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CENTRAL INTELLIGENCE AGENCY  
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TO: Deputy Director (Intelligence)  
SUBJECT: Status of Iranian Oil Negotiations\*

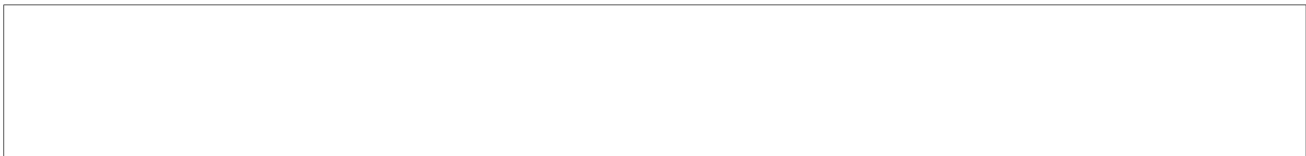
Ambassador Henderson reported from Tehran on 26 June that the consensus of those having knowledge of the oil negotiations was that "at least between two and four weeks as from today" would be needed to reach agreement in principle and probably at least two months after that to clear a final draft through the Majlis.

While the discussions between the consortium negotiators and the Iranian representatives appear to be making progress on basic issues, two related problems are receiving considerable attention on an intergovernmental level.

1. British-Iranian Discussions on Compensation:

Concurrently with the consortium-Iranian discussions, the British embassy at Tehran and the Iranian government have been endeavoring to negotiate the matter of compensation to be paid as a result of oil nationalization in Iran. Henderson says this matter has become most difficult and potentially critical in the over-all negotiations; to Iranians it is a problem of first magnitude. He feels they would regard any appreciable payment of claims to AIOC "as an exaction of tribute under force of their present circumstances rather than equitable compensation for net damages sustained by AIOC since 1951."

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State Dept. review completed

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Prior to the opening of negotiations in April, the American and British governments were understood to have agreed that the maximum compensation demanded would be about \$280,000,000 with the combined engineering valuation of the Kermanshah refinery and Naft-i-Shah oil fields--between \$30,000,000 and \$40,000,000--as a minimum.

In Ambassador Henderson's opinion, a demand now for the maximum amount would have a most serious effect on the consummation of a final consortium agreement; if an agreement is achieved, a shadow would be cast over its durability. Apparently the Iranians have been told by the British ambassador that substantial compensation must be paid and they understood that this request was supported by the United States. Henderson and Herbert Hoover, Jr. believe that any Iranian agreement to pay compensation in excess of about \$42,000,000 would provoke serious consequences.

2. Iranian Guarantees of an Oil Agreement:

The British government persists in its hope that an arrangement can be evolved whereby a bilateral exchange of notes would assure the implementation of an oil settlement. London has proposed the following procedures to which the United States and Dutch governments appear to have agreed: (1) the British government would propose a unilateral exchange of notes between Britain and Iran if a British holding company is established; (2) the Dutch government would exchange guaranteeing notes with Iran if the operating companies are Dutch; (3) the British and Dutch governments would both propose such an exchange of notes; and (4) if Iran will not agree to an exchange of notes obligating only Iran, the idea would be dropped.

The reported Soviet agreement to release to Iran 11 tons of gold and goods worth an estimated \$8,000,000 may stiffen the Iranian attitude in the oil negotiations. Although the income to Iran from a Soviet settlement is in no sense comparable, and an oil agreement would be a long-range benefit, the Iranian negotiators will probably consider any improvement in Iranian-Soviet relations as a trading point.

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