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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
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State Dept. review completed

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

Consortium and Iranian negotiators have met twice since the return of the former to Tehran. The atmosphere of the meetings was friendly and progress seems to have been made. The consortium representatives are reported by Ambassador Henderson to be optimistic of ultimately achieving an agreement. He feels this is also the attitude of the Iranian negotiators.

Difficult trading is expected, however, and each side has certain positions which they will retain, even at the cost of a complete breakdown in the discussions. Three elements may, however, militate in favor of more rapid Iranian acceptance of initial consortium proposals: (1) the rapidly deteriorating Iranian economic situation; (2) Prime Minister Zahedi's realization that a settlement must come very soon if his government is to survive much longer

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Major items of interest relative to the negotiations during the past week include:

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1. Agency Arrangement and Nationality of Companies:

The Iranian negotiators appear to have taken calmly the consortium proposals concerning "agency" and the nationality of operating companies. Minister of Finance Amini said he believed a formula could be found which would make it possible to avoid the use of the terms "agent" and "agency" in the contract. Henderson does not believe the problem of finding suitable wording will be insurmountable.

With reference to the nationality of the companies, Henderson states: "The Iranians mildly expressed preference for Iranian incorporation, and while reserving judgment, took an encouraging attitude." Implying major interest in the operating companies, Amini said at the second meeting that Iran is not particularly concerned with the activities of the consortium and therefore suggested that no publicity be given to proposed British holding and service companies.

2. Consortium Proposes to Increase Projected Offtake:

The consortium has indicated that it will endeavor to take off 12.5, 20 and 30 million tons of crude oil in the first three years, respectively. This is a slight increase over the consortium's first proposal and the maximum approximates prenationalization production. The group added that the offtake would be increased if consumption warranted.

3. Consortium Requests 40-year Contract:

The consortium negotiators have stated that their proposals are predicated upon being given a 40-year contract with full rights for basic operating management. They have indicated that they can accept no modification of these terms.

4. Iranian Request for Monetary "Advances":

In view of the lower offtake during the first two years of operation, the Iranian negotiators have expressed a desire that the consortium make financial loans or advances. The consortium indicated its inability to make such arrangements--particularly in view of the expenses which will be incurred in connection with starting operations--and expressed the opinion that such problems are

the concern of the interested governments. They offered, however, to pay crude royalties and taxes on a monthly rather than annual basis.

Henderson reports that in conversations with the British ambassador relative to the financial situation in Iran, the latter and his staff appeared shocked when informed of the magnitude of the financial problem facing the Iranians.

5. British Concerned over Compensation Negotiations:

Direct negotiations have been under way since April between the British and Iranian governments over the compensation to be paid as a result of Iranian oil nationalization. Henderson reports the British ambassador is now expressing considerable concern over the outcome of these negotiations and has implied that the United States might be needed to push this phase of the discussions.

6. Iranian Recognition of Oil Nationalization:

Several demonstrations are reported to have taken place in Tehran on the third anniversary of the day when the government physically took over the oil installations. Pro-Mossadeq demonstrators were scattered in a Tehran suburb by security forces, who wounded one man and arrested 39. Tudeh demonstrations were small and completely controlled with most members arrested.

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