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PROBABLE DEVELOPMENTS IN IRAN THROUGH 1953



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CENTRAL INTELLIGENCE AGENCY

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PROBABLE DEVELOPMENTS IN IRAN THROUGH 1953

THE PROBLEM

To estimate probable future developments in Iran through 1953.

CONCLUSIONS

1. The Iranian situation contains so many elements of instability that it is impossible to estimate with confidence for more than a short period. On the basis of present indications, however, it appears probable that a National Front government will remain in power through 1953, despite growing unrest. The government has the capability to take effective repressive action to check mob violence and Tudeh agitation and will probably continue to act against specific challenges of this sort as they arise. The government is likely to retain the backing of the Shah and control over the security forces. Although the danger of serious Tudeh infiltration of the National Front and the government bureaucracy continues, we believe that Tudeh will not be able to gain control of the government by this means during 1953. Neither the groups opposing the National Front nor the Tudeh Party are likely to develop the strength to overthrow the National Front by constitutional means or by force in 1953.
2. Even in the absence of substantial oil revenues and of foreign economic aid, Iran can probably export enough to pay for essential imports through 1953, unless there is a serious crop failure or an unfavorable export market. The government probably will be able to obtain funds for its operation. Some inflation will occur. Capital development will be curtailed, and urban living standards will fall. However, we do not believe that economic factors, in themselves, will result in the overthrow of the National Front in 1953.
3. If present trends in Iran continue unchecked beyond the end of 1953, rising internal tensions and continued deterioration of the economy and of the budgetary position of the government might lead to a breakdown of government authority and open the way for at least a gradual assumption of control by Tudeh.
4. Settlement of the oil dispute with the UK is unlikely in 1953.
5. During 1953 Iran will attempt to sell oil to other buyers, both in the Soviet Bloc and the West. Shortage of tankers will limit sales to the Soviet Bloc to token amounts. Small independent Western oil companies will probably not buy significant quantities of oil. We estimate that major Western oil companies will not be willing to make an agreement with Iran so long as the current legal,

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economic, and political obstacles exist. Nevertheless, some moderate-sized oil companies are becoming restive, and it is possible that combinations for the purchase and transport of substantial quantities of Iranian oil may be made unless there is direct and strong objection by the US government. The British would probably regard any arrangement between US oil companies and Iran, in the absence of British concurrence, as a serious breach of UK-US solidarity.

6. Kashani or possibly another National Front leader might replace Mossadeq during 1953. Any successor would probably be forced to resort to ruthless tactics to eliminate opposition. In his struggle to eliminate his opposition and particularly if he failed to do so, Tudeh influence and opportunities for gaining control would increase rapidly.

7. The Mossadeq regime almost certainly desires to keep US support as a counterweight to the USSR and appears to want US economic and military assistance. Nevertheless, there will probably be an in-

creasing disposition to blame the US, not only for Iran's failure to sell substantial amounts of oil or to obtain an oil settlement, but also for Iran's financial and economic difficulties.

8. Therefore, the US Point Four and military missions are likely to find it even more difficult to operate during 1953 than at present. They would probably be placed under severe restrictions if Kashani or other extremists came to power. However, neither the Mossadeq Government nor a successor National Front regime is likely to expel these missions during 1953.

9. The USSR appears to believe that the Iranian situation is developing favorably to its objectives. We do not believe that the USSR will take drastic action in Iran during 1953 unless there is a far more serious deterioration of Iranian internal stability than is foreseen in this estimate. However, the USSR has the capability for greatly increasing its overt and covert interference in Iran at any time, to the detriment of US security interests.

DISCUSSION

INTRODUCTION

10. Events since the nationalization of oil in 1951 have profoundly changed the political climate in Iran. The political forces which brought Mossadeq and the National Front to power are powerful and lasting. The Shah and the formerly dominant landowning class have lost the political initiative, probably permanently. Nevertheless, the coalition of urban nationalists and religious zealots which Mossadeq heads has no agreed program for the future, being united primarily by a common desire to rid the country of foreign influence and replace the traditional governing groups. The ability of the National Front to

remain in power, as well as Iran's ultimate role in the East-West conflict, will depend in large measure on the National Front's success in working out solutions to the serious social, political, and economic problems which will confront it during the next year.

11. Although unrest in Iran derives from a complex of factors extending far beyond the oil dispute with the UK, this dispute nonetheless has become the focal point of political activity. Mossadeq rode to power on the issue of nationalization of oil, and his present political strength derives largely from his continued defiance of the UK.

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PROSPECTS FOR A NEGOTIATED OIL SETTLEMENT

12. *British Attitude:* We believe that the UK will almost certainly continue to insist that there be some form of neutral arbitration of the amount of compensation for the seizure of Anglo-Iranian Oil Company properties even though nationalization *per se* is no longer an issue. The UK will probably also continue to resist making payments against Iranian claims without first obtaining firm Iranian commitments to follow through with a settlement.

13. In taking this stand, the UK is motivated primarily by considerations of prestige and precedent. The Conservative government would face strong political opposition at home if it agreed to Mossadeq's present terms. Perhaps more important, the British feel that capitulation to Iran would threaten their own and the Western oil position generally in other parts of the Middle East. Meanwhile, the British feel under no immediate compulsion to make a settlement with Mossadeq. In the first place, increased production in other areas has already made up for the loss of Iranian crude oil production, although the refining capacity at Abadan has not been fully replaced. Secondly, although the UK believes that lack of oil revenues will result in progressive economic and political deterioration in Iran, it does not appear to regard a Communist takeover in Iran as imminent.

14. Moreover, the British are not likely to be induced to make greater concessions to Iran by the prospect of Iran's selling oil in the absence of a settlement with AIOC. The UK probably believes that in the absence of an agreement between Iran and a major US oil company, it can continue to exert economic pressure on Iran and prevent the shipment and sale of significant quantities of Iranian oil in world markets. The British would probably regard such an agreement, in the absence of British concurrence, as a serious breach of UK-US solidarity.

15. *Iranian Attitude:* Although the Mossadeq Government desires and needs revenues from the sale of oil, its attitude toward the oil dis-

pute is conditioned largely by political considerations. The National Front has manipulated oil nationalization into such a powerful symbol of national independence that no settlement would be acceptable unless it could be presented to the Iranian public as a clear political victory over the UK. Mossadeq has been under growing pressure from extremists such as Kashani who maintain that Iran's oil resources are a curse rather than a blessing and that Iran should reorganize its economy to avoid dependence on oil revenues. On the other hand, Mossadeq's strength with other elements in the National Front has depended largely on his continued success in persuading the Iranian people that he is doing his best to restore oil revenues but that he is being blocked by British intransigence, injustice, and greed. Whether or not Mossadeq has the political strength and prestige to persuade the Iranian public to agree to an oil settlement on terms which the UK could accept, his performance to date provides no indication that he desires to or will do so. On the contrary, he has made successively greater demands for British concessions.

16. We believe, therefore, that a negotiated oil settlement during the period of this estimate is unlikely.

PROBABLE DEVELOPMENTS IN THE ABSENCE OF A NEGOTIATED SETTLEMENT

The Oil Problem

17. Despite the severance of diplomatic relations with the UK, Iran will probably be receptive during the coming year to further proposals for a settlement of the oil dispute. For political as well as economic reasons it will also make every effort to sell oil to other buyers, both in the Soviet Bloc and the West. It will avoid entering into any agreements which could be construed as violating Iran's sovereignty or its control of the oil industry.

18. It is unlikely that Iran will sell significant quantities of oil during 1953 unless it can make arrangements with a major Western petroleum distributing firm or a combination of moderate-sized firms. Although it is likely to sign further trade agreements with Soviet Bloc countries calling for delivery of Iranian

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oil, the extreme shortage of tankers available to the Soviet Bloc will restrict shipments to token amounts. It also is unlikely to sell financially significant quantities of petroleum to small independent Western oil companies in view of the difficulties which these companies would have in chartering the necessary tankers and in breaking into established markets. We estimate that major Western oil companies will not be willing to make an agreement with Iran so long as the current legal, economic, and political obstacles exist. Nevertheless, some moderate-sized oil companies are becoming restive, and it is possible that combinations for the purchase and transport of substantial quantities of Iranian oil may be made unless there is direct and strong objection by the US Government.

19. Barring an agreement with a major Western concern or combination of moderate-sized firms, Iran will not realize sufficient revenue from oil to alleviate appreciably either the government's fiscal problem or the nation's economic difficulties. The principal effect of such limited sales would be political. They would enhance Mossadeq's prestige by enabling him to claim success in defying the UK and to claim that his government was making progress toward restoring oil revenues.

Economic and Financial

20. To date the loss to Iran of oil revenues does not appear to have been directly reflected in reduced consumption levels, although investment has been slowed. Wholesale prices and the cost of living index have risen very little since early 1951. Since the beginning of 1952, there has been some drop in real income and business activity, and a corresponding rise in unemployment, mainly because of the postponement of government disbursements under budgetary pressure.

21. Until mid-1952, the government financed its deficits mostly by selling government assets to the government-controlled Bank Melli and borrowing from semi-public institutions. By mid-1952, the government had exhausted nearly all its gold and foreign exchange holdings except for the legal minimum required as backing for the currency. Since mid-1952,

the government has been meeting its deficit, currently running at 300,000,000 rials a month, principally through unsecured loans from the Bank Melli.

22. Mossadeq is not likely to make substantial reductions in government expenditures. Although he at one time considered reducing the armed forces budget, more recently he appears to have realized the importance of these forces in maintaining order throughout the country. He cannot afford to stop payments to the unemployed oil workers at Abadan. Although he may attempt to resettle some of those workers in other areas, he will be reluctant to do so as long as there is a possibility of reviving the oil industry. Mossadeq may, in fact, be forced to increase government expenditures, to provide, for example, working capital for factories and to finance the small economic development projects already under way. Moreover, he must find funds for relief during the slack winter months, when some unemployed agricultural and construction workers customarily migrate to the cities.

23. Prospects for increasing government revenues during 1953 are slight. The only significant sources of increased tax revenue are the wealthy landlords and capitalists. Although Mossadeq has the authority and will probably make greater efforts to tap these sources, perhaps in some cases by outright confiscation, even full exploitation of these sources would not eliminate the government deficit. On the basis of recent experience, further bond issues are not likely to raise adequate amounts.

24. In the absence of foreign aid during 1953, therefore, the government will probably resort increasingly to deficit financing, primarily by unsecured loans from the Bank Melli and by increasing the amount of currency in circulation. The government may also resort to confiscation of property and the sale of government stocks, such as opium and rice.

25. Iran's imports will continue to decline. Although exports are expected to be slightly higher than the 1951-1952 level, they will be sufficient to meet only about one-half Iran's imports prior to the oil dispute. In view of

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the near exhaustion of foreign exchange holdings, imports will have to be reduced to approximately this level, thus contributing to inflationary pressures and causing some reduction in urban business activity. Reducing imports will cause sharp reductions in the availability of luxury goods and some reductions in capital goods during 1953, but is not expected to deprive Iran of essential imports. There will also be a trend toward barter agreements, and the already substantial Iranian trade with the Soviet Bloc will tend to increase.

26. The net results of the financial and economic steps likely to be taken by the government during 1953 will probably be: price increases of perhaps as much as 20 to 30 percent; some reduction in living standards in the cities; a substantial increase in the national debt; a reduction of privately held and government stocks; and further postponement of the government's own economic development program. A continuing low level of capital goods imports will lead to some deterioration of Iran's physical plant; at the same time, upward pressures on the price level, arising in large part from government deficits and declining public confidence, will bring nearer the danger of runaway inflation. Moreover, the government will have little margin of safety for coping with such unanticipated eventualities as a serious crop failure. Although we do not believe that these developments, singly or collectively, are likely in themselves to cause the overthrow of the National Front in 1953, a continuation of these trends beyond 1953 will have a serious effect on political stability.

Political

27. The principal internal political problems facing a National Front regime will be to retain popular support, to preserve unity in the National Front, and to maintain the morale and effectiveness of the security forces.

28. During 1953 the dispute with the UK will gradually become less effective as an instrument for rallying popular support behind the government. As the economic effects of the loss of oil revenues become more noticeable,

the government will be under greater pressure from large property owners to restore oil income. Tudeh and the more radical elements in the National Front will increase their demands for social and economic improvements. In response, the National Front government will probably attempt a more vigorous enforcement of agrarian and labor legislation. Enforcement will be haphazard and will require increased use of force. The agrarian program will be bitterly opposed by some landlords, and clashes between peasants and landlords are likely to increase.

29. The illegal Tudeh Party will continue to profit from the gradual economic deterioration that will take place during 1953 and from the haphazard enforcement of the government's program for social and economic improvements. The party will continue its efforts to weaken and divide the National Front, will attempt to instigate riots and disorders by peasants and urban workers, and will intensify its propaganda against the US and the Shah. It will probably make some further progress in infiltrating the National Front and some government agencies. However, the government has the capability to take effective repressive action to check mob violence and Tudeh agitation. It has recently outlawed strikes and will probably continue to act against specific Tudeh challenges to its authority as they arise. We believe that Tudeh will not be granted legal status during 1953 and that it will not develop sufficient strength to gain control of the government by parliamentary means or by force. There is serious continuing danger of Tudeh infiltration of the National Front and the government bureaucracy, but we believe that Tudeh will not be able to gain control of the government by this means during 1953.

30. To maintain itself in power, the government will rely increasingly on the security forces. As stated above, the government can and probably will avoid substantial reductions in the military budget. Recent changes in the high command are not believed to have significantly reduced the morale and effectiveness of the security forces. These will probably remain loyal to the government and

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if given explicit orders will probably be capable of maintaining order except in the unlikely event of simultaneous nation-wide riots and disturbances. We do not believe that the Tudeh Party will develop sufficient strength during 1953 to instigate disturbances beyond the capability of the security forces to control.

31. Mossadeq will probably continue to benefit from the inability of the opposition to unite or exert effective power. In the past, Mossadeq has shown great skill in isolating his opponents and attacking them one by one. He is likely to continue those tactics and to adopt progressively forceful measures against the opposition. The Majlis has granted him authority to rule by decree until mid-February, and we believe he will be able to have this power extended if he considers it necessary.

32. It seems probable that the National Front will remain in power during 1953. It is likely to retain the backing of the Shah and control over the security forces. The groups opposing the National Front are not likely to have the strength or unity to overthrow it. However, we are unable to estimate with confidence whether Mossadeq himself will remain in power during 1953. Kashani, Mossadeq's strongest potential opponent, will probably continue to exert a strong influence on Mossadeq and consequently will probably prefer to remain in the background while Mossadeq continues to shoulder responsibility. On the other hand, Kashani is building up his own political strength and might, should he so desire, be able to oust Mossadeq by parliamentary means during 1953.

33. Kashani would also be the probable successor to Mossadeq in the event of the latter's death. Regardless of how Mossadeq is replaced, Kashani or any other National Front successor could not be assured of the support of all the diverse elements of the National Front. Any successor regime would, therefore, be likely to resort to ruthlessness to destroy opposition. In its struggle to do so, and particularly if it failed to do so, Tudeh influence and opportunities for gaining control would increase rapidly.

34. If present trends in Iran continue unchecked beyond the end of 1953, rising internal tensions and continued deterioration of the economy and of the budgetary position of the government might lead to a breakdown of government authority and open the way for at least a gradual assumption of control by Tudeh.

PROBABLE DEVELOPMENTS IF THE UK AND IRAN REACH AGREEMENT ON THE OIL QUESTION

35. If the Iranian Government reached an oil settlement with the UK — no matter how favorable to Iran — it would almost certainly be confronted with violent demonstrations in urban centers by the Tudeh Party and probably by extremist elements in the National Front. There would also be immediate danger of Tudeh sabotage of oil installations. However, the government would almost certainly have the backing of the Shah, the security forces, and the more moderate National Front elements and would probably be able to suppress these disturbances. The resumption of large-scale oil exports would go far toward easing the government's budgetary difficulties and would enable it to take steps to increase the supply of goods and reduce inflationary pressures, and to expand its economic development program. Nevertheless, anti-foreign sentiment, particularly against the UK, would remain strong, and even with substantial oil revenues the government would still have great difficulty in dispelling the antagonisms aroused between landlords and peasants and between the "haves" and "have nots," which would continue to be a major cause of instability.

PROBABLE DEVELOPMENTS IF IRAN SELLS SUBSTANTIAL QUANTITIES OF OIL WITHOUT BRITISH CONCURRENCE

36. If Iran were to succeed in making a contract for the continuing sale of substantial quantities of oil to a major Western oil company without having reached a settlement with the UK, the economic effects would be substantially the same as those described in paragraph 35 above. Tudeh reaction would

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almost certainly be violent, and there might be some opposition from extremist elements in the National Front. In any event, the government could suppress any disturbances that might arise and its prestige would be considerably enhanced. Basic causes of instability would remain, but the government would be in a stronger position to arrest the trend toward eventual Tudeh control.

IRANIAN RELATIONS WITH THE US AND USSR

37. The Mossadeq regime will probably continue its pressure on the US to persuade the UK to agree to Iranian terms in the oil dispute and will be quick to criticize any signs of what it considers US support for the UK. It will also continue to request financial assistance, arguing that the withholding of US aid increases the danger of ultimate Tudeh control.

38. The Mossadeq regime will not wish completely to alienate the US. Mossadeq almost certainly desires US support as a counterweight to the USSR and he appears to desire US economic and military assistance. Nevertheless, as internal tensions mount, there will be an increasing tendency to blame the US, not only for the failure to restore substantial oil revenues, but also for Iran's financial and economic difficulties. The US military and Point Four missions in Iran may therefore find it even more difficult to operate during 1953 than at present.

39. Kashani or other extremist National Front leaders who might succeed Mossadeq would probably be more opposed than the Mossadeq regime to the exercise of US influence in Iran and would probably place greater restrictions on US missions in Iran. However, their recognition of the need of US support to counter Soviet pressure and their acknowledgment of the value to Iran of Point Four aid would probably check any inclination they might have either to terminate Point Four aid or to expel the military missions.

40. Iran's official relations with the USSR will probably remain cool and guarded. Although both governments will seek to increase

trade between Iran and the Soviet Bloc, the National Front will almost certainly avoid any action which would subject Iran to Soviet domination. On the other hand, it will not wish to destroy the USSR's value as a counterweight to the West. In the UN, Iran will probably take a neutralist, anti-colonialist position and support any attempt to establish a neutral Arab-Asian bloc.

41. For its part, the USSR appears to believe that the Iranian situation is developing favorably to its objectives. While continuing its support of Tudeh and its violent radio attacks on the government and the Shah, the Soviet Union is unlikely to take any drastic action to influence the Iranian situation during 1953 except in the unlikely event of a far more serious deterioration of Iranian internal stability than is foreseen in this estimate.

42. The USSR, however, has the capability for greatly increasing its interference in Iran at any time, to the detriment of US security interests. Its capabilities include: greatly increased support of disaffection and subversion in Azerbaijan, including the infiltration of Soviet Azerbaijanis; greatly increased financial support for Tudeh; offer of economic and financial inducements to Iran; stirring up of the Kurds; and heavy pressure for the removal of the US missions, legalization of Tudeh, and removal of legal bans on the Tudeh press. The USSR would probably refrain from use of Soviet armed forces in Iran, because of the possible global consequences of such intervention. Soviet intervention short of the use of Soviet armed forces would probably not result during 1953 in the direct overthrow of the Iranian Government or the detachment of Azerbaijan but could have a seriously adverse effect on the stability and integrity of Iran and on US security interests there.

43. Negotiations on the future of the USSR's Caspian Sea Fisheries concession, which expires 31 January 1953, may provide an indication of a change in Soviet-Iranian relations, although both Iran and the USSR will probably confine themselves at most to hard bargaining.

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