

NEAR EAST-AFRICA

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25 May 1954

State Department review completed

BACKGROUND

STATUS IRANIAN OIL NEGOTIATIONS

Discussions in Tehran for a settlement of the Anglo-Iranian oil dispute are temporarily suspended to permit consortium negotiators to consult in London with their principals.

Iranian Negotiators Observe Limits of Oil Nationalization

Iranian negotiators have been insistent from the beginning that any agreement must conform to the oil nationalization law. Consequently, they have rejected the consortium's plan which provides that the operating companies be incorporated in Britain, and that the consortium operate the oil industry for its own account. Iran flatly rejects British nationality of the operating companies and insists that management be vested in Iranians.

"Agency" Arrangement Proposed

The threatened deadlock eased somewhat when both sides agreed to explore, without abandoning their original positions, the possibility of an agreement which would give the consortium effective control of oil operations but as an agent for Iran. The shah has

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expressed approval of this type of an arrangement which would probably be acceptable to Iranian public opinion. The attitude of the consortium principals as a whole toward such an arrangement is unclear, although the American members are understood to be agreeable. The opening of London discussions has been postponed until 1 June and the consortium's views probably will not be known for one or two weeks.

Ambassador Henderson believes that only an agency agreement will be workable. He considers that any attempt to push through arrangement which gives the consortium sole and exclusive control would not last.

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Iranian officials have hinted to Henderson that the nationality of a small country such as The Netherlands might be acceptable for the operating companies.

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Production Program

Iran is reluctant to accept consortium's decision concerning rate of production anticipated for first three years--10 million tons first year, 20 million second, 25 million third and 30 million tons per year thereafter. Iranian proposal calls for crude production of 15 million, 25 million and 35 million tons, respectively, for the first three years and a guarantee that after the fifth year Iran's annual production would be not less than one third the total Middle East production--probably 40-50 million tons per

year. This may be compared with the 33 million tons of crude produced in 1950, the last complete year before nationalization.

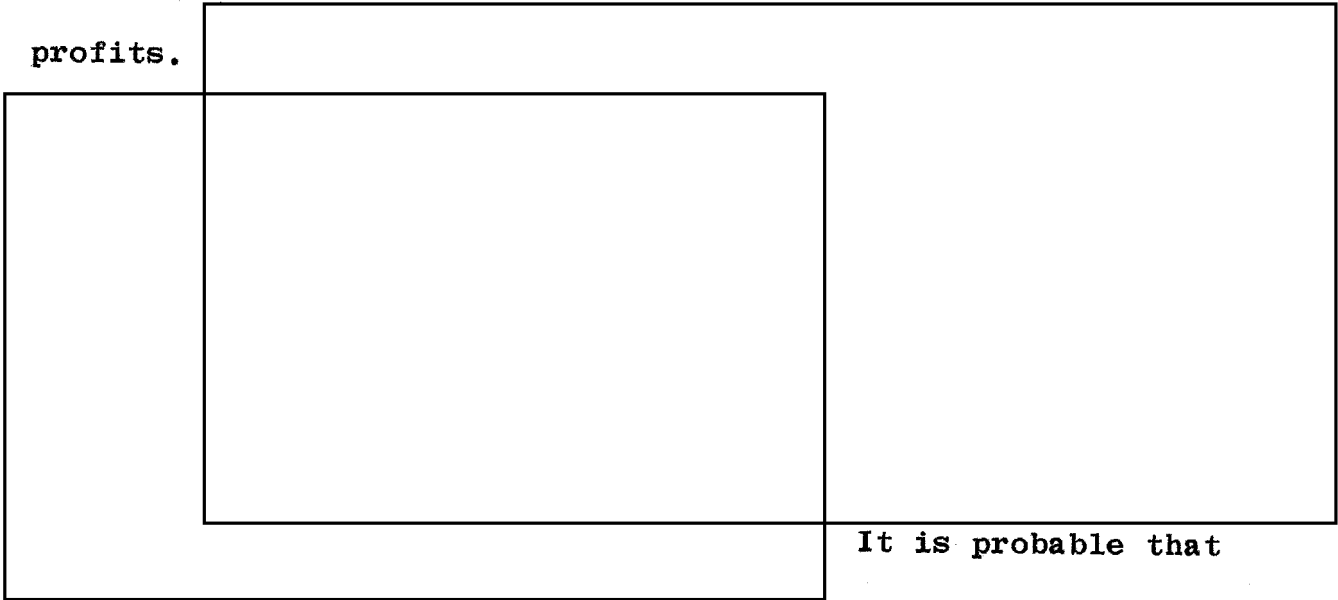
Compensation and Convertability

Concurrently with the consortium negotiations, talks are also going on between Iran and Britain on a governmental level. These are concerned with the matter of compensation and the convertability of the sterling with which Iran will be paid its share of the oil

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profits.

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It is probable that

Iranian counterclaims will equal or even exceed amount claimed by British. Both Britain and Iran are faced with matter of public opinion and prestige on this point.

The British have agreed to allow Iran to convert into dollars up to 40 percent of sterling it receives as oil royalties. Iran's

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dollar needs will be reviewed periodically, however, and more than 40% convertability may be permitted. This agreement is contingent on the successful conclusion of over-all negotiations. Consortium representatives probably will return to Tehran between 10 and 15 June and the talks are expected to continue for several months before a decision is reached.

Domestic Political Repercussions in Iran

Meanwhile, Prime Minister Zahedi is working against time. Majlis is meeting regularly but deputies are restive and seem unwilling to commit themselves on any issue until some developments are apparent in oil negotiations.

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opposition faction is shaping up in the Majlis which has been able to embarrass the government twice in recent weeks on minor issues. When this opposition has become stronger, and tested its strength on other issues, it probably will attack Zahedi on the oil issue.

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Outside the Majlis, Tudeh and fellow travelers will probably take advantage of delay to build opposition to any agreement. Should they be successful, even the most favorable arrangement would have little chance of acceptance.



ATTACHMENT:

THE RIO DE JANEIRO TREATY

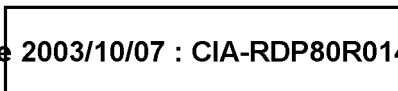
I. The Rio Treaty (officially the Inter-American Treaty of Reciprocal Assistance) was signed in 1947 and now has 20 active participants. (Guatemala has ratified but has not deposited)

A. The Treaty is the major security and peace instrument of the hemisphere. It provides joint machinery for meeting armed attacks, unarmed aggression and other threats to signatory countries.

B. Action taken under the Treaty must be approved by two-thirds of the signatories (14 votes) in all cases. Parties to a dispute cannot vote but this rule does not alter the two-thirds rule. All action must have 14 votes.

C. Action taken or contemplated under the Treaty must be reported to the UN.

II. The Honduran request for US assistance under the terms of the Rio Treaty has no precedent.



A. No such unilateral action has been taken previously.

B. In the absence of an armed attack, any request for assistance would normally go to the Council of the Organization of American States. The Council would then decide whether to activate the treaty.

C. The Treaty specifically states that it does not abridge the right of any country to defend itself against attack. It also states that other contracting parties may assist the defender prior to joint OAS action in case of an armed attack.

D. It is possible that Honduras envisages US assistance in the present situation as an extension of the right of self-defense against an armed attack.

NSC BRIEFING

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The basic principle of the Treaty is that a "threat against one is a threat against all," but this has not previously been taken to mean that any third party should act without the consent of the Council of the Organization of American States.

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