

Iran's Oil Nationalization: Musaddiq at the United Nations and His Negotiations with George McGhee

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Faced with Iran's oil nationalization and takeover of the Anglo-Iranian Oil Company (AIOC), the British resorted to legal maneuvering through international organizations. The company's first move was to appeal to the International Court of Justice. On 26 May 1951, the British government instituted legal proceedings against Iran. This application asked the court to consider the merits of the U.K.'s case against Iran on behalf of the AIOC. Iran rejected the court's jurisdiction on 28 May.¹

After the breakdown of negotiations between Iran and the AIOC, the British government sought to halt Iran's takeover operations through a court injunction. The application was filed on 22 June, pending the final judgment of the court on the merits of the case.² On 5 July 1951, the court granted the British request for an "interim measure of protection." It ordered both parties to take no action that might: 1) prejudice the carrying out of a subsequent decision by the Court on the merits, 2) aggravate or extend the dispute, 3) hinder the operations of the AIOC, which should continue under its management as constituted before 1 May 1951. It also ordered the two countries to establish by agreement a Board of Supervision to ensure that the AIOC's operations were carried out according to the order of the court.³ The court's dissenting opinion was delivered by the Egyptian and Polish judges, Abdel Hamid Badawi Pasha and Bogden Winiarski, who indicated, "if there is no jurisdiction as to the merits, there can be no jurisdiction to indicate interim measures of protection." According to the dissenting view, measures of this kind were exceptional in international law, and they might easily be considered scarcely tolerable interference in the affairs of a sovereign state.⁴

Iran rejected the court's order principally on the same grounds that it had rejected the court's jurisdiction of 28 May. Iran felt that the court did not have jurisdiction over the case, and it did not even participate in the hearings, which led to the order. On 9 July, Iran informed the Secretary General of the United Nations that it rejected the court's decision and would not abide by its order of compulsory jurisdiction.

In its second attempt to use an international organization, on 28 September 1951 Britain wrote to the president of the Security Council and the Secretary General to place on the council's agenda its "complaint of failure by the Iranian government to comply with provisional measures indicated by the International Court of Justice in the Anglo-Iranian Oil Company case." On 1 October 1951, when the Security Council began its debate on the British draft resolution, Semyon Tsarapkin of USSR objected to even considering the case because the question of nationalization in Iranian territory was wholly within Iran's domestic jurisdiction, and the United Nations was not authorized to intervene. Ting-fu Tsiang of

Nationalist China joined in opposition, questioning why Britain considered the matter "a question of peace and security" when indeed the dispute was a matter of "property." The Security Council, however, placed the resolution on the agenda by nine votes to two, the two being the Soviet Union and Yugoslavia.⁵

Sir Gladwyn Jebb, the British representative to the United Nations, told the Security Council during its first meeting on 1 October 1951 that resort to the Security Council was the only recourse open to Britain at the time. Jebb stated that Iran had shut down the AIOC's operations, "the proper functioning of which is of benefit not only to the United Kingdom and Iran but also to the whole free world...unless this process is promptly checked, the whole of the free world will be much poorer and weaker."⁶

In reply, Aliquli Ardalani, Iran's representative to the United Nations, expressed surprise at this complaint because of the British government's recognition of the principle of nationalization (the Harriman formula). He restated Iran's rejection of both the court's jurisdiction and its order and expressed his opinion that neither the World Court nor the Security Council had any jurisdiction in the matter. Ardalani, nevertheless, stated that Iran was prepared to present her case to the council, but he requested that the debate be postponed for ten days to enable the Iranian delegation to reach New York from Tehran. The Security Council, in spite of Jebb's stress on the urgency of the matter, granted the request. The postponement upset British plans to obtain a ruling before 4 October, the deadline set by Iran for the eviction of the AIOC's British staff.

From Tehran, British Ambassador Sir Francis Shepard reported back home that Musaddiq himself would lead the Iranian delegation to the Security Council and that the effect of the British appeal to the United Nations had been to consolidate support for the Prime Minister by the *Majlis*, the Senate, and the press.

In addition to complaining to the Security Council, the U.K. resumed its military threats against Iran. This brought a backlash from the press in some developing countries besides Iran, particularly Turkey and India, both members of the Security Council at the time. Jebb was concerned about the council's reaction to his government's military threats. Worried that the presence of British warships in the Persian Gulf might be denounced by the Iranian delegation as a serious threat to the area's peace and security, he suggested that the warships be withdrawn and the Persian Gulf squadron in Sheba reduced before the Security Council reassembled for discussion. The British government accepted his advice and ordered dispersion of naval forces in the Gulf but kept three frigates and one cruiser on hand, in case the cabinet decided

to intercept tankers taking oil from Iran.⁷

Attending the Security Council Meeting

In early October 1951, the Iranian delegation headed by Musaddiq left Tehran on a K.L.M. plane to New York via Rome, Frankfurt, and Amsterdam. There were fifteen members altogether.⁸ The delegation was warmly received by expatriate Iranians at the Rome, Frankfurt, and Amsterdam airports. It took the delegation twelve hours to fly from Amsterdam to New York.

A few hours after his departure from Tehran, Musaddiq received a cable from Haj Muhammad Namazi, a wealthy businessman residing in Washington. Namazi had invited the Prime Minister and the whole Iranian delegation to stay at his residence while in the United States. However, Musaddiq in reply indicated that his delegation was coming to the United States at government expense and therefore could not accept his invitation.⁹

Musaddiq and his entourage arrived in New York on 8 October 1951. He was received by Ambassador Nasrullah Intizam and a large group of Iranians who welcomed him with flowers and speeches. After thanking the Iranians who had come to welcome him at the airport, the Prime Minister went directly to Cornell Medical Center hospital for a medical check-up. The rest of the delegation went to the Waldorf Towers. Musaddiq's stay in the hospital did not last more than five days because his advisers had underestimated the medical expenses in the United States. It was on the second or third day of his stay in New York that *The Herald Tribune* ran a story claiming that Musaddiq was staying at a \$450-a-day suite in Cornell Medical Center. His son, after reading the article, brought it to the attention of his father, who immediately decided to move out. For his five days of stay at the hospital, Musaddiq ran up a bill of fourteen thousand dollars. He did not have enough cash and actually had to wire home for more money.¹⁰

Musaddiq's trip had been widely publicized both in Iran and abroad. When he arrived at the United Nations headquarters on 15 October, he was surrounded by an army of press reporters and photographers who asked him questions and took pictures. The Prime Minister, who had been in ill health, had a strenuous day ahead of him. Musaddiq was scheduled to deliver his long speech in defense of the Iranian case in French. His son, Ghulamhusayn, who was his personal physician and companion was very much concerned about his well-being. When Musaddiq and the rest of the Iranian delegation sat in their seats, his son turned to him and quietly told him, "Dad, today is an important day, please be strong and whenever you get tired, please let me know."¹¹ Fortunately, nothing happened, and Musaddiq's performance on that historic day was very skillful.

At this session representatives of two states, one very poor and weak, the other a powerful Western country, were going to make their voices heard in the most important world forum. Sir Gladwyn Jebb, the British representative, began the proceedings by stating that since Iran had already expelled the AIOC's British staff, he was presenting a new draft resolution calling for a resumption of negotiations with due regard to the interim ruling of the World Court.¹² He then appealed to Musaddiq and asked him "not to take up any aggressively nationalistic attitude," but show that "he too welcomes a con-

structive solution...that will redound to the benefit of the world as a whole."¹³

When it was Musaddiq's turn, he rose to the occasion with unusual skill, and his diplomacy was matched only by his long trusted friend and colleague, *Majlis* deputy Allahyar Salih, who, following Musaddiq's presentation, did most of the talking in presenting the Iranian case. From the outset the Prime Minister attacked the British resolution as a "baseless complaint." Having come from a weak and oppressed country, he touched off the emotions of other newly emerging nations of Asia and Africa by saying that the United Nations "is the ultimate refuge of weak and oppressed nations, the last champion of their rights. I appear here today after a long journey and in failing health to express my country's respect for this illustrious institution." He then added:

It is gratifying to see that the European powers have respected the legitimate aspiration of the people of India, Pakistan, Indonesia, and others who had struggled for the right to enter the family of nations on terms of freedom and complete equality. It is encouraging to know that the United Nations has spared no pains to help to bring such aspirations to fruition. Iran demands just that right. It expects this exalted international tribunal and the great Powers to help it, too, to recover its economic independence, to achieve the social prosperity of its people, and thus to affirm its political independence.¹⁴

The theme of economic and political independence emphasized by Musaddiq before the United Nations gives a good notion of his vision and his determination to nationalize the oil industry in Iran. It was a theme that, at the time, had a great deal of appeal to poor and exploited people elsewhere. As for the draft resolution's warning about dangers to the peace, Musaddiq replied, "It requires a deficient sense of humor to suggest that a nation as weak as Iran can endanger world peace ... whatever danger to peace there may be lies in actions of the United Kingdom government," which had stationed warships and paratroopers close to Abadan. "Iran has stationed no gunboats in the Thames."¹⁵

Reflecting on Iran's recent history Musaddiq accused the British of supporting the dictatorial regime of Riza Shah and imposing an extension of the 1933 oil agreement to 1993. He also accused the British of corrupting Iran's political system by manipulating *Majlis* elections and the formation of cabinets that ultimately undermined the country's political independence. He also criticized the the AIOC for having contributed little to the Iranian economy, as might be inferred from the fact that Iranian oil workers lived in hovels.

The British representative contested the claim that the right to nationalize was "absolute." He also rejected Iran's argument that neither the British government nor the Security Council had any legal jurisdiction over Iran's actions. Moreover, he claimed that AIOC had made great contributions to improving the Iranian economy. According to Jebb, the AIOC

...has for many years provided four-fifths of the foreign exchange which the Iranian government needs for its essential imports. It was based on the substantial revenues provided by the activities of the Company that the Iranian government was able to launch its Seven Year Plan for economic reform, which at the time was generally acclaimed as a far-sighted measure for good govern-

ment. It is a fact that the steadily increasing wealth which the Anglo-Iranian Oil Company has been able to contribute in Iran has been and is today the basis of that country's economic viability.¹⁶

Following the Prime Minister's statement about the condition of Iranian workers in Abadan, his colleague Allahyar Salih read a passage from a report of the International Labor Organization (ILO) stating that the great majority of oil workers were living in the older, overcrowded sections of the city of Abadan or in mud houses or tents put up by the AIOC. Salih went on to say that what the company had done for half a century was to accumulate excessive profits at Iran's expense. As an example he pointed out that the company's profits in the year 1950 alone, after deducting the share paid to Iran, amounted to more than the entire sum of £114 million cited by the representative of the United Kingdom as the amount paid to Iran in royalties in the course of the past half century. He then emphasized that Iran would under no circumstances turn over the control of her oil to the AIOC. He said, "we are not prepared...to finance other people's dreams of empire from our resources."

On 16 October, Musaddiq maintained that Britain had submitted the case to the Security Council to show that she needed help to open negotiations with Iran. The only question that had remained to be settled was the matter of compensation, which Iran had stressed all along that she was prepared to pay. Following the same line of reasoning on another occasion, Sir Bengal Rau of India maintained that if Britain had in fact accepted Iran's oil nationalization, as she had claimed, there were no grounds for dispute.

Jebb's stand was that compensation was necessary but that Iran could not pay it because she could not run the oil industry. In disagreement, Rau replied that the Prime Minister had explicitly informed the Security Council that his government was ready to sell ten million tons of oil each year to Britain at half price, the other half to be applied towards compensation claims. As to Iran's ability to run its oil industry, Rau stated that Prime Minister Musaddiq has made it clear that his government would seek the services of qualified technical personnel from other countries.

The Soviet representative Tsarapkim, who had objected from the beginning to the inclusion of the British complaint on the agenda, stated that consideration of the complaint by the council constituted an "intervention in Iran's domestic affairs and a flagrant violation of the sovereignty of the Iranian people." He later added that under one pretext or another the U.K. wanted to force Iran to conduct negotiations.

Realizing the objections concerning his draft resolution of 15 October, the British representative further watered it down on 17 October. The revised version merely asked the Security Council to call upon the parties to resume negotiations without any mention of the interim decision of the court.

Finally on 19 October, when Jebb had lost all hope of passing even his watered-down draft resolution of 17 October, Francois Lacoste of France, as a face-saving measure, suggested that the Security Council adjourn its debate on the draft resolution until the International Court of Justice had ruled on its own competence in the matter. After six meetings, the Security Council on 19 October 1951 postponed the

discussion of the question with a vote of eight to one, with U.K. and Yugoslavia abstaining. The Soviet Union voted against the motion arguing that the Security Council had no business discussing the issue in the first place.¹⁷

Musaddiq's Negotiations with George McGhee

George McGhee, the assistant secretary for near eastern affairs in the State Department, held some eighty hours of talks in more than twenty meetings with Musaddiq in New York and Washington, hoping that he would come up with a compromise solution to the oil nationalization issue. Before we look at the gist of these talks, we will examine the U.S. concern about the oil crisis in Iran and McGhee's perception of the British position in dealing with Iran.¹⁸

Following the assassination of Prime Minister Razmara on 7 March 1951, the State Department became deeply concerned about the oil nationalization dispute in Iran. The United States had in fact supported Razmara for prime minister. He was considered the only moderate figure in the Iranian political scene. At the time McGhee was visiting Pakistan. He received a cable that he should proceed to Iran to appraise the situation there. The extremist elements that had assassinated Razmara had threatened other assassinations unless the oil issue was resolved favorably for Iran. The left was also very active at the time. *Pravda*, the Soviet official paper, was charging that the U.S. was responsible for the assassination of Razmara, claiming that during Razmara's tenure in office, Soviet relations with Iran had improved, and this was considered a setback for the U.S. McGhee's trip to Iran was also necessary because the nationalization move by Iran could have threatened other Middle Eastern concessions. Reports had also come out of Cairo that a bill was about to be introduced in the parliament there nationalizing the Suez Canal Company.

McGhee, who had been an oilman in Texas, had some familiarity with the AIOC operations in Iran. In the mid-1930s when he was a student at Oxford, he had a chance to meet Sir John Cadman, chairman of the board of the AIOC, through Cadman's daughter. As assistant secretary, his first encounter with the AIOC came on 24 January 1950 when he met in the Department of State with Richard Seddon, the newly appointed AIOC manager in Tehran, together with Heath Ives of the New York office. In this meeting McGhee mentioned that the recent AIOC annual report he had just read indicated that the company had that year made a considerable profit. He reminded the two gentlemen that the situation in the Middle East had changed since their last negotiations. He mentioned that better terms had been offered in the western hemisphere and even in the Persian Gulf. In McGhee's view the oil companies had to deal with the new situation realistically and recognize the legitimate demands of the oil-producing states. The two officials of the AIOC expressed only appreciation for McGhee's views.

On 31 August 1950 the Department of State confidentially advised the U.S. Embassy in London that the Arabian American Oil Company (ARAMCO) board had authorized renegotiation of their 1933 concession as demanded by the Saudi government. Because ARAMCO was going to make substantial concessions, going far beyond the AIOC Supplemental Agreement, McGhee felt that U.S. should inform the British so that the AIOC would have an opportunity to im-

prove their offer. (ARAMCO's fifty-fifty profit sharing with Saudi Arabia was officially announced in November 1950.)

In preparation of his meeting with British Foreign Office in London on 21 September 1950, McGhee invited key officers of ARAMCO and its parent companies to meet with him and other State Department officers. After considering a variety of problems affecting Middle East oil, the discussion turned to Iran. McGhee mentioned to the group the concern of Ambassador Grady in Tehran that the delay in getting the Supplemental Agreement approved could easily lead to collapse of the Iranian government and/or confiscation of the AIOC concession. McGhee mentioned that Prime Minister Razmara had demanded four points to make the agreement sufficiently favorable for ratification by the *Majlis*. These were:¹⁹

- 1) A ten-year Iranianization program
- 2) The right of Iran to examine the AIOC's books to determine their share of profits
- 3) Prices for Iranian oil must be equal to the lowest charged to others
- 4) Full information as to destination of Iranian oil exported.

Razmara also wanted to receive an installment payment against the new agreement so that Iran could start its first seven-year development plan.

According to McGhee, although the British government was seriously concerned about the situation in Iran, the AIOC's position was that giving in to Razmara's demand would only result in more demands and that it would be better tactically to pressure Iranians into ratification. The assistant secretary then asked the oil company representatives present what concessions they thought the AIOC could make without endangering its position. They all considered Iranian demands reasonable and that compliance with them would be a sound commercial proposition. They also agreed that the British government was not exerting strong enough pressure on the AIOC to come up with a settlement on reasonable terms. The representatives stressed that this was the most important point for McGhee to keep in mind when he met with the British officials in London on September 21.

McGhee's discussion at the Foreign Office concentrated on ARAMCO's impending move, Razmara's four points, and the AIOC's beginning royalty payments. McGhee mentioned that in Venezuela Standard Oil of New Jersey had met demands for increased local personnel and inspection of the company's books. He also informed them that ARAMCO was on the verge of a negotiation with the Saudis that would result in a concession so large that there would be no chance for Iranian ratification of the AIOC's Supplemental Agreement.

The assistant secretary later attended a meeting with the AIOC Board. On that occasion Sir William Fraser, chairman of the AIOC, was absent. But Neville Gass, who had negotiated the Supplemental Agreement and later became chairman of the AIOC, was present. McGhee again pressed his views, urging the AIOC board to make concessions comparable to those being considered by ARAMCO before it was too late. He emphasized that because the British and Americans had helped to put Razmara in office, they had a responsibility to support him or he could not survive the coming storm in Iran. However, the AIOC Board in effect told McGhee that

he should mind his own business. The view of the British officials was that they knew more about Iran than the Americans did, and their position was that if one gave Iranians an inch they would take a mile.

The critical ARAMCO negotiations with Saudi Arabia started on 28 November 1950 and were concluded on 30 December. The fifty-fifty profit sharing was now a reality in the Middle East and was going to stay. The ARAMCO officials involved in the decision had shown a high order of business sense. In retrospect, the AIOC's failure to act at this critical time, as McGhee points out, can be seen as a great tragedy. There is now evidence, of course, that the British eventually told Razmara verbally on 24 February 1951 that they were prepared to offer the fifty-fifty profit sharing. However, Razmara did not seem to consider himself in a strong position to discuss it with the *Majlis* Oil Committee when he met with them on 4 March. Three days later, he was assassinated.

With all this background in his mind, McGhee landed in Tehran on 17 March 1951. Immediately after his arrival he had a meeting with British Ambassador Sir Francis Shepard and informed him of his view that the company had been too rigid in its approach on the oil issue and that the British government, which had a controlling interest in the AIOC, should have pressured the company to be more flexible.

The assistant secretary then had an audience with the shah. He found him dejected and almost a broken man. McGhee reports that he sensed that the shah was fearful that he might be assassinated as well. There had already been an attempt on his life, by a religious and pro-Communist fanatic, in February 1949 when he was visiting the campus of the University of Tehran. In his discussion with the shah, McGhee mentioned that the U.S. as well as the U.K. very much wanted to avoid nationalization of the AIOC concession. He brought to the shah's attention that this would jeopardize oil concessions held by U.S., U.K., and other firms around the world. This in turn would create a crisis that would be bad for the AIOC as well as Iran, and it would only benefit Iran's northern neighbor, the Soviet Union. The shah informed McGhee that he could not prevent nationalization and pleaded that U.S. not ask him to avert it. McGhee found the shah very sad, and the shah's face indicated that as far as he was concerned the whole affair was hopeless.

McGhee was very much influenced by this meeting, and from the shah's dejected attitude concluded that no one could at this juncture persuade the Iranians not to nationalize the AIOC and that from the point of view of the Iranian people, the oil nationalization was a *fait accompli*. He, therefore, felt that the best the British could hope for at this point was to retain operating control of the company. He also concluded that there should be a comprehensive U.S.-U.K. policy regarding oil concessions in the Middle East. In his opinion, the oil income for Iran and Iraq had to be comparable to the fifty-fifty ARAMCO agreement and that Kuwait, Bahrain, and Qatar, in light of their lesser needs, should be permitted to catch up gradually. Furthermore, he felt that the full benefit to the peoples of these countries should be achieved by investing their oil revenues in sound development projects. It is interesting that during this period when McGhee was doing his best to prevent a crisis, he was accused in the British press for having encouraged the Iranians to nationalize the

AIOC and suggesting that the U.S. oil companies replace the AIOC.²⁰

For the next nine months, the assistant secretary became deeply involved in attempting to bring Iran and the AIOC together. This included extensive talks with Musaddiq in New York and Washington. With the help of some other officials in the State Department, he was able to put together an offer to the British, which he believed would be acceptable to Musaddiq as well. However, the offer was turned down by the new conservative government of Winston Churchill and his foreign secretary Anthony Eden. It is to the gist of these negotiations between McGhee and Musaddiq that we turn now.

George McGhee held nearly eighty hours of conversations in more than twenty meetings with Musaddiq in New York and in Washington. Almost all of his talks with the prime minister took place only in the presence of Vernon Walters, who acted as translator from French to English. Walters, who had accompanied Averell Harriman to Tehran, knew Musaddiq much better than McGhee did.²¹ McGhee, in contrast to most Western observers, refers to Musaddiq as an intelligent man and a sincere Iranian patriot, whose reasoning was influenced by his age as well as extreme suspicion of everything British.²²

McGhee's objective was to make some progress in bridging the gap between Iran and the British over the nationalization issue. The latter had concluded that they could not deal with Musaddiq and were reconciled to waiting until a successor more favorable to them would emerge. For the assistant secretary, the problem was that any compromise with Musaddiq had to wait until after the British elections, which were due on 25 October. The best the U.S. negotiators could do was to keep Musaddiq in the U.S. until then so they could discuss with him any counterproposals made by the incoming British government.

At the outset McGhee tried to make it clear to Musaddiq that although the U.S. was eager to work out an agreement, it had to be one fair to both sides because otherwise it would set a dangerous precedent, which would be damaging to all oil concessions of the U.S. and other oil companies around the world. The terms of the agreement as to price, operational control, and the right to purchase oil had to be compatible with the standards of the international oil industry.

The first important meeting between the two took place in New York while Musaddiq was staying at the hospital there. The discussion centered on: compensation to AIOC, purchase of Iranian oil, and the question of discount, as well as the composition of the new board of directors. On the first question Musaddiq started by offering to provide compensation to the AIOC based on the aggregate market value of the company's shares before nationalization. Later he indicated \$27 million as his understanding of what this would be. Alternatively, compensation could be either based on the most favorable nationalization law in existence in any other country or by direct negotiations.

On the question of oil purchase, Musaddiq volunteered that former purchasers of Iranian oil would be assured the same amount for a fixed number of years, and if they chose, the AIOC could represent third parties as well as subsidiaries. The price could be that posted in the U.S. Gulf of Mexico,

less freight, insurance, and other expenses. When McGhee mentioned that much of Persian oil had to be sold at a discount, the prime minister offered ten percent. When McGhee reminded him that discounts for long-term contracts went as high as fifty percent and that due to an oversupply of oil, it was a buyer's market, Musaddiq considered this discount too high.

The prime minister volunteered to accept former AIOC employees as technicians in individual capacities and agreed that they could also serve as chiefs of various staff sections. The top technical director of the Iranian oil operation, however, had to be of some nationality other than British, possibly American or Dutch. As for the composition of the board, he favored having three Iranian nationals and four neutrals. Musaddiq also emphasized that all of his suggestions were exploratory, not commitments. The assistant secretary assured him that American companies were not seeking to take the AIOC's place, since this would encourage "concession jumping" on their own properties. Moreover, McGhee assured him that U.S. government would ask American oil companies not to attempt such a takeover, in view of the harmful effect this would have on U.S.-British relations.

McGhee's daily talks with Musaddiq continued in New York. By 15 October, Musaddiq was willing to state his offer as follows:²³

- 1) Iran would allow the National Iranian Oil Company to sell to consumers on the basis of what they had taken over the preceding three years.
- 2) The board of the NIOC would consist of three Iranians and four neutrals, but no British.
- 3) To obtain technicians and access to technology the NIOC would enter into a contract with an outside company—a Dutch company would be acceptable—on a fee basis, with technicians under contract to NIOC on an individual basis.
- 4) Oil procurement rights would continue for ten years. The price that Iran would receive for oil would be negotiated subject to renegotiation each year to reflect changes in world prices. Payments for oil would preferably be in sterling; however, Swiss or Dutch currency would be satisfactory.

On 22 October, Musaddiq left New York for Washington by train. He stopped in Philadelphia and addressed 200 people in Independence Square. He referred to similarities between the Iranian people's nationalizing their oil and the idealism that inspired the American people to free themselves from British colonial rule in 1776. He went on to Washington, where he was met at Union Station by Secretary of State Dean Acheson and small official groups. He received an ovation by 150 Iranians who had come to meet him at the station.

The Prime Minister had lunch with President Truman and Secretary Acheson at Blair House on 23 October. In his remarks to Musaddiq, the president mentioned that he did not want to discuss the details of Iran's oil negotiations at lunch. However, he wanted to assure the prime minister that the U.S. had no public or private interest in Iranian oil and only wanted to help the two parties reach a fair settlement. Musaddiq remarked that the U.S., although it aided many na-

tions, had given little aid to Iran. He mentioned that he must seek assistance apart from oil, otherwise the situation in Iran could be jeopardized, and it could endanger general security and threaten world peace. Acheson in his discussion with Musaddiq emphasized that the settlement with the British must be on a basis that would not destroy the whole fabric of oil agreements around the world.

From his later comments, one can sense that Acheson belonged to the same social set as George Curzon, Winston Churchill, and Anthony Eden, a breed of condescending Anglo-Saxon individuals with a contemptuous view of "oriental" peoples. Here is how Acheson describes Musaddiq, an experienced, well educated and cultured Iranian prime minister:

From the first moment I saw him a few months later Musaddiq became for me the character Lob in James Barrie's play *Dear Brutus*. He was small and frail with not a shred of hair on his billiard-ball head; a thin face protruded into a long bleak of a nose flanked by two bright, shoe-button eyes. His whole manner and appearance was birdlike, marked by quick, nervous movements as he seemed to jump about on a perch ... He had, I discovered later, a delightfully childlike way of sitting in a chair with his legs tucked under him, making him more a Lob character than ever, with many and changing moods.²⁴

At another point, he says

Musaddiq's self-defeating quality was that he never paused to see that the passion he excited to support him restricted his freedom of choice and left only extreme solutions possible. We were, perhaps, slow in realizing that he was essentially a rich, reactionary, feudal-minded Persian inspired by a fanatical hatred of the British and a desire to expel them and all their works from the country regardless of the cost. He was a great actor and a great gambler.... This unique character truly sowed the wind and reaped the whirlwind.²⁵

Acheson continued his discussion with Musaddiq the following day at Walter Reed hospital. The secretary of state opened the discussion by expressing the hope that his aides would formulate, with the help of Musaddiq, a possible solution to the oil problem, which he could discuss with the British at his forthcoming meeting in Paris. Acheson went over Musaddiq's proposal that had been submitted to George McGhee on 15 October. The prime minister interjected that there would be only one change. He had decided that he could not accept any British technicians. Furthermore, he affirmed that he would also not accept Soviet technicians. He emphasized again that the 1933 Anglo-Iranian Agreement was illegal because it had been imposed under duress.

Acheson then went over some of the other terms of the agreement. If, as Musaddiq had agreed, the refining could be taken over by a non-British company, which would compensate the AIOC and run it, the remaining claims and counterclaims on both sides might cancel out. At Acheson's urging, Musaddiq agreed to increase the length of the contract with the AIOC's purchasing organization from ten years to fifteen years. No progress, however, was made on the question of price. Acheson tried to convince him that to be competitive on a wholesale level, Iranian oil must sell at around \$1.10 a barrel. Musaddiq insisted that he must get the Persian Gulf

posted retail price of \$1.75 a barrel. Acheson could not make Musaddiq understand the difference between the retail and wholesale price. Their meeting ended on this note.²⁶

To facilitate the negotiations, McGhee along with Paul Nitze, the Director of the Policy Planning Staff who had valuable business experience, asked Musaddiq to meet with him and his advisers in an effort to make them understand the economics of oil and pricing. Musaddiq, who had a distrust of his fellow countrymen and almost always negotiated alone, went along with this proposal. McGhee and Nitze, who had prepared elaborate charts showing world demand, supply, price, markets, and other relevant factors, took turns going over the charts trying to bring the members of the Iranian oil team present at the meeting to their senses. But at the end Musaddiq was quick to say, "You see? They agree with me." And the meeting was ended.²⁷

With all these frustrations, McGhee and his team felt that they were making some progress. The final proposal for settlement that McGhee formulated with Musaddiq because of his discussions can be summarized as follows:²⁸

- 1) With respect to management, the NIOC would be responsible for exploration, production, and transportation of crude oil.
- 2) The Abadan refinery would be sold to a non-British firm that could, if it chose, use its own technicians, or others as agreed by Iran. But Iranians would be trained for employment in the refinery at all levels. The refinery would operate on the basis of cost plus a fixed profit or fee, to be agreed on by Iran with the AIOC purchasing organization. The Kermanshah refinery (a smaller one) would be owned and operated by NIOC for the internal Iranian market.
- 3) As for marketing, the AIOC would establish a purchasing organization to buy, ship, and market Iranian oil for those requesting it. The contract would last fifteen years for a minimum of 30 million tons a year, both for the Abadan refinery and for export, after meeting domestic requirements. Iran would be entitled to up to one million tons of oil a year at cost plus a reasonable profit. The NIOC could market oil in excess of that required by the AIOC purchasing organization for old customers, at prices that would not prejudice the organization's long-term contract.
- 4) The price of oil would be agreed to between the Iranian and British governments, assisted by the U.S. government, with an understanding regarding periodic adjustments with changing world prices. Payment would be in sterling, with the NIOC paying all costs of production and transportation.
- 5) All claims and counterclaims would be cancelled.
- 6) It was understood that the price paid by the purchasing organization for oil would not exceed \$1.10 per barrel (a concession by Musaddiq, which McGhee considered a breakthrough). This would provide the AIOC with enough margin for a substantial trading profit, which could balance any deficiency in compensation. This agreement, if accepted by the two parties, could have produced a final result very close to fifty-fifty profit sharing.

In England, meanwhile, the Labor government had been defeated, and the Conservative Party of Winston Churchill with Anthony Eden as his foreign secretary took over. Since the

winning team had been critical of the Labor government's handling of the oil dispute with Musaddiq, it was difficult politically for them to make any concessions.

Thinking that the Americans had the makings of a deal, Acheson, who was heading for a series of Foreign Ministers' NATO and General Assembly meetings in Europe, took the proposal with him to discuss it with the British. Anthony Eden, who was replacing Herbert Morrison, was a great improvement, according to Acheson, in any area except on Iran. As Acheson said,

In that area Eden continued to take advice from the same sources which had, I thought, poisoned the judgment of the Labor party—the bureaucracy of the Anglo-Iranian Oil Company, the Ministry of Fuel and Power, and the Treasury, where Sir Leslie Rowan played the part of St. Michael, the avenging angel. Rowan decreed that Musaddiq, leading the attack on British foreign investments, had to fail, to be crushed and punished.²⁹

There were five discussions on Iran, in which Acheson tried to make Eden accept the compromise solution worked out by McGhee as a basis for negotiations in order to prevent further deterioration of situation in Iran. Eden refused to accept the argument that the only alternative to Musaddiq was communism. He also could not accept the exclusion of the British technicians from Iran and handing over a valuable investment on the basis of confiscation without compensation. Acheson also refused to accept Eden's proposal for participation of American companies in Iran. Eden and Acheson, therefore, agreed that Musaddiq should not stay any longer in Washington.

Acheson cabled from the embassy in Paris after his fateful luncheon with Eden, informing McGhee, Paul Nitze, and several others who had been closely involved in the negotiations, that Eden would not accept the U.S. proposal and did not want to negotiate any further. He asked McGhee to tell Musaddiq that negotiations were off. McGhee asked for a meeting, and as he entered Musaddiq's bedroom at the Shoreham Hotel the prime minister remarked, "You have come to send me home." "Yes," answered McGhee, "I'm sorry to have to tell you that we can't bridge the gap between you and the British. It's a great disappointment to us as it must be to you."³⁰ As McGhee observes, it was a moment he would never forget. He reports that Musaddiq accepted the result quietly, with no recriminations.

On 13 November 1951, the State Department issued a statement admitting the failure of the talks. It said, "While progress has been made, no new basis has emerged on which a practicable solution could be reached."³¹ Musaddiq left Washington on 18 November via Cairo for Tehran.

Musaddiq had been invited for a state visit to Egypt on his return trip to Iran. Accepting this invitation, he stopped in Cairo for three days. At the time the rising tide of nationalism there had created a crisis between Egypt and England similar to that with Iran. In the Anglo-Egyptian treaty of 1936, the British were to terminate their military occupation of the country, but British troops were allowed to remain in the Suez Canal area. In March 1951, a proposal for nationalization of the Suez Canal was considered by the Egyptian parliament, and in October of that year (that is, the same time that Mu-

saddiq was visiting the U.N. in New York), the Egyptian government unilaterally annulled the 1936 treaty and demanded that British forces leave the country. The British government strongly objected to this demand, and this led to the Suez Canal crisis. There are great similarities between the shape and the format of the two crises. Each was concerned with nationalization of a British-owned company, as well as the departure of the British from their land. Some international commentators interpreted Musaddiq's trip to Egypt as a means for the two countries to form a common strategy against the policies of the British government.³²

The Iranian prime minister received a hero's welcome in Cairo. Placards reading "Long Live Musaddiq" appeared throughout the capital and Alexandria, and the Egyptian press hailed him as a nationalist hero who had won freedom and dignity for his country. Musaddiq met King Farouk, attended a state dinner given by Egyptian Prime Minister Nahas Pasha, received leading ministers and politicians, and also was awarded an honorary doctorate by Fuad I University. However, Musaddiq's enthusiastic reception in Egypt hardened the British position against him. The British felt that if he succeeded in nationalizing Iran's oil industry, Suez and others would be next in line.

After his three busy days in Egypt Musaddiq headed for home. He was now at the peak of his popularity and received a hero's welcome at the Mehrabad airport in Tehran and was hailed as a national hero in the press. Although he returned from the U.S. empty-handed, his victory for Iran at the U.N. had made him a national hero and an international figure. He received an overwhelming vote of confidence on his oil policy from both houses of parliament. This was partly due to his popularity at home and partly due to his victory at the Security Council meetings.³³ The opposition in parliament had promised to remain silent as long as Musaddiq was in the U.S. and defending Iran's case against the British at the United Nations. However, it had already broken its silence before Musaddiq's return to Iran.

Part of the opposition's argument against Musaddiq was due to the fact that he had neither achieved a settlement of the oil dispute nor obtained American financial assistance. The government's hands were tied without one or the other. The opposition was also very critical of Musaddiq's visit to Egypt. The day before the prime minister's return to Tehran, the leader of the opposition in the *Majlis* strongly objected to this stopover. The opposition's view was that although Iran sympathized with the other country's cause, the prime minister's visit to Egypt, which was in a virtual state of war with England, and support of its cause might cause Iran to appear to be similarly at war with England. Because Iran's claims were against a foreign-owned company, there was no reason to needlessly antagonize the British government or the Western Bloc.³⁴ One always wonders if Musaddiq had any idea at the time what lay ahead for him and the country he loved so much.

NOTES

¹ Rouholla R. Ramazani, *Iran's Foreign Policy 1941-1973: A Study of Foreign Policy in Modernizing Nations* (Charlottesville: The University of Virginia Press, 1975), 212.

² International Court of Justice, *Order of July 5th*, 1951.

³ Ramazani, *Iran's Foreign Policy*, 212.

⁴International Court of Justice, *Order of July 5th*, 1951.

⁵ U.N. Security Council Official Records, 559th meeting, 1 October 1951.

⁶ U.N. Security Council Official Records, 559th meeting, 1 October 1951.

⁷ Mostafa Elm, *Oil, Power, and Principle: Iran's Oil Nationalization and its Aftermath*. (Syracuse: Syracuse University Press, 1992), 173.

⁸ The main members of the delegation accompanying Musaddiq were four members of the Joint Parliamentary Oil Committee: Matin Daftari and S. Bayat of the Senate, along with Allahyar Salih and Ali Shaygan of the *Majlis*. Other members from *Majlis* were Muzaffar Baqa'i, Abbas Mas'udi, and Mustafa Misbahzadah; the last two were chief editors of the leading daily papers, *Ittila'at* and *Kayhan*. Also in the delegation were Husayn Fatimi, deputy prime minister; Karim Sanjabi, minister of education, and Javad Bushihri, minister of roads. There were also Husayn Navvab, Iran's consul in Holland; 'Isa Sipahbudi, French translator; and Muhsin Asadi, English translator. Sayfpur Fatimi, from the newspaper *Bakhtar-i Imruz*; Shuja' al-Din Shafa, press secretary; Musaddiq's son, Ghulamhusayn Musaddiq, his personal physician, and Musaddiq's daughter, Zia Ashraf, also accompanied him. Musaddiq paid for the expenses of himself and his two children out of his own pocket. Dr. Aliquli Ardalan was Iran's representative to the United Nations, and Jalal 'Abdah was his deputy. Nasrullah Intizam was Iran's ambassador to the U.S. See Colonel Ghulamriza Nijati ed., *Dar Kinar-i Pidaram, Musaadiq: Khatirat-i Dukhtar Ghulamhusayn Mussadiq* (Next to my father, Musaddiq: The memoirs of Dr. Ghulamhusayn Mussadiq (Tehran: Rasa, 1990-91), 76-84.

⁹ Namazi was a very wealthy Iranian businessman at the time. He was also a philanthropist, originally from Shiraz. He established the first drinking water purification system in Iran in his city of birth. He also built a very modern American-style hospital in Shiraz, which was initially staffed by American doctors. The hospital always remained one of the best-staffed and equipped in Iran.

Namazi apparently had a great deal of influence at the time in the Iranian Embassy in Washington, and Musaddiq, being aware of that, did not want to be influenced by him. Namazi apparently was a close friend of Nasrullah Intizam, Iran's ambassador in Washington, and paid the rent for Intizam's luxury apartment in New York that he frequently visited. Because of this Musaddiq did not trust his ambassador as a head of state should, and he was also not very happy with Namazi's influence in the Iranian Embassy.

At one point Musaddiq mentioned to his son and a couple of trusted members of the delegation that while in America they had to keep an eye open and be careful not only with the British and their lackeys, but also with two other characters, Haj Muhammad Namazi as well as Gullbangian, the oil magnate. See Nijati, *Dar Kinar-i Pidaram*, 76-84.

Musaddiq's mistrust of Ambassador Intizam was apparently deeply rooted. While in Washington Musaddiq had two official visits with President Truman. The first one was the routine call of the heads of states on the president in the White House. Musaddiq was received in front of the White House by the president, Dean Acheson, secretary of state, George McGhee, assistant secretary, and some other high-ranking officials. After reviewing the military guard, he was led to the Oval Office, as is the custom on such visits. According to his son, the president led his father into the Oval Office, and as soon as Truman walked into the room, Musaddiq asked Dean Acheson and the White House translator to enter, but as Ambassador Intizam was about to enter the room, he turned around and closed the door on him. Apparently, Musaddiq, being suspicious of his ambassador, did not want him to be present at his first meeting with President Truman.

Needless to say, that ambassador was very upset by this incident and told Musaddiq's son and a few other members of the entourage that if the prime minister did not have trust in him he should remove him from his job. At the second visit with Truman, which was a lunch at Blair House, on October 23, 1951 Ambassador Intizam was present. See Nijati, *Dar Kinar-i Pidaram*, 91-94.

However, Musaddiq's suspicions of Ambassador Intizam probably were not unfounded. Kermit Roosevelt, the man who was in charge of the coup two years later, in his book, *Counter Coup*, mentions a secret meeting he had with Intizam in early September 1951. On that occasion, both Roosevelt and Intizam agreed that Musaddiq had become too powerful and popular back in Iran. Intizam mentioned to Roosevelt that he was worried about Musaddiq's intentions towards the Shah. He also mentioned that Musaddiq would soon come to a dead end and then he would be a tool in the hands of his enemies (most probably meaning the communists). This was an Ambassador holding a secret meeting with an agent who would carry out a CIA coup, and this was one month before his boss arrived in New York to attend the Security Council meeting. See Nijati, *Dar Kinar-i Pidaram*, 91-94.

¹⁰ Nijati, *Dar Kinar-i Pidaram*, 76-84

¹¹ Nijati, *Dar Kinar-i Pidaram*, 84-88

¹² Since the deadline for the withdrawal of the British forces, according to Musaddiq's order of 25 September, was 4 October, and that date had already

passed, the British had to revise, on this day, their original complaint, which was dated 12 October. As we shall see, the 15 October complaint had to be revised and watered down once more on 17 October.

¹³ U.N. Security Council, OR, 560th meeting: 15 October 1951. Also see Ramazani, *Iran's Foreign Policy*, 212-218.

¹⁴ Ramazani, *Iran's Foreign Policy*, 215.

¹⁵ U.N. Security Council, OR, 560th meeting: 15 October 1951; and Elm, *Oil, Power, and Principle*, chap. 11.

¹⁶ U.N. Security Council, OR, 561st meeting: 16 October 1951.

¹⁷ U.N. Security Council, OR, 565th meeting: 19 October 1951.

¹⁸ This section is based on George McGhee's book, *Envoy to the Middle World. Adventures in Diplomacy* (New York: Harper and Row, 1983), especially chapter 27, "Anglo-Iranian Oil Company Nationalized."

¹⁹ McGhee, *Envoy*, 321.

²⁰ McGhee was attacked on 21 June on the floor of the House of Commons on the same grounds by Labor member Richard Crossman. He characterized McGhee the "millionaire oil tycoon," as well as a very high department official, "shooting off his mouth" in Tehran, presumably to the Iranians, to whom he had given the impression that if the British were kicked out they might rely on somebody else who might do a little better. Further, he says that McGhee had advocated that "nationalization was a good idea." Crossman was joined in his attack by George Wigg who accused McGhee along the same lines. See McGhee, *Envoy*, 337-38.

²¹ Vernon Walters accompanied Averell Harriman to Iran in July 1951. At the time, he was assigned to the NATO supreme headquarters in Paris. His fluency in French made him a good candidate to go along with Harriman. He spent nearly two month with Harriman in Iran trying to come up with a compromise solution to the oil problem. His impression of Musaddiq from these meetings was very negative. He says, "I often had the impression that instead of going forward we were actually moving backward." See Vernon A. Walters, *Silent Missions*. (New York: Doubleday, 1978), 250.

Walters found Musaddiq extremely anti-British and also convinced that international oil companies had gotten together to make sure that Iranian oil nationalization would not be successful. After nearly two months in Iran, Harriman came to the conclusion that Musaddiq did not want to arrive at any agreement because he could not sell it to his Nationalists. He, therefore, left Tehran for Washington in disappointment.

Vernon Walters was dropped off in Paris where he later had many talks with General Eisenhower about Musaddiq and about what went on in Iran. He says, "I think our conversations may have had some impact upon him later when he was to determine, as president, the American policy toward Iran." See Walters, *Silent Missions*, 259.

²² This section is based on McGhee, *Envoy*. Especially see chapter 31, "Talks with Mussadegh."

²³ McGhee, *Envoy*, 397

²⁴ Dean Acheson, *Present at the Creation: My Years in the State Department*. (New York: Norton, 1969), 503-504.

²⁵ Acheson, *Present at Creation*, 504.

²⁶ McGhee, *Envoy*, 399.

²⁷ McGhee, *Envoy*, 401

²⁸ McGhee, *Envoy*, 401.

²⁹ Acheson, *Present at Creation*, 511.

³⁰ McGhee, *Envoy*, 403.

³¹ McGhee, *Envoy*, 403.

³² Fa'ad Ruhani, *Tarikh-i Milli Shudan-i Naft-i Iran* (Tehran: Franklin, 1352/1973), 236-37; Elm, *Oil, Power, and Principle*, 193.

³³ Elm, *Oil, Power, and Principle*, 193.

³⁴ Rohani, *History of Iran's Oil*, 237.