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CENTRAL INTELLIGENCE AGENCY

THE CURRENT SITUATION IN IRAN

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## THE CURRENT SITUATION IN IRAN

## 1. THE STRATEGIC IMPORTANCE OF IRAN.

The strategic importance of Iran lies in its geographical position in the Middle East bridge connecting Europe, Africa, and Asia, its consequent position with regard to lines of communications of other powers, and its oil resources. If Iran came under the control of a hostile power, the independence of all other countries in the Middle East would be threatened, and the interests of the US would thus be jeopardized throughout the entire area.

The Soviet Union views Iran not only as a possible base for an attack against the USSR and particularly against its vital Caucasus oil fields, but also as a Soviet base for political penetration and possible military operations against areas of vital importance to the security of the Western Powers. If the USSR occupied or dominated Iran, it would: (a) gain control of the oil resources now exploited by the Anglo-Iranian Oil Company; (b) threaten the oil fields in nearby Iraq, Kuwait, Saudi Arabia, and Bahrein; (c) acquire additional bases for carrying on subversive activities or actual attack against Turkey, Iraq, Afghanistan, India, and Pakistan; (d) control continental air routes to Iran, threaten those crossing Turkey, Iraq, the Arabian Peninsula, and the Persian Gulf, and menace shipping in the Persian Gulf; (e) undermine the will of all Middle Eastern countries to resist aggression; and (f) acquire a base 800 miles nearer than any held at present to potential British-US lines of defense in Africa and the Indian Ocean area.

## 2. PROBABLE FUTURE DEVELOPMENTS.

The USSR will endeavor, as a prelude to complete domination of Iran, to secure control of Iranian territory adjacent to the Soviet Union and to install a government at Tehran subservient to Moscow. The USSR is not expected to resort to military force at this time, but it will increase its efforts to create internal instability and to undermine the government by promoting and exploiting dissatisfaction and dissension among urban and tribal elements, capitalizing on the failure of the government to implement promised social and economic reforms.

The execution of administrative, social, and economic improvements necessary for internal stability will probably require strong encouragement and support from the Western Powers. Moreover, the successful implementation of a program of economic development will depend on adequate foreign supervision.

Iran's continued determination to resist Soviet encroachment will depend in large measure upon its confidence in the effectiveness of US support of Iranian independence, and upon its estimate of the prevailing balance of power between the US and the USSR. The future course of British policy will also affect Iran's foreign policy: any evidence of

Note: This paper has been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and Air Forces.

a British tendency to appease the Soviet Union at Iran's expense, unless offset by effective US action, may result in Iranian orientation toward the USSR. Finally, further decline in the effectiveness of the UN in protecting the independence of small powers will undoubtedly be reflected in Iran's attitude toward the USSR.

### 3. POLITICAL SITUATION.

The current political situation in Iran contains many factors of weakness. While technically a constitutional monarchy, Iran is an oligarchy. Control of Parliament and predominant influence in the affairs of the country are in the hands of wealthy landowners and merchants, army generals, and tribal leaders. Within the governmental framework, the two most important political figures are the Shah and the Prime Minister. The great mass of the people is largely illiterate and politically impotent.

The ruling groups are united in their fear of Soviet ambitions, and with the decline of British power in the Middle East, they are turning more and more to the US and the UN for support, a policy which is consistent with the basic anti-Soviet, anti-Communist, and pro-US attitude of the majority of the people. However, the continued failure of the government to rectify critical internal conditions is seriously jeopardizing Iranian stability. Widespread corruption practiced by civil and military officials and their discriminatory policies against tribal groups are alienating major population elements whose support is essential to successful resistance to Soviet demands. Throughout the country, the authorities' continued failure to give effective execution to long-standing promises of economic and social reforms lends encouragement to leftist elements and other dissident groups. Moreover, despite the determination of all major political factions to resist Soviet encroachment, internal political conflicts and the personal ambitions of Iranian politicians may prevent Iran from implementing any effective plans for resistance.

The support of the Western Powers and of the UN against Soviet action prejudicial to Iranian independence will have no lasting effect unless the Iranian Government makes strenuous efforts to bolster its internal stability by: (a) resolving the personal conflicts among the Shah, the Prime Minister, and the Chief of Staff; (b) endeavoring to obtain the loyalty and cooperation of tribal and other population elements; and (c) initiating and executing long-overdue economic and social reforms. Without these reforms and with a continuation of the present Iranian technique of solving international problems by procrastination and by reliance upon the support of other powers, Iran may ultimately be absorbed into the Soviet sphere of influence.

### 4. ECONOMIC SITUATION.

The Iranian economy, based largely on agriculture and petroleum, is relatively stable. Agriculture supports 80 per cent of the population and, in normal years, produces all of Iran's essential food requirements (except tea and sugar) and some surplus for export. Iran is the world's fourth largest petroleum producer, with a current production of about 145 million barrels annually and proved reserves estimated at 6.5 billion barrels.

The financial situation in Iran exhibits a mixture of strength and weakness. The external debt is small, the currency reserves are ample, and substantial guaranteed oil

royalties provide the government with large revenues and considerable amounts of foreign exchange (although insufficient dollar exchange). On the other hand, the national budget is recurrently unbalanced, budget deficits are covered by heavy borrowing from the National Bank, the taxation system is inadequate, and government enterprises and finances are badly administered. The cost-of-living index, which rose from the 1936 level of 100 to 1085 in 1944, now stands at about 800. The Iranian *rial* has depreciated in terms of foreign currencies to about one-half its official value.

Unprogressive agricultural methods and inefficient operation of the transportation system also militate against effective exploitation of Iran's economic potential.

A very real threat to the economic stability of Iran arises from the political situation vis-a-vis the USSR. Soviet interest in the northern provinces of Azerbaijan, Gilan, Mazanderan, Gorgan, and Khorasan will continue. If these provinces, or even Azerbaijan alone, were to be detached from Iran or to come under the control of the USSR, Iran's economic structure would be in danger of collapse, through loss of a major food producing area and population center.

#### 5. FOREIGN AFFAIRS.

Current Iranian foreign policy is primarily concerned with Soviet efforts to achieve political and economic domination of Iran. The USSR, for political and preemptive purposes, is seeking preferential economic concessions, with special reference to petroleum and air rights. Moreover, the Iranians are being subjected to a virulent Soviet program of propaganda, subversive activities, and military and political intimidation, designed to "soften up" Iran for increased penetration.

The Soviet-Iranian oil protocol of April 1946, providing for the establishment of a joint company for long-range exploitation of oil resources in northern Iran, would, if implemented, assure Soviet political penetration and economic control of the area. If, as appears likely, the Majlis rejects the agreement, the USSR may be expected to increase its pressure on and its intimidation of Iran, instigating local disorders—possibly with a view to creating a pretext for intervention on the ground that Soviet security is jeopardized by Iranian instability.\*

Traditionally, Iran has considered the British as a counterbalance to Russian ambitions. Now, however, motivated by domestic political considerations, by their declining position in the Middle East, and by the desire to protect their own oil concession in southern Iran, the British have not been willing to give unequivocal support to Iran's resistance to Soviet demands for access to northern oil resources. The Iranians are therefore counting more and more on the US and the UN to support them in resisting Soviet encroachments. The Iranians hope further that the US will serve as a moderating influence on traditional Anglo-Russian rivalry and will also act as a guarantee against any possible Anglo-Soviet agreement for the partition of Iran into spheres of influence.

#### 6. MILITARY SITUATION.

The armed forces of Iran are designed primarily to maintain internal security. They are unable to withstand aggression by a large power or a combination of small

\*On 22 October, the Majlis rejected the oil agreement by a vote of 102 to 2.

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powers. In the event of invasion by a major power, the Iranian forces would quickly disintegrate unless foreign aid were immediately available. Moreover, they would be unable to cope with widespread tribal disorders or extensive Soviet-supported disturbances.

The army, which numbers 113,000 and includes a small air force, with outmoded equipment, is maintained by compulsory military service, and only 60 per cent of its strength is effective. The gendarmerie, or state police, number approximately 24,000. At present, US military missions are working to increase the efficiency of the army and gendarmerie as a safeguard of internal stability. There is also a contract pending for the purchase of \$20 million worth of surplus military supplies from the US. Iran has insufficient natural resources and industrial potentialities to support large-scale warfare; its manpower reserves could not be welded into an effective military force. Morale in the army is low because of inconsiderate treatment given conscripts, inferior leadership, and maladministration.

The tribes of Iran, some of which are well equipped with small arms and are firmly controlled by influential chieftains, constitute a para-military factor of some importance, since their cooperation or obstructionism has a direct bearing on the maintenance of internal order.

In the event that Iran should become a theater of military operations between the great powers, no combat support could be expected from the Iranian armed forces. These forces and certain tribal groups, however, might render to the Western Powers a limited amount of assistance in protecting lines of communications and installations, and in carrying on intelligence and guerrilla activities over Iran's rugged terrain.

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