MEMORANDUM FOR THE PRESIDENT

Subject: The Iranian Situation

There is attached a summary of developments in the Iranian situation since November 5 when I last had the occasion to discuss the subject with you.

James E. Webb
Acting Secretary

Enclosure:

1. Memorandum

DEPARTMENT OF STATE
WASHINGTON
November 15, 1961

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THE IRANIAN SITUATION

The recent attempts of the United States Government to bring the British and Iranians together have failed. In the final analysis the British Government found itself unable to consider the United States' proposals as a basis for new negotiations with the Iranians. The questions of the price of Iranian oil to be sold to the British and the extent to which the Iranians would agree that British interests would participate in future oil operations in Iran proved very great obstacles. In short, between what Prime Minister Mossadeq told us he could do and what we could urge on the British to accept, a wide gap existed which could not be bridged in the short time which Prime Minister Mossadeq could stay in Washington.

In view of the developments in Paris, the Department has informed Dr. Mossadeq that we have failed thus far to find a solution. It has been pointed out that while the United States did not wish to fix the blame for failure, his positions, including that on the question of price, contributed to the difficulty. The hope was expressed to him that negotiations would still begin at some time in the near future, since the United States is convinced that a satisfactory agreement is possible.

Dr. Mossadeq took this news calmly and expressed his full satisfaction with the efforts of the United States. He said that the British still believe they can force Iran to capitulate through economic pressure, but in this they are wrong. He mentioned orally that he would request budgetary assistance on a loan basis from the United States in the amount of $10,000,000 a month. This request, without specifying the sum, was made in the Prime Minister's letter to the President dated November 9. A member of Dr. Mossadeq's staff, on November 14, made public the amount Iran was requesting following the Prime Minister's speech at the National Press Club in which he stated that he was requesting United States aid in meeting Iran's serious financial situation.

The situation in Iran itself is confused. There has been increased communist activity and Dr. Mossadeq's non-communist political opponents are also most active. Our Ambassador in Tehran, however, does not believe that Dr. Mossadeq is in any immediate danger of being displaced.

The attached telegram from Secretary Aucher in Paris summarizes his thinking on the situation and contains his recommendations as to future policy. They also recount the strong position he has taken with British Foreign Minister Eden.

Attachment: Paris Telegrams Nos. 2808 and 2862.
INCOMING TELEGRAM

Department of State

TELEGRAPH BRANCH

FROM: Paris

IN: Secretary of State

NO: 2866, November 10, 7 p.m.

EYES ONLY MOGHEE MATHEWS, NITZE, FROM SECRETARY VIA LINDER TO MCGHEE.

INACT.

In the light of my talks with the Brit in Paris, on Iran, I think that the attitude of the present govt in England toward Iran is different from or at any rate clearer than that of its predecessor. It is certainly different from the first assessment of the joint appraisal from Tehran, dated Nov 6, and from some of the statements made in Wash's 2837 of Nov 9. This attitude extends all through the govt from the Prime Minister to the civil servants. It starts from Churchill with the roar of a wounded lion, becomes more articulate with Eden, as he remembers twitting the laborites for weakness during the campaign, and is fully rationalized by the civil servants, as folks:

But Brit stands on the verge of bankruptcy, as the Chancellor last week told the House. Despite the ravages of wars and post-war periods, Brit still retained important overseas interests and the invisible items in her balance of payments are of overwhelming importance to her. Without them she cannot survive. Mousdeq's seizure of the AIOC properties and concessions were a serious blow. But they were a loss which Brit can stand. Refining capacity can be built elsewhere. Iranian oil is not (rpt not) essential, and, with firm support from her friends, Brit can recover from this blow.

But Brit cannot recover from the course of action which will destroy the last vestige of confidence in Brit power and in the pound. If it shall be believed abroad that Brit will acquiesce in the despoliation of Iran and even cooperate to make that despoliation profitable to the Iranians, she will have no (rpt no) properties left within a few months -- and, indeed the same will happen to all Western investments.

Therefore, in my judgment, the cardinal purpose of Brit policy is not (rpt not) to prevent Iran from going Commy; the cardinal point is to preserve what they believe to be the last
The last remaining bulwark of Brit solvency; that is, their overseas investment and property position. As one of the Brit said to me, "What these people believe is that, if your appraisal of the Iranian situation is correct, then the choice before you is whether Iran goes Comme, or Brit goes bankrupt. I hope you'll agree that the former is the lesser evil." Therefore, they will accept no (rpt no) settlement by which (a) it cannot be plainly shown to everyone that Moeadeh has not (rpt not) profited over rulers who abide by their contracts, or (b) by which Britain is humiliated and discriminated against. It is for this reason that it is impossible to induce the Brit to accept the exclusion of Brit companies and Brit citizens in favor of a Dutch operation. It will be like asking us to step aside in favor of Guatemalas.

It is for this reason that they attach so much importance to the suggestion that Amex interests abide participate in some solution. This I am sure, is based upon two points: (1) That our participation in any settlement will raise the prestige of the settlement and the participants; and (2) that the introduction of an Amex company into the situation will prevent any action being taken except what our and the Brit oil companies will regard as in their interest. The Brit do not (rpt not) believe that Iran is close to disaster. They believe its standards are so low that it will take a long time dying. And, therefore, they are prepared to take risks which we think very reckless, partly because they do not (rpt not) believe that the danger is great, and partly because they do not (rpt not) believe that the danger is as great as the danger invited by taking a conciliatory action now.

These attitudes are very firmly held, and, in my judgment, there is not (rpt not) the slightest possibility of getting the Brit by any sort of argument to change their attitude during the few days when Moeadeh remains in New York. Indeed, I believe that of their main purpose now is to leave us without any bargaining material until Moeadeh gets away. And Gifford was told by Mr. Eden after our last conference that just before it "the old man" had telephoned him and told him not (rpt not) to yield an inch.

For another reason, also, it is impossible to alter the Brit attitude quickly. The new ministers are depressingly out of touch with the world of 1951, and they are being advised by some officials who have allowed the government to follow the AIOC weekly into disaster. Of course, these officials continue the same arguments and the same analyses. The Brit believe that they know nothing about the facts and must rely on the officials.
FULL ACCOUNT

-3- FEB. 8, November 10, 7 p.m., from Paris.

The circle is complete. The only thing which is added to the Axis (rpt not) attitude is a certain truculent braggadocio. They have not (rpt not) been returned to office to complete the dissolution of the empire.

In one respect I think both the Dept and Mosadeg misconceive the Brit attitude. It is not (rpt not) merely that they believe that by (rpt not) dealing with Mosadeg and by allowing Iran to suffer the consequences of its actions, a new govt may be installed which will give them a better agreement. It is that they will not (rpt not), as presently advised, make the agreement as proposed with any govt, whether Mosadeg or his successor.

Therefore, I do not (rpt not) see any purpose in my attempting to get out of Eden some counter-proposals within the next three days. I know that they will not (rpt not) be forthcoming.

Harroinan and I are to see Eden on Tuesday evening. He is speaking in the UN on Tuesday. We shall talk with him very frankly. We have already indicated to him that the inability to reach a settlement will raise the very questions which the Dept now raises. We will tell him that we propose to recommend some supporting action. I propose to point out that he is putting responsible Amer officials in an impossible position. He frankly admits that he knows nothing about the situation in Iran. He relies wholly upon the advice of officials whom we believe to be wholly wrong and in whom we cannot (rpt not) the slightest confidence. Yet he says that true Anglo-Amer solidarity means that we must accept the final word of the incompetents who have brought us where we are. I shall tell him that this is impossible and that we must be free to follow our own interest, based upon our own info, unless he wishes really to inform himself and engage in a joint policy which is tolerable. We did do this, and much more. And I hope in due course we can make some impression, but we cannot (rpt not) do it in three days, and there is no (rpt not) use trying. It will only make matters worse and they are bad enough already. If, indeed, it is the last chance, then we must face that.

We believe, as a last extremity we should help the Govt of Iran. It should, however, (rpt not) be done now; and before it is done, it should be thought over thoroughly and freely with the Brit, and we should delay for a time sufficient to allow existing circumstances to operate to the detriment of Mosadeg provided such delay does not (rpt not) imperil too seriously Iran's orientation to the West.

BROOKS
EYES ONLY FOR ACTING SECRETARY WEBB FOR SUCH DISTRIBUTION AS DIRECTED BY HIM FROM ACHESON.

Conversation re Iranian oil dispute.

Participants: Secretary Acheson, Ambassador Bruce, Ambassador Harriman, Mr. Eden, Sir Pearson Dixon, Mr. Schuchburgh.

The foil is a full summary rather than a detailed report of a long and frank talk last night between the above persons.

The US quandary was first stated in this way:

Neither Eden nor Churchill had, nor could be expected to have, personal knowledge of all technical and intricate business and political factors leading to final judgment. Possibly in that matter, neither did Harriman and Acheson, though they had been perhaps involved longer in the matter. Therefore, reliance necessarily was placed on advisors. From the US point of view, this meant that British judgments were formed by advice of the very men who had led British policy into the present trouble. When we were asked to support the British, we were asked to do exactly what these men recommended. It was impossible for us to accept such a position.

Thus, one important, if not (rpt not) essential, element was to get a fresh point of view on the British side, against which to test our political and economic judgments. It was suggested that Eden might find it useful to ask Lord Brand and Dennis Maris, or persons of comparable standing and experience who had worked with us, to review the sit in both in London and Washington as quickly as possible. Mr. Eden asked whether Lord Leathers shld do this, adding that he was largely responsible for present British governmental position. We said that it was up to Mr. Eden whom to select, but that we were asembled going around the present circle.

The second aspect of the talks related to substance of policies. Here we had the familiar debate.
-2- 2862, November 14, 3 p.m., from Paris

The British claimed that, if we had supported them, events might have been different and their policy might have been shown to be right; whereas, now we claimed that they were proved wrong because our lack of support created the very situa-tion which we pointed out as proof. We thought that the history of the AIOC troubles in Iran, compared to the relatively happy situa-tion of all other companies in all other countries, was answer to this view.

We then asked whether the British had any specific policy, except to boycott Mosadeq, hoping for his fall. What specific proposals did they expect a successor govt to accept? For instance, we were absolutely convinced that AIOC did not (rpt not) return were they? Eden was not (rpt not) so convinced and believed contrary possible, but did not (rpt not) give the impression that policy would be fixed upon this point.

We then said that our present belief was that in a period of between one and two months, if nothing happened, disintegration in Iran would reach a point where, without financial help, the govt would collapse. We could not (rpt not) accept responsibility for the consequences of our not being able to create great bitterness in Anglo-American relations. Were we all warranted in taking these terrible risks, and for what purpose?

It was quite possible, indeed probable, that no (rpt no) deal could be made with Mosadeq, but that had to be demonstrated and not (rpt not) assumed. Negotiations were essential in order to show in Iran that acceptable alternatives to Mosadeq's position were available. This was not (rpt not) being done. The British argued that their advice was that negotations with Mosadeq strengthened him, while we argued that it weakened him. We agreed to this conflict of views, pointing out that the fundamental purpose was to strengthen the Shah and that the Shah and his advisers, who had everything at stake, believed our view the sounder one.

Eden then mentioned the message regarding talk which Garner of the World Bank had with Mosadeq, reported in a separate telegram.

At this point a long telegram was brought to Eden containing a proposed statement at question time in the House of Commons today. While he did not (rpt not) read the statement to us, Eden told us enough of it, including the fact that it contained the basic principles read to us last week and with which Linder is familiar, to make us realize that it was very bad indeed. Eden thought so himself and said that he would try to stop
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to stop the statement and wld advise that nothing be said
unless something was required as a result of Mosadegh's speech.

The up-shot of the whole matter is about as follows:

1. Eden, I believe, understands how impossible it is to
look for our "support" in the way he had been demanding.

2. He understands that in a matter of weeks we may deter-
mine unilaterally to give financial aid to Iran, and he sees
the difficulties that this will produce.

3. I think that he is beginning to see, although I wld not
(rpt not) bet much on this, that the British position must
move, and move in the direction of specific proposals. He
may refuse to make these to Mosadegh, but understands that
he must make them at once to any successor.

4. I believe he has much interest in the World Bank sug-
gestion, as a means both for tiding over the great predic-
ments of the present and furnishing a bridge into a future
settlement.

BRUCE

EB: ED

Note: Mr. Berry (SS/R) informed 11/14/51, 1:30 p.m. CWO FMH