

NLT 81-5

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NATIONAL INTELLIGENCE ESTIMATE

PROBABLE DEVELOPMENTS IN IRAN IN 1952 IN THE ABSENCE OF AN OIL SETTLEMENT



NIE-46

Published 4 February 1952

CENTRAL INTELLIGENCE AGENCY

Declassified by 005827
date 15 October 1981

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The intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff participated with the Central Intelligence Agency in the preparation of this estimate. All members of the Intelligence Advisory Committee concurred in this estimate on 31 January 1952.

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PROBABLE DEVELOPMENTS IN IRAN IN 1952 IN THE ABSENCE OF AN OIL SETTLEMENT

CONCLUSIONS

1. The probability of Mossadeq or another National Front leader continuing as Prime Minister at least for the present appears strong. His parliamentary position and that of the National Front will probably be further strengthened as a result of the current elections. It is unlikely that the Shah will influence events in the immediate future.
2. The maintenance of National Front strength in the present highly volatile situation will depend primarily on the government's success in solving financial problems resulting from the nationalization of oil and in satisfying the basic economic and social demands which have been intensified by the nationalization issue.
3. It is unlikely that Iran can sell financially significant amounts of oil to non-Soviet orbit countries without the acquiescence of AIOC, or will obtain significant oil revenues from sales to the Soviet orbit countries.
4. However, the Mossadeq government can meet its essential obligations for two or three months by resorting to the various expedients available to it without legislative action by the Majlis. It can probably gain the backing of the new Majlis for measures which would avert a fiscal breakdown at least through the summer of 1952.
5. Nevertheless, the economic position of Iran will become progressively more precarious and the Mossadeq government will be under increasing pressure to satisfy the hopes for social and economic benefits aroused by the nationalization program.
6. Failure to provide these benefits would be likely to lead many National Front supporters to turn to the Tudeh Party.
7. It is almost certain that the National Front leaders will have difficulty in agreeing on measures to satisfy popular demand for social and economic benefits and in obtaining Majlis support for these measures. Therefore, in order to put through such measures, the National Front government would probably be forced to adopt authoritarian methods.
8. If the National Front government is replaced by a conservative government the new government would almost certainly be forced to make concessions to nationalist sentiment and to rule by authoritarian methods.
9. We thus believe that barring establishment of authoritarian rule, either by the National Front or by the conservatives, the Tudeh potential for gaining control over the country will substantially increase. However, we do not believe that a Tudeh coup is imminent.

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DISCUSSION

The Present Situation

10. Prime Minister Mossadeq and the National Front movement continue to dominate the political scene in Iran. They have retained the enthusiastic support, particularly in Tehran, of the urban workers, shopkeepers, teachers, students, government employees and religious zealots who, under Mossadeq's leadership, have seized the political initiative from the traditional ruling groups of wealthy merchants and landlords. Although his followers in the National Front do not form a firmly-knit party, and some are ambitious, self-seeking politicians like Mullah Kashani and Hosein Makki, Mossadeq will most likely be able to prevent a split in the National Front in the near future.

11. The oil crisis has not had any noticeable effect on the national standard of living, and has only begun to affect payment of government salaries. Although the oil industry has provided the Iranian Government with no royalties since April and no other foreign exchange since September, Mossadeq has been able to delay a financial breakdown by drawing on the reserves maintained to cover issuance of bank notes and by diverting funds from the Seven Year Plan Organization. Civil service, army, and security force salaries are no more in arrears than usual. All the Iranian oil workers formerly employed by the AIOC are still being paid by the Iranian Government, even though the vast majority are not fully employed. With regard to most petroleum products, Iran's internal needs have been supplied by the Kermanshah refinery, which has been kept in operation, and by limited production at the Abadan refinery. Meanwhile, the overwhelmingly peasant majority of Iran's population has remained unaffected by the present crisis. Despite some usual instances of local crop failure, this year's food crop has been approximately normal, prices have remained stable, and there have been no shortages of sugar and tea, the only imported staples in Iran's diet.

12. Conservative opposition to Mossadeq is at present disorganized, hesitant, and fearful. This opposition is drawn mainly from

the traditional ruling group, many members of which fear they will lose their parliamentary seats in elections conducted by the Mossadeq government. Although a substantial majority in the Majlis is basically opposed to Mossadeq, most of the deputies have supported him on the oil issue and acquiesced in Mossadeq's decision to hold elections while his popularity was high. Mossadeq's critics are reluctant to expose themselves to the mob hysteria and possible violence which they fear Mossadeq's group or the Tudeh Party might bring to bear against them. More important, they have been restrained by the Shah's failure to commit himself to support the removal of Mossadeq. Although the Shah asserts that Mossadeq's oil policy will prove disastrous for Iran, he has been unable to agree with the opposition on a suitable successor to Mossadeq and apparently fears that an attempt to remove Mossadeq at this time would lead to his own assassination or to a revolution against his throne.

13. The Communist-dominated Tudeh Party has bettered its position considerably during Mossadeq's tenure of office. Although Mossadeq is basically hostile to Soviet imperialism, his government has failed to take a clear-cut stand against the Tudeh Party, primarily because Mossadeq is unwilling to take drastic action against an organization which he believes can be kept under control and which supports the government on the nationalization issue. In addition, some National Front leaders and government officials appear to be Tudeh sympathizers. As a result, Tudeh has been able to carry on a program of agitation and demonstrations and has gained increased support, notably among students, industrial workers, and civil servants. While the size of the Tudeh Party cannot be accurately determined, we believe its present strength is much lower than the several hundred thousand supporters claimed by Tudeh during its heyday in 1946. Recent US and British field estimates give a total of about 8,000 actual members in the Tehran area (with perhaps three or four times as many sympathizers) and a total of some 5,000 members in the oil

field area, in Azerbaijan, and along the Caspian coast. The Tudeh has succeeded in penetrating several departments of the government (notably Education and Justice), although not to the extent of seriously influencing government policy or operations. Available evidence indicates that Tudeh has had less success in penetrating the army and security forces.

14. Mossadeq's current foreign policy represents a compromise between the basic nationalist desire to eradicate all foreign interference in Iran and Iran's need for foreign assistance. Mossadeq and most of his followers are as much opposed to Soviet as to British interference in Iran, and also are suspicious of closer ties with the US. They fear that such ties would lead to direct political or economic penetration which would oblige Iran to commit itself to the West or antagonize the USSR. Nevertheless, Mossadeq has recognized, as most Iranian leaders have in the past, that Iran cannot maintain a completely isolationist position, and is following out the traditional policy of balancing off the great powers against each other. Although his followers have not hesitated to attack the US as well as the UK, Mossadeq has asked that the US provide emergency financial assistance to Iran until such time as the oil industry is restored to production. He has simultaneously entered into negotiations for a new trade agreement with the USSR and has reportedly sought oil technicians from the Soviet bloc as well as from various Western countries. He has also reportedly entered negotiations with Poland, Czechoslovakia and Hungary for the sale of Iranian oil.

Probable Economic Developments Under Mossadeq

15. In the absence of an oil settlement, Iran will continue its efforts to sell to any customer. It is unlikely, however, that Iran could sell financially significant amounts of oil to non-Soviet orbit countries without the acquiescence of AIOC and the other major Western distributors. Moreover, as further discussed below, it is unlikely that Iran could obtain significant oil revenues from sales to the Soviet orbit countries.

16. Although Mossadeq will probably continue to seek US aid to enable him to meet his budgetary deficit—which would make it easier for him to stand firm on his own terms for an oil settlement and would temporarily strengthen his political position — it is increasingly clear that he opposes the development of closer military and political ties with the West. He has vacillated on giving formal approval to the continuance of the US military missions and the military aid program. He also has strong objections to becoming subject to the US economic advice. Although he was recently prevailed upon to sign a Point IV agreement, he has thus far refused to provide the assurances that would enable Iran to obtain military assistance under the Mutual Security Program. If he fails to receive US aid to relieve his growing budgetary difficulties, he may terminate the contracts of the US military missions and eventually curtail US technical and economic assistance activities in Iran. However, it is also possible that internal pressures may force him to go further in giving commitments to the US than he would personally favor. Meanwhile, he will almost certainly make greater efforts to expand Iran's economic relations with other countries including the Soviet bloc, providing they do not appear to involve foreign interference in Iran's domestic affairs.

17. As an alternative to US aid, Mossadeq almost certainly would press forward with negotiations now under way with Poland, Czechoslovakia and Hungary for the sale of some two million tons of Iranian oil, and will probably also seek oil deals with other members of the Soviet bloc or with the USSR itself. However, it is unlikely that the Soviet bloc could provide enough tankers to move financially significant quantities of oil from Iran, and thus the sale of oil to the Soviet bloc would probably not provide Mossadeq with a lasting solution of his financial problems.

18. The USSR might attempt to gain political advantages in Iran by providing Mossadeq with limited advances against future oil deliveries or by satisfying Iran's dollar and gold claims against the USSR. Such measures would have only a temporary effect on the

financial position of the Mossadeq government. We do not believe that the USSR would be willing to give Mossadeq sufficient assistance to solve Iran's financial problems except on terms which he would be unable to accept. The Soviets probably estimate that their best chance of gaining control of all or parts of Iran is by allowing the situation to continue to deteriorate rather than by bolstering any Iranian Government.

19. The loss of foreign exchange as a consequence of the closing of the oil industry will force the Iranian Government in the coming months to reduce imports largely to the level which can be financed from the proceeds of non-oil exports. Because of the high level of exports which has characterized Iranian foreign trade in the Korean war period and which is expected to continue at a substantially similar level for at least over the next six months, and because of the still uncommitted Central Bank holdings of foreign exchange of approximately 30 million dollars, it is improbable that the government would be forced during the next six months to cut imports to a point where the standard of living will be seriously affected. Nevertheless Iran's economic position without oil revenues is precarious. The prospects for Iranian-financed economic development are largely foreclosed. A crop failure or a decline in exports would lead to quick and serious difficulties. In any event, maintenance of imports at politically satisfactory levels would lead to a steady drain on foreign exchange reserves, which, in time, would leave Iran with no margin for contingencies.

20. The chief impact of the cessation of oil production has up to now been on the fiscal position of the government. The monthly budget deficit has increased to about four times the rate of the first half of 1951. (At the new exchange rate of approximately 60 rials to the dollar the current estimated monthly deficit would be 6.5 million dollars.) During the past four months this deficit has been financed largely by drawings upon the 40 million dollars of sterling transferred last August from the note cover. Within a month the remainder of this sterling will have been

sold to the Central Bank for local currency. The Government could, without reference to the Majlis, maintain its current rate of deficit spending through April provided it carried through with the bond drive more vigorously, and in addition took steps to enable the National Iranian Oil Company to borrow directly from the Central Bank, drew upon the 8 million dollars recently acquired from the International Monetary Fund, sold government stocks of wheat and sugar, and undertook other possible improvisations.

21. If it is to meet its essential obligations beyond April, the Mossadeq government will have to seek legislative authority enabling the Central Bank to increase the currency issue and make additional loans to the government. Resort to such tactics, however, would arouse serious opposition in the present Majlis and therefore Mossadeq will probably not seek this authorization until after the convening of the new Majlis (now scheduled for late February) in which National Front strength will probably be sufficient to give the Mossadeq government legislative authority to meet its obligations through the summer of 1952. The ability of the government to continue to meet its financial obligations in the absence of adequate oil revenues thus depends upon its will and determination to resort to the expedients available to it, and upon its success in persuading the Majlis to follow its lead.

Prospects For The Survival Of The Mossadeq Regime

22. The survival of the Mossadeq government, however, will not depend solely upon its ability to avert a financial breakdown. The popularity of the Mossadeq government derives largely from its success in "liberating" Iran from British interference. However, the unrest which has found expression through, and has been intensified by, the oil nationalization issue is not likely to subside now that the AIOC has been ejected. Although Mossadeq will continue to benefit from popular opposition to the British, he will have increasing difficulty drawing public attention away from his failure both to fulfill promises of economic improvement and to derive significant bene-

fits from Iran's oil resources. He is thus likely to be faced with the possibility of losing popular support.

23. Although the new Majlis will probably continue to support Mossadeq on the issue of British interference, the National Front majority is itself likely to split on other issues. The government will almost certainly have difficulty in agreeing on and in obtaining Majlis support for measures which would allay popular demand for social and economic benefits. Failure to carry through with such measures would probably lead many supporters of the National Front, both within and outside the Majlis, to turn to the Tudeh Party, which is the only disciplined party in Iran offering a clear-cut program of social and economic reform. In order to forestall such a development, the National Front government would probably be forced to adopt authoritarian methods.

24. The tendency of minority groups and provincial leaders to ignore the writ of the central government would also increase if the National Front government failed either to keep Majlis support or to adopt authoritarian methods. Mossadeq apparently distrusts the army and the gendarmerie and has given them little support. This may eventually have a serious effect on their morale and consequently on their will and ability to maintain the government's authority over such potentially separatist elements as the Azerbaijanis, the Kurds, the Bakhtiaris, and the Qashqais, as well as in Tehran. The ability of the government to maintain frontier security and collect taxes would decline. A weakening of the government's central authority would greatly enhance the danger of a substantial increase in Tudeh influence, not only in Tehran but particularly among the oil workers in the South and the population of Iran's northern provinces. There would also be greater opportunities for Soviet exploitation.

25. It is probable that either Mossadeq or another National Front leader will continue as Prime Minister, at least for the present. The Shah has the constitutional power to dissolve the Majlis and can usually remove a Prime Minister from office. He also is Com-

mander in Chief of the Army and has the support of the Army. It is extremely unlikely that he would use his power to remove Mossadeq as long as the latter has the support of the Majlis, since such a move might lead to serious civil disturbances. If Mossadeq's popular support weakens, the chances of his removal by normal political means will increase. In this event, the land-owning group will probably try to reassert its control over the central government and may be successful if a suitable leader can be found.

26. A conservative regime, however, would be confronted with the same social and economic problems. An attempt by a new government to obtain an oil settlement on terms presently acceptable to the West would meet with the most vigorous opposition by the National Front and the Tudeh Party. Consequently, in order to stay in power and cope with the situation, such a successor regime would almost certainly be forced to make concessions to nationalist sentiment and to rule by authoritarian methods.

27. We then believe that during 1952 there will be increasing demands for social and economic benefits which Mossadeq and the National Front will find it hard to satisfy without adopting authoritarian methods, partly because of the lack of unity in the National Front and partly because of difficulties in meeting financial requirements. Barring establishment of authoritarian rule either by the National Front or by the conservatives, the Tudeh potential for gaining control over the country will substantially increase. However, a Tudeh coup is not considered imminent for the following reasons:

a. There is no evidence of appreciable Tudeh penetration of the armed forces;

b. So far as is known the key ministries (defense, communications, and internal security) have not been effectively penetrated by the Tudeh;

c. There is no indication that the Tudeh has an armed paramilitary organization of any significance; and,

d. There has been strong rivalry between the National Front and the Tudeh on most matters. We believe this rivalry will continue for the period of this estimate.