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(a) Basic Forces. Traditionally, a tenuous condition of stability has been maintained in Iran by a balance of Russian and British power through a spheres-of-influence regime. Under this regime, which was formalized by treaty from 1907 until 1921 and maintained in fact between 1941 and 1946, Russia enjoyed relative freedom of action in northern Iran and Britain in southern Iran. The decline of British imperial power east and west of Iran might well encourage the Soviet Union to test British strength in southern Iran, with consequent adverse effects upon Iran's internal stability. Present social and economic conditions in Iran are such that only a very small percentage of the population has any decisive influence on the life of the country. However, the seeds of a labor movement and of social reform have taken root. The present control of the country is concentrated in the hands of the Shah (Commander-in-Chief of the Army), Ahmad Qavam (Prime Minister), and the tribal leaders. They are united in desiring internal security, freedom from foreign interference, and the development of the country's resources. They differ greatly over the means to be employed to gain these ends.

(b) Soviet objectives. The Protocol of the Russian-German Non-Aggression Pact of August 1939 states that Soviet territorial aspirations extend southward in the direction of the Indian Ocean. There is no indication that the Soviet objective of dominating Iran has been changed. It is to be expected that the Soviet Union will exert strenuous pressure to assure the ratification of the Soviet-Iranian oil arrangement, concluded in April 1946, when the Majlis convenes about mid-July, or, failing ratification, attempt to bring about the establishment of a "friendly" government in Iran. It has been increasingly clear that the Russians, in seeking an oil concession in northern Iran, are motivated

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more by political than by economic considerations and intend to use any such concession as a means of penetration and eventual domination of the entire country. The Soviet Union is laying the ground-work for renewed pressure by maintaining a vigorous press and radio campaign impugning the motives of the US and attacking "reactionary" Iranians.

(c) British Objectives. Iran is a vital source of petroleum to Great Britain, representing 40% of the total oil resources controlled by Britain. Although Britain will doubtless defend the Anglo-Iranian Oil Company concession area in southwestern Iran, as vital to her national interest, economic difficulties in the United Kingdom are expected to impair the ability of Britain to influence markedly policies of the Iranian Government, leaving the Soviet Union more nearly free to exert pressure upon the Iranian Government. The British, realizing their dependence on southern Iranian oil, might possibly agree to a Soviet-dominated northern Iran in exchange for a British-dominated southern Iran.

II. Analysis of Assistance Already Received, Including Most Recent Data Available.

(a) Premises on which Economic Aid Was Based. It appears that a positive United States policy of support of the integrity of Iran provides the best assurance that "appeasement" will not take place. Iran calls for limited preventive measures to assure that the Iranian situation does not deteriorate to the point of requiring extensive curative assistance. The longer Iran remains economically backward and politically a vacuum area, the more likely it is that the country will move into the Soviet orbit of satellite states.

(b) Summary of Economic Aid Given since VE Day.

(1) Lend Lease aid was extended to Iran on a cash reimbursable basis in the amount of approximately \$11,200,000. On December 21, 1945, an arrangement was concluded whereby Iran undertook to

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liquidate this obligation by a series of installment payments to be completed in 1948. All payments due under this agreement to date have been made in the amount of approximately \$5,200,000. There remains outstanding an Iranian obligation of approximately \$6,000,000.

(2) Persian Gulf Command property totalling approximately \$24,100,000 has been sold in Iran to the Iranian Government, municipalities, and private interests. Of that amount, approximately \$21,500,000 has been paid in dollars, local currencies, and properties and other rights. There is outstanding an obligation of approximately \$2,600,000 covered by an FLC credit agreement with the Iranian Government providing for payment in three installments due in 1948, 1950, and 1952.

(3) Funds appropriated by the United States Congress for aid to foreign countries since mid-1945 have affected Iran only to the extent of the general information and cultural program. Since VE Day, the United States has continued two small advisory military missions to Iran.

(c) Political and Economic Assistance Pending. Negotiations are now in process with respect to the purchase of some \$25,000,000 worth of equipment and supplies for the Iranian security forces. Arrangements are now being made under the provisions of the Fulbright Act, to expend in Iran \$200,000 per year, over a period of 10 years for educational exchange.

(d) Political and Economic Effects of the Aid. The extension of Lend Lease aid to Iran helped to maintain the internal stability essential to the functioning of our aid to Russia program during the war. The sale of surplus property has helped to provide imported materials required for internal economy, but unavailable during the war. The two advisory military missions have established a ground-work upon which more efficient security forces can be established. The cultural and information program has increased and strengthened understanding

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in Iran of the United States and has developed a substantial group of influential Iranians on whose sympathetic support we can count.

III. U.S. Objectives in Iran. The Joint Chiefs of Staff consider that as a source of supply (oil) Iran is an area of major strategic interest to the United States; that as a cushion of distance and difficult terrain Iran offers opportunities for defensive and counter-offensive purposes, vis-a-vis the Soviet Union; and that Soviet domination of Iran would have adverse effects upon the United States strategic interests throughout the Near and Middle East. Its position on the eastern flank provides social, political, and psychological contributions to the integrity of Turkey. Iran is both sensitive to and effective in the transmission of political impulses, either democratic or totalitarian, throughout the adjacent area and its political stability contributes to a condition of security throughout the Near and Middle East.

In the Declaration Regarding Iran of December 1943, the United States Government was committed to continue economic assistance to Iran and to respect the maintenance of Iranian independence, sovereignty, and territorial integrity. In December 1946, the United States Government informed the Iranian authorities that this Government is prepared, so long as the Iranian Government demonstrates a willingness to stand up for its sovereign rights against external pressure, to support the independence of Iran not only by words but also by "appropriate acts". The President has stated that "totalitarian regimes imposed on a free people, by direct or indirect aggression, undermine the foundations of international peace and hence the security of the United States." It is a proper objective, therefore, to deny the spread of Communism in Iran and, through Iran, into

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adjacent areas. It is felt that this objective can be achieved by preventive action on the part of the United States in supplying Iran the limited assistance needed to assure its continued independence and friendly relations with the United States. It is the policy of this Government to alleviate economic discontent in Iran by fostering an expanding economy, thereby strengthening the country's resistance against the development of a totalitarian economy sponsored by the Soviet Union.

IV. Alternative Means of Reaching Objectives. Another test of Iranian ability to maintain its independence in the face of Soviet pressure may be imminent. Soviet interference in Iranian affairs has not ceased since the Security Council suspended consideration of the Iranian case early in 1946. It has merely been more restrained with a view to its intensification at a propitious moment.

It is considered that present United States influence in Iran is very substantial. In the final analysis, it was United States support of Iran before the Security Council during the past year which was largely responsible for Iran's maintaining her sovereignty and integrity in the face of Soviet pressure. It was also the advice and moral influence furnished by the United States to the Central Government of Iran which strengthened its wavering policy into a firm determination to take the steps which led to re-establishment of Central Government authority over the province of Azerbaijan.

To attain the objectives outlined above, the United States Government must not only continue to urge the Government of Iran to maintain and increase its confidence in the United States and the United Nations, but must provide practical and timely assistance in the development of an expanding economy. It is suggested that any United States aid extended unilaterally to Iran, technical or otherwise, should be in line with efforts the United States makes through the United Nations to secure international agreements on general

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problems of economic development. It is essential that the United States counter the strenuous propaganda efforts of the Soviet Union with an intensive information program against a background of factual reporting of world news not furnished by any other source. Foreign technical and advisory assistance is also essential for the efficient operations of Iran's existing facilities and for the implementation of the long-range development program as well as for the proper operation of the Iranian security forces responsible for the maintenance of law and order within the country. Since Iran does not have and cannot produce the equipment necessary for the maintenance of internal security, this must be supplied from abroad. It is important to the stability of the Near and Middle East that Iran be assisted in preventing internal disturbances which might invite foreign intervention.

In considering possible use of the facilities of the United Nations and its specialized agencies, account would have to be taken of the fact that Iran is a Member of the United Nations, the International Labor Organization, International Civil Aviation Organization, International Bank for Reconstruction and Development, International Monetary Fund and World Health Organization, but is not a member of two specialized agencies -- United Nations Economic and Social Council and Food and Agriculture Organization. International Civil Aviation Organization (Aviation), Food and Agriculture Organization (modernization of agriculture), and United Nations Economic and Social Council (mass education), would appear to have services of particular usefulness to Iran.

V. Magnitude, Nature and Timing of the Measures Required Within the Next Three to Five Years to Reach these Objectives.

(a) Economic. On the basis of present information it is believed that Iran does not require financial assistance to maintain and rehabilitate its present economy. This involves small-scale projects, the costs of which are well within Iran's present foreign exchange

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resources and earnings, although some change in the present 100 percent currency reserve system and some curtailment of nonessential imports will be required to make these resources fully available. The implementation of the longer-range large-scale economic development program will probably require foreign financial assistance. The Iranian Government has announced in general terms the nature of its program and has mentioned its intention of requesting a loan of \$250,000,000 from the International Bank for Reconstruction and Development. In the absence of any detailed estimates of costs, it is impossible at the present time to determine what part of the expense would require outside capital.

(b) Political. Constant effort must be made through diplomatic channels to maintain an adequate interest of the Government of Iran in the effective execution of its long-range development program and to educate and stimulate the people of Iran to support the Government in this objective.

The maintenance of the independence of Iran in the next few years will be greatly facilitated if the United Nations can focus world attention upon any possible acts of Soviet aggression towards Iran as well as upon the backward aspects of the social, political and economic life of Iran. Both the Government and the people of Iran are very sensitive to foreign opinion which may well turn out to be the most effective stimulus in the execution of the Government's program.

Since the Security Council remains seized of the question of Soviet interference in Iran's internal affairs, it is likely that the United States or some other Member of the United Nations would file a new complaint in the Security Council in the event of further Soviet interference. While there are other means by which United States action under the Charter of the United Nations might prevent or stop such interference, this complaint might be based specifically upon

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interference in Iran or upon a broader case involving the over-all pattern of Soviet interference in Eastern Europe and the Middle East.

The Economic and Social Council of the United Nations and a number of its commissions and committees have under discussion several types of proposals for cooperation in the economic field which may be of special concern to Iran. It is suggested that, in initiating any program of economic aid to Iran which may involve development of any important resources of the country during the next three to five years, the United States should attempt to see that the terms of such aid are consistent with the principles of international economic cooperation which the United States may be advocating and attempting to establish through various Organs of the United Nations.

If United States aid to Iran is considered at the same time as the overall European aid program, the relation of the United Nations to the Iranian program should be considered in the light of the relationship of the United Nations to the larger program.

(c) Other Measures. Like most underdeveloped countries, Iran has a scarcity of trained and experienced technicians and administrators. If Iran is to meet her economic problems, the U. S. should make every effort to assist Iran in obtaining the services of a substantial number of technical experts and advisors and to make American education available to more Iranian students. Means should be sought to remove the legal and practical obstacles which stand in the way of meeting Iran's reasonable requests for assistance. The

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United States military missions to the Iranian Army and Gendarmerie have made very considerable improvement of the security forces of Iran. If the benefits of their years of constructive effort are not to be lost to the United States at this crucial time, the missions must be continued.

The Iranian Army is a force of approximately 85,000 men, the Gendarmerie of approximately 23,000. The equipment and training are inferior in terms of modern military standards. Obviously this force could provide no defense against direct invasion by a major military power, e.g. the Soviet Union. On the other hand it is considered of adequate size to maintain internal order in the country and cope with anti-Government activities. This Government has already authorized the provision on credit of combat material up to an amount of \$10,000,000 and of non-combat material in reasonable quantities. The bulk of the proposed purchase consists of medical supplies, engineer and communication equipment, and clothing and shoes. It is estimated that the total cost will be approximately \$20,000,000 reimbursable from 1950 to 1961.

VI. Probable Availability of Economic Aid from Existing Sources

Under Present Policies. It seems probable that Iran can provide from its own resources a substantial part of the financial requirements for its seven-year program of economic and social development. It is believed that the Soviet Union is prepared to supply equipment required for the security forces (probably at far less cost than United States equipment), to supply personnel and financial aid, should Iranian Airways (an internal service with 10 percent TWA participation) face bankruptcy, and to supply personnel and operating funds, should the proposed agreement for a joint Soviet-Iranian oil company be approved by the Iranian Parliament. It is believed that the award to British companies of contracts for certain irrigation and telephone projects

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will be contingent upon the granting of British loans. If the agreement to purchase military equipment is signed, the United States will become Iran's creditor in the amount of approximately \$25,000,000. Iran may possibly also purchase civilian items through War Assets Administration and may conceivably benefit from credits obtained by American companies from the Export-Import Bank. The only remaining source from which Iran could probably obtain a loan is the International Bank for Reconstruction and Development. As a step towards the achievement of the objectives outlined, it is clear that the United States should support a reasonable application by Iran to the International Bank.

VII. Additional Measures Required from the United States. If the United States is to make every effort to make available to Iran the services of American economic, administrative and military experts and advisors, the passage of the Mundt Bill (to permit the assignment of United States Government civilian personnel to countries outside the Western Hemisphere and to provide for information and educational exchange) and of the Military Missions Bill (permitting the detail of United States personnel to countries outside the Western Hemisphere beyond the period of the existing emergency) is essential. Funds for an educational foundation would also be made available under the Fulbright Act from the local currency proceeds of surplus property sales.

VIII. Nature of Arrangements with the Government of Iran to Assure Accomplishment of our Objectives in Taking such Measures.

United States influence in Iran is now unusually strong in spite of the determined efforts of the Soviet Union to discredit our interest. It is unlikely that the Government or the people of Iran would accept any significant foreign direction in the execution of its program. Our main means of assuring the achievement of our objectives would be

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pressure exerted through diplomatic channels and through an information and educational program. Another means is the exertion of the pressure of world opinion through the United Nations. While some measure of economic interference would probably be acceptable to the Government of Iran, political interference would be vigorously opposed.

IX. Effects upon Iran and upon United States Foreign Policy in the United States of Refusal to Grant Aid or of Failure of Program Undertaken.

Failure to aid the Government of Iran in its attempts to decrease discontent and increase stability will probably lead to the fall of the Government, internal strife and chaos, the rapid spread of Soviet domination, and the appearance of a serious threat to the oil resources of Iran and the Persian Gulf area. The absorption of Iran into the Soviet orbit would have repercussions in Turkey, Iraq, Afghanistan, and India, of vital importance to the security of the United States. The same results would follow if the failure of the United States to give aid led to its acceptance by Iran from the Soviet Union. The failure of the program would be equally disastrous. While there is no guarantee that the program will succeed, the least that can be anticipated with assurance is that it will delay Soviet domination, with a reasonable possibility that the delay will suffice to prevent such domination.

X. Possible Emergency Situations Which Should Be Anticipated and

Recommended Course of Action of the United States. At the present time there is a precarious balance in Iran between the Shah (backed by the Army), the Government (headed by Prime Minister Qavam), and the leaders of several strong tribes whose interests hold them together. If the Government can solve the problems of unemployment and the high cost of living and can successfully start its program for social and economic reform, this balance is likely to continue with a gradual lessening of tension. Such a development would also make it easier for

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the Government to resist Soviet pressure, though the resistance must be constant and vigilant. Should the Government fail, there is a possibility of the emergence of military rule under the Shah, with a period of at least temporary disturbances with the tribes and probably among organized labor. Such a development would be accompanied by an increase of Soviet influence and the attraction of some of the liberal elements in the country to the Soviet cause. Actual Soviet armed intervention seems unlikely in the foreseeable future. If it occurred the only recourse would be to the United Nations. The only action the United States could take upon the emergence of military dictatorship would be to use all its influence to prevent excesses and to bring about a return to constitutional government at the earliest possible moment.

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