

## **REVIEW OF CHAPTER 23: OLD MOSSY AND THE STRUGGLE FOR IRAN**

Chapter review broken out into the following:

- I. Reign of the Shah - Vanesa Curry
  - II. Nationalization and the coup against Mossadegh – Wil Carter
  - III. Post nationalization – Sheila Oviedo
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### **REIGN OF THE SHAH (Vanesa Curry)**

**I. Deposition.** In 1941, Reza Pahlavi was deposed because he showed friendliness toward the Nazis. The allies replaced him with his son, Mohammed Reza Pahlavi, only 21 at the time.

**II. Mohammed's problems.** Apart from being fairly young and inexperienced, Mohammed faced many other problems. There was always the implication that he was weak and indecisive, the opposite of his resolute father. He always tried to be worthy of his father and was judged against his standard by himself and by others. The legitimacy of his dynasty was problematic and the role of the monarchy was an unresolved issue. In addition, Mohammed had to deal with constant intervention by foreign powers, direct Soviet pressure on the country's territorial integrity and a highly visible economic British presence.

All this started to change by 1949, after a Moslem fanatic tried to assassinate him. The Shah changed the vision he had of himself and the vision he had for his country. He said that the incident "once again proved to me that my life was protected," imposed martial law and began a campaign to assert his authority.

**Implications for Iran's oil.** Along with his attempt to extend his political control, he sought to readjust the financial ties between Iran and the Anglo-Iranian Oil Company, in a similar way in which it was being done in other oil-producing countries.

**III. Mohammed's Economic, political, social and religious problems.** His father had succeeded in bringing some order to the fractious country. But under Mohammed's reign, Iran's divisions became deeper and more apparent. There were religious, regional, class and modern-versus-traditional divisions. The tensions contributed to the political and economic chaos that plagued the country by the end of the 1940s.

**Religion.** On one side were the Islamic fundamentalists, who were outraged by any foreign intrusion or any attempt to modernize the country. On the other, were the communists who had ties to Moscow. In between were reformers, nationalists and republicans who wanted to reform the political system and military officers who wanted to take power.

**Politics.** Corruption plagued the country and secessionist drives were ubiquitous, especially in the countryside where the tribes and clans hated their subordination to Teheran and the Pahlavis.

**Economy.** By the end of 1940s, the national economy had collapsed and hopelessness dominated the country. So by 1949, Iran's economic prospects were very uncertain and the political scene chaotic.

The one thing that united Iranians was their hatred of foreigners, especially the British.

**Implications for Iran's oil.** This hatred centered on the Anglo-Iranian Oil company, the most obvious symbol of foreign intrusion and the main source of foreign earnings in Iran.

Between 1945 and 1950, Anglo-Iranian made 250 million sterling pounds in profits, while Iran received 90 million in royalties. In addition, a substantial part of the company's dividends went to its majority owner, the British government, and it was rumored that the company sold oil to the British Navy at a discount.

**IV. Iran becomes one of the main concerns of the U.S.** During WWII, Iran was seen as London's responsibility, but this changed after the war, during the Cold War. The country became one of the main concerns of U.S. foreign policy. Soviet troops were withdrawn from Northern Iran in 1946, but by 1949 the Americans were worried that the country was too vulnerable to the Soviet threat.

**Implications for Iran's oil.** Washington pushed the British government and Anglo-Iranian to increase the royalties paid to Teheran. By the summer of 1949, the company was forced to negotiate with the Iranians a Supplemental Agreement – to the 1933 concession. It called for a substantial increase of royalties and a big lump-sum payment.

In June 1950, the Iranian government submitted a revised agreement between the Anglo-Iranian Oil Company and the government to the Iranian parliament. The Parliament rejected it and demanded instead the nationalization of the oil company.

In December 1950, Aramco announced its 50-50 deal. But when Anglo-Iranian offered its own 50-50, it was rejected. All called for nationalization of the industry and the ouster of Anglo-Iranian.

## **NATIONALIZATION AND THE COUP AGAINST MOSSADEGH (Wil Carter)**

### *Timeline*

1925: Reza Pahlavi, the Iranian army officer who rose through army ranks to become shah of Iran, seized power as commander of the Persian Cossack brigade. He then began the modernization of his country and subjugation of the powerful mullahs

August 1941: British & Russian military forces enter Iran with the intent to protect refining capacity located at Abadan, in southwestern Iran.<sup>1</sup> They deposed Shah Reza Pahlavi and replace him with his son Mohammed Reza Pahlavi

1944: Former Shah Reza Pahlavi dies in exile in South Africa

1945-1950: Anglo-Iranian oil company nets £250 million in profit<sup>2</sup>

1946: Soviet troops are withdrawn from Northern Iran

February 1949: Assassination attempt against then Shah, Mohammad Reza Pahlavi<sup>3</sup>

Summer 1949: Anglo-Iranian forced to further negotiate a supplement to the 1933 concession agreement, providing for increased payments to the state of

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<sup>1</sup> P. 450

<sup>2</sup> P. 451

<sup>3</sup> p. 452

Iran<sup>4</sup>

February 1949: Assassination attempt of Shah Mohammed Reza Palhavi by Moslem fanatic. The incident was pivotal. Soon afterward, the Shah imposed martial law and began a campaign to assert his authority. He also sought to readjust the financial ties between Iran and the Anglo-Iranian Oil Company

June 1950: Iranian government submits revised agreement between Anglo-Iranian and government to Iranian parliament. Oil committee within Parliament adversely reacts to pact. Calls for nationalization of Anglo-Iranian<sup>5</sup>

June 1950: North Korea invades South Korea<sup>6</sup>

Fall 1950: Head of Anglo-Iranian, Sir William Fraser, decides to pursue a more generous package for Iran. <sup>7</sup>

December 1950: Saudi Aramco announces 50-50 deal<sup>8</sup>

March 1951: Then Prime Minister Ali Razmara comes out against nationalization in a speech to Parliament. 4 days later he's gunned down outside of a mosque<sup>9</sup>

April 28, 1951: Parliament appoints new Prime Minister, Mohammed Mossadegh

May 1, 1951: Shah signs new law nationalizing Anglo-Iranian<sup>10</sup>

July 1951: American diplomatic delegation led by W. Averell Harriman seeks to negotiate a settlement to the nationalization of Anglo-Iranian with Prime Minister Mossadegh<sup>11</sup>

September 25, 1951: PM Mossadegh orders all British nationals out of Abadan within one week<sup>12</sup>

October 1951: Change in government at 10 Downing Street from Clement Atlee's Labor government to Winston Churchill's Tory government<sup>13</sup>

1952: Iranian oil production drop over 3000% to 20,000 barrels a day<sup>14</sup>

Fall 1952: Anglo-American consideration of a coup against PM Mossadegh<sup>15</sup>

January 1953: Change in American presidential administrations from Truman to Eisenhower<sup>16</sup>

July 1953: 'Operation Ajax' commences with the goal of removing Mossadegh<sup>17</sup>

October 29, 1954: Consortium of international oil companies, including Anglo-Iranian, signs deal with National Iranian Oil Company to begin pumping oil again<sup>18</sup>

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<sup>4</sup> p. 453

<sup>5</sup> P. 453-454

<sup>6</sup> P. 454

<sup>7</sup> P. 455

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> P. 455

<sup>11</sup> P. 459

<sup>12</sup> P. 463

<sup>13</sup> P. 464

<sup>14</sup> Ibid

<sup>15</sup> P. 467

<sup>16</sup> P. 468

<sup>17</sup> Ibid

<sup>18</sup> P. 476

### Factual Aspects

Post World War II, Iran's domestic situation was precarious at best. The then Shah, Mohammad Reza Shah Pahlavi, was not certain of his own leadership abilities or for that matter the needs of his people and the overall economic health of Iran. As the nation came out of the war, the Anglo-Iranian Oil Company came to be seen as the most obvious example of the injustices that Iranians were being dealt from the international community.

The issue of nationalization began brewing almost immediately after the war and came to a head on May 1, 1951 when the Shah signed into law the nationalization of Anglo-Iranian, after it had been championed by the Prime Minister at the time, Mohammed Mossadegh. Whereas Iran had been pumping greater than half a million barrels of oil a day in 1950, that number would drop exponentially to about 20,000 barrels a day by 1952 due in large measure to the effects of nationalization on Anglo-Iranian. Furthermore, the bizarre behavior and absolute uncertainty that surrounded Prime Minister Mossadegh made dealings with him on the part of the international community (namely the British) all the more frustrating.

The British and American governments shared differing opinions about what would happen to Iran if Mossadegh were removed from the scene. The American government, under Harry Truman first, then subsequently under Dwight Eisenhower, had deep concerns about the Soviet Union's influence in the region and a fear that the country could go communist. The British on the other hand felt the communist allegations by Washington were deeply exaggerated and in fact the precedence that the nationalization could establish greatly endangered further business in the region. Ultimately, the British and Americans would support the removal of Mossadegh. (The British had gone so far as to draw up what they referred to as 'Plan Y', which was a plan for military action against Iran).

Ultimately, Mossadegh was removed, and a consortium of global oil companies, including Anglo-Iranian, was established to further develop the oil fields of Iran. While the country – Iran – would own the oil it was understood that the consortium companies would operate them and provide efficiency to the marketplace for the oil.

## **POST-NATIONALIZATION OF IRANIAN OIL (Sheila Oviedo)**

### **EFFECTS OF NATIONALIZATION**

May 1951 : The Shah signs the oil nationalization law. Abadan oil field ceases operations.

UK government imposes embargo against the purchase of Iranian oil.

1952 : Iranian production declined to 20,000 BPD from 666,000 BPD in 1950.

1952 : Embargo starts to take its toll on Iranian economy (i.e. Decline in foreign exchange reserves, inflation) and political situation (i.e. Breakdown of law and order leading to martial law).

1953 : Mossadegh overthrown by a coup and the Shah returns to Iran from exile. Oil industry once again reopened for foreign investment.

## **BRITISH EMBARGO**

Effects:

- Decline in global oil supply
- Removal of oil from international market at a critical time of the Cold War (Korean War – invasion of North Korea in 1950).
- Rationing of oil in some parts of Asia
- Cutback of “unnecessary” military airlifts east of the Suez Canal.
- US warned that world oil demand could outpace supply by the end of 1951.

Global Response:

- US invoked Defense Production Act of 1950.
- US lifted anti-trust laws.
- Voluntary Committee formed to coordinate and pool supplies and facilities.
- Companies increased production in the US, KSA, Kuwait and Iraq. Total world production increased from 10.9MBPD in 1950 to 13MBPD in 1952.

## **EFFECTS OF COUP**

- Anglo-Iranian still unable to operate due to continued anti-British sentiment.
- Significant US involvement in Iranian oil through “Consortium”. US becomes a major player in Iran and the MENA.

## **THE CONSORTIUM**

- Formed by the US to reactivate Iran's oil industry.
- US govt pushed for investment into Iranian oil as a national policy.
- Criminal anti-trust case against 5 American oil companies called off and replaced by civil action.
- Consortium agreement between US-led consortium and National Iranian Oil Co. Signed. Consortium included Anglo-Iranian, four Aramco partners (Jersey, Socony, Texaco and Standard Oil), Gulf, Shell, and CFP.
  - Anglo-Iranian : 40 percent
  - Shell : 14 percent
  - Jersey : 8 percent
  - Socony : 8 percent
  - Texaco : 8 percent
  - Standard Oil : 8 percent
  - Gulf : 8 percent
  - CFP : 6 percent
- US independent oil companies eventually gained access thru formation of a “sub-consortium”.
  - Each of the five American companies surrendered 1 percent (total of 5 percent) to a new entity, Iricon, composed of nine independent American oil companies.

## **EFFECTS OF NATIONALIZATION ON IRANIAN ECONOMY**

- Iran acquired some measure of control of its oil resources.
  - July 1957: Iranian Oil Act passed; transformed the National Iranian Oil Company (created by Mossadegh in 1951) into a functioning arm of the state.
- Iran able to negotiate for more favorable agreements during the Shah period.
  - NOIC signed joint ventures with foreign companies (i.e. ENI and Standard Oil); joint ventures were more beneficial to the NIOC than in the past.
- Shah's economic programs benefited from rising oil revenues.