotiations with Mossadeq on the whole question of American military and economic assistance. These negotiations relate primarily to the question of assurances required under Section 511(a) of the Mutual Security legislation in order to qualify the country to receive assistance; the provisions of the so-called Battle Act setting forth US policies regarding assistance to countries exporting certain categories of goods to the Soviet bloc; agreements under which economic and military missions in Iran will carry out their responsibilities; and the Export-Import Bank loan which has been pending for many months, even before the nationalization law was passed by Iran. The outcome of these negotiations may have some bearing upon the matters which we are now discussing, and we therefore suggest that we take up the question of Iran again after you return to Washington from Canada.

In the meantime,
In summary, we feel that the security interests of the United States and the Western World call for finding in the very near future some basis for a solution of the oil controversy. We feel you should continue and intensify your best efforts to find some proposal which will result in an early settlement of this problem.

In the meantime, however, we hope that your representatives can at once have more detailed discussions with officials at the Department of State concerning possible solutions to the oil controversy, after which we can explore the matter with the benefit of their study. We also hope that you will find it possible to take prompt action upon the designation of an individual in whom you have full confidence to work closely with us on the oil matter.

Suggested Responsibility:
Mr. Ashdown
Mr. Lovett
Discussion

Following the nationalization of oil in Iran and the failure of all efforts thus far to find a settlement between the Iranian and British Governments, the situation in that country has rapidly deteriorated. Notwithstanding the deplorable state of the Iranian economy and his failure to derive any benefit from nationalization, Prime Minister Mossadeq continues to enjoy very wide popular support and it appears unlikely that his government will fall in the foreseeable future. It is reasonably clear that the Shah does not consider himself sufficiently strong to take drastic measures in replacing Mossadeq, and repeated approaches by the British and American Ambassadors have been of no avail. There is a real danger that Prime Minister Mossadeq will remain in power until Iran is in the midst of economic chaos or has by the force of circumstances placed itself in a position tantamount to an alignment with the Soviet bloc, unless some means are found to solve the dispute between Iran and Great Britain which would permit Iran again to realize revenues from its oil resources.

Prime Minister Mossadeq has recently announced that, because of the failure of the former customers of Iranian oil to place orders with the National Iranian Oil Company, Iran would now seek any new customers willing to buy. The Department is inclined to give credence to current reports that Czechoslovakia and possibly other Iron Curtain countries are preparing to purchase some quantities of oil from Iran. While the original intention of Mossadeq might have been to threaten such sales as a means of forcing the western countries to place orders, the failure of this result may lead him to continue for sales to Soviet bloc countries even though he must recognize that (a) such sales could not be of a volume which would solve Iran’s economic plight and (b) they would run counter to the so-called Basket Act which prohibits American aid to countries shipping certain categories of goods to Iron Curtain countries. There is a danger that once shipments of petroleum to the Soviet bloc commence, Moscow will feel that its total arrangements must be with that group, and this would thus lead to a redoubling on the part of the U.S. of its efforts to secure an agreement that would resolve the dispute.

The U.S. is convinced that Mossadeq sincerely wants to find a solution which would avoid the necessity of turning to the Soviet bloc, but it is apparent that he will not accept such a solution which would make it appear as though his nationalization program has in any respect been sacrificed. The International Bank plan which is now being formulated may provide a device for at least an interim solution, although this appears unlikely. It is expected that the Bank’s plan will be presented.
presented to Dr. Mossadeg shortly after the middle of January, and it is hoped that the British will do everything possible to make this approach successful if Mossadeg's reaction is at all encouraging. No time should be lost however, in formulating alternative plans in the event this should fail. Mossadeg recently sent an emissary (Prince Serem-
dd-Dawla) to the British Chargé in Tehran with the message that he realized the necessity of reaching some settlement at an early date, and with a suggested solution. While the suggestion in itself leaves much to be desired, it would appear to contain certain hopeful aspects which should be carefully explored. It is hoped that Departmental representatives can discuss this possibility with an appropriate British official or officials at an early date.

In this connection, the Secretary recently suggested to the British Foreign Minister in Paris that the British designate a prominent citizen to study a possible solution to the oil problem and to consult with U.S. representatives. The name of Lord Breda was suggested. It is believed that it would be extremely useful if the British would proceed immediately upon this matter and possibly have Lord Breda visit Washington within the immediate future to explore the above and other possibilities.

Not directly related to the oil issue, but indirectly connected therewith, are a number of problems with which the U.S. must deal in its relations with Iran. Some of these, briefly summarized follow.

(a) The U.S. is endeavoring to obtain from Iran assurances required under Section 311 of the Mutual Security legislation in order to continue its military and economic programs now in being. Dr. Mossadeg thus far has refused to give such assurances on the basis that they would tend to imply an alignment of Iran with the U.S. in opposition to the Soviet Union. In discussions relating to this matter it is clear that Mossadeg is not sympathetic towards American military assistance to Iran, nor is he particularly anxious to receive economic assistance of the Point IV type, his main interest being in receiving financial aid to support the Iraqi economy. Failure to work out an arrangement in this matter might well result in the termination of American military aid to Iran and the eventual necessity of withdrawing the military missions. This, of course, would be contrary to the wishes of the Shah and highly detrimental to the interests of the U.S. and the Western powers.

(b) After January 24 the export by Iran of petroleum to the Soviet bloc would raise the question of the invasion of the Baltic States. While there would be a sound legal and moral basis for terminating American aid to Iran,
to Iran, such a course undoubtedly would be highly detrimental to the U.S. and Western interests and would render it extremely difficult for the U.S. to continue to exercise any useful influence in Iran. The sale of oil to Soviet bloc countries followed by the termination of American aid might well seal the doom of Iran, especially if there were no immediate hope of an oil settlement.

(c) Iran applied for an Export-Import Bank loan of $25 million and the U.S. indicated its willingness to proceed with the loan, several months before the nationalization of oil came about. The matter has subsequently been delayed by technicalities, the main question relating to how, in view of the cessation of oil operations, Iran would finance the internal costs involved in the projects and service the loan. These technicalities have now been largely overcome to the Bank's satisfaction, and we may soon be forced to proceed with the loan or reject it on political grounds, which would be contrary to Bank policies and would be highly detrimental to U.S. interests in Iran. It may be undesirable, therefore, to proceed with the loan which we recognize might not be welcomed by the British even though the funds would be for the external costs of long-term projects rather than for purposes which would have the effect of lessening the impact upon the Iranian budget resulting from the loss of oil revenues. A decision on this has not been taken.

(d) The U.S. is considering the request of Mosadeq for a loan to be used for budgetary support purposes. It is realized that the extension of such a loan in any amount would tend to relieve the pressures upon the Iranian Government for a settlement of the oil controversy and would provide political advantages to Mosadeq himself. On the other hand, the economic situation in Iran may soon reach a point where failure of the U.S. to extend any such assistance might well result in the collapse of the Iranian economy or, possibly, even worse, its turning to the Soviet Union for assistance.

It is clear that Iran will soon be in a position where its only alternatives are (1) economic collapse with all of its implications, (2) turning to the Soviet bloc for assistance or the sale of oil, (3) financial aid from the U.S., or (4) an agreement upon the oil controversy. Unless some basis can be found in the near year future for a solution of the oil controversy, the interests of the U.S. and the Western world may require the extension of a limited amount of financial assistance to Iran in order to prevent the materialization of either of the first two alternatives.