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CABINET

PERSIA

MEMORANDUM BY THE MINISTER OF STATE

In his memorandum on the present situation in Persia, the Foreign Secretary undertook to inform his colleagues of the conclusions reached in the discussions then in progress between the interested Departments of His Majesty's Government and the Anglo-Iranian Oil Company on measures to improve the situation (C.P. (51) 28, paragraph 11).

2. These measures fall, broadly, into three classes:—

- (a) Immediate: to relieve the Persian Government's acute shortage of funds;
- (b) Short-term: to establish Persia's political and economic stability under Razmara, the present Prime Minister;
- (c) Long-term: to promote the firm conclusion of an oil agreement which, in regularising the Anglo-Iranian Oil Company's position, will provide Persia with the full financial returns offered by the Company.

3. As regards (a), the Company informed the Persian Prime Minister on 31st January that they were prepared to deposit forthwith in the Bank Melli (Persian National Bank), as backing for an increased note issue (the most immediate of Persia's needs), a sum of £10 million. This offer has been accepted.

4. As regards (b)—

(i) The Company told us in strict confidence, which we have undertaken to respect, that they were ready to make further advances on account of royalties over and above present royalty rates, either as a lump sum or (preferably) in the form of monthly payments, if this were necessary to tide the Persian Government over the next few months and thus give Razmara time to prepare his next move. The Company have now offered Razmara, and he has accepted, advances of royalties amounting to £25 million, £5 million to be paid at once and £2 million monthly throughout the next 10 months. This transaction is for the present being kept confidential.

(ii) His Majesty's Ambassador has been instructed to represent to Razmara (and to the Shah if he thinks this will be useful) the desire of His Majesty's Government to assist Persia and their consequent anxiety that her internal position be stabilised as a bulwark against the spread of Communism, that the Seven-Year Plan of economic development be vigorously implemented and that the position of the Anglo-Iranian Oil Company, the chief source of Persia's badly needed funds, be regularised. In speaking in that sense, His Majesty's Ambassador will bring to Razmara's attention various developments, both general and affecting British interests in particular, about which His Majesty's Government have recently been concerned. He will also urge the necessity of coming to an agreement with the Anglo-Iranian Oil Company and then taking resolute action to secure its ratification by the Majlis (Parliament). Finally, he will express the hope that Razmara will take the opportunity to speak as frankly in reply and to explain fully what steps he has in mind to take to remedy matters.

5. As regards (c), the long-term measures, the Company are now ready to discuss with Razmara any proposals for an oil agreement which he may wish to put forward. There are no firm indications from Tehran of the present temper of those Majlis Deputies who have hitherto pressed for nationalisation of the oil industry in Persia and who obstructed ratification of the Supplemental Oil Agreement. It is more than likely, however, that, with the recent conclusion between the Saudi Arabian Government and the Arabian-American Oil Company (Aramco) of an oil agreement on what is known as the "50:50 profit sharing" basis, only an entirely new approach offers real hope of the conclusion of satisfactory arrangements between the Persian Government and the Anglo-Iranian Oil Company. The Company therefore do not exclude discussion of an agreement on such a basis. It is by no means certain that under such an agreement Persia's financial benefits would be any greater than those she would have obtained under the rejected Supplemental Agreement; but Persian emotions in this matter have to be taken into account.

6. It is hoped that these measures will prove adequate. Representatives of the Foreign Office and the Treasury, however, will shortly visit Tehran to discuss matters further on the spot; and an official of the State Department is expected in London in the second week of February with a view to discussing the position in Persia as a preliminary to any further discussions with the Americans that may be thought necessary on return of our representatives from Tehran.

K. G. Y.

*Foreign Office, S.W. 1,
8th February, 1951.*