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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
18 June 1954

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

The second round of negotiations at Tehran for the settlement of the Iranian oil problem is expected to get under way on Monday, 21 June. The consortium negotiators, after having met with their principals in London for about four weeks, are returning to Iran with co-ordinated proposals which will be presented to the Iranian negotiators.

1. Consortium Proposals for Agency Arrangements:

Subject to definition of agent and principal, the consortium has agreed to serve as agent of the National Iranian Oil Company and the Iranian government.

Although Ambassador Henderson is apparently optimistic that an interpretation of agency can be drafted which will be satisfactory to the Iranian government, Herbert Hoover, Jr. is inclined to be doubtful.

2. Consortium Proposals Regarding Nationality of Companies:

The consortium will seek an arrangement by which there will be a holding company with British nationality, two operating companies which will have Dutch nationality, and a British "service" company which will discharge purchasing and engineering functions.

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The present views of the consortium are not yet clear concerning the nationality of top management officials and the residence of the several headquarters. AIOC has accepted a Dutch managing director with the first subordinate to be American, the second British, and the balance of the top management to be Dutch. AIOC and the French company are urging that the headquarters and residence of the managing director be in London. The American companies and Shell firmly support headquarters and residence in Iran as the only arrangement which would be acceptable to the Iranian government. The Department of State concurs that headquarters in Britain would be unacceptable to the Iranians.

3. Consortium Proposes Substitute for "Umbrella Agreement:"

American opposition and expectation of Iranian objection have caused the British principals to abandon pressure for an umbrella agreement to guarantee the provisions of an oil settlement. The consortium now suggests that diplomatic protection for consortium interests be assured through an exchange of notes between the Iranian government and the governments of the respective consortium members. Hoover considers this a constructive suggestion and hopes that the Iranians will not "object too strongly."

4. Probable Reaction in Iran to Consortium Proposals:

The Iranian government--the shah and Prime Minister Zahedi--continue to be faced with the dilemma of accepting an arrangement which can be reconciled with the nationalization legislation and the pressing national need for oil revenues. Apparently, Zahedi's interest in a settlement has not wavered. The shah, according to Henderson, is "screwing up his courage to take a more positive attitude regarding a settlement."

Henderson believes that the shah is reluctantly coming to the realization that he cannot escape some responsibility for the outcome of attempts to obtain an oil settlement. He appears to sense that he can be blamed for passivity as well as for activity in this connection. The shah is not likely to endeavor to persuade the government to accept a settlement which the Majlis would not approve or one which in his opinion would not be durable.

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With respect to the shah's attitude, however, the ambassador warns: "It is not easy for the shah, even though bolstered by the British ambassador and myself as well as by his most trusted advisers, to maintain his courage at high pitch for any great length of time. If oil negotiations should languish for an additional protracted period, he is likely to begin to fluctuate."

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