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[Redacted]

11 July 1951

Dissemination Authorized
ASSISTANT DIRECTOR
OFFICE OF CURRENT INTELLIGENCE

[Redacted]

Copy No. 14

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INTELLIGENCE MEMORANDUM

Document No.	20
No Change In Class.	<input type="checkbox"/>
<input type="checkbox"/> Declassified	
Class. Changed To:	TS S G
Auth.:	HR 70-2
Date:	20 July 78
By:	[Redacted]

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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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Intelligence Memorandum

Effects of Closing Down the Iranian Oil Industry

Four aspects of the Iranian oil crisis merit appraisal as the close-down of production approaches:

(1) The loss to the West of crude oil supplies previously obtained from Iran might be compensated for within some months by expanded production elsewhere; the loss of the refined products cannot be made up so easily.

(2) Without oil income, the Iranian Government faces bankruptcy, internal unrest, and, at worst, Communist control of the state.

(3) The Iranian crisis has stimulated nationalist sentiment in other Near Eastern countries, to the detriment of the political and economic position of the West.

(4) In the event that Soviet Russia, either through pressure tactics or because Iran turned to it in desperation, should gain control of the oil industry, it could transport part of the Iranian production to the USSR and Communist China, but would require years to exploit it fully.

Effect on World Oil Supply

The withdrawal of the Anglo-Iranian Oil Company would almost completely close down the Iranian oil industry, which currently accounts for approximately 7% of the free world's supply of crude oil and 5.3% of its refined products. Continental Western Europe secures 31% of its refined products and 16% of its crude oil from Iran. About 25% of the UK's domestic needs are supplied by the AIOC. South Asia gets close to 70% of its oil and oil products from Iran.

Within a year, expanded production in Iraq, Kuwait, and Saudi Arabia could probably make up for any loss of Iranian crude supplies without a special program of new drilling. Output in Saudi Arabia has been continuously expanding; Kuwait, which first began producing after World War II, already produces nearly as much as Saudi Arabia. The amount of crude oil currently exported from Iraq is limited because the government has insisted, for political reasons, on closing the pipeline from the Kirkuk oil field to the refinery at Haifa, Israel. By 1952, with the opening of the new 30-inch pipeline to the Mediterranean via Syria, present Iraqi export capacity will be almost doubled; by the following year it can reach two-thirds of the 1950 output.

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The most serious repercussion, from a world supply angle, of the closing down of Iran's oil industry would be the loss of refined products from Abadan -- 550,000 barrels (approximately 78,570 metric tons) per day. This will cause a major dislocation in world oil supplies. The expansion of refinery facilities in Western Europe, anticipated by 1953, however, will make that area largely self-sustaining except in fuel and diesel oil.

The loss of Iranian oil will be most seriously felt in the area east of Suez, particularly in India and Pakistan. With the exception of Haifa, currently operating at about 25% of its 85,000 barrels (approximately 12,140 metric tons) per day capacity, the Near East refineries are at present working at full capacity, with their products all committed. Supplying South Asia by tankers from more distant refineries would put a strain on the already short supply of available tonnage.

Internal Repercussions

The political and economic effects of the stoppage of oil production, or even of a last-minute settlement with the Anglo-Iranian Oil Company, will severely shake the structure of Iran. The Abadan refinery will have to close down completely in the near future because of a lack of storage facilities. Crude oil production will also then cease. About 80,000 Iranians will be unemployed and the government will have lost the approximately 40% of its revenue formerly provided by oil royalties. The resulting squeeze may be temporarily alleviated by a sale of government bonds or an increase in the note issue, but it is difficult to see how the army or the civil service can be kept functioning for long without pay.

Failure of the present government to keep the oil industry operating would so reduce popular confidence that the government probably would not be able to remain in office. Should Prime Minister Mossadeq decide at the last moment that the AIOC is needed to keep oil revenues from drying up, and attempt to compromise, he might well be assassinated or removed. A more conservative prime minister, if installed, would arouse so much antagonism that he could not retain control. Under such circumstances it is probable that the pro-Soviet Tudeh Party would maneuver into power a Communist-dominated government. In the demoralized situation envisioned, no overt USSR support would be needed to turn Iran from the West and place it among the Satellites.

Should the Tudeh Party gain control of the government, the tribes of south and west Iran -- the oil producing area -- might denounce the Tehran government and set up an independent state. Such a development would probably permit the exploitation of Iranian oil to continue under British management.

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Reactions in the Near East

The immediate reaction in the Near East to the Iranian oil developments has been an increased desire for higher royalty payments and for greater oil production. Militant Iranian nationalism, however, will encourage the development of violent exhibitions of nationalism in adjacent areas. The loss of Western, and specifically British, prestige will encourage Iraq to continue its resistance to British and French pressure to reopen the Kirkuk-Haifa pipeline, especially since the new 30-inch pipeline to the Syrian coast will soon be completed. There is in Iraq a body of opinion which has made sporadic attempts to stir up public sentiment, but its future action will to a large extent be determined by the outcome of the current negotiations between the Iraq Petroleum Company and the government. In Saudi Arabia, Kuwait, and Bahrein, however, there is almost no chance of nationalization sentiment developing to any significant degree.

A shut-down of the Iranian refinery would increase Western pressure on Egypt to lift the ban on Israel-bound tankers transiting the Suez Canal, a restriction which has limited the operations of the Haifa refinery to one-quarter of its capacity. Complaints of the Western powers and Israel will continue unheeded, however, as long as the shortage of refined products does not affect Egypt directly. Inspired by Iranian nationalism, Egypt can also be expected to step up its present efforts to dislodge British troops from the Suez Canal Zone and to end the British administration in the Sudan.

Capabilities of the USSR to utilize Iranian oil

With the termination of the control of Iran's oil resources by the AIOC, the Soviet Union could capitalize on this opportunity to deny Iranian oil to the West as well as to augment its own supplies of crude oil and refined products. In spite of the difficult task of taking over such a complicated installation as the Abadan refinery, it is believed that the USSR could provide enough qualified technicians to keep it operating at a level sufficient to supply the USSR with all the products it is at present able to transport.

Transporting the oil from Iran would present formidable problems to the Soviet Union because the Soviet bloc owns only about 1% of the world's tanker tonnage; more than 10% of the world's tanker capacity is necessary to handle Abadan's production. Without some tanker facilities from non-Communist countries, the USSR would operate the Abadan refinery, for some time at least, at the cost of a large loss in production. The Iranian railroads at present can carry about 250,000 metric tons of oil per year. This amount is a small fraction of the USSR's yearly domestic output, but it would represent most of Abadan's annual capacity for the production of

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alkylate, the key component in the manufacture of high-octane aviation gasoline. An operating staff unfamiliar with the plant would require at least a year to achieve substantial production of alkylate. Supply of an additional 250,000 tons of alkylate would more than double the USSR's estimated annual production of this commodity, which is vital to the conduct of a long-range strategic air offensive. Overland transport could in time be increased with new tank cars and possibly with air transport.

The Iranian terrain would make construction of a pipeline to the USSR a most difficult and expensive proposition, though it is not an impossible engineering feat. Such a pipeline could conceivably be constructed in two to three years and would presumably be used for refined products. While the USSR might be unwilling to lay so costly a pipeline in view of Iran's vulnerability to Western interdiction efforts in the event of war, there is a strong possibility that such a pipeline would be built if the Soviet Union were to commence integrating Iran into the Soviet bloc in time of peace. There is every likelihood that if the USSR gains control of the oil resources, Iran would be exploited in the familiar pattern.

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