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THE SITUATION IN IRAN

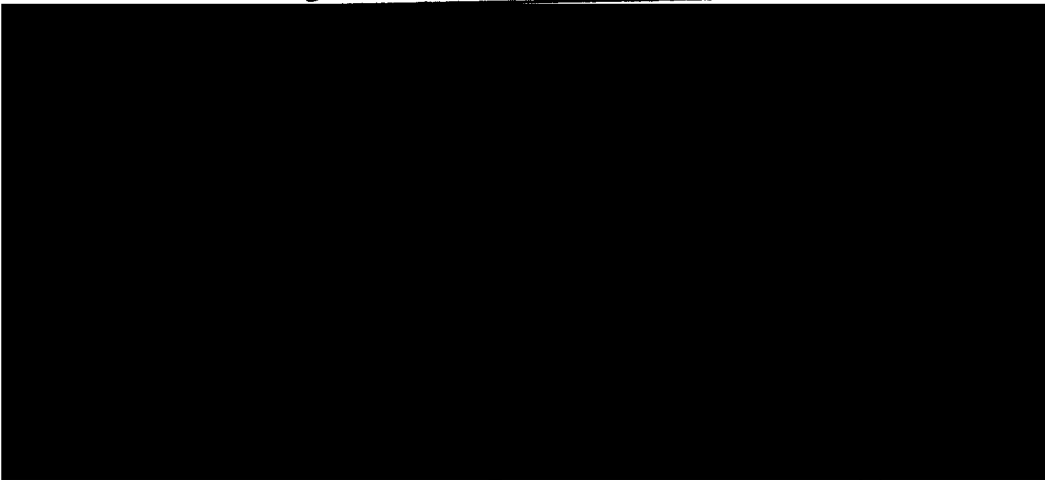
- I. Zahedi disappointed over US aid:
 - A. Prime Minister Zahedi considers \$45,000,000 too small to undertake necessary development and job-creating projects.
 - B. He allegedly considered resignation, but stated he was reassured after talking to Ambassador Henderson on 11 September.
 - C. Zahedi is planning to send a special envoy to Washington before Congress opens to ask for more aid.
 - D. Point IV director Warne estimates that \$37,000,000 of American aid is required to meet Iran's budget deficit for next 7 months--\$8,000,000 would remain for economic development.

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- E. The American grant enables Iran to meet immediate obligations, but Zahedi must settle with Britain and sell Iran's oil in order to carry out program after US aid ends.
- II. Zahedi has not yet proposed reopening oil negotiations with British: *Open +*



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- III. The Foreign Office feels that negotiations with Zahedi should be based on the February 1953 proposals made to Mossadeq:
- A. Any agreement must provide "fair compensation" to AIOC for loss of its enterprise in Iran.

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- B. Iran must not profit more from its oil than the neighboring countries.
 - C. The February proposals represent Britain's minimum requirements.
 - D. Zahedi cannot appear too eager to settle with British nor can he fail to settle the dispute.
 - E. He is not likely to consider settling on terms which appear to prevent Iran from receiving full value for its oil or which puts Iran in Britain's debt for a long period.
- IV. Anti-Tudeh drive continuing effectively:
- A. 3,000 suspect government employees reportedly discharged, arrests of Tudeh total about 1,300.
 - B. Many arrested Tudeh will be put in a concentration camp in Luristan province in western Iran.
 - C. Important Tudeh members will be given

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- trial by military court; rank and file will probably be released without trial after short imprisonment.
- D. Tudeh membership is disorganized by police raids, but the party is trying to reduce cell structure from 8 to 3 to increase its security.
- E. Tudeh reportedly receiving arms smuggled in from Soviet Union via Caspian Sea. Soviet embassy in Tehran believed printing literature for Tudeh whose presses have been destroyed.
- F. Party still trying to carry on propaganda campaign including wall slogans and tracts; also trying to form united front with other anti-government groups such as Iran Party.
- G. Despite government measures, party structures considered intact and party making strong effort to continue
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functioning underground.

H. Tudeh will be ineffective only as long as a government continues strong suppressive measures.

V. The shah is asserting leadership:

A. Reports from Tehran emphasize shah's new-found confidence.

B. He apparently feels that he has the mandate of the people.

C. Shah is trying to establish tight control over the army.

D. This pleases the minister of defense and the chief of staff, but has resulted in friction with Zahedi.

E. Possibility exists of more disagreements between shah and Zahedi.

VI. Some cabinet changes are expected:

A. The cabinet, containing many old-time politicians, has aroused criticism.

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- B. Shah and others feel more new blood should be brought into the government.
 - C. Zahedi is expected to make cabinet changes, but he is limited by his need for experienced politicians and administrators, even at the price of ability.
- VII. Zahedi's regime not yet threatened by political forces:
- A. Political forces are regrouping and opposition will probably soon appear.
 - B. Status of the Majlis is unclear since the shah and Zahedi favor its dissolution and new elections, but the remaining deputies refuse to resign.
 - C. Zahedi's government offers Iran a chance for stability.

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