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*Some Documents on The*  
**NATIONALIZATION**  
*of The*  
**OIL INDUSTRY**  
*in*  
**IRAN**

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**IRANIAN EMBASSY**  
**WASHINGTON, D. C.**



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***For the Happiness and Prosperity of the Iranian nation and for the purpose of securing world peace, it is hereby resolved that the oil industry throughout all parts of the country, without exception, be nationalized; that is to say, all operations of exploration, extraction and exploitation shall be carried out by the Government.***

**(The Text of the Law of March 20th, 1951)**



## **TEXT OF LAW REGULATING THE NATIONALIZATION OF THE OIL INDUSTRY**

- 1) For the purpose of regulating the execution of the Law of 20th March which nationalizes the Oil Industry throughout the country, a Mixed Board shall be formed. This Board shall consist of 5 members of the Senate and 5 Deputies of the Majles to be elected by each of these two bodies, the Minister of Finance in office or his deputy, and one other person to be selected by the Government.
- 2) Under the supervision of the Mixed Board the Government is charged to remove forthwith the former Anglo-Iranian Oil Company from control of the Oil Industry of the country; should the Company make its claim for compensation an excuse to forestall prompt delivery, the Government may deposit up to 25% of the current income, less cost of production, in the Bank Melli or any Bank acceptable to both parties to secure the claim.
- 3) Under the supervision of the Mixed Board the Government is charged to investigate the lawful and rightful claims of the Government as well as those of the Company, to report its views thereon to the two Houses of Parliament and upon ratification to give effect thereto.
- 4) From Esfand 20th 1329 (March 20th, 1951) when the Bill for the nationalization of the Oil Industry received the ratification of the Senate, the Iranian nation being lawfully and unquestionably entitled to the entire earnings derived from Oil and Oil Products, the Government, under the supervision of the Mixed Board, is charged to investigate and check the accounts of the Company; similarly, the Mixed Board must meticulously supervise the exploitation of the Oil Resources from the date this Law went into effect until the appointment of a Board of Management.
- 5) As soon as possible, the Mixed Board shall prepare the Charter of the National Oil Company including therein provision for the appointment of a Board of Management and a Board of Technical Experts; such Charter shall be submitted to the Houses for their ratification.
- 6) For the purpose of gradually replacing foreign technicians by Iranian technicians, the Mixed Board is charged to draw up regulations for the annual selection through competitive examinations of students to be sent abroad for education, training and experience in the various branches of the Oil Industry; these regulations after being ratified by the two Houses shall be put into effect by the Ministry of Education.

The cost of the education of these students shall be paid out of the oil earnings.

- 7) Purchasers of the products of the oil fields from which the former Anglo-Iranian Oil Company has been removed can hereafter purchase annually at current world market prices the same quantities purchased by them annually during the period commencing from the beginning of 1948 up to 29th Esfand 1329 (20th March, 1951); for any additional quantities they shall also enjoy priority, other conditions being equal.
- 8) All proposals of the Mixed Board shall be delivered to the Majles and if approved by the Oil Commission the latter shall submit a report thereon to the Majles for ratification.
- 9) The Mixed Board must complete its work within three months of the ratification of the Law and submit a report of its action to the Majles in accordance with Article 8. Should the Board need a longer period of time it may ask for an extension giving adequate reasons therefor.



*A report on the history of the Southern Oil of Iran presented by the National Oil Company of Iran to the Honourable Averell Harriman, Special Envoy of the President of the United States of America. Tehran, August 1, 1951.*

## CHARACTERISTIC FEATURES AND RESULTS OF D'ARCY CONCESSION.

In terms of a concession granted in the year 1901, five years before the establishment of Constitutional Government in Iran, the right to exploit the oil resources of Iran (with the exception of five northern provinces) was given to a certain Mr. D'Arcy, a native of Australia, for a period of 60 years on the condition that the first company should be formed and start operations within 2 years of the granting of the concession. The concessionaire obtained exclusive rights to extract, transport and refine oil, and to lay pipe-lines from the oil fields to the Persian Gulf. The Iranian Government agreed to put at the disposal of the concessionaire uncultivated government land which he required free of charge, and cultivated land belonging to the government or privately owned at a fair price. The Government further agreed to exempt the land used by the Company from payment of land tax and Company products from excise or transport taxes; also to exempt the machinery and equipment imported for prospecting, exploration, extraction of oil and construction of oil pipe-lines from payment of customs duties.

The holder of concession was permitted to form one of several companies, provided that the Iranian Government was informed of the statutes, capital and the location of the offices of these companies.

These companies were to enjoy the same rights and were to be subject to the same obligations and responsibilities as the holder of the concession.

Each and every one of these companies was to pay 16% of its annual profits as a royalty to the Iranian Government.

The Iranian Government undertook to guard and protect the properties of the Company but having done so the companies or the holder of concession had no right to claim any damages or compensation on any pretext whatever.

The Company undertook to employ Iranian nationals exclusively in its labour force.

On the expiration of the period of concession all the properties of the Company were to revert to the Iranian Government.

In case of any disputes the matter at issue was to be referred to two arbiters in Tehran who in case of disagreement would appoint an umpire.

The Iranian Government reserved the right to make any inspection it thought necessary in order to safeguard its rights in the concession.

Notwithstanding the right of inspection and audit of accounts explicitly given to the Iranian Government, and notwithstanding the obligatory nature of the arbitration clause and the indisputable right of the Government to a royalty on the profits of all the companies formed for the exploration, extraction, refining, transportation and the sale of oil, and, although the Iranian Government was not liable to payment of any indemnity after fulfilling its sovereign obligation to guard and protect the properties of the Company, nevertheless:

- 1) The Company never allowed the Iranian Government to inspect and audit the accounts.
- 2) The Company never consented to arbitration either by two or three arbiters in Teheran.
- 3) Royalty was paid to the Iranian Government only by the Company which extracted and refined oil in Iran. The balance sheets and profit and loss accounts of this Company were fictitious and specially prepared so as to conceal the real profits and thus to pay as little royalty as possible. The provision for the payment of the royalty of 16% by each and every subsidiary company was evaded and none of these companies ever paid any royalty to the Iranian Government.
- 4) Instead of paying a royalty of 16% the Company paid the Iranian Government only 13% and withheld three percent in lieu of alleged compensation paid to the owners of the land although in accordance with the terms of the concession such lands had to be purchased by the Company itself.
- 5) On the pretext that the pipe-line had been cut during the first world war the company withheld royalty payments to the Iranian Government for four years from 1916 (when the Company paid its first dividend to shareholders) until 1920. The Company claimed £400,000 compensation for the small damage to the pipe-line which had been sabotaged at the instigation of the Turkish

Government and for which the Iranian Government was consequently not responsible. Contrary to the express provision of the concession the company deducted this preposterous claim from the royalties due to the Iranian Government.

- 6) No royalty whatsoever was paid to the Iranian Government on the profits accruing to the subsidiary companies formed for the exploitation, transportation and the distribution of oil in Iran and elsewhere.

To sum up the Company never fulfilled its obligations, always created difficulties for the Iranian Government and never paid more than half of the royalties rightfully due to the Iranian Government. The word "profits" which had been mentioned in the concession in a general sense was interpreted as "net profits", after provisions for depreciation and allocation to reserves on the basis of figures arbitrarily fixed by the Company itself.

Notwithstanding the fact that the Iranian Government granted the concession to an Australian national, the British Government in 1914 without the consent and against the wishes of the Iranian people acquired a controlling interest in the Company by the purchase of 56% of the shares, and by a long-term contract which secured the oil for the British Navy at a price between 17 to 30 shillings per ton (40 cts. to 70 cts. per barrel). The Company thus lost its commercial nature in 1914 and became an agency of the British Government. This change in the constitution and character of the Company has caused tremendous political and economic harm to Iran.

Finally, acting upon the advice of its legal counsellors and bearing in mind the importance of Iranian oil to the British economy, the former Oil Company commenced from the year 1918 on to pave the way for a prolongation of the period of concession.

In the year 1930 when the Income Tax Law was put into effect for the first time in Iran, the Company refrained for two years from paying income tax from which it was not exempt. It brought economic pressure on Iran by reducing its royalty payments to a nominal sum on the plea that because of the world economic crisis the price of oil had fallen. This economic pressure achieved the company's object and goaded Iran to denounce the D'Arcy Concession which suited the Company's purpose admirably in its long-term plan to extend the period of its concession.

By diplomatic pressure and the instigation of internal agitation backed by the dispatch of units of the British Navy to the Persian Gulf, the Iranian Government was cowed by the might of Great Britain and a new agreement was forced upon Iran in April of 1933.

On the face of it the purport of 1933 agreement was to have doubled the royalties accruing to Iran; however its clauses were worded in such a manner that the Company could, and did, interpret them unfairly. In this way by evading the provisions of the agreement the royalty payments to Iran, during the 18 years which has elapsed since the present agreement was made amount to less than one-half of what would have accrued if the former D'Arcy Agreement (under which the company was liable to income tax) had been in force.

The 1933 Agreement was so worded that its clauses could be interpreted in a way damaging to Iran's interests.

These possible interpretations were not fully taken advantage of, hence it is not necessary to enumerate them. It is sufficient to mention one instance here:

Clause 20 of the Agreement gives the former Company the right of selling its lands and immovable installations to subsidiary companies, even during the last year of the concession. Notwithstanding repeated protests, the Company has never submitted to the Iranian Government for approval changes in its statutes and those of its subsidiary companies permitting their conversion into independent companies after the possible sale of the above-mentioned properties. By such means the Company could deprive the Iranian Government of the right to possess such properties without payment of compensation at the expiration of the period of concession, and force the Iranian Government to re-purchase the same from the former subsidiary companies at a fair price.

### **SUPPOSED ADVANTAGES OF THE 1933 AGREEMENT**

1. The area of the concession was reduced from 400,000 square miles to 100,000 square miles, and the Company was given five years to specify the boundaries of the lesser area.

2. By the terms of the original D'Arcy concession, Iran's share of the profits was 16% of all income from the exploring, extracting, refining, transportation and distributing companies. Under the 1933 agreement, Iran received 20% of the dividend paid to the shareholders of the mother company, but it does not share in any way in the profits derived from Iranian oil of the subsidiary and associated companies belonging wholly or partly to the former Oil Company.

3. In addition to the above 20% of the dividends, the Iranian Government was to receive as royalty and income tax between 4½ to and 5

shillings, guaranteed by gold, for every ton of oil sold. Thus, Iran's right to income tax under the D'Arcy Agreement was recognized.

4. The former Company's exclusive right to the construction of a pipeline to the Persian Gulf was rescinded.

5. The Company agreed to take such reasonable and proper steps as would insure maximum economy in its operations and the fullest benefit from the exploitation of subterranean resources. Further, the Company agreed that it would not enter, whether by action or inaction, on any course which might be contrary to Iran's best interests.

6. The Company agreed to place all important documents and projects confidentially at the disposal of the Iranian Government.

7. The Company agreed to spend a sum not exceeding £10,000 per annum for the purpose of sending Iranian students to Europe. It further agreed to reduce progressively the number of foreign experts and technicians and to replace them with Iranian nationals.

8. The Company undertook to provide medical facilities for all of its employees in conformance with the most advanced methods found in Iran.

These were the ostensible advantages of the 1933 Agreement, but some of them were of a specious nature and the remainder were never put into effect.

#### **DISADVANTAGES OF THE 1933 AGREEMENT**

1. The former Company and the subsidiaries were exempted from all import duties and taxes; a privilege not enjoyed by any other Company in Iran.

2. A special extension has been given to the scope of the Company's operations, some of which have not yet been utilized.

3. Although the area of concession was reduced, the Company was given five years to select the richest oil-bearing areas. Thus, the seeming reduction in the area of concession was, in effect, nullified.

4. The former Company was permitted to buy public or private lands irrespective of the purpose for which these lands were intended (contrary to the laws now in force in the United States of America or England).

5. The former Company was granted the right to sell its lands to its subsidiary companies. Thus, it would be possible for the Company to sell its lands and immovable properties and deprive Iran of her just due at the termination of the agreement.

6. The laws of the country provide that Iranian nationals have to pay a tax for the exploitation of any mineral resources but the Company has acquired the right to exploit minerals other than oil without payment of any royalty.

7. The Company was granted the right of constructing and acquiring railways, ports, and every means of communication necessary for its operations.

8. The Iranian Government is required to pay compensation for the use it may be forced to make of the Company's means of transportation and communication for purposes of national defense, instead of paying the Company the cost of using such means.

9. The Company is exempt from all import and exchange regulations in force in the country in respect of the supplies and other requirements it imports in the name of its employees. These privileges have precluded any development of agriculture, trade and industry in the neighborhood of the oil fields.

10. The Company is exempted from the payment of all customs duties and taxes on both its imports and exports. Such an exemption has not been granted to any other enterprise in Iran, not even to Government-owned institutions. This privilege makes it possible for the Company to prevent the foundation and development of any industry based on oil products in Iran, because it can undersell all possible competitors through lower costs.

11. The Company is not obliged to convert into Iranian currency the foreign exchange it obtains from the profits derived from the sale of oil and other products.

15. Instead of paying the royalties and taxes based upon tonnage of rather than the market value of oil products, the Company derives huge benefit by exporting the more expensive, and hence more profitable, refined products.

13. By unfair interpretation of the phrases "sold in Iran" and "exported from Iran" the Company has refrained from paying royalties on:

- a) Gas which amounted to 3,500,000 tons in 1950,

- b) Wasted oil, which probably amounted to 500,000 tons in that year,
- c) Oil consumed by the Company, amounting to about 2,000,000 tons in the same year.

14. In 1933 the income tax payments which accrued to the Government amounted to some 4% of the Company's profits, a percentage equivalent to the maximum rate of income tax then prevailing in Iran. In 1947, however, when Iranian income taxes had risen to a maximum of 50%, royalty paid in lieu of income tax only amounted to 1.8% of the Company's profits.

15. Instead of paying the royalties and taxes based upon tonnage of extracted oil in regular and monthly instalments and thus assisting Iran's budget and the Seven-Year Development Plan, the Company paid a monthly sum of £750,000 during nine months of the fiscal year, although the annual royalty for the year 1950 amounted to at least £15,000,000.

16. Although the Company explicitly agreed to safeguard Iran's interests and to exercise maximum economy in the exploitation of our resources, it burns or wastes all the natural gas produced from the operation of the oil fields without paying any royalties on the gas. This shocking waste of natural resources is the more deplorable in view of the fact that the Company annually uses some two million tons of oil for its own needs, again without payment of any royalty.

17. The Company can, in Government lands within the area of the concession, exploit forests, woods and mineral resources without the payment of any royalties, whereas Iranian Nationals are required to pay royalties for the use of these natural resources.

18. Basing itself on the phrase "in conformance with the most modern methods in practice in Iran," the Company has evaded its obligation to maintain proper health services and thus deprived more than 80% of its laborers from enjoying habitable lodging, potable drinking water and proper medical care by withholding the means to make such prime necessities adequately available to all its labor force.

19. Notwithstanding the fact that the abundance of oil resources in Iran permits production at a very low cost, the price of oil in Iran is based upon the prevailing Rumanian or Gulf of Mexico prices, less a discount of 10%. Thus, the Company reaps a profit of more than 500% from the sale of oil products in this country. Furthermore, on the strength of secret agreements and because the Admiralty holds a controlling interest in the Company, the British Admiralty and Air Force obtain their require-

ments either free, or at cost price. These abuses have resulted in enormous financial losses to Iran.

20. In terms of the 1933 Agreement, the holder of the concession was given the right to renounce the concession on two years' notice, whilst no such right was given to Iran even if the Company did not carry out the terms of the agreement, or did not adhere to the obligations mentioned therein.

21. The arbitration clause in the 1933 Agreement (which appears to remove the disadvantages of the parallel clause in the D'Arcy concession) gives the President or the Vice-President of the permanent International Court of Arbitration the right to nominate a single arbiter whose award is final. Thus, it fulfills the long-cherished desire of the Company to bring any dispute before one single arbiter who could more easily be brought under the influence of the British Government. Finally, the 1933 Agreement transferred the scene of arbitration from Teheran to another place which would be decided upon by the single arbiter, or by a board of three.

22. The Company made it a habit to take advantage of any opportunity to obtain a document every few years, certifying that all accounts had been settled. In the 1933 Agreement it succeeded in obtaining such a settlement in respect of all the past claims of the Government by payment of the sum of one million pounds Sterling.

23. The clause in the 1933 Agreement which is most prejudicial to Iran's interests is that which prolongs the period of concession by 32 years, i.e., to 1993. According to the D'Arcy concession all properties of the Company were to be turned over to the Government without compensation in the year 1961. Thus, Iran, after 1961, would have derived the full benefit of the exploitation of its oil resources, at present amounting to some £200,000,000 annually. Under the 1933 Agreement, however, Iran's income from royalties and annual profits did not exceed £15,000,000 in 1950, while the sum expended by the Company to cover its miscellaneous expenses in Iran does not exceed \$20 million annually. The enormous loss suffered by Iran through the prolongation of the concession is evident.

24. The Agreement provided no enforceable sanctions for default by the Company. Thus, if the Company were to be ordered by a court or arbitrator to pay an indemnity to the Government and refused to abide by such a decision, the only recourse would be to annul the agreement. And in such case the Company would benefit by such action.

A cursory examination of the Company's accounts will show that Iran was deprived of her just due by unworthy chicanery. The balance

sheets were juggled to show a small profit for the parent organization, while the subsidiary companies made huge profits; oil was sold to the Admiralty and to the distributing companies at cost prices; and the terms of the agreement were subjected to unfair and unintended interpretations.

If the Company had acted with fairness and justice in its interpretation of the agreement, Iran's income would have been at least double the amount actually paid. Furthermore, if the foreign technicians and experts had been progressively displaced by Iranian nationals, as stipulated in the agreement, the former would now have numbered only a few hundred, whereas the Company's present staff of foreign employees is in excess of 4000. It is impossible to estimate the economic loss to Iran of the Company's failure to carry out its obligation to train Iranian technicians.

#### **DEVIATION FROM THE PROVISIONS OF THE 1933 AGREEMENT AND THE UNFAIR INTERPRETATION OF ITS CLAUSES**

1. Although the 100,000 sq. mile area of the concession granted the right of exploitation of actual land areas only, the Company has tried to include the coastal waters of Iran in its concession area.

2. The royalties and profits were guaranteed by gold on the basis of its price in a free market. The Company, however, has based its figures on the official price of gold in London, which at present is at least 50% less than the market price.

3. According to the letter of the agreement Iran is entitled to 20% of the dividends paid to shareholders, but the former Company may pay only such portions of this amount as it desires and pay the balance at the termination of the Agreement, when the rate of exchange for pounds Sterling may be considerably lower. There are, however, further clauses designed to reduce further the Company's debts to Iran.

4. Iran's right to 20% of the profits of the former Oil Company includes the profits of the subsidiary and associated companies. These companies, however, pay only a small portion of their profits to the parent company; Iran thus receives only an infinitesimal portion of its 20% share in the profits of these subsidiary companies. The British Tanker Company, for instance, which is completely owned by the parent company, showed a profit of £10,000,000 in 1948 but only paid £240,000, or 6%, of its capitalization to the parent organization. Considering that income tax was paid to the British Government, Iran's share of the ten million pounds profit, which should have been £2,000,000 amounted at the most to £20,000, or one per cent of its rightful share.

5. Iran's title to 20% of the reserves has been interpreted by the Company as being limited to the General Reserves, whereas Iran has the right to 20% of all the profits of the Company before deduction of income tax paid to the British Government, and before the transfer of any amount to any reserve account whatsoever.

6. The Company has, by its unfair interpretation of the agreement, prevented the Iranian Government from auditing its accounts and those of its subsidiaries. The representative of the Iranian Government, however, as representing a major partner in the enterprise should have the right to obtain all information which is enjoyed by any shareholder. Further, Iran's right to 20% of the Company's profits entitles it to the basic right of protecting its own interests.

7. Notwithstanding Iran's indisputable right to exercise control over the amount of oil exported, the Company, by using its influences, has in effect prevented any such control. The country's present dissatisfaction is largely a result of this condition. An American journal has recently asserted that the Company exported some 56 million tons of oil in 1950 rather than the 32 million tons figure officially admitted by the Company.

8. On the pretext that scientific and technical information on oil tends to be of a secret nature, the Company has refused to place any necessary data and information at the disposal of the Iranian Government. To console the Iranian Government, however, it specially marked as confidential and transmitted to the Iranian Government, much obvious and useless information relating to employees and installations. Thus, using the above pretext and exercising its influence in the proper official quarters, the Company prevented the publication of all vital information on its operations.

9. Instead of adopting a practical program for reducing the number of foreign employees and experts and replacing them by Iranian nationals, the Company has taken unfair advantage of a general scheme whereby it has not only refrained from reducing the number of foreign employees, but has increased their number from 1800 in 1933 to 4200 in 1948.

In addition to the financial losses which have been inflicted on this country by such action, the Company has deprived Iran of having trained and expert Iranian technicians who would have been of inestimable value in the present situation.

10. Although the Company was explicitly bound to provide medical care and housing for its laborers, more than 80% of the laborers today

are lacking habitable living quarters. Instead they live in hovels of the most primitive sort and lack every means of sanitation.

11. By issuing free shares to its shareholders the Company has on two occasions increased its common stock capitalization from an original £9,000,000 to the total of £21,000,000. The Company's failure to place on public sale such new stock issues evaded the provisions of clause 18 of the agreement which gave Iran the right to purchase the Company's common stock.

12. Through the exercise of the right of selling its immovable properties to its subsidiary companies, the Company can deprive Iran from taking possession of such properties on the termination of the agreement when the ownership of such properties reverts to Iran without compensation.

It is evident from the foregoing that although the Company was explicitly bound to exercise good will and honesty, and to give just and reasonable interpretations to the terms of the agreement, it failed to fulfill its obligations. In many cases it refrained from carrying out the provisions of the agreement where these were not to its benefit.

### **THE 1933 AGREEMENT WAS FORCED ON IRAN AND IS THEREFORE NULL AND VOID**

The world is well aware that the 1933 Agreement was forced on Iran in defiance of the expressed sentiment of the Iranian nation, and in spite of the opposition of the majority of Iranian statesmen and officials. The latter were opposed to it for the following reasons:

1. The dispatch of British warships to Iranian waters in 1932 when Great Britain had reached the zenith of her strength after her victory in the first World War, at a time when the U.S.A. was occupied with settling her internal affairs. The Iranian Government at that time was a puppet of Great Britain and was expected to be cowed by such a display of force.

2. The confession of Mr. Taqizadeh, then Minister of Finance, and the present President of the Senate, in the 15th Majles. He said, "We were a few helpless men without authority who did not agree with it and we were exceedingly sorry when it happened"; and, "I must say that I had nothing whatsoever to do with this matter except that my signature is appended to that paper and whether or not that signature was mine or someone else's it would not have made the slightest difference, and what happened would have happened in any case. . . . I personally did not approve of the prolongation of the agreement, nor did the others. . . ."

3. The statements made by His Late Majesty when the question of the prolongation of the concession was raised and the representatives of the Company threatened to leave Iran and bring negotiations to an end. He said, "It is astonishing to hear this matter which is altogether an impossibility. We who have been cursing for 30 years those who originally gave this concession should not put ourselves in a position to be cursed for a further period of 50 years for agreeing to this. . . ."

4. Even if statements and other evidence of a similar nature be disregarded, a careful study of the text of the 1933 Agreement, with the limitations imposed on the Iranian Government and the advantages given to the Company, would be sufficient proof of the fact that it was signed under duress. Here are further reasons:

- a) The 1933 Agreement gives to the Company the right to annul the contract, whenever it so desires, by simply giving two years' notice. The Iranian Government, on the other hand, agrees not to have any right of annulment through legislation, even if the provisions of the Agreement are not carried out by the Company. No Parliament, however, can deprive the subsequent legislatures from the exercise of their sovereign right of legislation.
- b) If the D'Arcy Agreement had not been prolonged, all the profits derived from the sale of oil after 1961 would have belonged to Iran. By the 1933 Agreement, however, the benefit to Iran after 1961 is limited to the amount of royalties and the foreign exchange which the Company converts into rials for its needs.

For further elucidation of the above point, it might be mentioned that in one year, say 1950, the total contribution of oil to Iran's economy from all sources does not exceed 40 million pounds. If the concession had not been prolonged, the total proceeds derived from the sale of oil, amounting to 200 million pounds annually, would have been received by Iran.

- c) If the concession had not been prolonged all the equipment and installations for the production of oil would have belonged to Iran in 1961, at the termination of the original agreement, and the entire income would have accrued to Iran. By the extension of the period Iran receives only 20% of the income for a further 32 years, while the remaining 80% goes to the coffers of the Company.

- d) Besides these glaring defects in the 1933 Agreement, the royalties and the 20% representing Iran's share of the profits were paid in such a way as to bring the income of the Iranian Government during 18 years to one-half of the amount which would have been received if the D'Arcy concession had been still in force.



**PRELIMINARY LEGAL HISTORY OF THE  
MEASURES ADOPTED FOR RECOVERING IRAN'S RIGHTS  
FROM THE FORMER OIL COMPANY**

In the year 1944 the Majles enacted legislation which prohibited the granting of further oil concession. The Government of Ghavam-ol-Saltaneh deviated from the text of the law by entering into an understanding with the U.S.S.R. Government for the formation of a joint Irano-Soviet Company. This proposal was, however, rejected by the Majles in 1947 on the grounds that there was no difference between granting a concession and agreeing to the formation of a joint company; hence the action of the Government had been contrary to the provisions of the Law. In rejecting the proposal for the formation of a joint Irano-Soviet Company the Majles added the following rider:

“The Government is charged to conduct the necessary negotiations and take the requisite measures in all cases where Iran's rights to its natural resources, whether subterranean or otherwise, especially in the case of the Oil resources of the Southern part of the country have been impaired; and to see that all national rights should be restored. The Government is further charged to report the results of such negotiations and measures to the Majles.”

From that date onward and despite the pressure brought upon all classes of the people by former puppet Governments, wide-spread demonstrations occurred, demanding the restoration of Iran's rights infringed by the former Oil Company. These events culminated in the attempt against His Majesty's life in February 1949. As the would-be assassin was killed on the spot, the real instigators were never known. But the Government used this pretext for the establishment of Martial Law and the suppression of a free press that was defending the national cause. The people's right to freedom of speech was revoked and an interdict placed on any public discussion of the vitally important oil question. Negotiations for a new agreement were carried on for eight months in complete secrecy between the representatives of the former Oil Company and the representatives of the Iranian Government. Finally, one week before the scheduled adjournment of the Majles, the so-called “Gass-Gulshaian” Agreement was presented to the legislature for ratification. It was designated as urgent in the expectation that the curtailed period of discussion, precluding any thorough study of the measure, would facilitate its passage.

As further assurance for the passage of the Bill concerning the Agreement, the rules of procedure of the Majles were altered to prevent the deputies from speaking at any length on the subject. In spite of the new rules of procedure and contrary to the intentions of the Company's partisans, however, the opposition managed to get the measure on the floor for debate during six sessions. Basing its arguments on meagre data painstakingly collected by a few persons, the minority succeeded in preventing the ratification of the Bill—notwithstanding the parliamentary intrigues in favour of the measure and the manoeuvres designed to stifle Mr. Hussain Makki's eloquent opposition.

The period between the adjournment of the 15th Majles and the inauguration of the 16th Majles enabled the nation to become acquainted with the facts of the case through the study of various material published on the subject of oil. The people began to realize what wrongs and injustices they had suffered from the D'Arcy concession and the 1933 Agreement, and that a new supplementary Agreement would be no improvement. As a result the New Agreement was rejected by the 16th Majles, despite the Company's interference with the elections, its intrigues, and all the pressures it tried to exert.

It goes without saying that all the secret and open intrigues and interferences manifested during the last three years originated from the former Oil Company. In spite of all these open interferences in the Teheran elections eight of the members of the Parliament, seven of them from Teheran, who were really elected by the people, succeeded in preventing the ratification by the Majles of the "Gass-Golshaian" Agreement. These eight members backed and supported by public opinion managed to put a stop to the activities of the Company. This group, being fully aware of the intransigence and unfair interferences of the former Company, determined to get rid of the influence of the supporters of the Company in the affairs of the State, and succeeded in obtaining the ratification of the nationalization law by the same Majles on which the Company had pinned its hopes. It was for this very reason that the Company had ventured to interfere in the elections.

**CHARACTERISTIC FEATURES AND RESULTS OF THE  
GASS-GOLSHAIAN AGREEMENT (So-Called Supplementary Agreement)**

**THE 1933 AGREEMENT FORCED UPON IRAN**

1) The Company tacitly admits in the preamble that the Government of Iran had been duped by the 1933 Agreement and claims that the supplementary Agreement has been drafted after full and friendly discussion. It confirms that the new Agreement is in fact complimentary to the 1933 Agreement.

2) In clause 10 of the supplementary Agreement, the 1933 Agreement is recognized as fully valid.

3) Clause 2 chooses the International Court of Justice in place of the Permanent International Court of Arbitration at the Hague, which no longer exists, and whose President, or Vice-President had the right to choose the umpire or the single Arbitrator. Thus the Supplementary Agreement removes the defect which was in evidence in this respect in the 1933 Agreement.

**THE SEEMING ADVANTAGES OF THE SUPPLEMENTARY  
AGREEMENT.**

1. The royalties have been raised from 4 shillings to 6 shillings, which means an increase of 50%.

2. The rate of taxes has been raised from nine pence to one shilling per ton.

3. The Company agrees not to deduct the British Income tax from Iran's share of the profits. In other words the Company undertakes to pay Iran 20% of the net profits before deduction of the British Income tax.

4. The Company agrees to pay in full Iran's share of 20% of the net profits every year in a lump sum as soon as the Company's Balance Sheet is presented, contrary to its practices up to that date.

5. With regard to the past the Company agrees to pay in a lump sum 20% of the reserves held by the Company.

6. Iran's 20% share in profits and reserves is guaranteed at a minimum of £4,000,000 per annum.

7. Although the Agreement was concluded in 1949, the Company agreed to consider it as retroactive to 1948 insofar as it refers to increase of royalty and taxes.

8. Instead of a reduction of 10% from the lowest price of oil at the Gulf of Mexico or the Rumanian Gulf, the Company agrees to a reduction of 25% as a basis for the sale of oil products in Iran.

### **THE DEFECTS OF THE SUPPLEMENTARY AGREEMENT**

1. The Supplementary Agreement in its preamble and clauses 1 and 10 would have confirmed the invalid Agreement of 1933, which was forced upon Iran and would have deprived the Iranian nation of the rights it would otherwise have enjoyed.

2. By fixing the amount to be paid by the former Company as royalty and taxation for the year 1948, and retroactively for the previous years in Sterling currency, the gold clause which has been subject of dispute was tacitly interpreted according to the views of the Company, whereas the Iranian interpretation has been the correct one according to legal and financial experts such as Mr. Van Zeeland.

3. By an interpretation of the gold clause and considering the difference of about 50% between the real price of gold and the official price, Iran's income from royalties and taxes would not have increased but would have rather decreased by a certain percentage (5% to 10%).

4. By fixing the amount of Iran's share in the General Reserve for 1948, the exemption of Iran's share in the profits and reserves from taxes was limited to exemption from British income tax and thus established a legal and definite justification for the levying of any other tax whereas according to international practice no Government can levy taxes upon another Government.

5. Under circumstances beyond the control of the Company when oil production might be stopped and the Company might be unable to export oil from Iran, the minimum of £4,000,000. guaranteed would be reduced proportionately to the period of such stoppage of oil exports. In case this stoppage continued for a whole year no sum would be paid as minimum, whereas under the former Agreement Iran would have continued to receive a minimum of £750,000. under any circumstances whatsoever.

6. By receiving the amounts fixed in the Supplementary Agreement and considering the phraseology of other clauses thereof, all the claims of the Iranian Government against the former Company would have been settled without there being any specific reference to any settlement of accounts and claims.

7. In spite of its plausible appearance and the greater discount allowed on the price of oil products sold in Iran, the Supplementary Agreement has provided that the minimum price should thenceforth be based on the price of oil in the Gulf of Mexico alone, instead of prices prevailing in the Gulf of Mexico and the Gulf of Rumania.

Prices in the Gulf of Mexico are constantly increasing as a result of the shifting of the center of gravity of oil exports from the Gulf of Mexico to the Persian Gulf and the decline in the export of oil from the United States of America. Accordingly the prices of oil products in Iran would have increased and basic prices have in fact increased by over 70%.

8. Even if we overlook all other defects of the Agreement and the damaging results of the unfair interpretation of the question of gold clause, and assume that such interpretation is correct, and disregard the decrease which has resulted in the income of Iran by that unfair interpretation, and admit for the moment that the Iranian royalty and taxation has been increased by some 50%, it must be borne in mind that the increase in the income of the Company from the sale of oil in Iran not only would have compensated the additional sum which would have been paid to Iran on royalties and taxes, but the constant increase in the consumption of oil would have caused, in the long run, a financial loss to Iran.

9. Although in accordance with the 1933 Agreement Iran had a 20% share in all reserves of the Company, the Supplementary Agreement limited Iran's rights to the General Reserve, and would have deprived Iran of its rights to all other reserves entirely and forever.

10. The amount owed by the Company to Iran on account of reserves should have been no doubt paid from the former and existing reserves. In the Balance Sheet for 1948, it became evident that the sum of £11,000,000. due us up to the end of 1948 on reserves were paid from the secret reserves which were deducted from the 1948 income. This action has therefore caused a loss of about £2,200,000. to Iran's share.

11. Upon payment of a part of Iran's share in the General Reserve all its claims on the subsidiary and allied companies (20% of whose assets in opinion of legal advisers belonging to Iran) would have been settled and liquidated.

Consequently had the Supplementary Agreement been ratified by Parliament, the Iranian Nation would not have been better off from the increase in its income, but it would have paid back to the Company the amount of the supposed increase in royalty and tax by the payment of an additional sum through the increase in the price of oil. Thus Iran would

have suffered several million pounds in losses by substituting the Supplementary Agreement for the 1933 Agreement, because the rise in the price of fuel would have had its adverse effect on the cost of living and would have acted as a setback to other industries in Iran.

Considering the fact that the 1933 Agreement had halved Iran's income under the D'Arcy Concession, it follows that the former Company's agreements were always so concluded as to ultimately and gradually cause additional losses to Iran's revenues.

## **HOW THE IDEA OF NATIONALIZATION OF OIL WAS CONCEIVED**

As the representatives of the former Company always claimed that the Supplementary Agreement was in every respect beneficial to Iran and that they were not prepared to change any of its clauses, and in particular to make any alterations in Iran's share, a group of Iranians who led the movement tried to find a solution for that impasse. They came to the conclusion that only the nationalization of oil throughout the country and by undertaking to pay just compensation to the former Company could the difficulties so far created be overcome. Such action would also discourage other countries which were waiting for the ratification of the Supplementary Agreement in order to claim a share in the oil of Iran's Northern Provinces. Thus by nationalization the danger threatening Iran and its neighbors and especially the Western democracies could be averted.

It is to prevent such a situation that Iran has refused, in all sincerity and candour, to accept "some sort" of nationalization proposed by the representatives of the former Company and to undermine any part of the law based on the nation's right of sovereignty. The same motive has prompted the nation to refuse annulment of the law concerning the modus operandi of nationalization in order that such an action should stop other Governments from exercising pressure to obtain similar advantages.

The submission to the provisions of the Nationalization Law is, in effect, a respect shown to the laws of a free and independent nation. By this action alone can the dangerous roads which have always been open from the north be closed forever to the ultimate advantage of Iran and the free world.

## **THE MOTIVES BEHIND NATIONALIZATION OF OIL**

Although the world is well aware that the idea of the Nationalization of Oil Industry throughout Iran was the unanimous desire of all Iranians and no foreign government had a hand in it, it must be borne in mind that the slogan of individuals who directly or indirectly were inspired by the Russian policy was as follows:

1. The proclamation of the annulment of the D'Arcy Concession and the 1933 Agreement.
2. Confiscation of all the properties of the Company.
3. The Nationalization of the Southern Oil resources.

Had these aims been achieved, and the object of the leftists or pseudo-leftists realized, Iran would neither have been able to dispossess the former Company from its oil resources, nor could it prevent Soviet Russia or other countries from asking for concessions on other oil areas of Iran. The nationalization of the southern areas would not have been considered as an impediment to Soviet Russia in her request for concession in other parts of Iran a question which, in her own interest and that of all the free nations of the world Iran has been and is anxious to avoid.

### **THE DANGERS OF NON-EXECUTION OF THE NATIONALIZATION LAWS CONCERNING OIL**

If the Nationalization laws are not executed in the form they have been ratified, or if any alterations are made in them it will have the following results:

2) Soviet Russia may ask for a special alteration in the law in order that it may obtain a concession in the same manner and on the same terms as has been applied in the South.

2) With due consideration to public opinion and the influence which the former company exercised in the internal affairs of Iran and the pressures brought to bear on Iran, a wave of dissatisfaction would spread over Iran whose people had considered the nationalization plan and the termination of the Company's interferences as the only remedy for all their ailments, anxiously awaiting as they have been to see the result of their sacrifices and efforts. They would lose their power of resistance when they despaired of their leaders' sincerity. Such a circumstance would give enormous advantage to the extreme leftist elements who would make full use of this dissatisfaction to bring the situation under their control against the interests of Iran and all the free nations of the world.

In case the western nations resist the full execution of the law relating to the nationalization of the oil industry and stop the flow of oil by refraining from giving technical assistance this would result in the closing down of the installations, unemployment, and a state of extreme poverty would ensue. There would be no other alternative for the people

of Iran, of whom 95% are extremely poor and nevertheless abhor communism for religious and patriotic reasons, but to seek refuge in communism.

What has been said above concerns the ill effects of the Company's activities on the national economy of Iran which has been shattered to a point incapable of any repairs. But more important and more fundamental than that is the havoc it has wrought upon the political independence and public morality of the people through its activities and through its agents.

It is clear to the Iranian people and they harbour no doubts in their minds that the former Anglo-Iranian Oil Company, in order to assure itself of additional illicit profits and to have no anxiety of being supervised in its doings, has not hesitated to interfere in every phase of Iranian political life. It has had a hand in the parliamentary elections, in the formation of political parties, in misleading the press, and even in the formation of cabinets. The documents recently found in the Company's Bureau of Information and the Press are undeniable proofs that this office has been a centre of espionage; and has been the rallying centre for all those unfortunate individuals who, through the Company's temptations and through its baneful financial and political influences over a period of 50 years, have deviated from the path of honour, and have offered their services to the Company against the interests of their own country.

The persistent protection of the Company bestowed upon it by the British Government has left a feeling of indignation in every Iranian, the memory of which shall never be forgotten. As a result of this situation a unique national unification has resulted with the sole aim of overthrowing this distasteful foreign imperialistic yoke. The renewal of the imposed 1933 Agreement, and the extension of the terms of the Agreement against the will of the people, could not have been realized but through secret intervention of the British Government, its underhand methods, threats and intimidations and direct pressure brought to bear upon the Iranian Government. For every Iranian these are conspicuous and black lines in the national history which shall never be forgotten. Taking into consideration the recent world developments and the changes which have taken place in political and social thoughts in the Orient, particularly in Iran, the British Government though not being a party to the contract, has not failed to extend its illegal protection to the Company by sending its warships to the Persian Gulf, and through poisoning the public opinion of the world by false propaganda and intrigues in Iran. In fact the British Government, through the instrumentality of the Company, has reduced Iran into a colony for its selfish ends; and it is absolutely unim-

aginable for the people of Iran, who are well informed of the modern world situation, to be able to bear such an insult.

The Iranian nation firmly believes that all its shortcomings in the various phases of its social, economic, educational and moral life are the direct outcome of the greed and lust for power of the former Company; and in order to acquire its lost political independence is willing to undergo any hardships, even the loss of such a great source of revenue; though Iran is greatly desirous of keeping this great industry running and in ensuring the flow of its products to the free world.

Another factor which has greatly influenced Iran in its decision to nationalize its oil resources throughout the country has been its desire to bring about a balance of power which is an essential factor in the keeping of world peace and security. For it desires to keep always aloof from the intervention and the penetration of various schools of political thought; and to follow its course of development unmolested. Having nationalized its oil resources throughout the country, there would be no place for any forthcoming demand from a third party for new concession of other potential oil fields.

Having in mind the points enumerated above, it will become obvious that Iran by its action in the nationalization of its oil resources has exercised one of its most elementary rights of sovereignty which is greatly supported by the United Nations Organization, and duly expects the free nations of the world to give their support to its action and its resultant decision.



*The text of the Prime Minister's report to Majlis, on the official recognition of the Principle of the Nationalization of oil in Iran by the British Government and the former Anglo-Iranian Oil Company submitted at the session of 13th Mordad, 1330. (August 5, 1951)*

On 30th Khordad 1330, (June 21, 1951) I brought the full text of the negotiations with the British Delegation to your notice, and explained that in spite of the fact that the Government had explicitly pointed out its willingness to enter into negotiations only within the limits of the Nationalisation Law, the British Delegation, after having requested repeated respites, submitted an unexpected note at 8 P.M. on Khordad 28, 1330 (June 19, 1951) at the Prime Minister's Residence which was quite inconsistent with the laws of oil nationalization. Consequently the Iranian Government stopped the negotiations and the British Delegation left Tehran the following day. Immediately the necessary instructions were issued to take over the oil installations and were forthwith carried out.

On Tir 17, (July 9, 1951) H.E. the American Ambassador submitted a letter from Mr. Truman, the President of the United States of America. After expressing his interest for a peaceful settlement of the oil dispute, the President, had proposed to send Mr. Averell Harriman as a special envoy to Iran to discuss the matter with me and the Iranian Government. Thanking him for his good will, I informed the President that the Iranian Government is prepared to enter into negotiation with a view to settle all the disputes and welcome the envoy of the President, provided that our national rights shall be recognized in accordance with the law of Oil Nationalisation.

Pursuant to this message, Mr. Averell Harriman arrived in Tehran on Sunday Tir 23 (July 15, 1951) at 11 a.m. The following day he called on me to discuss the matter and after subsequent discussion, the Minister of Finance on behalf of the Government, and Messers Dr. Matin Daftari, Dr. Reza Zadeh Shaffaq, Dr. Shayegan and Alah-yar Saleh on behalf of the Mixed Parliamentary Board, were appointed to enter into negotiations with Mr. Averell Harriman. As a result of these negotiations, in a joint session of the Cabinet and the Mixed Parliamentary Board held in my private residence on Moday Tir 31 (July 23, 1951), the following formula was drawn up and sanctioned and was submitted to Mr. Harriman as the final view of the Iranian Government.

The Council of Ministers and the Mixed Oil Commission in their meeting of 31st Tirmah 1330, held at the residence of His Excellency Dr. Mossadeq, the Prime Minister, approved the following formula:

1. In case the British Government on behalf of the former Anglo-Iranian Oil Company recognizes the principle of nationalization of the oil industry in Iran, the Iranian Government would be prepared to enter into negotiations with representatives of the British Government on behalf of the former Company.

2. Before sending representatives to Tehran the British Government should make a formal statement of its consent to the principle of nationalization of the oil industry on behalf of the former Company.

3. By the principle of nationalization of the oil industry is meant the proposal which was approved by the Special Oil Committee of the Majlis and was confirmed by the law of Esfand 29, 1329 (March 20, 1951), the text of which proposal is quoted hereunder:

“In the name of the prosperity of the Iranian nation and with a view to helping secure world peace we, the undersigned, propose that the oil industry of Iran be declared as nationalised throughout all regions of the country without exception, that is to say, all operations for exploration, extraction and exploitation shall be in the hands of the Government”.

In this connection for Mr. Harriman's further information a copy of the note which the representatives of the former oil company submitted to the Iranian Government on their method of accepting the principle of the nationalization of the oil industry, which (note) was not accepted is being herewith enclosed.

4. The Iranian Government is prepared to negotiate the manner in which the law will be carried out in so far as it affects British interest.

Now I wish to bring to your notice the text of the note of the Delegation of the former Anglo-Iranian Oil Company which was not accepted by the Iranian Government:

## MEMORANDUM

In the aide memoire which His Excellency the Minister of Finance handed to the Company's Chief Representative in Tehran at the end of last month, it was indicated to the Company that the Imperial Iranian Government was anxious to benefit from the experience and knowledge of the Company, and was prepared to take into consideration any proposals made by the Company provided that they were not at variance with the principle of the nationalization of oil.

The Company wishes now to make at once a constructive interim proposal as an earnest desire to reach as soon as possible a work-

able arrangement by which the Government may be able to make use of the Company's experience. Accordingly, the Delegation has authority from the Company to place at the Government's disposal the sum of £10 millions as an advance against any sum which may become due to the Government as a result of an eventual agreement between the Government and the Company, on the understanding that the Government undertakes not to interfere with the Company's operations while discussions are proceeding.

We further offer to pay to the Government the sum of £3 millions a month from July onwards during the period which may ensue before an arrangement is reached.

I said at our previous meeting that we were most ready, whilst fully reserving all our rights, to try to work out with you a satisfactory arrangement which would maintain the efficiency of the industry and would be consistent with the principle of nationalization. We have it in mind that a scheme on the following lines might form a possible basis for an arrangement:

The Iranian assets of the Company would be vested in an Iranian National Oil Company and in consideration of such vesting the National Oil Company would grant the use of the assets to a new Company to be established by Anglo-Iranian Oil Company Limited. The new Company would have a number of Iranian directors on its Board and would operate on behalf of the Iranian National Oil Company. The distribution business in Iran would be transferred to an entirely Iranian owned and operated Company on favourable terms as regards the transfer of existing assets.

The above is an outline only of a possible framework. We put it forward as a constructive effort to suggest a basis for discussion.

We have given the fullest consideration to the points made by His Excellency the Minister of Finance at our meeting on June 14th. If we were correct in understanding that His Excellency's suggestion was that as from 20th March the Company should hand over to the Government the total proceeds (less expenses) from sales of Iranian oil, from which 25% would be deposited in a mutually agreed Bank against any probable claims of the Company, we are unable to accept such a suggestion. The Delegation has come out for discussions and regards it as unjustifiable that the Iranian Government should put forward a demand of this kind before the discussions have even started. We are, moreover, confident that when in our future talks we have been able to explain to you in more detail the machinery of our business you will come to agree with us that such a demand would be neither commercially possible nor acceptable to any oil company.

Mr. Harriman volunteered personally to submit the aforesaid formula to the British Government and with this object in view, flew to London on Friday, 4th Mordad (July 27, 1951). On 6th Mordad (July 29, 1951) the following note from the British Government was submitted by the British Embassy to the Iranian Government:

His Majesty's Government have received from Mr. Harriman the Iranian Government's proposal for negotiation between His Majesty's Government, on behalf of the Anglo-Iranian Oil Company, and the Iranian Government, and for discussions of matters of mutual interest to the two Governments.

His Majesty's Government are desirous of availing themselves of this invitation but it will be appreciated by the Iranian Government that the negotiations, which His Majesty's Government for their part will enter into with the utmost goodwill, can be conducted in a satisfactory manner only if the present tension which exists in the South is relieved. On the assurance that the Iranian Government recognizes this fact and will enter into discussions in the same spirit, a mission headed by a cabinet minister will immediately set out.

His Majesty's Government recognize on their own behalf, and on that of the Company, the principle of the nationalization of the oil industry in Iran.

On the afternoon of Mordad 6, (July 29, 1951) a proposal was made by the American Embassy to the Iranian Government that if the latter agrees with the British Government's proposal, a reply should be sent to the latter through Mr. Harriman as follows:

The Iranian Government is pleased that the British Government is sending a Mission to Iran in accordance with the proposal submitted through Mr. Harriman. The Iranian Government recognizes the desirability of easing tension in the South, from the point of view of both Governments and in the interest of the success of the negotiations, which the Iranian Government will enter into in the same spirit of goodwill expressed by the British Government.

But the above proposal, whereby the Iranian Government would have been committed to recognise the so-called tension in Khuzistan and try to remove the same was rejected for the following reasons: As it was likely that advantage may be taken from the ambiguity of this term and

that the action of the Iranian Government in taking over the Company's installations may be interpreted to have caused the so-called tension and the Iranian Government would then be bound to undo what it had already done. On Sunday evening, Mordad 6, (July 29, 1951) in a joint session of the Cabinet and the Mixed Parliament Board another letter was prepared and despatched instead of the former letter which reads as follows:

The Imperial Government of Iran is pleased to note that in accordance with the formula dated Monday July 23, 1951 (Tirmah 31, 1330) which was submitted to His Excellency Averell Harriman His Britannic Majesty's Government on its own behalf and on behalf of the former Oil Company formally recognizes the principle of nationalization of the oil industry in Iran. The Iranian Government expects that this formal recognition should be openly brought to the knowledge of the public and it is pleased that the British Government intends to send a mission to Tehran on behalf of the former oil company to negotiate with the Government and with the competent authorities, and at the same time to discuss with the Iranian Government the method of execution of the law in so far as it refers to the mutual interests of the two countries. The Iranian Government believes that no tension exists in Khuzistan and is sure that the formal recognition of the principle of nationalization of the oil industry will create a more favourable atmosphere in order that the negotiations referred to above may be conducted with a spirit of sincerity and goodwill.

Dr. Mossadeq  
Prime Minister

The following day, i.e. on Mordad 7, (July 30, 1951) I received the following note from H.E. the American Ambassador:

American Embassy, Tehran  
July 30, 1951

My dear Mr. Prime Minister:

I have just received an urgent telegram from Mr. Harriman in which he states that he does not feel that he can pass on to the British Government the message which you handed me last night. He considers that it would not encourage the re-opening of negotiations.

Mr. Harriman suggests that Your Excellency and your associates may find it possible to reconsider as a matter of great urgency the proposed reply to the British Government. He is confident that arrangements

can be made for the immediate dispatch of a British Government mission, provided the response of the Iranian Government can be couched in more favorable language.

Being aware of Your Excellency's great interest in the matter and of the desire of your Government to reach a favorable solution to the oil problem, I sincerely hope that you will be able to reconsider your proposed message of last night.

Yours sincerely,  
Henry F. Grady

His Excellency  
Dr. Mohammed Mossadeq,  
Prime Minister

I sent the following letter to the American Abassador in reply:

My dear Ambassador,

In reply to your note of Mordad 7, 1330 (July 30, 1951), I shall be very grateful if you will kindly ask Mr. Harriman which part of my message cabled to him last night through Your Excellency has created difficulties and has caused him to consider that it would not encourage the re-opening of negotiations, and he has therefore refrained from submitting it to the British Government.

I avail myself of this opportunity of renewing my highest considerations.

Dr. Mohammed Mossadeq

The following day Mr. Harriman returned to Tehran by air and three days later, i.e. on Friday Mordad 11, (July 3, 1951) Mr. Middleton, the Chargé d'Affaires of the British Embassy called at the Ministry of Foreign Affairs and submitted the following note to the Minister of Foreign Affairs.

British Embassy,  
Tehran.  
3rd. August, 1951.  
No. 100

M. le Ministre,

I have the honour to inform Your Excellency on instructions from my Government that they have received through Mr. Harriman the

Imperial Government's formula for negotiations between the Imperial Government and His Majesty's Government on behalf of the Anglo-Iranian Oil Company and for discussion on matters of mutual interest to the two Governments.

2. His Majesty's Government are desirous of availing themselves of this formula and are prepared to negotiate in accordance with it, but it will be appreciated by the Imperial Government that negotiations, which His Majesty's Government for their part will enter into with the utmost goodwill cannot be conducted in a satisfactory manner unless the present atmosphere is relieved. On the assurance that the Imperial Government recognise this fact and will enter into discussions in the same spirit a mission headed by a Cabinet Minister will immediately set out.

3. His Majesty's Government recognise on their own behalf and on that of the Company, the principle of the nationalisation of the oil industry in Iran.

I avail myself of this occasion to renew to Your Excellency the assurances of my highest respect.

G. H. Middleton C. M. G.  
Chargé d'Affaires

H. E. M. Baqir Kazimi,  
Imperial Ministry for  
Foreign Affairs,  
TEHRAN.

At the same time the following note was sent by the Minister of Foreign Affairs to the Chargé d'Affaires of the British Embassy:

17202  
11 Mordad 1330

Monsieur le Chargé d'Affaires,

In reply to your letter of 3rd. August, 1951 No. 100 I have to inform you that the Iranian Government is pleased that, in accordance with the formula submitted by Mr. Averell Harriman, the British Government has recognized on its own behalf and on that of the former company the principle of nationalization of the oil industry in Iran, and is sending a mission to Iran to negotiate. The Iranian Government recognizes the essentiality, in the interest of the success of the negotiations, of both governments creating the best possible atmosphere, and will enter into the negotiations in the same spirit of good-will expressed by the British Government.

Please accept, Monsieur le Chargé d'Affaires, the assurances of my distinguished consideration.

B. Kazemi  
Minister of Foreign Affairs

Mr. G. H. Middleton C. M. G.  
Chargé d'Affaires,  
British Embassy,  
Tehran.

The Chargé d'Affaires of the British Embassy, in a separate letter, informed the Minister of the Foreign Affairs of the British Government's intention to send a Delegation to Tehran headed by Mr. Stokes Lord Privy Seal.

British Embassy,  
Tehran.  
3rd. August, 1951  
No. 101

Monsieur le Ministre,

I have the honour to refer to the letter in which Your Excellency has informed me of the Iranian Government's readiness to enter into negotiations with His Majesty's Government on behalf of the Anglo-Iranian Oil Company and to discuss matters of mutual interest to the two Governments.

2. I am authorised by my Government to inform Your Excellency that they propose to send a mission headed by the Right Honourable R. R. Stokes, M.C., Lord Privy Seal. Mr. Stokes will be accompanied by the following advisers: Sir Donald Fergusson, G.C.B. and Dr. W. L. F. Nuttall of the Ministry of Fuel and Power; Mr. M. T. Flett of His Majesty's Treasury; and the Honourable Mr. P. E. Ramsbotham of the Foreign Office. The Mission will also include five representatives of the Anglo-Iranian Oil Company and four clerical assistants.

3. It is proposed that the Mission shall leave London at 15.00 G.M.T. on Friday, August 3rd and reach Tehran at about 17.30 hours local time on Saturday August 4th.

I avail myself of this occasion to renew to Your Excellency the assurances of my highest consideration.

G. H. Middleton C. M. G.  
Chargé d'Affaires

H.E.M. Baquir Kazimi,  
Imperial Ministry of Foreign Affairs, Tehran.

In reply to the above letter, the Minister of Foreign Affairs invited the Delegation to be guests of the Iranian Government during their stay in Tehran.

17200

Mordad 11, 1330

Monsieur le Chargé d'Affaires,

In reply to your letter of 3rd. August 1951 No. 101, I have to inform you that the Iranian Government is pleased to know that a mission headed by Mr. Stokes is coming to Iran. My Government is further pleased to extend its invitation to the mission to be the guest of Iran during the period of its stay in this country.

His Excellency Senator Javad Boushehri, the Minister of Communications, has been appointed official host of the mission by the Iranian Government.

Please accept, Monsieur le Chargé d'Affaires, the assurance of my distinguished consideration.

B. Kazemi  
Minister of Foreign Affairs

Mr. G. H. Middleton C.M.G.  
Chargé d'Affaires  
British Embassy  
Tehran.

The Chargé d'Affaires of the British Embassy through the following letter sent his cordial acceptance of the invitation of the Iranian Government.

British Embassy,  
Tehran.  
3rd. August, 1951  
No. 102

M. le Ministre,

I have the honour to acknowledge Your Excellency's note of the 3rd August inviting the Lord Privy Seal and his party to be guests of the

**Imperial Iranian Government during the stay of the British Mission in Tehran.**

2. I am instructed to convey to Your Excellency the acceptance of His Majesty's Government of this kind invitation and to request Your Excellency to express to the Imperial Iranian Government the sincere appreciation of His Majesty's Government for their offer of hospitality.

I avail myself of this occasion to renew to Your Excellency the assurances of my highest consideration.

**G. H. Middleton C. M. G.  
Chargé d'Affaires**

**H. E. M. Baqir Kazimi,  
Imperial Ministry of Foreign Affairs,  
Tehran.**

Besides, another letter was sent by Br. B. Kazemi, the Minister of Foreign Affairs, to the Chargé D'affaires of the British Embassy as follows:-

17204  
Mordad 11, 1330.

**Monsieur le Chargé d'Affaires**

I am enclosing for your information the minutes of the Council of Ministers setting forth the Formula handed to the Honourable Averell Harriman on the 31st Tirmah 1330, and referred to in your letter no. 100 dated 3rd August 1951 and my reply no. 17202 dated, Mordad 1330.

Please accept, Monsieur le Chargé d'Affaires, the assurances of my distinguished consideration.

**B. Kazemi  
Minister of Foreign Affairs.**

**Mr. G. H. Middleton C. M. G.  
Chargé d'Affaires  
British Embassy  
Tehran.**

This is a summary of the steps which have been taken for the settlement of the differences since the arrival of Mr. Averell Harriman up to the present.

I consider it a personal duty at this occasion and at this present session of Parliament to offer my sincere thanks to Mr. Harriman for the

very sincere and fruitful help which he has rendered us during this short period of his sojourn in Iran. For the least tangible result which has been procured through his helpful co-operation is that through negotiations the long standing dispute of 42 years duration with reference to the southern oil concession (ten years of which refer to the D'Arcy concession up to the year 1961 and 32 more years have to do with the 1933 agreement which expires in 1993) has been totally and successfully settled. I do hope that with his co-operation a desirable result will be procured and with the goodwill prevailing between the two parties all the existing differences shall be solved on the basis of the legal rights of Iran.





**A SHORT REPLY GIVEN BY THE HEAD OF THE IRANIAN DELEGATION TO THE STATEMENT MADE BY HIS EXCELLENCY AVERELL HARRIMAN ON THE SUBJECT OF THE ANGLO-IRANIAN OIL CONTROVERSY AT A SESSION OF THE SAHEB-GHERANIEH CONFERENCE ON 19th AUGUST 1951, CLARIFYING THE VIEWS OF THE IRANIAN GOVERNMENT AND THE PEOPLE.**

Before entering into the subject I must offer His Excellency Mr. Averell Harriman the gratitude of the Iranian people for having agreed to come to Iran as the special envoy of Mr. Truman, the President of the United States of America, and for his generosity in giving his time and energy to bring this dispute to a successful conclusion. The great American Nation, having acquired its liberty and independence through continuous hardships and self-sacrifice, can, no doubt, realize the meaning of the self-sacrificing efforts of other liberty-loving peoples for attaining this sacred object of liberty and independence. We are quite assured that His Excellency Mr. Harriman and the American Government and people, who are rightly known as the protectors of the smaller nations, would want to see an end to the sufferings and deprivations borne by the Iranian people and the attainment of their national aspirations. We are also assured that His Excellency does not wish to see the same political and economic restrictions re-imposed upon the Iranian people merely with a change of language and words.

As Your Excellency has undoubtedly considered, the present movement which has come to its climax at the present time is a direct psychological reaction to the oppressions and violations of contract of a British commercial concern over a long period of years. Before coming to Iran, no doubt, Your Excellency might have come under the influence of the false propaganda carried on against Iran in certain countries of the world; but now that Your Excellency and the British Delegation have come into close contact with our people you must, of necessity, have noticed that every individual in Iran, no matter what his social position, has a share in this great national movement which stems directly from his National aspirations. Therefore, if this movement comes to a failure and the national hopes and aspirations meet with disappointment as a result of threats or pressures imposed upon our people, you will agree with me that with the strategic position of Iran it will greatly jeopardize world peace. A fact the importance of which cannot be disregarded.

It seems to us, bearing in mind what has been said above, that a great liberal nation like the British should, in the first place, give due consideration to the desires of the Iranian people; and to make such

arrangements which would meet these desires and at the same time preserve its own interests within the limits of those aspirations. But as facts stand the two British Delegations which have come to Iran for the settlement of the Oil Dispute have stated the same concepts in different language. It is for this reason that no agreement has been arrived at so far. For a rich country like Britain to lose the Iranian oil resources would not be an unbearable loss; and if Britain shows any generosity and liberalism in this respect her action would be regarded with great admiration by the other countries of the world. While this question may be of importance to England, it is a vital problem for the Iranian people who are, therefore, not in a position to show any generosity in this respect. It is now incumbent upon the two parties concerned to be realistic and by recognizing the logic of facts endeavour to find a suitable solution for this problem. It is in such a realistic and understanding spirit that we can be hopeful of arriving at a satisfactory solution.

His Excellency Averell Harriman, among other things, expressed his views regarding the disposal of the Iranian oil output in the following way: that a contract should be formed with a Purchasing Organization which would have the necessary facilities at its disposal for offering the Iranian oil for sale in the various markets of the world. This, he considered, as essential to the marketing of the oil produced. In reply, we wish to draw His Excellency's attention to the following point: that with the formation of a contract of this type the Iranian Government is liable to be confronted with the same difficulties as it has experienced in the past to extricate itself, from which it has undergone the hardships concomitant with such a campaign. To give a sales monopoly to a specific organization which is well equipped with the required facilities would jeopardize the future of the National Iranian Oil Company, because it would place the oil industry of Iran at the mercy of that organization. We are only ready to enter into sales contracts with various purchasing organizations; or else sell our crude oil at F.O.B. value at Iranian ports. Therefore, assuming that the parties have good will towards each other there should be no possibility of any difficulty arising with respect to the sales transactions. I wish to put this question to Your Excellency who is well aware of the oil industry and its related problems in the world. If the Iranian National Oil Company gives a sales monopoly to a foreign organization and enters into a contract with the same, what would be the difference between this situation and what we have experienced in the past? Mere changes of words are not satisfying; we wish to see a transformation of the original meanings and new concepts. The Iranian Government is in a position to safeguard the oil needs of its former consumers with Great Britain at the head of the list, and is ready to extend its cooperation in any way needed for the attainment of this objective.

The second point raised by His Excellency Mr. Harriman was that the Iranian Government cannot expect to derive more profits out of her oil than the other oil-producing countries operating under similar circumstances. I must state in this regard that what has been accomplished in Iran is to bring to final fruition a national movement to secure our lost rights; hence, the fruits that we must reap as a result of this national campaign cannot be analogous to the results obtained by other oil-producing countries as a result of agreements made with certain occidental governments. You will probably witness the advantages to be derived by certain of these governments you have referred to subsequent to the national campaign in Iran. Hence, it is quite out of the question to force the same results upon Iran with a mere change of words while overlooking this great national movement. If such is your mental attitude, it must be plainly said realities have been totally disregarded. Finally, if by similar countries is meant Venezuela and the United States, we can flatly state that the proposals submitted by the British Delegation are not in any way comparable to the above-mentioned cases; and if by "similar countries" is meant other oil-producing regions, no analogy exists between our case and theirs; and further, we do not desire such a comparison to be made.

His Excellency Mr. Harriman also referred to the case of the foreign technicians stating that their assistance could not be obtained through individual contracts. In reply I must remind His Excellency that while the Iranian Government admits the fact that it needs the technical assistance of foreign technicians, yet because of its geographical situation and its political position it cannot employ foreign technicians as a group on the basis of a single contract. Furthermore, the conclusion of such a contract may place the Iranian National Oil Company in a precarious situation similar to that which prevails at the present moment. The Iranian Government, however, within the limits of its ability, is prepared to give scope to the freedom of action—so far as may be needed for efficient operation—to every individual technician in his own private contract. With reference to what Your Excellency has said regarding the great wealth of experience possessed by the British companies, I may say, with my regrets, that so far as our experience has shown, these companies have employed their knowledge and experience always to obtain profits for themselves and inflict losses upon the Iranian people. Being in a position of power and authority, they have never shown a readiness to fulfill their obligations. Thus, how could the Iranian people feel secure in granting a sales monopoly to a foreign company which has the backing of a powerful Government; and what safeguards exist for the Iranian people to entrust the management of their Oil Industry to a foreign organization in the interior of Iran?

Coming to Your Excellency's statement that the Iranian Delegation has read into the British proposals things which were not intended originally, I may reply that Your Excellency's judgment as a representative of a great world power based upon vast material resources may probably be true; but for a small country like Iran, whose rights have been continuously disregarded by greater powers on various pretexts, when even mere ambiguities in certain words were taken advantage of in the interpretation of agreements and conventions, Your Excellency will agree that a careful scrutiny on our part is an essential action in any negotiations carried on with great world powers. Furthermore, the readiness of the Iranian Delegation to enter into free discussions with the honourable British Delegation shows that with good will we have attempted to clarify the points which have been ambiguous to us.

In the eight-point proposal submitted by the honourable British Delegation (later withdrawn) in our opinion there are points which are not in agreement with the four-point formula and the Oil Nationalization Law. To cite examples we may mention the following: the Purchasing Organization and its intervention in the exploitation activities of the Iranian National Oil Company and finally the Operating Board, etc.; it is for this reason that the Iranian Government refused to accept the above-mentioned proposal as a basis of negotiations. But this refusal should not be considered as a barrier to other proposals and the continuation of discussions during the course of which a mutually satisfactory formula may be found for the solution of this problem. This desire has always induced the Iranian Delegation to show their readiness for the continuation of negotiations.

Now coming to the point raised by Your Excellency with reference to American aid being extended to those countries which do help themselves and whose governments have the welfare of their people at heart, I may say with assurance that we comply perfectly with this statement. One of the main objects of our national movement in relation to the Oil Question has been to enable Iran to stand upon her own feet without the intervention of foreign politics and the imposition of destructive policies, so that the Iranian Government may launch effective economic plans for the development of the country, the attainment of which will enable Iran to extricate herself from the economic, political and moral fetters to which she has been subjected for a long period. We have been witnessing for years the plunder of our resources without receiving any help from anyone; now we wish to put our house in order and repair the severe losses inflicted upon us. Give us an opportunity, therefore, to put into execution this essential principle of faith of the American Government and people; so that as you expect us we may be able to stand upon our feet.

In conclusion, I deem it a moral duty to declare, as a representative of the Iranian Government and people, to the free world that we depend upon their spiritual help to extricate ourselves from the present difficulty, for with the failure of this National Cause and its resultant disappointments it is easy to predict what grave dangers it will involve and the manner in which it will react upon international peace and security.



**A LETTER OF DR. MOSSADEQ, PRIME MINISTER OF IRAN,  
TO HONOURABLE AVERELL HARRIMAN,  
SPECIAL ENVOY OF THE PRESIDENT OF THE  
UNITED STATES OF AMERICA TO IRAN**

August 24, 1951

T E H R A N

Dear Mr. Harriman,

It is to be regretted that the negotiations of the joint Anglo-Iranian Delegations are threatened by an impasse. It has been my continuous hope that in the solution of the questions of mutual interest the efforts made by the two parties should have resulted in a desirable conclusion.

The Iranian Government welcomed the proposal made by the President of the United States of America for Your Excellency to come to Iran and find a satisfactory solution for the oil question. The Iranian Government and people sincerely appreciate the amicable feelings of the Government and the people of the United States toward themselves; and admit the fact that Iranian Oil is not only important for the national development of Iran but is also of great importance to the free world. Hence all our efforts have been concentrated in finding a satisfactory solution to this problem which will safeguard not only the interests of the free world but would reconcile them with our national interests from which we have no way of escape.

As a result of the negotiations carried by Your Excellency with the Iranian Government a formula was found to start negotiations with the British Government who would do so on behalf of the former Anglo-Iranian Oil Company. The said formula was accepted by the latter Government, and we were hopeful that negotiations would be carried on within the limit of that formula between the Delegations of the two Governments; but unfortunately no understanding has been achieved so far.

Your Excellency's endeavours to make the British Delegation understand the intentions and aspirations of the Government and the people of Iran on the one hand, and on the other explain the intricacies of the international oil trade to our Delegation are greatly appreciated by us. But to our great regret the proposals submitted by the British Delegation lacked due consideration to the economic and political independence of Iran; furthermore the normal commercial practices prevalent among the nations were also disregarded; hence the Iranian Government decided not to accept the said proposals.

With reference to the question of compensation accruing to the former Company for its assets in Iran it has been repeatedly stated and also stipulated in the relevant Law that the Iranian Government has never intended to confiscate a foreign Company's properties; but has always shown its readiness to pay compensation on the basis of the value of the former Company's shares as quoted, or in any other mutually satisfactory manner after having examined the claims and the counter-claims by duly qualified experts. I presume that this cannot be called confiscation as referred to in Your Excellency's letter.

Now coming to the question of the sale of oil and its marketing in the world whilst we admit that for the export of large quantities of oil we must utilize the great facilities which certain companies possess for the transportation and distribution of oil in the various markets of the world, yet I must bring to your consideration the following fact: that since Iran sells its oil at international rates at F.O.B. value at any Iranian port, and the purchasing organizations which sell the product add to the sales price freight and insurance costs plus their profits there is no reason why the producing country should sell oil to them at a discount which is contrary to all existing commercial practices. Hence the British Delegation's proposal to buy large quantities of oil at commercial prices at the Iranian ports while the Iranian National Oil Company should give them a discount equal to fifty per cent of its profits is regarded by us against all rules of justice and equity and contrary to all commercial usage.

With reference to the technical staff required for the efficient management of the plant, the Iranian Government admits that a well coordinated team cannot be gathered together in a short period of time; and has consequently refused the numerous applications forwarded to it by foreign experts for employment. The Iranian Government wishes to keep in its service the same technical staff now occupied in the oil fields, and is ready to give them enough authority and freedom of action so that they may carry on their duties in an efficient way; at the same time it does not desire to enter into any agreement with a foreign government or organization in this respect. For, with the bitter experiences which we have had in our contacts with the former Company we do not wish to create new limitations or barriers to our authority in this vital question. It has been repeatedly said that this technical staff is composed of free men and no one can compel them to work against their will. This is an obvious statement of facts; and the Iranian Government has never desired to compel anyone to serve it. A contract is usually based on the mutual satisfaction of the two parties and every foreign technician who is prepared to accept the terms can become an employee of the Iranian Government.

It has been stated in Your Excellency's letter that the British Delegation has withdrawn its proposals because they claimed that the Iranian Government has read into the proposals what was not originally meant. Now it is the earnest desire of the Iranian Government that the counter proposals submitted by it to the British Delegation should receive careful consideration, and expects to hear their views on the same. We do not claim for a moment that our proposals are adequate enough for the object in mind; but we desire that the said proposals should become the basis of our new negotiations.

The Iranian Government deems it necessary to declare its sincere interest for a second time in the fact that Your Excellency's endeavours might result in a positive conclusion; and hopes that your consideration and interest in the amicable solution of the problem shall remain as strong as it had been previously.

DR. MOHAMED MOSSADEQ.









