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PROBABLE DEVELOPMENTS IN IRAN  
THROUGH 1954

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## PROBABLE DEVELOPMENTS IN IRAN THROUGH 1954

### THE PROBLEM

To estimate probable developments in Iran through 1954.

### CONCLUSIONS

1. Relatively moderate governments are likely to continue in Iran through 1954, although hampered by: (a) the indecision of the Shah; (b) the irresponsibility of the diverse elements making up the Iranian political community; and (c) the unruliness of the Majlis. The chances that Zahedi himself will remain prime minister through 1954 are not good.
2. Few significant steps toward the solution of Iran's basic social, economic, and political problems are likely to be taken during the period of this estimate. The effectiveness of the government will largely be determined by its success in dealing with Iran's immediate fiscal and monetary problems and in making some apparent progress towards settlement of the oil dispute. An early and satisfactory oil settlement is unlikely. Without further outside financial aid, an Iranian government probably would manage to cope with its immediate fiscal and monetary problems by resorting to deficit financing and other "unorthodox" means. Under such circumstances, it would encounter — and with difficulty probably keep in check — mounting pressures from extremist groups.
3. The security forces, which are loyal to the Shah, are considered capable of taking prompt and successful action to suppress internal disorders and recurrent rioting if provided timely political leadership. This capability will continue if, during the period of this estimate: (a) security forces receive adequate financial support; (b) differences between the Shah and top level leaders over control of the security forces are not seriously aggravated; and (c) strong public opposition to the regime does not develop.
4. Tudeh's capabilities do not constitute a serious present threat to the Iranian Government, and the Tudeh Party will probably be unable to gain control of the country during 1954, even if it combines with other extremist groups. It will retain a capability for acts of sabotage and terrorism.
5. Iran will attempt to maintain friendly relations with the USSR, but will almost certainly resist any Soviet efforts to increase its influence in Iran's internal affairs.
6. Failure to receive continued financial aid from the US or an acceptable oil settlement will probably result in a government coming to power which will be less friendly to the US than the present one.

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## DISCUSSION

## I. PRESENT SITUATION

## Political and Military

7. The overthrow of the Mossadeq government on 19 August 1953 checked the drift in Iran toward Communism and isolation from the West. The authority of the Shah has been reasserted, and a moderate government under General Zahedi is in power. This government is committed to maintaining the constitutional position of the monarchy and the parliament, suppressing the Communist Tudeh Party, and launching an economic development program predicated on settlement of the oil dispute. The accession of Zahedi to power has eliminated neither the economic and social problems which have long plagued Iran, nor the weaknesses and inadequacies of the Iranian political system.

8. The armed forces are loyal to the Shah, who has taken prompt action to re-establish himself as commander-in-chief in fact as well as in theory. The morale of the security forces has improved, and they can be expected to respond promptly in support of the government if given timely political leadership.

9. Increasing friction and uncertainty are developing within the Imperial General Staff because of the Shah's tendency to by-pass Zahedi on military matters and because of mutual efforts of Zahedi and Chief of Staff Batmangelich to undermine each other and place their own men in key positions. Although political maneuvering to this degree is unusual, even in the Iranian high command, there is no evidence that it has as yet impaired the effectiveness of the security forces.

10. The Zahedi government has taken vigorous action against the Tudeh Party. The party's organization has been at least temporarily disrupted, and many of its most active members have been arrested. Most of the known Tudeh members and sympathizers who had infiltrated government agencies have been purged. The Tudeh Party has also lost much of its popular support. Its immediate capabilities for exerting pressure on the gov-

ernment are limited, even if current efforts to obtain the cooperation of die-hard nationalist and extremist groups are successful. Tudeh retains, however, a capability for acts of sabotage and terrorism.

11. Outside the security field, the Zahedi government has made little progress. The Majlis has lacked a quorum since the withdrawal of pro-Mossadeq members in the summer of 1953. Hence the government is presently unable to obtain legislation needed to carry out its announced program. Moreover, the regime has reached no firm decision on how and when to reconstitute a functioning legislature. Although the Shah and Zahedi agree on the necessity of holding elections, they apparently fear that new elections may cause a resurgence of extremist sentiment, are uncertain how to insure the election of a manageable Majlis, and have not yet definitely scheduled the holding of elections.

12. Meanwhile, the government has done little to strengthen its political position in preparation for new elections. Zahedi has enlisted few if any real allies among the politicians formerly associated in opposition to Mossadeq. The present cabinet is dominated by members of the old ruling class, many of whom have little genuine sympathy for reform, command little political support, or are suspect because of former identification with the British. Zahedi himself has had little success in convincing the public that he will not compromise the basic objectives of the National Front, especially with respect to oil nationalization. Finally, the strength and standing of the Zahedi government is being impaired by friction between Zahedi and the Shah.

13. These developments have hastened the breakup of the loose array of politicians aligned against Mossadeq and have encouraged an early revival of factionalism and intrigue. Public criticism of the government and preliminary maneuvering to undermine Zahedi are already beginning to emerge. Nationalist and extremist elements are most active in these respects. However, National

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Front leaders who supported Mossadeq until the end are still publicly discredited, and open opposition to the government in other quarters is not united. The government's strained relations with the Qashqai tribes, which have been traditionally hostile to the present dynasty and were closely associated with Mossadeq, are under present circumstances an irritant rather than a major threat.

### Economic

14. The Zahedi government faces serious budgetary and monetary problems. Mossadeq's oil policy resulted in reduction of public revenues by about a third, and he was able to meet government operating expenses and keep the oil workers paid only by curtailing the development program, reducing the level of imports, depleting the government's financial reserves, and illegally expanding the currency. Zahedi has thus been left with a depleted treasury and a sizeable operating deficit. The emergency grant of \$45 million extended by the US soon after Zahedi took office will enable him to meet current operating expenses until about February or March of 1954, provided that the government takes effective steps to cope with its conversion problem.

15. Zahedi will also have to contend with economic dissatisfactions engendered or aggravated by Mossadeq's economic policies. Because of a series of good crops and the government's success in maintaining essential imports, the predominant rural sector of the Iranian economy has suffered little from the shutdown of the oil industry, and serious economic difficulties have not emerged elsewhere. To some extent, essential goods are being obtained by barter trade with the USSR. On the other hand, foreign exchange for essential imports from other countries has been maintained through a ban on the import of luxury and semi-luxury goods. Politically active upper class groups resent this ban and almost certainly will seek to have it lifted. The urban middle and lower classes have been disappointed by a situation in which the prospect for economic and social improvements has become more remote and in which their already low level of living has gradually deteriorated.

16. The Zahedi government clearly recognizes the importance of settling the oil dispute and getting the Iranian oil industry back into operation. It has indicated that it considers Mossadeq's attitude toward oil negotiations to have been arbitrary and unrealistic, and has already made some halting efforts to prepare Iranian public opinion for a settlement which might involve some retreat from Mossadeq's demands. The obstacles to solution of the oil problem nevertheless remain great, mainly because the Iranians hope for greater control over oil operations and higher financial returns than are likely to be acceptable to the international oil industry.

### Foreign Affairs

17. The Shah and Zahedi are cooperating with the US and have indicated their desire to improve relations with the UK. Although the new government has signed the barter agreement with the USSR which was under negotiation at the time of Mossadeq's downfall, it has at least for the present discontinued Mossadeq's policy of attempting to play the USSR off against the West.

18. The government's interest in cooperating with the US and its receptiveness to US advice are due in large measure to its current dependence on US financial aid, and probably also to a belief that Communism is the overriding threat to Iran's independence. The government's good standing with the US, as demonstrated by its receipt of emergency budgetary aid, is at present one of its main political assets within Iran. Anti-US agitation has died down except for spasmodic efforts on the part of Tudeh.

19. The new government is conscious of the need for British agreement in the revival of Iran's oil industry. However, basic suspicions of British intentions remain widespread. The government is still reluctant to resume formal diplomatic relations with the UK before there is tangible progress toward an oil settlement.

### II. PROBABLE DEVELOPMENTS

20. Few significant steps toward the solution of Iran's basic social, economic, and political problems are likely to be taken during the

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period of this estimate. The effectiveness of the government will largely be determined by its success in dealing with Iran's immediate fiscal and monetary problems and in making some apparent progress towards settlement of the oil dispute. We believe that relatively moderate governments are likely to continue through 1954. Without further outside financial aid, an Iranian government probably would manage to cope with its immediate fiscal and monetary problems by resorting to deficit financing and other "unorthodox" measures. Under such circumstances, it would encounter — and with difficulty probably hold in check — mounting pressures from extremist groups.

21. If the Shah were assassinated, a confused situation might arise. The succession to the throne is not clearly established, and disorders attending his death might permit extremist groups, with or without Tudeh Party collaboration, to gain power.

### Economic

22. The Shah and the Zahedi regime are likely to be more reasonable than Mossadeq in their approach to the oil problem, but an early and satisfactory solution is not likely. The following generalizations can be made:

a. The oil issue is still politically explosive in Iran and will be an issue in the electoral campaign. The Zahedi regime will probably not wish to reach a formal oil agreement with the British before the completion of the elections, which usually take several months. In any case no Iranian regime could survive if it appeared to be compromising the provisions of the oil nationalization law or retreating far from Mossadeq's basic demands. Once a Majlis is reconstituted, it can probably be brought to ratify an agreement which does not appreciably violate these conditions, but only after vigorous political pressure and public propaganda by the government.

b. Although there appears to be general agreement that the marketing of Iranian oil will have to be undertaken by a combination of Western firms rather than by the Anglo-Iranian Oil Company alone, a multiplicity of complicated legal, commercial, and technical

problems must be worked out before a definite proposal can be made to Iran. Even if an oil agreement is reached and ratified, Iran will not reap sizeable financial benefits at once, unless through some form of advance against future oil deliveries.

23. It therefore appears that sometime during 1954 Iran will encounter difficulties in meeting its budgetary expenses. After the present US emergency grant is exhausted, the Iranian Government will either require additional outside financial assistance or will be forced to seek Majlis authorization for a resumption of deficit financing of the sort that Mossadeq engaged in illegally. The Majlis would probably grant such authorization, but with great reluctance, and only if there appeared to be no hope of timely outside aid. Moreover, this course would in the long run probably result in a progressive weakening of Iran's financial stability. Exports will probably continue to pay for essential imports, and barring serious crop failure, general economic activity is expected to continue at approximately the present level. If there is an oil settlement, barter trade with the USSR is not expected to reach significant proportions. However, in the absence of such a settlement or continued grants of financial aid, Iran will be forced to depend heavily upon USSR barter trade for essential items.

### Political

24. Although Zahedi faces no immediate challenge, the chances that his government will survive through 1954 are not good. Basic conflicts continue within and between the traditional governing groups, who are eager to regain the position of privilege they held before Mossadeq, and the urban middle and lower classes, who are demanding economic and social reforms and greater participation in government. These conflicts could flare out into the open at any time, particularly during proposed elections or over such issues as the disposition of Mossadeq or the oil dispute.

25. Mossadeq remains a problem for the regime. So long as he remains alive, he will be a potential leader for extremist opposition

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to the regime. On the other hand, if Mossadeq were executed in the near future the resultant disturbances would be serious but could probably be suppressed.

26. The necessity of reconstituting the Majlis poses a serious problem for the Zahedi government. The new regime is firmly committed to a return to parliamentary government and appears unwilling to face the consequences of deliberately postponing elections. It is likely that elections will be held within the period of this estimate. However, political instability is likely to be increased by the electoral campaign and by the nature of the Majlis likely to be elected. Once the electoral campaign begins, political groups now maneuvering covertly for position will come out in the open, with increasing danger that popular emotions will again become aroused and lead to mob violence.

27. The new Majlis will almost certainly be a heterogeneous body including representatives of the traditional governing groups, tribal leaders, former Mossadeq supporters, and ardent nationalists like Mullah Kashani and Mozafar Baghai. Many members will be little interested in stable government or will be basically unsympathetic to the government's reform program. Others will suspect Zahedi of too close association with the traditional governing groups and will oppose settlement of the oil dispute and rapprochement with the British. From these disunited groups, representing a variety of conflicting interests, Zahedi must put together majorities for controversial fiscal and monetary legislation and such politically explosive measures as those relating to an oil settlement.

28. These difficulties Zahedi will be able to surmount only so long as he has the firm backing of the Shah, who has once again become a key factor in Iranian politics. The Shah apparently feels that his restoration to power is due to his high personal popularity with the Iranian people, and he appears determined to assert his authority. There are indications, however, that he is still unwilling to give strong backing to any prime minister, and at the same time is not willing to assume the role of dictator himself. His latent jeal-

ousy of Zahedi, his attempts to appoint court favorites to key government posts, and his by-passing of Zahedi in exercising his command of the armed forces might at any time lead to a situation in which Zahedi would become ineffective. If strong opposition to Zahedi develops in the Majlis, the Shah will probably jettison Zahedi and appoint a new cabinet, thus in effect returning to the chronic governmental ineffectiveness and instability of the pre-Mossadeq era.

29. The Shah would probably be successful in replacing the Zahedi government with another relatively moderate one. However, if foreign aid is substantially reduced and there is no oil settlement or reasonable prospect of one, moderate governments would encounter greater popular opposition. The Shah would then be faced with the alternatives of ruling by increasingly authoritarian means or making greater concessions to extremist elements. If additional US financial assistance is not forthcoming when the current grant is exhausted in the spring of 1954, and if at that time Iranian public opinion were already greatly aroused over such issues as Majlis elections or an oil settlement, a serious crisis might develop. The Shah and a government enjoying his support could probably survive such a crisis, although they would lose important elements of their following.

30. The Tudeh Party will probably be unable to gain control of the country during the period of this estimate, even if it combines with other extremist groups. It will nevertheless be able to capitalize on any decrease in popular confidence in the government. It will also retain a capability for acts of sabotage and terrorism. The strength of pro-Shah anti-Tudeh sentiment in the armed forces, while at present a major deterrent to Tudeh assumption of power, will be weakened if there is a marked increase in popular support for Tudeh.

### Foreign Affairs

31. The hope of obtaining continued and increasing US aid, both in restoring oil revenues and in providing funds in their absence, makes it almost certain that the Shah and his gov-

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ernments will continue to cooperate with the US. A sharp curtailment in US aid to Iran would not only make Iran less receptive to US advice and influence, but would significantly reduce public confidence in the government's ability to improve social and economic conditions and maintain internal security. There will also be increasing pressure, particularly from the Shah, for an expansion of US military aid. Even if the Shah should be offered considerable inducement in the form of military aid, he would not agree to join with the US in formal arrangements for defense of the Middle East, since such a commitment would be strongly opposed by many Iranians, would

not obtain Majlis approval, and might, in his mind, provoke the USSR into invoking the 1921 Treaty.

32. Iranian relations with the UK will largely depend on progress in settling the oil dispute. Settlement of the dispute would almost certainly result in some gradual revival of British political and commercial influence in Iran.

33. During 1954 Iran will attempt to maintain friendly relations with the USSR and will continue efforts to settle questions in dispute. It will almost certainly resist any Soviet efforts to increase its influence in Iran's internal affairs.

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