

The Oil Dispute. - Mr. Harriman's Mission to Teheran. - British Acceptance of "Harriman Formula" for Renewal of Oil Negotiations. - Mr. Stokes' Mission to Teheran. - Discussions with Persian Government. - Persia rejects New British Proposals. - Breakdown of the Stokes-Harriman Missions. - A.I.O.C. Staff evacuates Southern Oilfields. - Retention of "Skeleton Staff" at Abadan. - British Government breaks off Negotiations. - Persian Counter-Proposals for Reopening of Negotiations. - Fifteen-day "Ultimatum" to Britain. -The Harriman-Mossadeq Correspondence. - Mr. Harriman declines Transmission of Persian Counter-Proposals to Britain. - Withdrawal of British Trade and Financial Facilities from Persia. - Persian Expulsion Orders served on British Staff at Abadan. - Abadan Staff withdrawn by British Government. - Britain submits Persian Oil Dispute to U.N. Security Council.

Following his arrival in Teheran on July 15, Mr. Averell Harriman had a series of conversations with Dr. Mossadeq, M. Kazemi (the Persian Foreign Minister), members of the Persian Mixed Oil Commission, and the British Ambassador (Sir Francis Shepherd), and was also received in audience by the Shah. As a result of these discussions, it was announced on July 24 that Mr. Harriman had communicated to the British Government, through Sir Francis Shepherd, new suggestions by the Persian Government for a possible resumption of the oil negotiations between Persia and Britain, and that these proposals were being studied by the British Cabinet. On July 27 Mr. Harriman and Sir Francis Shepherd flew to London for consultations with British Ministers on the new Persian proposals, and on the following day attended a meeting at Downing-street presided over by Mr. Attlee, at which the U.S. Ambassador in London (Mr. Walter Gifford) was also present; a statement issued after the meeting said that the discussions had been "useful and fruitful" and that "various points in connexion with Mr. Harriman's discussions with the Persian Government were elucidated." Mr. Harriman returned by air to Teheran on July 30.

As a result of Mr. Harriman's transmission of the new Persian proposals, Mr. Herbert Morrison (then Foreign Secretary) announced in the House of Commons on July 30 that Mr. Richard Stokes, the Lord Privy Seal and Minister of Materials, would leave for Teheran to reopen

negotiations with the Persian Government on the oil dispute. Mr. Stokes accordingly left London for Teheran on Aug. 3, accompanied by Sir Francis Shepherd and senior officials of the Treasury, the Foreign Office, and the Ministry of Fuel; a separate plane carried representatives of the Anglo-Iranian Oil Company (including Mr. E. H. Elkington, the managing director) who, it was announced, would be associated with the Government mission in a consultative capacity. Simultaneously with Mr. Stokes' departure for Teheran, the Foreign Office announced that the basis for the renewed negotiations would be the following formula submitted to the British Government by Mr. Harriman: "In the case of the British Government, on behalf of the former Anglo-Iranian Oil Company, recognizing the principle of nationalization of the oil industry in Persia, the Persian Government would be prepared to enter into negotiation with representatives of the British Government, on behalf of the former company."

The acceptance by Britain of the "Harriman formula" was indicated in an exchange of messages between the British and Persian Governments before Mr. Stokes' departure from London. In this exchange of messages, H.M. Government had stated (a) that they had received through Mr. Harriman the Persian Government's formula for the reopening of negotiations between the two Governments on the oil dispute; (b) that they were "desirous of availing themselves of this formula and are prepared to negotiate in accordance with it"; (c) that the Persian Government would, however, "appreciate ... that the negotiations, which H.M. Government will enter into with the utmost good will, cannot be conducted in a satisfactory manner unless the present atmosphere is relieved"; and (d) that H.M. Government recognized on their own behalf, and on that of the A.I.O.C., "the principle of the nationalization of the oil industry in Persia."

In its reply, the Persian Government expressed pleasure that, "in accordance with the formula submitted by Mr. Harriman," both the British Government and the "former company" had recognized the principle of nationalization of the Persian oil industry"; that it recognized "the essentiality ... of both Governments creating the best possible atmosphere"; and that it would enter into the resumed negotiations "in the same spirit of good will expressed by the British Government."

Mr. Stokes arrived in Teheran on Aug. 4, had an informal meeting with Dr. Mossadeq and was received by the Shah the following day, and on Aug. 6. began his discussions with the Persian Government (whose delegation was headed by the Finance Minister, M. Varasteh) at the Saheb Gharanieh palace outside Teheran, the Shah's summer residence which had been placed at the disposal of Mr. Harriman and Mr. Stokes during their stay in Persia. After these initial discussions, which were described as "friendly and exploratory," Mr. Stokes visited Abadan on Aug. 7. in company with Mr. Harriman and Mr. Elkington, inspected the refinery and installations, and had meetings with members of the British staff (from whose consultative committee he received a memorandum putting forward recommendations for the improvement of staff conditions in Abadan and the oilfields), returning to Teheran on Aug. 8. for resumed discussions at the Saheb Gharanieh palace.

After several further meetings, during which Mr. Stokes had another discussion with Dr. Mossadeq, new British proposals for a settlement of the oil dispute were presented by Mr. Stokes to the Persian Government on Aug. 13. The nature of these proposals, which envisaged future British collaboration in the Persian oil industry under a plan whereby Britain would establish a

purchasing organization outside Persia to buy oil produced by the National Iranian Oil Company (N.I.O.C.), and would set up an agency in Persia to provide administrative and technical services, were announced in the following statement issued by Mr. Stokes on Aug. 15:

“On Aug. 13. the Lord Privy Seal, Mr. Stokes, leader of the British Cabinet mission to Persia, presented to the Persian Government's delegation a memorandum. This memorandum was prepared in the light of discussions which had taken place between the two delegations, and consisted of an outline of a possible arrangement which might be arrived at, and might meet the desires of both parties. The basis of the suggested arrangement is the fact that, if Persian oil is to be sold in the markets of the world in quantities which both Persia and Great Britain would like to see, it must be sold in competition with the oil offered by other oil-producing countries. It is the sincere wish of Britain that Persia should obtain the largest possible income from her great asset. But there is plenty of oil in the world, and unless Persian oil is competitive no-one will buy it. Because Persian oil is farther away from the most important markets, it costs more to carry to those markets. The sale of oil on the scale on which Persia is capable of producing it calls, therefore, for the utmost efficiency in production, and a vast machinery of transportation, distribution, and research. If Persia lacks this, there will be no buyers. It is here that Britain can make her contribution to the co-operation between the two countries.

The Lord Privy Seal's suggestion is that this co-operation should be achieved in practice by the establishment by Britain of a purchasing organization outside Persia which will buy the oil produced by the N.I.O.C. for distribution throughout the world, and the creation, by agreement between this organization and the N.I.O.C, of an agency within Persia to serve the latter with administrative and technical services. In presenting the memorandum, the Lord Privy Seal pointed out that at this stage it must be regarded as without prejudice to any of the parties concerned. He added that in drafting the memorandum he had had the following principles in mind:

- (1) The British delegation, on behalf of H.M. Government and of the Anglo-Iranian Oil Company (A.I.O.C.), recognized the principle of the nationalization of the oil industry in Persia on the basis of the correspondence recently exchanged between the two Governments.
- (2) The A.I.O.C. would cease to operate in Persia, and the whole of its assets in Persia would be transferred to the Persian Government under compensation arrangements to be agreed.
- (3) Persian oil should as soon as possible flow again.
- (4) The necessity for sincere and genuine co-operation between the British and Persian peoples for the efficient production and marketing of Persian oil. This co-operation would be based on the right of the Persian State to control the exploration, extraction, and exploitation of oil in Persia in accordance with the nationalization law of March 20. This was the basis submitted by Mr. Harriman on behalf of the Persian Government, and on which the British Mission came to Teheran. The following is a brief explanation of how the proposed arrangement would work:

The oil in the ground belongs, and has always belonged, to Persia. Oil in the ground is of no value. It only becomes valuable when it has been carried to those who want to use it. The way of

carrying it to the user is a very complicated and costly one. There is a great amount of oil in the world, and the companies who carry it to the user have a world-wide network which works according to sound commercial methods tested over many years. The proposals aim at placing at the service of the Persian Government a section of this vast organization. It is important to know that Governments do not buy oil but that oil companies in all countries do. No oil company will come to Persia to buy oil if it makes less out of doing so than it could by buying or developing oil in many other oil-producing countries of the world.

The important points of the proposal are as follows:

- (1) The N.I.O.C. would own all the assets in Persia of the former A.I.O.C., which would cease to operate within Persia.
- (2) Arrangements between the Persian and British Governments would be made to ensure that there would be no interference in the internal affairs of Persia by anyone engaged in the oil industry.
- (3) It is to the advantage of Persia to have a contract for the sale of as much oil as possible for as long as possible: 25 years is suggested. If the contract were for a short period the oil interests concerned would make arrangements for supplies from other countries and go away at the end of the short period, after which Persia might find it very difficult to sell oil.
- (4) The N.I.O.C. would make its profit by selling oil f.o.b. Persia, and the purchasing organization would make its money by selling oil in the world markets. In this manner all the money made by the N.I.O.C. would go to the Persian Government. Arrangements would also be made for the N.I.O.C. to make sales of oil to other customers.
- (5) In order that the N.I.O.C. may have at its disposal the best technical knowledge and management, the purchasing organization would agree with the N.I.O.C. on an organization, with a number of Persian directors on the board, which would act as agents for it and manage the oilfields and refinery at Abadan. This agency should act under the authority of the N.I.O.C. It would not make a profit and would be responsible for the day-to-day management, administration, and technical matters. The British staff will only agree to remain in the fields and the refinery under an experienced and qualified management.
- (6) The agency would co-operate wholeheartedly in any programme to increase the number of trained Persians in the industry.
- (7) The N.I.O.C. would manage the distribution of oil in Persia and the refinery at Kermanshah. In this manner oil should quickly start to flow again and prosperity be assured to Persia.
- (8) The British Government are convinced that the proposed arrangement is equitable and conforms in all respects with the Persian nationalization law. It would also form the basis of lasting co-operation, understanding and good will between the British and Persian peoples.”

On the same day (Aug. 15), however, the Persian Deputy Premier, Dr. Hossein Fatemi, stated at a press conference that the Persian Government had decided to reject the proposals presented by Mr. Stokes, that Dr. Mossadeq had informed Mr. Stokes of this decision the previous evening, and that the Cabinet had decided that, on the basis of the formula submitted by the British,

discussions could continue only on the following three points: (1) the problem of the purchase of oil for British requirements; (2) a study of the claims of both parties; and (3) the question of continuing the service of British technicians in the Persian oil industry. At the same time Dr. Fatemi listed the following eight points which, he said, had constituted the British proposals, and which (in the version given by Dr. Fatemi) differed considerably from those contained in Mr. Stokes' announcement:

- (1) All Anglo-Iranian assets in Persia to be turned over to the Persian Government, subject to suitable compensation arrangements.
- (2) An “organization for the sale of oil” would be formed, with an agreement for 25 years to receive crude oil and other products at Persian ports.
- (3) Persia could enter into agreements with other countries, giving priority of deliveries to the British sales organization.
- (4) The sales organization would put at the disposal of the N.I.O.C. the transport tanker facilities of the A.I.O.C., but, based on standard commercial agreements, the sales organization should have firm guarantees of deliveries to meet customers' needs. To meet such guarantees the sales organization, with the agreement of the N.I.O.C., would form a managing organization which would work under the instructions of the N.I.O.C., and, on behalf of the N.I.O.C., would manage the extraction, production, transport, refining, and loading of oil. The sales organization would make the necessary arrangements for necessary expenditure for these operations from its current income.
- (5) The sales organization, in order to have a guarantee of sufficient oil, must be offered more favourable terms than it could receive from other oil-producing countries. The N.I.O.C. would sell oil to the sales organization at a reduction equal to the profit remaining for the N.I.O.C. after deducting production expenses. (Dr. Fatemi said this was interpreted by the Persians as an offer of a 50-50 division of profits on the sale of crude oil and refined products at the port.)
- (6) If these points were agreed, it was suggested that they should form a basis for a detailed agreement to purchase oil by the sales organization. If agreed, immediate arrangements would be made to resume oil operations.
- (7) All oil operations at Kermanshah would be turned over to the Persian Government, subject to compensation.
- (8) Persia would be represented on the managing organization, and foreigners would be employed only when technical conditions required it.

Despite Dr. Fatemi's statement, Mr. Stokes declared that “nothing has been rejected and nothing accepted,” expressed his conviction that he could persuade the Persian Government that the British offer was “the best they can get from anybody,” and added that the British proposals were “fully supported” by Mr. Harriman. The Persian counter-proposals (of which no details were issued at the time) were presented to Mr. Stokes on Aug. 18, and on Aug. 20. Dr. Mossadeq had a two-hour meeting with both Mr. Stokes and Mr. Harriman, the first tripartite discussion of this kind since the negotiations began. On Aug. 21, however, Mr. Stokes announced that he had withdrawn the proposals which he had presented to the Persian Government a week earlier, and declared that he would return to London if Dr. Mossadeq did not accept, by noon of the following day, a single-clause proposal on the future employment of British technicians in the

Persian oil industry. Before making this announcement, Mr. Stokes had had another meeting with Dr. Mossadeq earlier in the day, and had been twice received in audience by the Shah.

The breakdown of the negotiations was announced both by Dr. Mossadeq and Mr. Stokes on Aug. 22. after a second tripartite meeting at the Saheb Gharanieh palace between the Persian Prime Minister, Mr. Stokes, and Mr. Harriman. In a statement issued after this meeting, Dr. Mossadeq declared that the crux of the Persian Government's differences with Mr. Stokes lay in the proposed form of British management under the National Iranian Oil Company; that he (Dr. Mossadeq) wished to have British heads of technical departments, who would report only separately and individually to the board of the N.I.O.C.; that Mr. Stokes had insisted that there should be a British general manager (if a British managing agency, as originally proposed, was unacceptable to the Persians) to whom heads of departments should be responsible, and through whom they should report to the N.I.O.C.'s board; and that the Persian Government "could not accept the British demand for a British manager at Abadan."

Mr. Stokes declared after the tripartite meeting that there was "no point in going on with the talks," and added: "The essential thing is to assure continued production of oil. This means keeping a staff, and this in turn means keeping a British manager. As Dr. Mossadeq refused to do this, I regretfully had to conclude that there was nothing for me to do but go home immediately." Mr. Stokes, accompanied by the other members of the British delegation, accordingly left Teheran for London by air on Aug. 23, arrived back in Britain the following day, and immediately reported to Mr. Attlee, later attending a Cabinet meeting at Downing-street; on his arrival in London he declared that he had left Teheran "in an atmosphere of great friendliness," and said that there was no reason why the negotiations should not be resumed "just as soon as this obstacle in the way of providing adequate conditions for the continuance of the staff at Abadan has been satisfactorily cleared up."

Following the breakdown of Mr. Stokes' mission, Mr. Harriman also left Teheran on Aug. 24. after a final meeting with Dr. Mossadeq and an audience with the Shah. In a statement on the eve of his departure from Persia he expressed his regret that a settlement had not been reached; declared, however, that "a basis for negotiations has been established under the formula submitted through me"; and said that he was satisfied that "the outstanding issues can be settled in a practical manner through which Persia can achieve the fundamental objective of controlling her oil industry and, at the same time, obtain the maximum income possible under sound commercial arrangements." After breaking his flight for a meeting with Marshal Tito in Yugoslavia (see 11743 A), Mr. Harriman arrived in London on Aug. 26, discussed the Persian situation with Mr. Attlee and other British Ministers at Downing-street the following day, left for Paris on Aug. 28. for discussions with E.C.A. officials, and returned on Aug. 31. to Washington, where he reported to President Truman.

Speaking at a press conference on Aug. 28. before leaving London, Mr. Harriman said that he was "disappointed but not discouraged" at the breakdown in the Teheran negotiations, but believed that a "cooling-off period" would be valuable and that the negotiations could be resumed at the point where they left off. The proposals presented by Mr. Stokes, he said, constituted "a good basis for discussion and negotiation," but unfortunately they had been prematurely released to the Persian press, and many Persians had read into them intentions which

Mr. Stokes never had. He (Mr. Harriman) had emphasized to Dr. Mossadeq that there was plenty of oil in the world, and that the longer Persian oil production was suspended the more difficult it would be for Persia to recapture the market.

“We must realize,” Mr. Harriman added, “that nationalist feeling in Persia is very deep-rooted ... and must be understood and dealt with in a realistic way. I want to underline the fact to my British friends that this feeling of growing pride and national spirit is understandable, and should be accepted, encouraged, and dealt with as your Government has tried to deal with it in other countries, and as we have tried to deal with it. No big company, whether American or British, is ever popular in an under-developed country.... Another factor that has added to the difficulties is that the Persian Government has not got a skilled technical staff of advisers who understand the practical and commercial aspects of the world-wide oil business, or even the great problems that exist in operating big oil production and refining. Therefore it was natural that political pressures loomed disproportionately large to the Iranian Government.”

On the same day that Mr. Stokes left Teheran after the breakdown of his mission (Aug. 23), the Anglo-Iranian Oil Company ordered all British, Indian and Pakistani staff to evacuate the South Persian oilfields, and announced that the British employees at the Abadan refinery would be gradually reduced to a “skeleton” staff of about 350, who would remain. In London, the Foreign Office issued a statement on the same day setting out “the circumstances under which the Lord Privy Seal, with the full approval of H.M. Government, has felt compelled to suspend the negotiations”; reiterating that H.M. Government were prepared to reopen the negotiations “whenever any disposition is shown on the Persian side to discuss the questions in dispute in a spirit of good will and reason”; accusing the Persian Government of taking no steps to mitigate the “campaign of interference” with the A.I.O.C. staff, and of refusing to agree to any arrangements which would allow the British staff to work under proper management; and emphasizing that H.M. Government would continue to take its stand on the interim judgment of the International Court.

“During the Lord Privy Seal's negotiations,” said the Foreign Office statement, “he put forward an eight-point proposal which has been widely recognized as providing a fair and indeed generous solution to the oil dispute. Under it the Persian people would have realized nationalization and control of their principal industry, and would have had at their disposal the technical knowledge and experience of British personnel, and the company's fleet of tankers and world-wide marketing organization. The Persian Government could, moreover, have expected to receive an annual revenue of some £50,000,000 under the equal sharing of profits proposed. They could thus have pursued the urgently-needed economic development of their country and improved the lot of their people.

In the course of the negotiations, however, it became increasingly clear that the Persian Government had no intention of negotiating on the basis agreed by Mr. Harriman with both Governments. Instead, the Persian Government were in effect insisting on the full implementation of the law of May 1, 1951 (i.e. the oil nationalization law). Furthermore, they took no steps to mitigate the campaign of interference with the company's personnel in Southern Persia in their work, and the harassing of them in their daily lives. Finally, the Persian Government refused to agree to any arrangement under which the British staff would have been

allowed to work under proper management and in acceptable working conditions. Today the great industry remains at a standstill, to the advantage of no-one and at heavy cost to Persia.

H.M. Government must now take their stand on the interim decision given by the International Court of Justice at the Hague on July 5. This decision, it will be recalled, indicates *inter alia* that both the Persian and the U.K. Governments should ensure that no measure of any kind is taken designed to hinder the operations from being carried on as they were carried on before May 1, 1951, and that the Company's operations in Persia should continue under the direction of its management as it was constituted before May 1, 1951.

As a result of the stoppage of its operations in the oilfields consequent on the action of the Persian Government, the Anglo-Iranian Oil Company has been compelled to withdraw its personnel from these fields; it has, however, instructed a nucleus of its personnel to remain in Abadan, in order to be ready to carry on the Company's operations, in accordance with the Hague Court's decision, whenever the Persian Government make it possible for them to do so. The Persian Government are under an obligation in international law to ensure the safety and protection of these personnel. As has been stated before, H.M. Government would be obliged to take the necessary measures to protect them should the Persian Government fail in their obligations in this respect.

H.M. Government are deeply grateful to Mr. Harriman for the untiring efforts which he has made to create and maintain a basis for negotiation.... They remain prepared at any time to re-open negotiations on the basis of Mr. Harriman's formula whenever any disposition is shown on the Persian side to discuss the questions in dispute in a spirit of goodwill and reason, and in the light of the inescapable facts which confront Persia in this matter. They will continue to pursue their application to the Hague Court for a definite judgment in this dispute.”

The Foreign Office statement also contained a message from Mr. Attlee to the British staff at Abadan, worded as follows:

“Now that the Lord Privy Seal's mission have returned to this country, H.M. Government have decided, with the full concurrence of your Company, that the British staff of the A.I.O.C. in Persia should be withdrawn from the oilfields, and that the staff at Abadan should be reduced to the minimum necessary to preserve the important British interests which are involved in the efficient maintenance of the oil industry to the advantage of Persia. For some months now you have endured exasperating conditions created by the Persian authorities at Abadan and in the oilfields. Here at home we have followed your conduct with admiration. Some of you will now be able to come home. Others will be asked to stay in Abadan to show that the British oil industry is not deserting Persia, but remains ready to reach an agreement which will provide for efficient management of the Persian oil industry, security for the British technicians, and the continued flow of Persian oil into the world markets.... I therefore ask those of you who stay in Abadan to bear your hardships with patience until reason prevails.”

In a speech to the Persian Senate on Sept. 5, Dr. Mossadeq announced that the Persian Government proposed to send to the British Government, through Mr. Harriman, its “counterproposals” on the oil dispute, and that unless Britain declared herself ready within a

fortnight to resume negotiations on the basis of these counter-proposals, or herself came forward with new proposals, the Persian Government would have “no alternative” but to cancel the residence permits of all British oil technicians still in Persia, and ask them to leave the country. Although only 29 Senators were present, he asked for a vote of confidence and was given such a vote by 26 of the Senators, two abstaining and one walking out before the vote was taken.

Dr. Mossadeq declared that the Persian Government intended to base its counter-proposals on four points: (1) it intended to appoint a joint board with technicians from “neutral” countries to ensure the efficient management of the oil industry; (2) it would agree to retain the British staff on the same terms as hitherto, with heads of departments being directly responsible to the board of directors of the N.I.O.C.; (3) it was ready to negotiate a “just settlement” of the claims of the “former oil company” (i.e. the A.I.O.C.), subject to Persian counter-claims; and (4) it was prepared to sell to Britain 10,000,000 tons of oil a year, and to consider that 50 per cent of the price should be offset against compensation claims by the “former company.” In his version of his conversations with Mr. Stokes, Dr. Mossadeq said that the Persian Government had offered to maintain the structure of the former A.I.O.C. administration and to provide for a board of directors for the N.I.O.C. which would include “neutral experts,” but that Mr. Stokes' proposals for arrangements designed to ensure the retention of British management were “entirely unacceptable.” He added: “After giving Mr. Stokes our counter-proposals we thought it unnecessary to make any further proposals, but, because any further delay in this matter will enable the former oil company to benefit by trying to face us with economic difficulties as a result of the stoppage of oil production and sales, we have now decided to put forward further views based on our counter-proposals.” In an emotional peroration, Dr. Mossadeq strongly attacked those Senators who had not attended the session; referred to “base and shameful” criticisms of the Government which had been made by the Opposition, in which connexion he declared that “if they (the Opposition) continue to talk like this, we will crush their heads in”; demanded an immediate vote of confidence under threat of his resignation; and said that “if the present situation is allowed to continue, the British will be the victors.”

On Sept. 6, Sept. 9, and Sept. 16 Dr. Mossadeq appeared before the Majlis (the lower House) to demand a vote of confidence similar to that which had been accorded him by the Senate. On each occasion, however, he failed to obtain the necessary quorum (three-quarters of the membership of the Majlis) for a vote of confidence owing to the absence of a large number of deputies, many of whom pleaded “ill-health” as an excuse for their absence.

Speaking before a half-empty House on Sept. 9, Dr. Mossadeq repeated the “ultimatum” to Britain contained in his Senate speech; declared that he would not leave office “until the oil problem is solved”; accused Britain of responsibility for Persia's deteriorating economic situation, in which connexion he declared that Britain wished to “force Persia to her knees,” “to see her collapse economically, and then to “offer us a big sum like £20,000,000”; and added that there were “British agents at the palace, in Parliament—everywhere.” He attacked those deputies who refused to attend the sittings, and demanded that their names should be taken by the President of the Majlis.

After studying the report of Dr. Mossadeq's speech to the Senate, which had been transmitted to London by Sir Francis Shepherd, the British Government announced on Sept. 6 that “the speech

by the Persian Prime Minister shows conclusively that no further negotiations with the present Persian Government can produce any result"; that "H.M. Government therefore consider that the negotiations begun by the Lord Privy Seal are no longer in suspense but broken off"; and, with regard to the Persian threat to withdraw the residence permits of British oil employees in Persia, that "any attempt made by the Persian Government to evict them would be a further breach of the interim decision of the International Court."

On Sept. 10 the British Treasury announced the withdrawal from Persia of certain trade and financial facilities that had hitherto been accorded to her by the U.K. Government in recognition of the importance of Persian oil to the British economy. It was pointed out in London that by this decision Persia would be deprived of virtually all her dollar income, would be unable to earn any new sterling, and would no longer be allowed to import from Britain certain scarce goods, the text of the Treasury statement being as follows:

"In view of the breakdown of the negotiations in Teheran, H.M. Government have been compelled to review the effect on the economy of the United Kingdom of the cessation of exports of Persian oil, and have decided that they have no alternative but to withdraw certain exceptional facilities which have hitherto been granted to Persia by virtue of the importance of that oil to our economy.

At present, Persia enjoys special facilities—not normally open to non-members of the sterling area—for the conversion of sterling into dollars. She also enjoys the automatic right to make use of sterling for payments to and from countries in the sterling area and certain other countries. The cessation of oil exports from Persia not only removes the justification for these exceptional facilities but also makes it necessary for the U.K. to spend large sums of dollars on replacement oil. In these circumstances H.M. Government can no longer afford to supply Persia with dollars. For this reason it has been necessary for the Treasury to make an Order under which all sterling payments to and from Persia will be subject to the permission of the Treasury. Since, however, the intention is to withdraw only the exceptional facilities which can no longer be justified, the powers conferred by the Order will normally be exercised in such a way as to allow all transactions except conversions into dollars, and the payment and receipt of sterling by Persia in respect of oil transactions.

In addition to these facilities in the financial sphere Persia has hitherto been given the right, in view of the contribution which her oil has made to the economy of the U.K., to purchase certain scarce goods which are urgently required here, or could have been sold either for dollars or to other markets. As a corollary to the action described above, H.M. Government have therefore in addition taken the necessary steps, by action under the export licensing arrangements, for the immediate discontinuance of the supply from the U.K. of these scarce goods.

The necessary Orders have been made and will be published as soon as possible. It is H.M. Government's sincere hope that the need for these measures will not be of long duration. Their intention is to limit the harm which has been caused to the U.K. economy by the actions of the Persian Government, and the measures can be revoked whenever the Persian Government makes possible a solution to the oil question."

Simultaneously with the Treasury's action, the Board of Trade revoked outstanding licences for the export to Persia of certain scarce goods which (as explained above) had been made specially available to that country because of its status as a market from which Britain obtained valuable supplies of oil; the goods in question included sugar, iron and steel products (e.g. railway track material), non-ferrous metals, alloys, and certain processed oils not obtainable in Persia. A Foreign Office announcement of Sept. 14 stated that "in conformity with the economic measures designed to protect the U.K.'s economy" which had been earlier announced, H.M. Government had requisitioned 3,000 tons of railway track equipment and 2,000 tons of sugar which were *en route* for Persia, that these cargoes would be returned to Britain, and that H.M. Government would reimburse Persian buyers for the sums paid for these goods.

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