

## CHAPTER 10 - THE MAN OF THE YEAR AND LATER EVENTS IN IRAN

Once upon a time, in a mountainous land between Baghdad and the Sea of Caviar, there lived a nobleman. This nobleman, after a lifetime of carping at the way the Kingdom was run, became Chief Minister of the realm. In a few months he had the whole world hanging on his words and deeds, his jokes, his tears, his tantrums. Behind his grotesque antics lay great issues of peace or war, progress or decline, which would affect many lands far beyond his mountains.

The old nobleman became the most world renowned man his ancient race had produced for centuries . . . He increased the danger of a general war among nations, impoverished his country and brought it and some neighboring lands to the very brink of disaster. Yet his people loved all that he did, and cheered him to the echo whenever he appeared in the streets.

He was Mohammed Mossadegh, Premier of Iran in the year 1951. He was the Man of the Year.

There were millions inside and outside of Iran whom Mossadegh symbolized and for whom he spoke.<sup>(1)</sup>

In his interview with United States Newspaperman, Henry F. Grady, former Ambassador to Iran, said:

"Iranians are a proud people, very sensitive and able and highly intelligent. Mossadegh is not to be discounted. He is a man of unusual ability, well educated at European universities, and of great culture. He is a Persian gentleman."

After Mossadegh returned, however, as a victor from the United States, on his way back he stopped off in Egypt to confer with Prime

(1) From article in Time 59: 18-21 January 7, 1952.

Minister Mustafa al-Nahas Pasha and to proclaim Iran's support of the actions which the latter's government had meanwhile undertaken to dissolve Egypt's sixty-nine-year old association with the United Kingdom. "Any agreement concluded under the threat of warships in a worthless farce," said the itinerant statesman, apparently referring to the Anglo-Egyptian treaty and agreements which Egypt had unilaterally denounced on October 18. "All decisions concerning the Suez Canal or Iranian oil belong to the sovereign Egyptian and Iranian governments. Egypt and Iran share the same hopes and the same sufferings in all phases of their struggle." On November 22, Mossadegh, and Nahas Pasha issued a joint declaration which underlined their identity of views on all points touching the realization of their countries' common aspirations and their property.

This demonstration emphasized the parallel between Iran's seizure of the Anglo-Iranian Oil Company and Egypt's campaign to oust Britain from the Suez Canal zone and the Anglo-Egyptian Sudan - a campaign which had been slower to reach crisis proportions but had entered a violent phase in October and had claimed some scores of victims, mainly Egyptians, by the time of Mossadegh's visit.

In Iran, the Majlis voted 90-1, on November 25, 1951 (this was a reversal of a previous vote) and the Senate the following day 36-0, for immediate parliamentary elections. This was no doubt an attempt by Mossadegh to obtain popular approval of his oil policy, for some members both in the Majlis and in the Senate were beginning to question, the deteriorating financial and economic situation.

On January 9, 1952 the foreign minister presented a note to the British Embassy in Teheran, accusing British officials of interfering in Iranian affairs and threatening to take the most serious measures unless such interference ceased. Three days later the Foreign Ministry ordered that all British consulates in Iran be closed by January 21. Although the British protested the order a violation of the Anglo-Persian Treaty of March 4, they nevertheless complied with the order and closed their nine consulates and vice-consulates on January 20. At the end of January, all foreign cultural, information and educational centers-British, American and Russian-in Iran outside Teheran were ordered closed.

On February 19 the old Majlis was dissolved, and on April 27 the new Majlis was opened by the Shah. Premier Mossadegh handed in his resignation, in accordance with constitutional practice, after the reorganization of Parliament on July 5. The next day the Majlis voted by a large majority, to request the Shah to reinstate Dr. Mossadegh as Premier. After the Senate fell into line - though at first hesitating - and made a similar request, Mossadegh agreed to form a new government. Now assured of his strength, Premier Mossadegh asked Parliament on July 13 for unprecedented powers to rule Iran for six months in order to solve the economic crisis of the country. When this was refused, he returned his mandate to the Shah, and the latter asked Ghavam es Sultaneh to form a new government.

The new Premier promised an all-out drive to settle the oil dispute, but on July 19 violence (instigated by Mossadegh's supporters) broke out in Teheran and other cities against the Ghavam government; the religious

leader, Ayatollah Kashani, denounced the new Premier, and troops and police clashed with the rioters. Ghavam was determined to employ strong measures to suppress the demonstrations, but Parliament refused him full powers to quell the strikes and riots, and on the 21st he handed in his resignation. The toll of casualties from the riots in Teheran alone was twenty dead and a hundred wounded.

On the same day, the Shah called on Mossadegh to form a new government. After presenting his cabinet, in which he was also Minister of War - a major issue between him and the Shah - Mossadegh received a unanimous vote of confidence in the Majlis (July 29). On August 3 the Majlis granted him dictatorial powers to rule the country for six months; the same was reluctantly granted by the Senate on August 11.

On the 7th, Premier Mossadegh sent a note to the British Government demanding that the Anglo-Iranian Oil Company pay the amounts which were due from the Company when nationalization was enacted; the sum mentioned amounted to some 40 million pounds.

About three weeks later the American and British Ambassadors presented to the Premier a compromise plan worked out by President Truman and Prime Minister Churchill for restoring oil operations. The following main provisions were primarily in reply to the August 7 demand: 1) the question of compensation to be paid for the nationalization of the oil industry to be submitted to the International Court, "having regard to the legal position of the parties existing immediately prior to the nationalization and to all claims and counterclaims of both parties"; 2) suitable representatives to be appointed to represent the Iranian Government and the Anglo-Iranian Oil Company in negotiations for making

arrangements for the flow of oil from Iran to world markets; 3) should the Iranian Government agree to the proposals in the above two provisions, it would be understood that (a) representatives of the A. I. O. C. would seek arrangements for the movement of oil already stored in Iran, and as the oil moved, for appropriate payments to be made; (b) the British Government to relax restrictions on exports to Iran, and on Iran's use of sterling; (c) the United States Government to make an immediate grant of \$10 million to the Iranian Government to assist in budgetary problems.

On September 7 Mossadegh attacked the Anglo-American proposals as the worst Iran ever received, and about ten days later, while outlining to the Majlis his solution for the oil problem, he threatened to break off diplomatic relationships with Great Britain; the Majlis voted unanimously to support the Premier in his rejection of the Truman-Churchill proposals.

The main argument was that they were inconsistent with the laws of nationalization of the oil industry. The Premier analyzed each of the items and repeated Iran's basic claims against the Anglo-Iranian Oil Company. He then proposed the following four articles as the basis of agreement:

1) COMPENSATION. Determination of the amount of compensation to be paid for property belonging to the former oil company at the time of the nationalization of the oil industry, and arrangements for paying such compensation by installments based on any laws carried out by any country which nationalized its industries which might be agreed to by the former oil company.

2) BASIS OF EXAMINATION OF CLAIMS. Examination of the claims of both parties on the basis of one of three possibilities to be recognized by the International Court of Justice as fair and just for settling the parties' claims and used by it as basis for judgment.

3) DETERMINATION OF DAMAGES. Examination and determination of the amount of damages caused to the Iranian Government as a result of the difficulties and obstacles put in the way of the sale of Iranian oil by direct and indirect activities of the former oil company, as well as the losses resulting from the delay in payment of funds, which were definitely debts owned by the Company.

4) PAYMENT IN ADVANCE AND ON ACCOUNT. Payment in advance and on account of £ 49 million shown on the former oil company's 1950 balance sheet as increases in royalty, taxes and dividends due to Iran from the reserves.

Early in October, British Foreign Secretary Anthony Eden, in a message to Premier Mossadegh, refuted the implication which the latter had read into the joint Anglo-American proposals. A message from Secretary Acheson expressed President Truman's disappointment at the rejection, and he too, declared that Premier Mossadegh had completely misread and misinterpreted the joint proposals. However, the Iranian Premier remained unconvinced. The only concession he was ready to make was to reduce the £ 49 million on account, which he asked for in Article 4, to £ 20 million, and to defer payment of the balance until the termination of the negotiations, which were expected to last three weeks. In his letter to Acheson of October 7, he emphasized the economic hardships which Iran had experienced as a result of the unwillingness of the

British to come to terms, and the danger to security and order inherent in such a situation.

"I am certain you will agree that the prompt and immediate settlement of this matter would be a great and important contribution towards insuring the peace and public security of one of the sensitive areas of the world."

In his letter to Eden of the same date, the Premier reiterated his proposals of September 24 and declared that representatives of the former A. I. O. C., invested with full powers, were invited to come to Teheran within a week from the date, for discussions within the limits of the Iranian Government's counterproposals. Before the departure of the Company representatives from London, £ 20 million, convertible into dollars, of the ₭ 49 million mentioned in Article 4 of the counterproposals, was to be put at the disposal of the Iranian Ministry of Finance, and the remainder of the ₭ 49 million, was to be placed to the credit of the Iranian Government at the end of the negotiations. In this letter, as in that to Acheson, Premier Mossadegh clearly indicated the danger to the West from serious disturbances in Iran, for he concluded:

"I once again remind you of the impossibility of the continuation of this state of affairs and any eventuality arising from pursuit of this policy is not the responsibility of the Iranian Government."

A week later the British Government rejected the latest Iran counter-proposals, and on October 16 the Premier announced over Radio Teheran that because of the British refusal to accept his proposals, he was forced to sever diplomatic relations. The official act took place on October 27.

b. MOSSADEGH'S LAST EFFORTS. Since the Iranian Senate was often reluctant to support Premier Mossadegh's policies and hesitated to grant

him dictatorial powers, the Majlis voted the Senate out of office on October 23, 1952. On November 16, Premier Mossadegh ordered the dissolution of the Supreme Court. Early in January 1953 he obtained from the Majlis a 64-0 vote approving the new electoral law, and on the 8th of January he asked the Majlis to extend his extraordinary powers to govern by decree for a full year. The Majlis was at first unwilling to grant these powers, and the religious leader, Ayatollah Kashani, the titular speaker of the Majlis, strenuously opposed Mossadegh's demands. However, by a vote of 59-1 with 6 abstentions, granted the Premier the dictatorial powers for a year which he demanded.

Even after the breaking off of diplomatic relations between Iran and Great Britain, the United States did not completely give up the possibility of working out some solution to start the oil flowing again. During the meeting of the Foreign Ministers in Paris in the middle of December 1952, Secretary of State Dean Acheson and Foreign Secretary Anthony Eden discussed the Iranian issue, and subsequently the United States Ambassador in Teheran, Loy Henderson, began a series of conversations with Premier Mossadegh which extended into 1953. At the end of December, the Assistant Secretary of State for Near Eastern, South Asian and African Affairs, Henry A. Byroade, opened discussions in London with British representatives. By the middle of January 1953 it looked as if a solution were near, for Premier Mossadegh declared, though cautiously and with reservations, that the oil question might be resolved within two or three days, and on February 12 he appointed a committee to prepare a full list of Iran's claims against the A. I. O. C. This was obviously connected with the proposed plan discussed by the



Premier and the Ambassador. On the 20th, the British transmitted, through the American Ambassador, a solution worked out in conjunction with the United States, which provided for: 1) the International Court to decide the issue of compensation arising from the nationalization of the enterprise of the A. I. O. C. in Iran on the basis of equitable compensation for the loss of the Company's business. Iran, of course, could present counterclaims; 2) an American corporation to purchase from the N. I. O. C. oil to the amount of \$133 million with general discount, and to pay an advance of \$50 million immediately after signing the agreement with the N. I. O. C.; as a condition to this sale, an international company, to be formed in which the A. I. O. C. could also be a member, and the Iran Government to agree that the N. I. O. C. could enter into negotiations with this international company for an agreement for the sale of large quantities of crude and refined oil; 3) before the amount of compensation was determined by the International Court, Iran to pay Britain 25 per cent of her gross receipts from the sale of oil, and after amount was determined by the International arbitration, Iran to pay 25 per cent either in sterling or in deliveries of oil to the A. I. O. C. The period of payment was to be twenty years.

After a meeting between Anthony Eden and President Eisenhower, who succeeded President Truman in January 1953, a joint Anglo-American communique was issued on March 8 approving the "final offer", and the United States declared the proposal reasonable and fair. However, in an address over Teheran Radionon March 20, Premier Mossadegh rejected the British proposal. The underlying and perhaps major stumbling block was the insistence of the British that the basis of compensation be the

loss of business by the A. I. O. C. as a result of the Nationalization Law; this to the Iranians meant the same as the joint proposals of August 27, 1952.

Premier Mossadegh gave two reasons for the stiffening of the attitude of the British: that they expected that anti-Mossadegh elements would replace him and then come to terms with the British; and that the other big oil companies in the Middle East had been persuaded by the British of the danger to themselves from Iranian nationalization. He offered counterproposals: 1) the Company either to agree to determine the amount of compensation on a basis acceptable to the Iranian Government, or state the highest amount of its claims which could be considered equitable to the Iranian Government, and that amount, together with the Iranian counterclaims, to be submitted to the International Court; 2) the Iranian Government to pay in the shortest period any amount accorded by the judgment of the International Court, either from the 25 per cent net revenue deposited, or by delivery of crude or refined oil at fair international prices; 3) instead of referring the matter to the International Court, the Iranian Government was ready to enter into direct negotiations with fully empowered representatives of the A. I. O. C. and the British Government. These counterproposals were not acceptable.

As a last attempt, Premier Mossadegh wrote a letter to President Eisenhower on May 29, 1953. He complained that because of the legal efforts of the British to block the sale of Iranian oil, his country had suffered great financial hardship, and furthermore, he himself had to contend with political intrigue "carried on by the former oil company and the British Government." Reminding him of the possible danger, from

an international viewpoint, which might result from the economic and political difficulties facing Iran if prompt and effective aid were not given to his country, the Premier appealed to the President that he either prevail on the British to accept the Iranian terms and make possible the renewal of revenue from the oil, or advance sufficient aid to Iran to develop her other resources in order to prevent her from completely collapsing. The letter concluded; "I invite Your Excellency's sympathetic and responsive attention to the present dangerous situation of Iran, and I trust that you will ascribe to all the points contained in this message the importance due them."

Only on June 29 did the President reply to the Premier, and the correspondence was not released until July 9 when the situation in Iran was getting entirely out of hand. Stripped of all its civilities, the President's letter told Iran the United States expected her to live up to her international obligations, and that if she arrived at an agreement in the matter of compensation she "would strengthen confidence throughout the world in the determination of Iran fully to adhere to the principles which render possible a harmonious community of free nations; that it would contribute to the strengthening of the international credit standing of Iran; and it would lead to the solution of some of the financial and economic problems at present facing Iran."

Mr. Eisenhower politely but firmly refused to assume responsibility for the possible international repercussions to Iran from her difficulties;

"I note the concern reflected in your letter at the present dangerous situation in Iran and sincerely hope that before it is too late the Government of Iran will take such steps as are in its power to prevent a further deterioration of that situation."

The failure of the Premier with the President drove him to further extremes.

Tension between the Shah and the Premier mounted steadily as the latter sought to gain control over the Army, which was traditionally under the direct control of the Shah. The demonstrations of pro-Shah and pro-Mossadegh elements continued to take place in Teheran throughout the early part of March. On April 6, 1953, the Premier asked the Majlis to order the Shah, in accordance with the recommendations of the special conciliation committee, to "reign constitutionally" instead of ruling the country. Ayatollah Kashani thereupon broke completely with Mossadegh and attacked him violently on June 30. The pro-Mossadegh deputies in the Majlis resigned their seats and thus paralyzed the lower House. On July 19 the new Speaker of the House declared the end of the Majlis. Two days later the Tudeh party and the National Front demonstrated separately in Teheran on the anniversary of Premier Mossadegh then resorted to a plebiscite to determine the struggle between him and the Majlis in his efforts to dissolve the latter. The plebiscite was held early in August and Mossadegh won over 99 per cent of the votes cast in the Teheran district. Ten days later the Ministry of the Interior announced that the government had won the plebiscite to dissolve the Majlis, by 2,043,389 votes to 1,207.

The position of the Shah became precarious, and on August 16, having failed to oust Mossadegh after issuing two decrees - one naming General Fazollah Zahedi Premier, and the other ordering the arrest of Mossadegh - he and his queen fled to Baghdad on the way to Rome. The next day supporters of Mossadegh demonstrated in the streets of Teheran and threw down statues of the Shah and his father. Many military men who were

suspected of cooperating with the Shah were arrested. Two days later backers of the Shah clashed with and overcame the supporters of Mossadegh and he was swept out of office. General Zahedi took over the government after some persons had been killed and several hundred arrested. Three days later the Shah returned from Rome.

With the end of Premier Mossadegh's regime, the chapter of the story of the Iranian oil which began with the death of General Razmara came to an end.

c. THE CONSORTIUM ACCORD. The fall of Mossadegh and the rise of Fazollah Zahedi must be considered a victory not only for the Anglo-Iranial Oil Company, but also for the British policy in Iran - in which England was eventually following by the United States - of bringing Iran to terms through economic pressure resulting from the stoppage of revenue from the oil, as well as through completely sealing off Iran from the international market. The crisis demonstrated the decisiveness of the oil revenue in the government financial structure; and the implied promise of the United States to help, should the policy of the Government change, operated effectively to bring down Premier Mossadegh's regime.

To exist at all, as well as to receive United States' aid, Premier Zahedi had to show how completely and utterly his predecessor had failed, and thus pave the way for a solution which would meet with British-United States approval.

It was understood in London, and even more so in Washington that whatever solution was found would have somehow to be within the framework of the nationalization law, even if only formally. Even Zahedi could not ignore public sentiment by repudiating that law. Moreover, it was

generally agreed that while the oil industry could not be reactivated without foreign technicians and experts, not only in marketing but also in producing and refining, it would not be possible to bring back the A. I. O. C. as exclusive producer, refiner and marketer even within the framework of the nationalization law.

As far as the oil companies were concerned, the major problem was the integration of Iranian oil again in the world market, for since nationalization the former Iranian supply had gradually been replaced by increased production in other areas of the Middle East, and this had become an important factor in the financial, and therefore political, relations between the concessionaires and the countries and governments granting the concessions. Restoration of the Iranian supply would therefore have meant a curtailment in production in other parts of the region. Finally, whatever solution was found, it must not grant the Iranians better terms than those enjoyed by other Middle East Governments, else the whole oil concession structure in the area would collapse, with a universal rush for nationalization.

Though the United States followed the British - somewhat reluctantly at first - in forcing Iran to come to terms after the fall of Mossadegh, it was anxious, much more so than Britain, to make it possible for Zahedi to arrive at a satisfactory solution. The United States, therefore, in addition to promising direct financial aid, undertook to bring both reluctant parties in the dispute to reach a speedy solution.

Herbert Hoover, Jr. was named petroleum adviser to Secretary of State Dulles and dispatched to Iran, where he and the American Ambassador in Teheran, Loy Henderson, began to work for an agreement. The first

hurdle to overcome was the renewal of diplomatic relations between the disputants. On October 20, 1953, Foreign Secretary Anthony Eden declared in the House of Commons:

"I hope that a new chapter has opened in Persia. There is a new government there and to them, and to the Persian people, Her Majesty's Government wish sincerely to extend once more the hand of friendship. The Persian Government are aware that we are ready to resume diplomatic relations; if this can be done it will then be easier for us to discuss together the complex problem of Persian oil. I should like to say that the United States Government are working very closely with us in these matters."

Subsequently on November 3, by indication of Secretary of State Dulles, the negotiations between the British and the Iranians, through the agency of the Swiss Government, progressed rapidly, and on December 5 an official communique issued both in London and Teheran announced the resumption of diplomatic relations. Premier Zahedi carefully explained to the Iranians that since the British Government had given assurances of willingness to work out a solution, taking into account Iran's national aspirations and the oil nationalization law, the Iranian Government had decided to establish normal freindly relations.

On December 8, 1953, it was reported in Teheran that Premier Zahedi had ordered a four-man special committee to begin arrangements for negotiations to settle the oil dispute with Britain. In the meantime Herbert Hoover, Jr. had arrived in Teheran on October 17, and he and Ambassador Henderson had immediately begun to confer with Government leaders, including the Shah, the Premier. His efforts were apparently successful, for by the end of the month the oil commission presented to Premier Zahedi a report of their conference with Hoover, who was to make a report to London.

As the discussions progressed, the solution seemed to be veering in the direction of an international consortium involving the major oil companies operating in the Middle East. These are in fact the companies which control the greater proportion of the world supply. The discussions therefore became triangular; the Iranian Government, the British Government, the Anglo-Iranian Oil Company, and the American companies.

According to the president of the Anglo-Iranian Oil Company, he sent out invitations early in December 1953, to seven companies; five American (Standard Oil of New Jersey, Socony-Vacuum Oil Co., Standard Oil of California, Gulf Oil, and Texas Co.), Royal Dutch-Shell and Compagnie Francaise des Petroles, for a meeting in London to examine the various problems involved should Iranian oil flow again into world markets. The result was that the companies indicated readiness to form a provisional consortium for the solution of the Iranian oil dispute. The subsequent discussions between Dennis Wright, the new British charge d'affaires in Teheran, and the Iranian authorities convinced the Anglo-Iranian Oil Company that a consortium was the best possible answer to the problem. Talks with the seven companies were therefore resumed in February, 1954. They hinged on two issues: the proposals to be worked out by the member of the consortium themselves. Meanwhile, a technical mission representing the eight companies visited Iran at the invitation of the Iranian Government.

After considerable bickering, and harsh charges and countercharges, about the control of the Iranian oil industry, the companies arrived at an understanding, on April 9, on the provisional formation of the consortium.



The Anglo-Iranian Oil Company was to have a 40 per cent share; the five American companies 8 per cent each; Royal Dutch-Shell, 14 per cent; and Compagnie Francaise des Petroles, 6 per cent. The permanent formation of the consortium would of course depend on the agreement with Iran. This understanding was reached after consultation with and consent of both the United States and British Governments. The Iranian Government immediately issued an invitation for a delegation of the consortium to commence negotiations. Orville Hardin of Standard Oil of New Jersey, J. H. Loudon of Royal Dutch-Shell, and H. F. Snow of Anglo-Iranian, accompanied by technicians, arrived in Teheran in the middle of April to begin negotiations with the Iranian Government.

Simultaneously, while representatives of the consortium were negotiating with the Iranian Government, representative of the British and Iranian Governments began to negotiate in Teheran the question of compensation. In the meantime, however, that issue had lost its acuteness due to the impending formation of the consortium, since the question of further profits would be solved partly by A. I. O. C.'s retention of a 40 per cent share in the consortium, and partly by payments made by the seven other companies to A. I. O. C. for their shares in the consortium by the National Iranian Oil Company, and on the operation of the Abadan refinery. After a short interruption, negotiations were continued in the latter part of June under the leadership of Howard Page, Vice-President of Standard Oil of New Jersey, for the consortium, and Dr. Ali Amini, Finance Minister, for Iran, advised by Torkild Rieber, who had been engaged as special oil adviser by the Iranian government. After prolonged negotiations, the Iranian Government announced that it

would pay less than  $\text{R}$  30 million in settlement of all claims advanced by the A. I. O. C. as a result of nationalization.

On August 15, the agreement between the Iranian Government and the consortium covering the production and refining of oil, and the agreement between the Iranian Government and the A. I. O. C. covering compensation for the latter's properties, were completed, and on the 31st they were initialed by Ali Amini and Howard Page. After the first agreement had been approved by the heads of the eight companies, it was to be submitted to the Majlis for ratification.

On October 10 the Iranian Government submitted to new Parliament a bill to ratify the agreement. Seven days later the Majlis ratified the agreement, 113-5, with one abstention. A week later the Senate also ratified the agreement, 41-4, with 4 abstentions. The next day the Shah gave the royal assent, and on the 30th Iranian oil began flowing again at Abadan into British, French, American and Dutch tankers, to be carried to the markets of the world.

The United States did not conceal its satisfaction with the conclusion of the agreement, and the President deemed it necessary to congratulate personally not only the Shah, but also the American Ambassador in Teheran, Loy Henderson, and the special petroleum adviser, Herbert Hoover, Jr., for their roles in the successful settlement of the dispute. In his letter to Mr. Hoover, the President emphasized that the conclusion of the agreement not only promised further progress in Iran, but also the promotion of the American "objective of maintaining peace in the area."

Immediately after the completion of the agreements, Premier Zahedi announced an ambitious five-year development plan which was to be financed

from the revenue derived from the reactivation of the oil industry, together with loans from the United States and the Internal Bank for reconstruction and development. It called for an expenditure of \$500 million, and was aimed at a large increase in agricultural and mineral production and improvements in transportation and communication.

The decisive question, however, still remains: Will Iran's leaders use the revenues from the oil, United States aid, and international credits effectively and wisely, to bring about economic rehabilitation and social reforms which alone can stabilize the country and make it a solid force for democracy?