

Case 332, Part A, Instructor Copy

THE UNITED STATES, GREAT BRITAIN, AND MOSSADEGH

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CRISIS IN IRAN

In the spring of 1951, Iran nationalized the British-owned Anglo-Iranian Oil Company (AIOC). The British government held a majority interest in AIOC, but the company was run as a commercial concern except for a large, and undisclosed, discount on oil sold to the Royal Navy.

Relations between Iran and AIOC had never been smooth. There had been a short-lived expropriation attempt in 1932, and tensions had increased during the 1940s as higher British taxes resulted in lower revenues for Iran. By 1948, Britain received significantly more revenue from AIOC than did Iran. Negotiations to remedy this situation, and to meet other Iranian concerns, exacerbated rather than eased tensions. Although a “supplemental agreement” raising Iran’s revenues was reached in July 1949, the Majlis, Iran’s parliament, refused to ratify it, and called instead for the nationalization of AIOC. On March 15, 1951, the Majlis voted to nationalize AIOC; five days later the Senate unanimously approved the principle of nationalization; in early April, a nine-point nationalization act, which included provisions for paying compensation to AIOC, was passed. The acts became law on May 1,

after receiving Shah Mohammad Reza Pahlavi’s approval.¹

The United States feared that the ensuing dispute between Britain and Iran could alienate Iran from the West and open it to Soviet influence. During the 1940s, fear of Soviet expansion and determination to secure access to Middle East oil transformed U.S. policy toward Iran from relative indifference to deep concern for Iranian independence and territorial integrity. In addition to being an important supplier of oil itself, Iran constituted a buffer between the Soviet Union and the oil fields of the Persian Gulf.²

According to a January 1951 U.S. intelligence estimate, Iranian oil production at the time was more than 33 percent of total Middle East production and around 7 percent of total world production. Almost all of Iran’s production was exported, the bulk as refined products. The refinery complex at Abadan was the largest in the world, and supplied more than 25 percent of all refined products outside the Western Hemisphere. Loss of Iran’s oil, the report warned, would retard European recovery and impose severe financial hardships on Great Britain. Loss of all of Middle East oil would make the Western European rearmament program “impossible of accomplishment,” and would force “profound changes” in Western Europe’s economic structure.³ Drawing on this and other studies, the National Security Council (NSC) warned that if Iran came under Soviet domination, the independence of the entire Middle East would be directly threatened and important U.S. security interests jeopardized.⁴

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The Iranian nationalization also threatened the key elements of U.S. foreign oil policy: an activist role in maintaining the stability and Western orientation of the Middle East, opposition to economic nationalism, and public support for the private operations of the major oil companies. During World War II, the vital role of oil in modern warfare and economic life coupled with a growing realization that the nation's historic self-sufficiency in oil could soon come to an end convinced leading public and private decision-makers that the United States "must have extraterritorial petroleum reserves to guard against the day when our steadily increasing demand can no longer be met by our domestic supply." After statist and liberal approaches were rejected because of strong political and ideological opposition to state involvement in corporate affairs and deep divisions within the U.S. oil industry, the United States turned to the major oil companies to protect and promote the national interest in foreign sources of petroleum. The result was a symbiotic relationship between the U.S. government and the major oil companies based on parallel interests in protecting and expanding control of world oil reserves by U.S. private companies, thwarting economic nationalism, and containing the Soviet Union.⁵

The State Department warned that the United States could not ignore the impact of a successful nationalization in Iran on its oil interests in the Middle East, Latin America, and the Far East. Any outcome in Iran that provided greater benefits for Iran than those received by other producing countries would lead to demands for equal treatment, "thus creating a pattern of 'most favored nation' demands." Although nationalization was an unlikely prospect in most of the Middle East because of a lack of technical capacity, the Iranian nationalization had the potential to undermine private control of the world oil industry. A statement of the U.S. position, issued after talks with the leading U.S. oil companies, strongly opposed "any unilateral cancellation of clear contractual relationships," and warned that elimination of AIOC would deprive Iran of not only technical knowledge and capital, but also the transportation and marketing facilities essential for efficient operation. Moreover, the U.S. companies that possessed these capabilities had "indicated . . . that they would not in the face of unilateral action by Iran against the British company be willing to undertake operations in that country."⁶

Political ties as well as economic interests inclined the United States to support the British. Close cooperation with Great Britain was a cornerstone of U.S. foreign policy, especially in the Middle East,

which was considered an area of British political and military responsibility. President Harry S. Truman later noted in a letter to former Ambassador Henry R. Grady: "We had Israel, Egypt, Near East defense, Sudan, South Africa, Tunisia, the NATO treaties all on the fire. Britain and the Commonwealth nations were and are absolutely essential if these things are successful. Then on top of it all we have Korea and Indochina. Iran was only one incident."⁷

The United States was also well aware of the importance of Iranian oil to the British economy. AIOC's holdings in Iran were Britain's largest single overseas investment, and the company's operation in Iran provided Britain with more than \$400 million a year in badly needed dollar exchange. Loss of these dollars threatened Britain with serious balance of payments difficulties. In addition to losing these earnings, Britain would be forced to develop alternative sources of oil, particularly refined products, and the large capital outlays required would exacerbate the trade and payments effects of the loss of Iranian oil.⁸

On the other hand, some top U.S. officials expressed little sympathy for the British position. President Truman felt that Britain had dealt "ineptly and disastrously" with the whole matter, and that the head of AIOC looked like a "typical nineteenth-century colonial exploiter." Secretary of State Dean Acheson later wrote that "never had so few lost so much so stupidly and so fast." More importantly, however, the United States feared that British efforts to reverse nationalization could lead to the loss of Iran to the Soviets. A shutdown of oil operations and a boycott of Iranian oil could easily lead to economic collapse and a communist coup; armed intervention by the British in the oil areas of southern Iran could lead to similar action by the Soviets in the north, possibly at Iran's request.⁹

Given these concerns, the NSC recommended on March 14 that the United States urge Britain "to effect an early and equitable settlement of the oil dispute" before the situation in Iran deteriorated to a point where a communist takeover was a possibility. In conversations with the British, U.S. officials pointed out that nationalization had overwhelming popular support in Iran and that at least a "veneer" of nationalization would have to be accepted to reach a settlement. Moreover, the United States believed that the shah and "responsible government officials" in Iran would try to reach an equitable settlement. An unyielding attitude on the part of the British, on the other hand, could create opportunities for the communists. Acheson warned British ambassador Sir Oliver Franks that if Britain took a hard line against the Iranian nationalist movement,

“one risks its immediately being captured by the U.S.S.R.”¹⁰

Britain versus Iran

The British were in no mood to compromise. They viewed the Iranian action as a unilateral cancellation of clear contractual rights, which jeopardized other overseas investments, not only those held by British and U.S. oil companies in the Middle East, but investments all over the world. While Iranian oil was important to Britain, it was not as important as all the rest of Britain’s foreign oil interests. The British believed that it would be disastrous for their general position overseas if foreign governments came to the conclusion that they could unilaterally repudiate contracts with British companies, seize British assets, and pay only as much compensation as they themselves decided. The British also argued that nationalization would have a serious impact on their economy and affect their rearmament plans. Finally, the British maintained that nationalization would inflict grave harm on the Iranian oil industry, and if Iran were to drift into economic chaos as a result of the loss of oil revenues, only the communists would benefit. In view of these considerations, the British preferred to stand firm on their rights until the Iranians “came to their senses.”¹¹

The situation in Iran also rekindled U.S. concerns over the position of the shah. Since coming to the throne in 1941, the young shah had worked hard to convince the United States that he was the best guarantor of Western interests in Iran. The crisis resulting from nationalization intensified this tendency to identify the shah and the institution of the monarchy with Iranian independence and internal stability.¹²

Soon after nationalization, U.S. policymakers began developing plans to bolster the position of the shah and other pro-Western Iranians in order to promote internal stability and maintain Iran’s alignment with the “free world.” These plans included accelerated and expanded military, economic, and technical assistance, and covert financial and other assistance to pro-Western and anticommunist elements in Iran. The Central Intelligence Agency (CIA) had been carrying out a variety of covert activities in Iran since the late 1940s. Initially focused on countering Soviet influence in Iran, these activities also provided a means for influencing Iran’s internal affairs. Central to these efforts was a propaganda and political action program code named BEDAMN, run through a network headed by two Iranians and funded at around \$1 million a year.¹³

In late April, Mohammad Mossadegh, the main

force behind nationalization, became prime minister. A European-educated lawyer and wealthy landowner who had been active in Iranian politics since the turn of the century, Mossadegh had become the public and symbolic leader of Iranian nationalism. The core of Mossadegh’s support lay among intellectuals and young professionals, but by 1951 he had won widespread public support. A liberal democrat as well as an ardent nationalist, Mossadegh was determined not only to end British control of Iran’s oil industry, and with it British interference in Iranian internal affairs, but also to recapture the goal of the constitutional revolution of 1906 and to assert the primacy of the Majlis over the monarch. Moreover, as Richard Cottam has noted, nationalistic Iranians believed that the “imperialists . . . wanted to perpetuate an Iran dominated by the traditional class that would welcome imperial protection for their vested position and would agree in return to protect the economic vested interests of Western capitalism.”¹⁴

As Iran moved to assert its control over AIOC properties in southern Iran, the British submitted the dispute to the International Court of Justice in The Hague. The British also moved troops to bases in the Middle East and dispatched additional warships to the Persian Gulf. These moves prompted Secretary of State Acheson to warn London that the United States would support the use of military force only on invitation of the Iranian government, or in the event of Soviet military intervention or a communist *coup d’état*, or to rescue British nationals in danger of attack.¹⁵

With Britain and Iran on the brink of war, the NSC recommended that the United States “bring its influence to bear in an effort to effect an early settlement of the oil controversy between Iran and the United Kingdom, making clear both our recognition of the rights of sovereign states to control their natural resources and the importance we attach to international contractual relationships.” In an effort to mediate the dispute, President Truman dispatched veteran statesman W. Averell Harriman to Iran to try to find a basis for a settlement.¹⁶

The Harriman Mission

Harriman arrived in Iran in mid-July accompanied by oil expert Walter Levy and interpreter Vernon Walters, a career army officer whose linguistic abilities would take him on many similar “silent missions” in the future. Harriman and Levy informed the Iranians that, nationalization notwithstanding, “they could not expect to obtain a financial return greater than that of other countries under compara-

ble conditions.” Iran’s oil industry had to be run on an “efficient” basis, and efficient operation, they insisted, could only be accomplished through a “foreign-owned operating company with freedom in day-to-day management.” Moreover, whatever form the final settlement took, the operating company “would have to receive the equivalent of 50 percent of the net receipts.”¹⁷

Harriman also met with the shah and raised the possibility of replacing Mossadegh. The shah and his advisers, however, explained that this option was politically impossible because the country was solidly behind Mossadegh on the oil issue. No one but Mossadegh could obtain popular approval for a settlement with Britain, and even Mossadegh could not make a deal that did not meet the requirements of the nationalization law.¹⁸

Although Harriman was able to get the Iranians and the British to resume negotiations, a settlement proved impossible. The British were reluctant to relinquish control of Iran’s oil and proposed an arrangement whereby AIOC would continue to run the oil industry through a management contract. Mossadegh, whose concerns were more political than economic, argued that the British proposal would leave control of Iran’s major industry in foreign hands and thus provide the British with both the motivation and the means to continue to interfere in Iran’s internal affairs. In particular, Mossadegh was concerned about the use of AIOC as a cover for British intelligence operatives. Therefore the Iranians insisted that British oil technicians had to be under the control of the newly created National Iranian Oil Company (NIOC) and that AIOC’s role be limited to handling exports to Britain.¹⁹

Harriman criticized the Iranian demands as “contrary to well-known commercial methods of the international supply and distribution of oil.” If Iran wanted to sell its oil, it would have to make arrangements with the large companies that controlled the necessary transportation, distribution, and marketing facilities. AIOC was the only company in the position to market large quantities of Iranian oil without disrupting markets, so Iran would have to deal with it. Harriman also pointed out that Iran could not expect to receive higher prices for its oil than other producing countries because the oil companies could buy or produce oil elsewhere. Finally, Harriman charged that the Iranian position on compensation was “untenable.” The United States, he noted, held that “seizure by any government of foreign-owned properties without effective compensation or working out new arrangements mutually

satisfactory to former owner and government, is not nationalization, but confiscation.” Since Iran had no funds to pay adequate and prompt compensation, it was obliged to work out arrangements satisfactory to AIOC. Negotiations were suspended on August 22, and the British delegation returned home the following day.²⁰

Increasing Tensions

The British had negotiated under pressure from the United States. A strong current of thought in the Foreign Office held that it was useless to negotiate with Mossadegh, and that efforts should focus on replacing him. Foreign Secretary Herbert Morrison agreed, and in June dispatched C.M. Woodhouse, a senior British intelligence officer, and Robin Zaehner, an academic expert on Iran who had served there during World War II, to Iran with instructions to organize Mossadegh’s demise. The British intelligence network in Iran included senior army and police officers, Majlis deputies and senators, religious leaders, merchants, newspaper editors, elder statesmen, and mob leaders. In addition, the British could count on the support of a number of tribal leaders in the south. The British were also in close contact with the shah through his Swiss tutor and had information concerning Mossadegh’s plans through an Iranian agent who attended the weekly Council of Minister meetings held in the prime minister’s home.²¹

Although Harriman urged the British to let the situation “simmer,” until economic conditions convinced Mossadegh to compromise, the British stepped up their efforts to topple Mossadegh. Under pressure from the Conservatives and facing elections in October, the Labour government, in response to Mossadegh’s demand that AIOC’s British employees leave Iran if negotiations were not resumed, announced that oil negotiations were “no longer in suspense but broken off.” In addition, the British dispatched four destroyers to the Persian Gulf to join the ten warships already stationed there; suspended financial and trading privileges previously accorded Iran by the Bank of England, denying Iran virtually all of its dollar exchange; and revoked export licenses for scarce commodities destined for Iran, including those for cargoes en route. Adding to the pressure on Iran, AIOC withdrew its personnel from the oil fields and announced that it would institute legal proceedings against any and all purchasers of “stolen” Iranian oil.²²

Suspecting that these actions were designed to encourage the shah and the Majlis to replace him with Sayyid Zia, a conservative politician and long-

time British ally, Mossadegh charged that the British were trying to overthrow him and sent troops to occupy the Abadan refinery complex and expel all remaining British employees of AIOC. Although a British strike force was poised to seize Abadan island, the certainty of an adverse U.S. reaction gave London pause. Instead of defending Abadan by force, as previously pledged, the British withdrew their personnel and appealed to the United Nations.²³

Renewed Search for a Settlement

The expulsion of AIOC from Iran forced the United States to reexamine its policy. The major U.S. oil companies recommended backing the British. Meeting with Acheson on October 10, the top executives of Standard Oil (New Jersey), Standard Oil of New York, Gulf, Standard Oil of California, and the Texas Company argued that giving Iran better terms than those received by other producing countries would threaten the international oil industry. In their opinion, losing Iran to the Soviets would be preferable to the instability that successful nationalization would create. The situation transcended the oil industry—what was at stake was the “sanctity of contractual relations” upon which all U.S. investment abroad depended. Acheson, however, countered that the U.S. government also had to keep in mind the strategic and political consequences that would flow from the loss of Iran.²⁴

The U.S. military argued that maintaining Iran’s orientation to the West was more important than backing AIOC. In a report to the NSC on October 18, the Joint Chiefs of Staff (JCS) warned that Soviet control of Iran would mean immediate loss of Iranian oil and eventual loss of all Middle East oil, which would greatly increase the West’s deficiency in oil resources. Loss of Iran would also outflank Turkey and thus provide the Soviets with a springboard for the domination of the entire Middle East and Eastern Mediterranean. Whereas the JCS in August had felt that U.S. objectives in Iran could be attained “without serious prejudice to British interests,” they now felt that “strictly from the United States military point of view, Iran’s orientation towards the United States in peacetime and maintenance of the British position in the Middle East now transcend in importance the desirability of supporting British oil interests in Iran.”²⁵

The State Department, however, countered that the cooperation of the international oil industry was essential for the efficient operation of Iran’s oil industry and, hence, for Iran’s prosperity and stabil-

ity. Moreover, a settlement in Iran that undermined U.S. concessions and investments elsewhere in the world was no more in the U.S. national interest than in the British. Thus while the primary objective of U.S. policy was maintenance of Iran as “an independent country aligned with the free world,” the department argued that the United States should not support a settlement that had the “effect of injuring seriously the fabric of the world oil industry, which is so vital to the whole free world.”²⁶

Taking advantage of Mossadegh’s presence in the United States to argue Iran’s case before the United Nations, the State Department renewed its efforts to negotiate a settlement with Iran. Two weeks of discussions produced a plan whereby Iran would turn over the massive refinery complex at Abadan to a “neutral” foreign company while retaining control of the oil fields and other facilities. No agreement was reached, however, on compensation or on the price at which Iran would sell its oil. The U.S. position on price was that Iran could not receive a higher price for its oil than other producing countries in the Middle East, even though after nationalization Iran owned its own production facilities. In any event, the British refused to resume negotiations.²⁷

The British remained firm in their conviction that it would be impossible to reach a satisfactory agreement with Mossadegh. Moreover, elections in late October returned the Conservatives to power. The decline in British power and prestige had been a major issue in the campaign, and Winston Churchill confided to Truman in early January 1952 that had he been in office “there might have been a sputter of musquetry, but [Britain] would not have been kicked out of Iran.” Aside from wounded pride, the Conservative position followed the same reasoning that had underlain the Labour government’s policy and was based on the importance of overseas investments to Britain’s economic survival. In this view, Iran’s nationalization of AIOC threatened to undermine the last vestige of confidence in British power and, hence, in its whole overseas position. If Britain acquiesced in Iran’s action by cooperating in the transfer of control to Iran, all of Britain’s overseas holdings would be in jeopardy. Iran simply could not receive better terms than countries that kept their contracts.²⁸

Acheson felt that British policy was “depressingly out of touch with the world of 1951,” and explained to the British that while the United States was willing to let existing circumstances operate to Mossadegh’s detriment, it would not let matters go so far as to threaten seriously Iran’s orientation toward the West. Acheson agreed that it was probable that no

settlement could be reached with Mossadegh, but argued that negotiations would serve to demonstrate that there were alternatives to Mossadegh's policies and would strengthen the shah.²⁹

The "fundamental objective" of U.S. policy was to prevent the loss of Iran to the "free world." Thus while the United States wanted a settlement of the oil controversy that would meet legitimate British interests, if such a settlement was not possible, it would consider other means of preventing a "tragedy which would do incalculable damage to the entire West." With these goals in mind, the United States continued to provide aid to Iran, though only enough to prevent collapse and not so much as "unduly to relieve the pressure on the Iranian government to reach a settlement." U.S. aid to Iran, which amounted to only \$1.6 million in 1951, increased to \$23.4 million in 1952. Most of the aid was Point IV (technical) and military assistance.³⁰

While urging the British to negotiate, the United States, in early 1952, gave Britain an additional \$300 million in financial assistance to help cover the dollar costs of replacing Iranian oil. In addition, the United States, through the Petroleum Administration for Defense (PAD), helped cushion the impact of the cutoff of Iranian exports by working out arrangements under which U.S. oil companies could cooperate with AIOC to replace Iranian oil. Explained as being necessary to meet the oil needs of the non-communist world during the Korean War emergency, the arrangements also made it possible for AIOC, in cooperation with Shell and the major U.S. oil companies, to protect the markets formerly supplied by AIOC against encroachments by outsiders and independents. AIOC was able to maintain supplies to its established customers by increasing its production in Iraq and Kuwait and by procuring supplemental supplies from other oil companies. Although AIOC's profits before taxes fell sharply between 1950 and 1952, net profits declined only slightly as a result of much lower British income taxes; dividend payments were maintained at the 1951 level.³¹

After an effort by the World Bank to negotiate a settlement ground to a halt in early 1952, the United States, believing a settlement with Mossadegh unlikely in the short term, concentrated its efforts on finding a long-term solution. The U.S. Ambassador to Iran, Loy W. Henderson, redoubled his efforts to convince the shah to exercise his prerogative as monarch and replace Mossadegh with someone more "reasonable" on the oil issue. Working through Hussein Ala, the shah's British-educated and Western-oriented minister of court, Henderson argued

that as long as Mossadegh remained in power there was little chance of resolving the oil dispute and that, in the absence of an oil settlement, the situation in Iran would continue to deteriorate economically and politically.³²

In addition, the United States initiated discussions with the British aimed at having proposals ready to present to a new government, or to Mossadegh should his attitude change. By early July, the British had agreed to the establishment of a multinational consortium, with British participation, to run the Iranian oil industry, in principle under contract to the NIOC but with full managerial control. The British also agreed in principle to U.S. plans for interim assistance to a new government provided it gave satisfactory evidence of determination to reach a settlement on the oil issue.³³

THE JULY CRISIS AND ITS AFTERMATH

Mossadegh gained a narrow majority in the Majlis elected in early 1952, thus consolidating his position somewhat. Meanwhile, the British began looking to veteran statesman Qavam Saltaneh, who was also in contact with the U.S. embassy, as a replacement for Mossadegh. While talks with Qavam were still in progress, Mossadegh unexpectedly resigned on July 17 after the shah refused to designate him minister of defense as well as prime minister. The shah, with Majlis approval, then appointed Qavam prime minister. The National Front countered by organizing massive demonstrations calling for Mossadegh's return. The sudden turn of events, which coincided with the overthrow of King Farouk in Egypt, caught both the United States and Britain by surprise. Qavam immediately asked for, and was promised, U.S. assistance. Before U.S. aid could arrive, however, Qavam was forced from office after the shah refused to grant him extraordinary powers to deal with the demonstrations protesting his replacement of Mossadegh. On July 22, the shah reappointed Mossadegh prime minister with greatly increased powers.³⁴

The United States tried to salvage something from the unfavorable turn of events by offering Iran an emergency grant of \$10 million (out of the \$26 million that had been approved for aid to Qavam). The aid was conditioned on Iran's acceptance of international arbitration of the compensation issue. The British opposed the plan—which also called for AIOC to buy some of the oil Iran had in storage—arguing that Mossadegh was no longer a bulwark against communism. Only a coup, the British

insisted, could save Western interests in Iran. The United States, however, stuck to its position that for the time being there was no acceptable alternative to Mossadegh. After some pulling and tugging and an exchange of messages between President Truman and Prime Minister Churchill, the British reluctantly agreed to the U.S. plan, but insisted that it be presented as a joint Anglo-American proposal. At the end of August, a joint proposal was handed to Mossadegh.³⁵

Mossadegh objected to international arbitration of the compensation issue, insisting that compensation would have to be limited to AIOC's physical properties. He also pointed out that Iran had claims against AIOC because of its boycott of Iranian oil, and demanded that AIOC pay Iran £49 million due as a result of the never-ratified 1949 "supplemental agreement." The British maintained that AIOC was within its rights in blocking sale of "its" oil; reiterated their intention to support AIOC in its demand for compensation not merely for loss of property, but also for the "unilateral termination" of AIOC's concession agreement; and rejected Mossadegh's demand for back payments as a "fictitious debt."³⁶

The British did more than protest. By the fall of 1952, Woodhouse was spending around £10,000 a month to maintain the British intelligence operation in Iran. Shortly after the Qavam fiasco, the Rashidian brothers, who headed an important part of the British network, and a group of military officers led by Fazlollah Zahedi intensified their efforts to remove Mossadegh. Zahedi, a retired general and member of the Senate, headed the Retired Officers Association, and had been a minister in Mossadegh's first cabinet. Mossadegh's purge of the army following the Qavam episode and the resurgence of activity by the communist Tudeh party apparently turned Zahedi against Mossadegh. During August and September, Zahedi met with dissident elements of the National Front, including religious leader Ayatollah Abol Ghassem Kashani, and with leaders of the Bakhtiari tribe. Although the British had arrested Zahedi during World War II because of his pro-Nazi sympathies and activities, London agreed to give him support. Zahedi may also have met with U.S. officials at the time. The British provided arms to the Bakhtiari, but before the plotters could act, Mossadegh learned of their plans and ordered their arrests. Charging that British agents were plotting his downfall, Mossadegh broke diplomatic relations with Britain in late October, forcing the expulsion of British diplomatic personnel from Iran. As they departed, the British turned their covert assets over to the CIA.³⁷

The United States Takes Charge

With relations between Iran and the West deteriorating rapidly, the United States moved to take a more active role in the search for a settlement of the dispute. According to Acheson, he and his colleagues came to the conclusion that the British were so obstructive and determined on a "rule-or-ruin policy" in Iran that the United States had to strike out on an independent policy or run the risk of having Iran disappear behind the "Iron Curtain" and the whole military and political situation in the Middle East change adversely. Therefore, Acheson proposed using the major U.S. oil companies to move Iranian oil in order to provide Iran with desperately needed revenues.³⁸

The Defense Department had already begun contingency planning on feasible military responses to a communist coup attempt and was eager to take decisive action to save Iran from communism even at the cost of damaging relations with Britain. British policy had failed, Secretary of Defense Robert Lovett argued, and the United States had to be ready to act promptly, "and, if necessary, independently of the British," to "save" Iran. Such actions as economic assistance and aid to Iran's oil industry, he conceded, "may appear painful, costly, and dangerous," but were only a fraction of what it would cost to hold Iran by military action or to hold the rest of the region if Iran fell to the communists.³⁹

The State Department and President Truman felt that overall relations with Britain were too important to risk over Iran. While identification of the United States with Britain in the Middle East exposed the United States to the accusation of supporting traditional imperialism, the United States benefitted from the British position in the Middle East. In particular, the British base system in the region was viewed as essential to defense of the Middle East against a possible Soviet attack. In addition, Secretary of State Acheson felt that while the United States had been more sensitive "to the wider dangers inherent in the Iranian situation," the British position on nationalization had not been unreasonable. The objective of U.S. policy, he stressed, "must be to save Iran without unnecessarily damaging our relations with the United Kingdom."⁴⁰

Problems of a different sort arose with the Justice Department. Attorney General James McGranery pointed out that "it would be most difficult to work out a program involving the majors and at the same time maintain the present antitrust action." In June 1952, President Truman, over the objections of the State Department, had authorized the Justice

Department to begin a grand jury investigation of the major international oil companies. Utilizing a detailed report by the staff of the Federal Trade Commission entitled "The International Petroleum Cartel," the Justice Department charged that the major oil companies controlled the world oil industry through a series of agreements to divide markets, fix prices, control production, and monopolize reserves. A special grand jury was convened to look into the matter.⁴¹

Antitrust considerations represented a real obstacle to any plans involving the major oil companies and efforts to find a way around them seemed to raise more problems than they solved. Nevertheless, Acheson insisted that the majors would have to be involved because only they could move Iranian oil in volume. Likewise, AIOC would have to get the lion's share of the oil because it had the transportation and marketing facilities to handle the large quantities involved; unless AIOC was taken care of, the British government would not agree to a settlement and lift its blockade of Iranian oil; and if any U.S. company tried to sell Iranian oil in markets previously regarded as belonging to AIOC, the British would take reprisals and Anglo-American relations would be damaged.⁴²

Despite these difficulties, the NSC approved a new statement of U.S. policy in late November.

1. It is of critical importance to the United States that Iran remain an independent and sovereign nation, not dominated by the USSR. Because of its key strategic position, its petroleum resources, its vulnerability to intervention or armed attack by the USSR, and its vulnerability to political subversion, Iran must be regarded as a continuing objective of Soviet expansion. The loss of Iran by default or by Soviet intervention would:
 - a. Be a major threat to the security of the entire Middle East, including Pakistan and India.
 - b. Permit communist denial to the free world of access to Iranian oil and seriously threaten the loss of other Middle Eastern oil.
 - c. Increase the Soviet Union's capability to threaten important United States-United Kingdom lines of communication.
 - d. Damage United States prestige in nearby countries and, with the exception of Turkey and possibly Pakistan, seriously weaken, if not

destroy, their will to resist communist pressures.

- e. Set off a series of military, political and economic developments, the consequences of which would seriously endanger the security interests of the United States.
2. Present trends in Iran are unfavorable to the maintenance of control by a noncommunist regime for an extended period of time. In wresting the political initiative from the shah, the landlords, and other traditional holders of power, the National Front politicians now in power have at least temporarily eliminated every alternative to their own rule except the communist Tudeh party. However, the ability of the National Front to maintain control of the situation indefinitely is uncertain. The political upheaval which brought the nationalists to power has heightened popular desire for promised economic and social betterment and has increased social unrest. At the same time, nationalist failure to restore the oil industry to operation has led to near-exhaustion of the government's financial reserves and to deficit financing to meet current expenses, and is likely to produce a progressive deterioration of the economy at large.
 3. It is now estimated that communist forces will probably not gain control of the Iranian government during 1953. [See NIE-75, "Probable Developments in Iran through 1953," published November 13, 1952.] Nevertheless, the Iranian situation contains very great elements of instability. Any U.S. policy regarding Iran must accordingly take into account the danger that the communists might be enabled to gain the ascendancy as a result of such possible developments as a struggle for power within the National Front, more effective communist infiltration of the government than now appears probable, government failure to maintain the security forces and to take effective action against communist activity, or a major crop failure. It is clear that the United Kingdom no longer possesses the capability unilaterally to assure stability in the area. If present trends continue unchecked, Iran could be effectively lost to the free world in advance of an actual communist takeover of the Iranian government. Failure to arrest present trends in Iran

involves a serious risk to the national security of the United States.

4. For the reasons outlined above, the major United States policy objective with respect to Iran is to prevent the country from coming under communist control. The United States should, therefore, be prepared to pursue the policies which would be most effective in accomplishing this objective. In light of the present situation, the United States should adopt and pursue the following policies:

- a. Continue to assist in every practicable way to effect an early and equitable liquidation of the oil controversy.
- b. Be prepared to take the necessary measure to help Iran to start up her oil industry and to secure markets for her oil so that Iran may benefit from substantial oil revenues.
- c. Be prepared to provide prompt United States budgetary aid to Iran if, pending restoration of her oil industry and oil markets, such aid is necessary to halt a serious deterioration of the financial and political situation in Iran.

In carrying out a, b, and c above, the United States should:

- (1) Maintain full consultation with the United Kingdom.
 - (2) Avoid unnecessarily sacrificing legitimate United Kingdom interests or unnecessarily impairing United States-United Kingdom relations.
 - (3) Not permit the United Kingdom to veto any United States actions which the United States considers essential to the achievement of the policy objectives set forth above.
 - (4) Be prepared to avail itself of the authority of the president to approve voluntary agreements and programs under Section 708 (a) and (b) of the Defense Production Act of 1950, as amended.
- d. Recognize the strength of Iranian nationalist feeling; try to direct it into constructive channels and be ready to exploit any opportunity to do so, bearing in mind the desirability of

strengthening in Iran the ability and desire of the Iranian people to resist communist pressure.

- e. Continue present programs of military, economic and technical assistance to the extent they will help to restore stability and increase internal security, and be prepared to increase such assistance to support Iranian resistance to communist pressure.
- f. Encourage the adoption by the Iranian government of necessary financial, judicial and administrative and other reforms.
- g. [portion deleted].
- h. Plan now for the eventual inclusion of Iran in any regional defense arrangement which may be developed in the Middle East if such inclusion should later prove feasible. . . .⁴³

Before going to the oil companies, Acheson met with British Foreign Secretary Anthony Eden in New York, and told Eden that a new and "in all probability . . . determinative" crisis was about to occur. The United States feared the imminent loss of Iran and planned to take action to prevent it. The British, however, still insisted that the compensation issue had to be settled to their satisfaction before negotiations on purchasing Iranian oil could begin. Acheson pointed out that while the United States hoped that a solution acceptable to Britain could be found, it would "not remain idle while the Iranian problem drifts into a steadily worse situation. . . . In the last analysis, the U.S. government may have no alternative but to move forward in a manner best designed in its opinion to save Iran." To spur the British along, the State Department announced in early December that it no longer objected to U.S. companies purchasing oil from Iran.⁴⁴

The British were pursuing a different track. Shortly after the British expulsion from Iran, C.M. Woodhouse traveled to Washington to enlist the United States in plans to oust Mossadegh. Not wishing to be accused of using the United States to pull British chestnuts out of the fire, Woodhouse "decided to emphasize the communist threat to Iran rather than the need to recover control of the oil industry." Woodhouse claimed that it was "plain beyond doubt that there was no hope of a reasonable settlement with Mossadegh, and that the longer he held office the more probable it became that Iran would pass under Soviet control." Even if a settle-

ment of the oil dispute could be negotiated with Mossadegh, which Woodhouse felt was highly doubtful, Mossadegh was still incapable of resisting a coup by the Communist-controlled Tudeh party, if it were backed by Soviet support. Therefore, Mossadegh had to go. While Woodhouse was in Washington, British intelligence intercepted Kermit Roosevelt, head of CIA operations in the Middle East, who was passing through London on his way back to Washington, and put to him much the same argument.⁴⁵

These arguments fell on receptive ears at the CIA, where Deputy Director Allen Dulles and Roosevelt were already inclined to view the situation in Iran in East-West terms. Roosevelt was eager to act, but Dulles, while sympathetic, was concerned that President Truman and Secretary of State Acheson might oppose such action. Therefore, he recommended keeping the plans secret until after the newly elected Republican administration of Dwight Eisenhower took office. Dulles was slated to become director of central intelligence, and his older brother, John Foster, had been named as President-elect Eisenhower's choice for secretary of state. In addition, the State Department was in the midst of putting together another settlement package and wanted to give it a chance before moving against Mossadegh. Further meetings were held in early December, but a final decision was postponed until after the change in administration.⁴⁶

THE SITUATION IN JANUARY 1953

In a January 6 report to the NSC opposing the Justice Department's antitrust suit against the major U.S. oil companies, the departments of state, defense, and interior outlined the "Security and International Issues Arising from the Current Situation in Petroleum."

2. Oil is vital to the United States and the rest of the free world both in peace and war. The complex industrial economies of the Western world are absolutely dependent upon a continuing abundance of this essential source of energy. And expanding economies, whether modern and progressive, or backward and underdeveloped, require ever-increasing quantities of petroleum.
3. No other nation relies upon petroleum to such an extent as the United States. Petroleum and natural gas supply roughly 50 percent of the vast amount of the total energy consumed in

the United States; our vital transportation system is far more heavily dependent upon oil. National consumption of petroleum is at a rate of more than 7 million barrels per day. This is over 60 percent of current world demand. By 1955, United States consumption is expected to rise to 9 million barrels per day, and by 1975, to 13.7 million barrels per day. Until recently the United States supplied its own requirements from its own indigenous resources. But this could not continue indefinitely. Proved crude oil reserves in the United States are now less than one-third of the world's total. In 1948, because of the tremendous increase in demand, the United States became a net importer of oil. Assuming the continuing high level of domestic exploration and development by a vigorous and healthy United States petroleum industry, it is estimated that by 1975 the United States will be using 2.5 million barrels daily more than it produces and this difference will have to be drawn from foreign sources. Without a vigorous and expanding domestic oil industry, the availability of foreign oil would be even more critical.

4. The free world is currently increasing its use of petroleum at an even greater relative rate than the United States. Since World War II foreign demand for petroleum in the free world has increased at a rate of about 14 percent annually, compared with an increase of about 7 to 8 percent a year in the United States. In total terms foreign demand for petroleum has doubled since the end of World War II. The recovery and development of the free world at its current vigorous rate would be impossible without petroleum in ever increasing quantities. Although future increases in foreign demand are not expected to continue at the high postwar rates, they are nevertheless estimated at roughly double the rate of increase of demand in the United States. By 1975 demand from free European nations alone is estimated at 4.0 million barrels per day. With production of only about 0.3 million barrels per day, Europe's deficit to be supplied from non-European and non-United States sources will amount to 3.7 million barrels daily.
5. The total import requirements of the United States and Europe combined thus are estimated at 6.2 million barrels per day by 1975.

6. In war, petroleum is absolutely vital. It is indispensable to every military operation. In World War II, 60 percent of the total tonnage which the United States moved overseas consisted of petroleum and petroleum products. The petroleum which remained at home and went to defense-supporting civilian activities was no less essential to the successful prosecution of the war.
7. With the increase in demand that will occur under war conditions, the successful conduct of a major war by the United States and its allies will be dependent upon continuing availability of foreign petroleum supplies. Due to the continually expanding world demand, the more extensive use of oil-powered military equipment, and the use of heavier oil consuming equipment, such as jet aircraft, the farther in the future such a war occurs, the more critical is access to foreign petroleum. Major sources of foreign oil are now indispensable to the economy of Europe and in the future may become indispensable even to the peacetime economy of the United States.
8. There are only two known areas which can supply the import requirements for petroleum in the other countries of the free world. These are the Middle East and the Caribbean area, largely Venezuela.
9. The greatest known petroleum reserves in the world are those of the Middle East. They are now conservatively estimated at some 52 billion barrels out of total world reserves of about 101 billion barrels. Venezuelan oil is of special strategic value, due to its location behind the screen of our Caribbean chain of defenses across sea routes relatively easy to keep open. It is closer than Texas to our Atlantic Coast consuming area. Venezuela alone is able to supply most of the foreign oil essential to the United States in time of war. In addition to our own import needs, Venezuela supplies substantially all of the import requirements of the Western Hemisphere outside the United States.
10. Since the United States is today a small net importer of petroleum, it is not now making any contribution toward meeting crude oil demand in the rest of the world. That demand, including the United States' deficit, of about 5 million barrels per day, is being supplied at the rate of slightly less than 2 million barrels per day from Venezuela, slightly more than 2 million barrels per day from the Middle East, and about 1 million barrels per day from the remainder of the free world.
11. Since Venezuela and the Middle East are the only sources from which the free world's import requirements for petroleum can be supplied, these sources are necessary to continue the present economic and military efforts of the free world. It therefore follows that nothing can be allowed to interfere substantially with the availability of oil from those sources to the free world.
12. With the exception of Iran, the production of oil in those areas is almost entirely in the hands of United States and United Kingdom nationals. ["United Kingdom" or "British" in this section includes British-Dutch interests.] These nationals have provided the ingenuity capital, and technology to bring forth production from those areas on the tremendous scale required to fulfill world requirements. As matters now stand, they alone are capable of maintaining and expanding the production of those areas to meet the rising demand for petroleum of the free world. If United States and United Kingdom companies were for an reason expelled from Venezuela and the Middle East, the oil from those areas would to a serious extent be lost to the free world.
13. Where areas have fallen under Soviet domination, such as in Rumania, eastern Austria, Hungary, Czechoslovakia, and Poland, the oil has been lost to the free world. Almost the same result has followed from the expulsion of American and British oil companies from other countries for other reasons. The repercussions of this action have led to an interruption in the flow of a substantial quantity of oil to the free world. While the initial interruption in such cases is caused by negotiating difficulties, the longer-run factors are know-how and capital. The record of nationalization and governmental operations in such countries as Bolivia, Mexico, and Argentina has shown that vigorous expansion of production does not occur, despite excellent prospects.

14. American and British oil companies thus play a vital role in supplying one of the free world's most essential commodities. The maintenance of, and avoiding harmful interference with, an activity so crucial to the well-being and security of the United States and the rest of the free world must be a major objective of United States government policy.
15. Since the United States is the greatest consumer of petroleum and its products in the world (60 percent of total world consumption) now and for the foreseeable future, it is vastly important that the operations of the great oil fields of the world remain as far as possible in the hands of American-owned companies. We are gradually increasing imports. To be assured of these imports, and to ensure that this outstanding example of American investment abroad continues to make its great contribution to the American economy and the economies of other countries, it is essential that the American companies have full opportunities for profitable and expanding operations.
16. The operations of American oil companies abroad have profound effects on the conduct of American foreign relations. In the first place, oil is the principle source of wealth and income in the Middle Eastern countries in which the deposits exist; their economic and political existence depends upon the rate and terms on which oil is produced. American oil operations are, for all practical purposes, instruments of our foreign policy toward these countries. These oil-producing countries are on or near the borders of the Soviet Union. For this reason, and because of certain local conditions, the Middle East comprises one of the most explosive areas of the world. The oil companies are in a position of great influence upon our relations with the peoples and governments of these countries. What they do and how they do it determines the strength of our ties with the Middle Eastern countries and our ability to resist Soviet expansion and influences in the area.
17. A major corollary of this is the fact that the internal economic development of these countries depends in good measure upon the operating policies of the oil companies. The United States has been pressing for economic development in the backward areas not solely for humanitarian reasons, but also on the assumption that economic growth contributes to political stability. Oil operations can accelerate that growth, and their cessation can block it. The rate of such growth depends to an important degree on the policies the oil companies follow. They can help or injure the political stability we need in the area.
18. A third factor which interrelates our foreign policy objectives to the operations of the international oil companies is their role as a supplier of Western Europe's needs. The terms on which these needs are supplied are critical to the strength and balance-of-payments position of this area which is vital to our security.⁴⁷
- According to a national intelligence estimate dated January 9, 1953, the "Iranian situation contains so many elements of instability that it is impossible to estimate with confidence for more than a few months." Nevertheless, the estimate concluded: "on the basis of present indications . . . it appears that a National Front government will remain in power through 1953, despite growing unrest." A State Department intelligence analysis issued the same day noted that although the Tudeh party was well-organized and controlled by the Soviets and had increased its influence during the preceding two years, the security forces could and would put down any attempt by the Tudeh to seize power. Both the army and gendarmerie (rural paramilitary police) were trained, equipped, and advised by the United States, and U.S. assistance continued during the Mossadegh period. Moreover, U.S. intelligence had penetrated the party's organization at a very high level and was intercepting all the orders given to its cadres.⁴⁸
- Although Iran's economic situation would remain precarious in the absence of substantial oil revenues, U.S. intelligence believed that the government would be able to avoid an economic breakdown. The British boycott of Iranian oil was weakening. The British Treasury's prohibition against the use of sterling to buy Iranian oil and the threat of legal action deterred most prospective purchasers, and the British were ready to use force to deal with "blockade runners." For example, in the summer of 1952, Royal Air Force fighters forced the oil tanker *Rose Mary*, carrying Iranian oil to Italy, into port in British-controlled Aden, where a British court ruled in January 1953 that the oil still belonged to AIOC. Soon after the *Rose Mary* case, however, Italian and Japanese courts ruled that Iranian oil could legally

be imported. The large number of tankers available and low shipping rates created a strong temptation for independent oil companies to seize the opportunity to “cash in” on Mossadegh’s offer to sell Iranian oil at a 50 percent discount. While small independent Western oil companies would probably not buy significant quantities of Iranian oil, and while the major Western oil companies had plenty of crude oil of their own and would not be willing to make an arrangement with Iran so long as the legal, economic, and political obstacles existed, the CIA nevertheless noted that some moderate-sized oil companies were becoming restive, and it was possible that arrangements for the purchase and transport of substantial quantities of Iranian oil might be made unless the U.S. government made “direct and strong objection.” The British, the CIA warned, “would probably regard any arrangement between U.S. oil companies and Iran, in the absence of British concurrence, as a serious breach of U.S.-U.K. solidarity.” While Iran probably would not be able to reach the level of its former exports, it appeared possible that it might, in time, sell enough oil to make nationalization a qualified success and to relieve somewhat Iran’s precarious financial situation.⁴⁹

For these reasons, U.S. intelligence believed that, although the trend of developments in Iran would in the absence of an oil settlement or large-scale U.S. financial assistance continue to be unfavorable to the West and provide opportunities for the Tudeh, it was unlikely that the Tudeh would gain control during 1953. In addition, the CIA noted that the Soviets were unlikely to take “drastic action in Iran.” It warned, however, that the Soviets had the capability for greatly increasing its overt and covert involvement in Iran at any time.⁵⁰

THE FINAL OFFER

After detailed talks with Mossadegh, the British, and the major U.S. oil companies, Ambassador Henderson presented Mossadegh with a joint Anglo-American “package” proposal in mid-January that called for arbitration of the compensation issue; a \$100 million U.S. advance to Iran against future U.S. purchases of Iranian oil; and arrangements whereby AIOC and the major U.S. oil companies would purchase and market Iranian oil. In addition, to ensure the cooperation of the major U.S. oil companies and because of warnings from the departments of state, defense, and interior, and the JCS that criminal antitrust prosecution of the companies was detri-

mental to the national interest, President Truman ordered the grand jury investigation of the oil companies terminated.⁵¹

Negotiations went well at first, but Mossadegh began retreating from previous concessions as word of the talks leaked out and the Tudeh and some former allies charged that the deal amounted to capitulation to U.S. oil interests. Mossadegh was also facing growing internal opposition because of the economic situation and because of his efforts to eliminate the monarch and the military from politics. Moreover, the British and possibly the U.S. intelligence networks were involved in a variety of activities aimed at weakening Mossadegh’s National Front coalition. These activities included bribes, propaganda, and promises of future support. Several key National Front leaders had deserted Mossadegh and gone over to the opposition. At the same time that he was considering the package proposal, Mossadegh was involved in a struggle in the Majlis over extension of his emergency powers. Although Ayatollah Kashani, Mossadegh’s only competitor for mass popular support, broke with Mossadegh on this issue and led the opposition, the Majlis voted 59–1 to renew Mossadegh’s powers to rule by decree for a year.⁵²

In these circumstances, Mossadegh was unwilling to risk a settlement. Moreover, Mossadegh refused to give in to the British demand that compensation take into account the prospective earnings lost by AIOC because of the loss of its “enterprise in Iran.” Mossadegh considered AIOC’s concession agreement, which ran to 1993, invalid, and insisted that compensation had to be limited to physical properties. The British were equally adamant on the issue. From the British standpoint, a generous compensation settlement was necessary not only to help make up for the losses caused by nationalization, but more importantly to serve as a deterrent to nationalist forces in other countries who might be considering nationalizing British properties. The British believed that Iran had to be punished or Britain’s entire overseas investment position would be jeopardized.⁵³

Meanwhile, Fazlollah Zahedi had approached several generals about a possible coup. After the Bakhtiari attacked army troops in southern Iran in mid-February, Mossadegh retaliated by arresting Zahedi and others. Further fueling the unrest was an announcement by the shah that he planned to leave the country on vacation. A large crowd, organized by Kashani and his allies, demonstrated in favor of the shah and then marched on Mossadegh’s home calling for his removal. Although the coup attempt

almost succeeded, Mossadegh escaped, and loyal army units restored order.⁵⁴

At U.S. insistence, the package proposal was modified to limit compensation to twenty years, and

resubmitted on February 20. Mossadegh was warned that it was the last offer the United States and Britain would make.⁵⁵

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Case 332, Part B, Instructor Copy

THE UNITED STATES, GREAT BRITAIN, AND MOSSADEGH

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THE SITUATION IN IRAN

Complaining that proposals to settle the oil dispute seemed to be accompanied by attempts to drive him from office, Mossadegh, on March 20, rejected the revised proposals. Shortly thereafter, Ambassador Henderson concluded:

There's no use, so far as Mossadegh is concerned. He will not agree to anything that the oil companies could possibly accept or for that matter that the American government would accept. I am sure that the British government would not approve of anything that would meet Mossadegh's approval.⁵⁶

The British had long since drawn a similar conclusion. The United States and Britain, Anthony Eden argued after Iranian rejection of the revised package proposal, "should be better occupied looking for alternatives to Mossadegh rather than trying to buy him off."⁵⁷

Top CIA officials agreed with the British that the best course of action was to remove Mossadegh. Kermit Roosevelt argued that Mossadegh had wittingly or unwittingly allied himself with the Soviets,

and that the Moscow-controlled Tudeh party had gained control of the "Mossadegh movement." The Soviet threat to Iran, he insisted, was "genuine, dangerous, and imminent," and U.S. intervention was necessary to head off a Communist takeover.⁵⁸

Plans to replace Mossadegh were already under way. In early February, after a British delegation travelled to Washington to review the situation with the Dulles brothers and former CIA head W. Bedell Smith, who had moved to the State Department, the CIA had agreed to develop in cooperation with British intelligence a plan to overthrow Mossadegh. Roosevelt was selected to be in charge of the operation, which was given the code name AJAX. In the following months, Roosevelt travelled to Iran several times to make preparations. In mid-May, the CIA sent a specialist on Iran to Cyprus to work with the British on a detailed plan of operations.⁵⁹

Ambassador Henderson also believed that Iran was slipping away from the West and would fall under Soviet domination if the United States did not intervene. According to Henderson, the political and economic situation was rapidly deteriorating, and the government was without funds to pay salaries. Moreover, the pro-Soviet Tudeh party was growing more powerful, and Mossadegh was becoming more and more dependent on its support. Henderson warned that a U.S. "bail-out" of Mossadegh would damage relations with the British and encourage other developing countries to cancel "mutually beneficial economic arrangements with the West." Moreover, if Mossadegh succeeded in dethroning

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the shah, he would be overthrown by the Tudeh. Shortly thereafter, Iran would become a “Soviet satellite,” and the “strategic situation in the whole Middle East . . . fundamentally altered—in a way that would have . . . world-wide implications.”⁶⁰

In contrast, lower-level CIA analysts pointed out that, despite his problems, Mossadegh still retained considerable support among the urban lower and middle classes and in parts of the military. Beneath the “surface chaos” and appearance of instability, there was the stability of a regime that had attracted the support of a large segment of the population. Richard Cottam, who had just joined the CIA after two years of study in Iran, warned that moving against Mossadegh ran the danger of driving Iranian nationalism into the waiting arms of the Soviets. The CIA station chief in Iran also opposed moving against Mossadegh for similar reasons.⁶¹

At the end of May, Mossadegh appealed to President Eisenhower for U.S. assistance. Ironically echoing the arguments the British and others were using against him, Mossadegh warned that “as a result of actions taken by the former Company [AIOC] and the British government, the Iranian nation is now facing great economic and political difficulties. There can be serious consequences, from an international viewpoint as well, if this situation is permitted to continue. If prompt and effective aid is not given this country now, any steps that might be taken tomorrow to compensate for the negligence might well be too late.” Mossadegh also asked that the United States help remove “the obstacles placed in the way of sale of Iranian oil.” If the United States were unable to help in this regard, “effective economic assistance to enable Iran to utilize her other resources” would be necessary.⁶²

The Overthrow Of Mossadegh

At a June 25 meeting at the State Department, Secretary of State Dulles gave his approval to Operation AJAX. The key elements in the plan included intensified propaganda and political action against Mossadegh; encouraging opposition figures to create disturbances; gaining the shah’s agreement to dismiss Mossadegh and to appoint Fazlollah Zahedi prime minister; and organizing the support of key, top-level military officers. Both the BEDAMN and the British networks would carry out these actions. Presumably, one of the Dulles brothers also obtained presidential approval.⁶³

Four days later President Eisenhower wrote Mossadegh that it would be unfair to U.S. taxpayers for the U.S. government to provide Iran additional eco-

nomics assistance while Iran could have access to sufficient funds from the sale of its oil if it would only reach a reasonable settlement with the British. Eisenhower also pointed out that there was “considerable sentiment” in the United States that payment of compensation only for losses of physical assets was not a reasonable settlement, and that agreement to such terms “might tend to weaken mutual trust between free nations engaged in friendly economic intercourse.” Therefore, the United States would not extend more aid to Iran or purchase Iranian oil. Shortly thereafter, Eisenhower’s response was made public and broadcast to Iran over the Voice of America.⁶⁴

U.S. refusal to extend additional aid to Iran, coupled with public expressions of concern by Eisenhower and Secretary of State Dulles about increasing communist influence, intensified the pressures on Mossadegh. By late July, demonstrations by pro- and anti-Mossadegh crowds and the Tudeh had become almost a daily occurrences. Matters came to a head in early August when Mossadegh called for the dissolution of the Majlis and announced a plebiscite on the issue. Under the revised 1949 constitution, dissolving the Majlis had become the prerogative of the shah, though the shah had continued to respect the wishes of the Majlis. Mossadegh’s moves provided the shah and his supporters with quasi-legal grounds to force the popular prime minister from office. On August 12, the shah, after receiving personal assurances of U.S. and British support from Roosevelt, who was in Iran to direct the operation, issued a decree replacing Mossadegh with Zahedi.⁶⁵

The initial attempt to remove Mossadegh failed when pro-Mossadegh forces arrested the officer sent to deliver the decree. Taking no chances, the shah and his family fled the country. Mossadegh and his supporters failed to consolidate their advantage, however. While the prime minister and his allies discussed what to do, Tudeh mobs took to the streets shouting anti-royalist slogans and smashing statues of the shah and his father. Sensing an opportunity, the CIA’s Iranian allies sent agents posing as Tudeh supporters into the streets to attack mosques and mullahs and thus frighten people into believing that a victory for Mossadegh would be a victory for the Tudeh, the Soviet Union, and irreligion. The deception worked, and the next day, a massive demonstration (organized and financed by the CIA and its Iranian agents) was joined by other Iranians fearful of the possibility of a Tudeh takeover. In addition, Ambassador Henderson, who had returned to Iran after several weeks’ absence, threatened to pull out

U.S. aid missions and personnel unless law and order were restored. Henderson's threat apparently convinced Mossadegh to order the army and police to clear the streets. At this point, army units loyal to the shah finally arrived in Tehran. In a brief but bloody battle, the forces loyal to Mossadegh were defeated and Zahedi installed in power. The shah returned in triumph on August 22, and the next day reportedly told Roosevelt that he owed his throne "to God, my people, my army—and to you."⁶⁶

IRAN AND THE WORLD OIL ECONOMY

Finding an alternative to Mossadegh was only the first step in "saving" Iran. The United States also had to find a solution to the oil controversy that would enable Iran to resume oil exports on a scale sufficient to provide the shah with the resources to build a stable political base. The main problem in this regard, apart from the continuing British boycott of Iranian oil, was how to fit Iranian oil back into the world oil economy without disruptive price wars and destabilizing declines in revenues for oil-producing countries. Iran's oil had been completely replaced in world markets so that a resumption of Iranian exports would require other countries to reduce their exports or at least refrain from increases so that Iranian oil could fill expected increases in demand.⁶⁷

It soon became evident that it would be impossible for AIOC to resume its former position in Iran. Involvement by the major U.S. oil companies raised antitrust problems, however, and utilizing U.S. independent oil companies, many of which were capable of running the Iranian oil industry, presented serious problems from the standpoint of national security. Such companies would either have to market Iranian oil in the United States, which could harm U.S. domestic producers, or try to force it into European markets by cutting prices, which would reduce revenues to producers and have a destabilizing effect on the whole Middle East. In addition, the British were sure to object to any plan in which AIOC was not included.⁶⁸

Reintegrating Iranian oil thus seemed to require the cooperation of the major oil companies, including AIOC. Therefore, the United States proposed a consortium to run the Iranian oil industry: five U.S. major oil companies (8 percent apiece, later reduced to 7 percent apiece as each gave up 1 percent to make a 5 percent share available for a group of U.S. independents), AIOC (40 percent), Shell (14 percent), and the French *Compagnie Francaise de Petroles* (6 percent). These companies had established markets in the Eastern Hemisphere and controlled production in the rest of the Middle East, and thus would be able to reduce their production in other countries in order to absorb Iranian oil. Moreover, bringing in additional companies largely solved the problem of compensation because the new members would pay AIOC for the share it gave up.⁶⁹

Bringing all the majors together into one company also increased their ability to control the world oil economy. Thus the proposed consortium ran up against the civil antitrust suit the Justice Department had filed in April 1953. National security concerns prevailed, however, and President Eisenhower ordered the Justice Department to give legal clearance to the proposed consortium and to change the focus of its case from production control to marketing. These decisions emasculated the cartel case. As Burton Kaufman has pointed out, "joint marketing and price-fixing agreements were only the most burdensome and difficult to maintain of the many parts of the scaffolding by which the major oil companies controlled the world's flow of oil." Such agreements were superfluous, moreover, because once the vertically integrated major oil companies secured control of foreign oil reserves, their control of production and markets was assured. There was not enough "free oil" available to challenge their control of markets and prices. As for competition with each other their common interests as oligopolists and their many joint ventures served as sufficient checks on inclinations to enlarge market shares through price competition.⁷⁰

NOTES

56. Painter, *Oil and the American Century*, 189.

57. *Ibid.*

58. Roosevelt, *Countercoup*, 2–3, 11, 114–120; Allen Welsh Dulles, *The Craft of Intelligence* (New York: Harper & Row, 1963), 221, 234.

59. Roosevelt, *Countercoup*, 1–19, 120–124, 163–167; Wilber, *Adventures in the Middle East*, 187–191; Gasirowski, "Coup in Iran," 270–272.

60. John J. Harter, "Mr. Foreign Service on Mossadegh

and Wristonization: An Interview with Loy W. Henderson," *Foreign Service Journal*, Nov. 1980: 16–18.

61. Richard Cottam, "The United States, Iran, and the Cold War," *Iranian Studies* 3 (Winter 1970):9–10; Roosevelt, *Countercoup* 16; Gasirowski, "Coup in Iran," 277–278.

62. Alexander and Nanes, *United States and Iran*, 232–233.

63. Roosevelt, *Countercoup*, 1–19.

64. Alexander and Nanes, *United States and Iran*, 234–235. In addition, the United States put pressure on Japan and Italy to halt imports of Iranian oil; Painter, “Oil and U.S. Policy toward Iran,” 32–33.
65. Roosevelt, *Countercoup*, 167–168; Gasiorowski, “Coup in Iran,” 273; Cottam, *Iran and the United States*, 105–107.
66. Roosevelt, *Countercoup*, 169–185, 199; Gasiorowski, “Coup in Iran,” 273–275; Cottam, *Iran and the United States*, 107–108; Lapping, *End of Empire*, 220; Jonathan Kwitny, *Endless Enemies: The Making of an Unfriendly World* (New York: Congdon & Weed, 1984), 164–177, prints extensive extracts from an eyewitness account by *New York Times* correspondent Kennett Love.
67. Painter, *Oil and the American Century*, 192–193.
68. *Ibid.*, 193–194.
69. *Ibid.*, 194–196.
70. *Ibid.*, 193–197, Burton I. Kaufman, *The Oil Cartel Case: A Documentary Study of Anti-trust Activity in Cold War Era* (Westport, CT: Greenwood Press, 1978), 59–60; Theodore H. Moran, “Managing an Oligopoly of Would-Be Sovereigns: The Dynamics of Joint Control and Self-Control in the International Oil Industry Past, Present, and Future,” *International Organization* 41 (Autumn 1987): 590–592.

THE UNITED STATES, GREAT BRITAIN, AND MOSSADEGH

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U.S. involvement in the dispute between Great Britain and the government of Iranian nationalist prime minister Mohammad Mossadegh between 1951 and 1953 marks an important milestone in the evolution of U.S. policy toward the Third World. Decisions made in this period influenced subsequent U.S. policy toward Iran and toward Third World nationalism in general, and also accelerated the gradual process by which the United States replaced Great Britain as the main guarantor of Western interests in the Middle East. The purpose of this case is to stimulate thinking about the interrelationship of some of the most important issues in international relations: national security and geopolitical concerns; private economic interests and their impact on public policy; revolutionary nationalism, sovereignty, and self-determination.

The dispute culminated in an Anglo-American-sponsored coup to replace Mossadegh. James A. Bill, Richard W. Cottam, and Mark J. Gasiorowski have argued that the coup had a decisive impact on the development of Iranian politics, if not postwar world history. U.S. intervention, they maintain, ended the progress Iran had been making toward a more representative form of government and toward freedom from foreign interference. After the coup, the United

States provided massive assistance to Iran as the shah established a royal dictatorship, and Iranian nationalism turned, if not to communism, to virulent anti-Americanism. Thus, the coup marked the first step toward the fundamental rupture of U.S.-Iranian relations that would come with the revolution of 1978–79. (Bill, *The Eagle and the Lion*, 94–97; Cottam, *Iran and the United States*, 109; Gasiorowski, “The 1953 Coup d’Etat in Iran,” 261, 278–279.)

The apparent success of the Iranian “model” of covert intervention led to subsequent less successful attempts by the United States to pursue foreign policy goals through covert means. In addition, the British seem to have drawn the lesson that they still possessed sufficient power to remove inconvenient rulers in countries traditionally under their influence, and that, in the final analysis, the United States would support such policies. Such conclusions, one scholar has noted, played a role in starting the British on the slippery slope to Suez. (Lapping, *End of Empire*, 222–223.) Defenders of the coup, in contrast, have argued that it was necessary to prevent a communist takeover, that it “bought” the United States twenty-five years of “stability” in Iran, and/or that the causes of the shah’s demise are to be sought in what happened after 1953.

The two parts of the case cover the period 1951–1953. Part A ends in early 1953 in order to give students an opportunity to recommend a course of action for each major participant—Iran, the United States, and Great Britain. Part B describes events from early 1953 through the coup and the establish-

ment of the Iranian consortium. Depending on the instructor's preference it can be handed out with part A or after part A has been discussed.

U.S. involvement in Iran between 1951 and 1953 reveals the tensions between the U.S. goals of maintaining the special relationship with Great Britain (especially in regard to the Middle East) containing Soviet influence in the region, and responding effectively to the challenge of revolutionary nationalism. U.S. policies were further complicated by the U.S. stake in the world oil economy. The case should also provide insights into British foreign policy (especially toward the Middle East), and should help illuminate such issues as the promises and pitfalls of nationalism in the Third World and the vulnerability of Third World societies to outside influence.

The study questions are designed to bring out these points and to serve as a basis for structuring discussion of the case. For example, in the course of answering the first study question, the divisions within the U.S. government, the "competitive and cooperative" relationship between the two Western allies, and the diversity of Iranian views should become evident. In regard to the second question, the instructor might want to draw out the class on whether or to what extent the various influences on policy were contradictory or mutually reinforcing.

Question three addresses the premises behind U.S. and British, and Iranian policies. For example, U.S. policymakers defined the U.S. role in the dispute between Britain and Iran as that of a "disinterested" mediator. How accurate was this self-appraisal given U.S. interest and involvement in Middle East oil? Students should also assess British assumptions about the importance of a firm policy in Iran and about the nature of Iranian politics. Iranian assumptions about the possibilities of political and economic independence in a bipolar yet interdependent world should also be examined. Question four is designed to encourage thinking about the policy consequences of the previous questions. This question could be used to focus discussion of the case and/or as the basis of a written assignment.

As noted in part B, top CIA officials and Ambassador Loy Henderson argued that intervention was necessary to save Iran from Soviet domination. According to Henderson, Mossadegh, through his refusal to reach a settlement of the oil issue acceptable to Great Britain and the United States, was responsible for creating conditions for eventual Tudeh party, and later Soviet, control. Thus whatever Mossadegh's intentions, the United States could not stand by and risk Iran drifting into a situation in which the Soviets could gain control and establish

themselves on the Persian Gulf.

In contrast (also as noted in part B), lower-level CIA analysts believed that these fears were unfounded and that Mossadegh's regime had achieved a fairly high degree of legitimacy if not stability. In addition, it can be argued that the relative ease with which Iranian security forces crushed the Tudeh casts doubt on Kermit Roosevelt's claim that the Soviet threat to Iran was "genuine, dangerous, and imminent."

It is probably not possible to resolve these differences on the basis of the information presented in the case. On the other hand, it can be argued on the basis of evidence presented in part A that U.S. and British refusal to countenance a settlement except on terms that left control of Iran's oil in foreign hands—terms that a nationalist leader like Mossadegh could not accept—and U.S. and British support for Mossadegh's opponents inside Iran were key factors in polarizing and destabilizing the situation within Iran, and thus in creating conditions that made a communist takeover a possibility. Viewing the case from this perspective shifts the focus from the unanswerable question of whether intervention was necessary to "save" Iran from communism to such important issues as the sources and the wisdom of the policies followed by the United States, Great Britain, and Iran.

Alternatively, the case could be taught as a simulation with students arguing different (assigned or self-selected) positions on the basis of the information in part A. A third possibility would be to hand out both parts at once and ask the students to analyze the sources and wisdom of U.S., British, and Iranian conduct.

The case was developed for a course on the origins of the Cold War, and is intended for use by upper-level undergraduates and graduates. It could also be used in courses on international relations in the Middle East; the United States and the Third World; Anglo-American relations; covert action and U.S. foreign policy; energy and U.S. foreign policy. The case can be taught alone or in combination with similar cases or articles. It has been taught in combination with Richard H. Immerman, "Guatemala as Cold War History," *Political Science Quarterly* 95 (Winter 1980–1981): 629–653, as two examples of U.S. policy toward Third World nationalism.

The case has also been used as part of a group of readings on U.S. policy toward Iran in a course on power and justice in the international system. If used in such a context, the instructor should consider assigning readings on such issues as sovereignty and self-determination. In this regard, stu-

dents might be asked to assess the following statement by prominent oil consultant Walter J. Levy in 1952:

The question therefore arises, whether in a situation where a vital power position of the United States is at stake, it can afford to apply fully the normal and traditional laws of sovereign self-determination to the control of underdeveloped countries over the oil in their soil. (Levy, quoted in Painter, *Oil and the American Century*, 172.)

A third possibility would be to compare this case with the U.S. and British response to the other major nationalization of this period, the Mexican oil nationalization of 1938. The Mexican nationalization did not result in covert action to overthrow the offending government, and comparison of the two cases should reveal important similarities and differences. A good companion reading for such an exercise would be Clayton R. Koppes, "The Good Neighbor Policy and the Nationalization of Mexican Oil," *Journal of American History* 69 (June 1982): 62–81.

The narrative portion of the case is based largely on archival research conducted for chapter 8 of the author's book, *Oil and the American Century*, and for a forthcoming study of the Mossadegh period. The discussion of covert action draws on participant accounts by Kermit Roosevelt and C.M. Woodhouse, *Something Ventured*; and on Gasiorowski, "The 1953 Coup d'Etat in Iran," which draws on extensive interviews with participants.

Although an effort was made to address the policies of Great Britain and Iran, the case is written largely from the U.S. point of view. Wm. Roger Louis, *The British Empire in the Middle East* and Gasiorowski, "Coup in Iran," provide insights into British policy. The discussion of Iranian politics draws on Gasiorowski; Cottam, *Iran and the United States*; and Bill, *The Eagle and the Lion*, among other sources. For both British and Iranian policies, L.R. Elwell-Sutton's classic study, *Persian Oil*, remains an indispensable source.

Sample Study Questions, #1

1. What were the objectives of each of the main actors—Iran, Great Britain, and the United States?

2. Assess the means by which they pursued these interests. Were there alternative policies that might have achieved their objectives?
3. What were the premises behind U.S., British, and Iranian policies?
4. What course of action would you recommend, taking into account the information presented in the case and the existing world situation.

Sample Study Questions, #2

1. What were U.S. objectives in regard to Iran between 1951 and 1954? To what extent are they complementary; to what extent contradictory?
2. Why did U.S. attempts to mediate the dispute between Great Britain and Iran fail?
3. In 1952, U.S. oil consultant Walter J. Levy wrote:

The question therefore arises, whether in a situation where a vital power position of the United States is at stake, it can afford to apply fully the normal and traditional laws of sovereign self-determination to the control of underdeveloped countries over the oil in their soil.

How would you answer this question in regard to Iran?

4. Why did the Eisenhower administration decide to work with the British to overthrow Mossadegh?
5. After the coup, the shah reportedly told Kermit Roosevelt that he owed his throne "to God, my people, my army—and you." Assess the relative importance of the last three to the successful ouster of Mossadegh.