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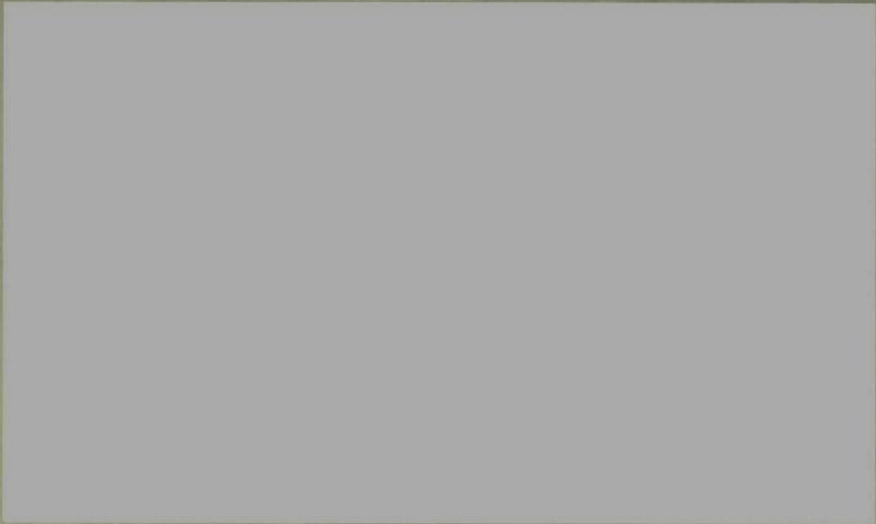
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THE WORLD BANK
Washington, D.C.

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Washington DC 20433
Telephone: 202-473-1000
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Iran - General - General Negotiations - Correspondence 03



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WBG Archives

372

Iran Negs

OFFICE MEMORANDUM

TO: Mr. R. L. Garner

DATE: June 30, 1949.

FROM: A. S. G. Hoar

SUBJECT: IRAN

1. Mr. Bayne telephoned from London this morning to say that, when he was in Teheran, the Prime Minister had stated, in the presence of half the Cabinet, that he wished for an immediate Bank loan of between \$50 and \$60 million.
2. The reason for the changed attitude towards an immediate loan from the Bank appears to be that Mr. Ebtehaj is now convinced that he will not secure approval of the proposed reduction of the note cover of the Central Bank.
3. Mr. Bayne has asked the Government to write to the Bank, explaining the new situation and putting forward their ideas for a loan but not making a formal application.
4. Meantime the Government have requested the Bank, through Mr. Bayne, to prepare and forward to them suggested wording for legislation both to authorize the Government to contract a direct loan from the Bank, and to authorize the Government to guarantee development loans from the Bank contracted by subsidiary agencies of the Government or private corporations. With regard to the latter, Mr. Bayne said that the Government were thinking of setting up a Plan Bank which would operate on Herstelbank lines.
5. The Government at the same time have requested through Mr. Bayne that the Bank inform them of its maximum and minimum rates of interest and term of loan. On this point Mr. Bayne merely said that he would transmit their message.

Ex

Iran Nego

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Garner No. 6.

Confidential.

DECLASSIFIED

JUN 06 2013

WBG ARCHIVES

c/o American Embassy,
Cairo, Egypt.

June 22, 1949.

Dear Garner,

I enclose a copy of a personal letter dated June 15th which I have just received from Mr. James Somerville, the Counselor of the American Embassy in Tehran.

I had sent him a line from Baghdad to tell him that Mr. Bayne would probably go to Tehran for a few days before he left for Cairo.

You will observe that Mr. Somerville takes a somewhat gloomy view of the situation:

(1) In the first place, he does not believe the Majlis will permit a reduction in the note-cover requirement which would have enabled Ebtahaj to finance the development program for a year or two without outside help;

(2) The Ministry of Finance has informed the Planning Organization that the maximum the latter can expect from the oil royalties in any one year is 7 million pounds (even if the royalties should be considerably increased) instead of the 100% approved by the Majlis;

(3) Until March 1950 the Planning Organization will only get a total of 9.8 million pounds, instead of some 15 million it had expected, because the Government needs the money for other purposes;

(4) But even of the 9.8 million pounds the Government has already earmarked some 5 million pounds for various purposes (including the railways), so that less than 5 million pounds will be available for other projects;

(5) Many Persians therefore do not feel justified in paying the OCI half a million dollars for general consultation, which the OCI is apparently proposing, although several of its directors would prefer

/to

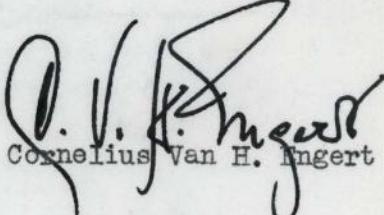
Mr. Robert L. Garner,
Vice President,
International Bank for Reconstruction & Development,
Washington 25, D.C.

to be free to seek contracts for their own firms;

(6) And finally, there is the difficulty that under present legislation the Majlis must approve the terms of any loan, but as the life of the Majlis now in session expires in July, there seems no chance of constructive action for many months.

Please show this letter and its enclosure to Iliff and Bayne when they return to Washington. (Bayne will in the meantime have seen Somerville, and the latter will doubtless have told him all he says in the letter).

Very sincerely yours,


Cornelius Van H. Ingert

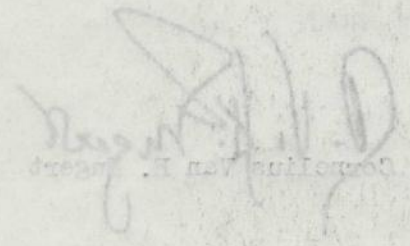
1 Encl.

RECORDED AND INDEXED
MAY 10 1910
U.S. DEPARTMENT OF STATE

to be free to seek contracts for their own firms;
(b) And finally, there is the difficulty that under present
legislation the Bill is not approved the terms of any loan, but as
the life of the Bill is now in session expires in July, there seems
no chance of constructive action for many months.

Please show this letter and the enclosure to Bill and Mary
when they return to Washington. (Before Bill in the meantime have
seen Comstock, and the latter will doubtless have told him all
he says in the letter).

Very sincerely yours,


Douglas Van B. Bagert

Page 1

DISPATCHED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
JUN 28 9 06 AM 1949
Kj

FILE COPY

Iran Negs

June 20, 1949

Mr. W. Clyde Dunn, Acting Chief
Division of Greek, Turkish and
Iranian Affairs
Department of State
Virginia and 21st Sts., NW
Washington 25, D.C.


Dear Mr. Dunn:

We greatly appreciate having had an opportunity of discussing with you and your associates various problems of mutual concern with regard to the present situation in Iran.

In the belief that it may be of some assistance both to the Iranian Government and to the State Department, we have attempted to set forth, in the accompanying memorandum, our present thinking regarding possible participation by the Bank in the financing of Iran's development program.

It is our understanding that this memorandum will be transmitted to the United States Ambassador at Teheran for his confidential use. He will, of course, be free to communicate the substance of it to the Iranian Government to the extent he deems desirable.

Yours very truly,


H. L. Garner

L.S.
Enclosure

FDStephens:mar

cc: Mr. Stephens

June 18, 1949

CONFIDENTIAL

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JUN 06 2013
WBG ARCHIVES

IRAN

The Bank has already expressed to the Iranian Government its interest in Iran's Seven-Year Plan and indicated its willingness and ability to participate in the financing of appropriate elements in this Plan when its assistance might be needed. If the Iranian Government wishes, the Bank is prepared to consider now a small initial loan for some one, or possibly two, specific projects included in an early stage of this Plan. Furthermore, subject to satisfactory progress in implementing the Plan, including the financial and administrative measures necessary to make it effective, and taking into account Iran's need for external financing as then established, the Bank will be willing to consider additional loans for other projects as their preparation reaches the bankable stage. Any project submitted for consideration by the Bank should be of a tangible and directly productive nature and of demonstrable economic value as have been those development projects hitherto financed by the Bank.

Early participation by the Bank in the financing of Iran's Plan, even on a small scale, would indicate the Bank's interest in, and support of, Iran and its desire for mutual collaboration. The loan being small would avoid possible criticism of both Iran and the Bank - criticism which might be justified were a large loan to be made now when Iran is known to have funds available sufficient to finance the developments recommended by OGI for the early period of the Plan.

The Bank has read with interest the OGI preliminary report and concurs particularly in its assertion that the key to successful implementation of the Plan lies in the setting up of a sound mechanism for its administration

and operation. The Bank is also convinced of the urgent need for action in the selection of key personnel to avoid delay in starting work on high priority projects as soon as necessary preparatory studies have been completed.

The preliminary OCI report contains too little material regarding specific projects for the Bank to be able to form a judgement on them at this stage. When the final report is available, the Bank will be prepared to discuss with the Iranian Government and OCI the Plan as a whole and the selection of an initial project, or projects, which might be suitable for Bank financing and such measures as it may be necessary to take in preparation for their technical and financial appraisal by the Bank. In this connection, the Bank would be prepared to send representatives to Iran.

COPY

June 18, 1949

CONFIDENTIAL

IRAN

DECLASSIFIED

JUN 06 2013

WBG ARCHIVES

The Bank has already expressed to the Iranian Government its interest in Iran's Seven-Year Plan and indicated its willingness and ability to participate in the financing of appropriate elements in this Plan when its assistance might be needed. If the Iranian Government wishes, the Bank is prepared to consider now a small initial loan for some one, or possibly two, specific projects included in an early stage of this Plan. Furthermore, subject to satisfactory progress in implementing the Plan, including the financial and administrative measures necessary to make it effective, and taking into account Iran's need for external financing as then established, the Bank will be willing to consider additional loans for other projects as their preparation reaches the bankable stage. Any project submitted for consideration by the Bank should be of a tangible and directly productive nature and of demonstrable economic value as have been those development projects hitherto financed by the Bank.

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LEGAL DEPARTMENT FILES

Iran Loan

DRAFT
AFLuxford/GW
6/17/49

Suggested Text of Bank's Reply to the Government of Iran
Regarding Loan at this Time

The Bank has already indicated to the Iranian Government its interest in Iran's Seven-Year Plan and indicated its willingness to consider assisting in financing sound elements in this Plan when need for such assistance is evident.

Heretofore, however, it was the impression of the Bank that the financial resources available to the Government of Iran were adequate to cover financing of the Plan, at least during its initial stages, and that the Iranian Government did not intend to seek financial assistance from the Bank for the present. In principle, the Bank still believes that this approach is fundamentally sound and should serve as the basis for the Bank's consideration of Iran's financial needs in connection with the Plan. Moreover, both Iran and the Bank might be open to criticism if the Bank were to make a large loan now when Iran is known to have funds available sufficient to finance the developments recommended by OCI for the early period of the Plan.

6/17 - Original to Mrs. Stephens

On the other hand, the Bank does appreciate that there are good reasons in favor of the Bank considering now a small initial loan to Iran in connection with the Seven-Year Plan. In particular, a token participation by the Bank in the financing of such Plan now would be indicative of the Bank's interest in, and support of, Iran's efforts to further economic development.

Accordingly, if the Government of Iran deems it desirable, the Bank is prepared to consider financing some one, or possibly two, specific projects scheduled for inclusion at an early stage in the Plan. Then, subject to satisfactory progress in implementing the Plan, including the financial and administrative measures necessary to make it effective, the Bank will be willing to consider additional loans for other specific projects as their preparation reaches the financing stage.

The Bank has read with interest the OCI preliminary report and concurs particularly in its assertion that the key to successful implementation of the Plan lies in the setting up of a sound mechanism for its administration and operation. The Bank is also convinced of the urgent need for action in the selection of key personnel to avoid delay in starting work on high priority projects as soon as necessary preparatory studies have been completed.

The preliminary OCI report contains too little material regarding specific projects for the Bank to be able to form a judgment on them at this stage. When the final report is available, the Bank will be prepared to discuss with the Iranian Government and OCI the selection of an initial project, or projects, which might be suitable for Bank financing and such measures as it may be necessary to take in preparation for their technical and financial appraisal by the Bank, as well as matters of general policy and procedure. If found desirable, the Bank would be prepared at that time to send a mission to Iran.

FILE COPY

Iran Com. w. Appl.

June 16, 1949

His Excellency
The Ambassador of Iran
Washington, D. C.

My dear Mr. Ambassador:

Please accept my thanks for the copies
of the Interim Report of Overseas Consultants,
Inc. which were received this morning. I
shall look forward to having a copy of the
final report when it is drafted.

Sincerely,



R. L. Garner

Iran Bank w. appl.



IRANIAN EMBASSY
WASHINGTON, D. C.

June 15, 1949.

no: 944

International Bank for
Reconstruction and Development
1818 H. Street,
Washington 6, D.C.

Dear Mr. Garner,

With reference to the decision of my Government conveyed to Mr. Eugene Meyer in my letter of October 24th, 1946, to apply to the International Bank for Reconstruction and Development for loans to finance reconstruction and development in my country, in connection with which discussions have taken place between officials of my Government and your Bank from time to time, I now have the pleasure to enclose herewith two copies of an Interim Report submitted by Overseas Consultants, Inc., making certain interim recommendations to the Planning Organization of the Government of Iran in connection with the execution of the Seven Year Plan. The draft of the final report is now being edited and is expected to be ready early in August when copies will also be sent to you.

The Interim Report indicates the possibility of several projects being put into execution in the near future when it is to be expected that the Planning Organization will, if it finds it necessary, apply to The International Bank for Reconstruction and Development for specific loans to finance them, and, at the same time submit detailed information on the projects to be financed.

Yours sincerely,

Hussein Ala
Ambassador of Iran.

*ack.
June 16*

MN/j



Record Removal Notice



File Title Iran - General - General Negotiations - Correspondence 03	Barcode No. 1805821
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Document Date Jun 15, 1949	Document Type Letter
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Correspondents / Participants
 To: Cornelius Van H. Engert
 From: James Somerville, American Embassy

Subject / Title
 Situation in Iran

Exception No(s).

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 Prerogative to Restrict

Reason for Removal
 Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

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Iran 7/90

CONFIDENTIAL

OFFICE MEMORANDUM

EB

TO: Files

DATE: June 15, 1949

FROM: F. Dorsey Stephens

DECLASSIFIED

SUBJECT: Iran

JUN 06 2013

WBG ARCHIVES

Messrs. Dunn, Malenbaum, Wagner and Gorlitz, of the State Department, met today with Messrs. Garner and Stephens to discuss Iran's alleged present need for foreign financial assistance and the possibility of Bank participation in such financing. Mr. Wagner has made a special trip from Teheran in connection with this matter and expects to return there next week.

It appears that the Shah is anxious to obtain the "moral and tangible support" which foreign loans or other financial assistance would give him at this time. He apparently has in mind direct governmental aid of the type now being extended to Turkey by the U.S. Government and also IBRD participation, at the earliest possible date, in the financing of the Seven-Year Program, irrespective of the question of Iran's ability to meet the full initial costs thereof without borrowing.

The attitude of the State Department is that direct governmental assistance--apart, possibly, from the normal type of Exim Bank financing--is out of the question. The State Department would, however, like to be in a position to say that the IBRD is definitely interested in the possibility of making a loan to Iran at this time. Reference was made to the preliminary report of the OCI, outlining a priority One-Year Program to cost about \$30 million, of which some \$11 million are in the form of foreign exchange requirements, and the question was put as to whether the Bank would be willing to agree, in principle, to make a loan of this latter amount, or, alternatively, to indicate a figure to which it would be willing to go.

While stressing the Bank's real interest in aiding Iran, Mr. Garner explained at some length Bank loan policy and made it clear that, apart from other considerations, the Bank could not indicate any definite sum for an initial loan, the amount of which would depend upon what projects were of a type which the Bank would be interested in financing and also were in a bankable stage.

The State Department representatives referred to the necessity of passing on at least some informal advice through the U.S. Ambassador in Teheran to the Iranian Government which could assure the latter of the Bank's interest in participating in the financing of the Seven-Year Program. It was agreed that the Bank would endeavor to draft a memorandum on this subject, to be used as the basis for a communication to the U.S. Ambassador in Teheran. This draft is to be discussed at a meeting with the representatives of the State Department on Saturday, June 18.

- - - - -

In the course of the conversations, the statement was made by a State Department representative that even if no change were made in the present note cover requirements of the Bank of Issue, there was at present the equivalent

of some \$56 million which could be freed either for satisfying foreign exchange requirements or for serving as a basis for an increase in note circulation.

It would appear that Mr. Ebtehaj, of the Bank Melli Iran, who is still undergoing medical care in France, has lost considerable influence with the Shah but that he is still likely to play a role in the implementation of the Seven-Year Program.

The State Department anticipates that under a new agreement, the oil royalties to be received from the AIPC will be practically doubled.

The OCI's general report will probably not be completed before the end of July.

FDStephens:mmr

cc: Mr. Garner
Mr. Hoar
Mr. Svoboda

5. 70
48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date June 16-

TO-	Name	Room No.
1	<i>Mr. Riley</i>	<i>1201</i>
2		
3		
4		

FOR-

Action	Initialing
Approval	Preparing Reply
Comment	Previous Papers
Filing	Noting and Returning
Full Report	Recommendation
Information	Signature

REMARKS

Do not use

FROM-

F. D. Stephens

DECLASSIFIED

JUN 06 2013

WBG ARCHIVES

Iran Nego.

FDStephens June 16, 1949
CONFIDENTIAL DRAFT

The Bank has already expressed to the Iranian Government its interest in Iran's Seven-Year Plan and indicated its willingness and ability to participate in the financing ^{selected elements in} of this Plan at an appropriate moment. If the Iranian Government wishes, the Bank is prepared to consider now a small initial loan for some one, or possibly two, specific projects included in an early stage of this Plan. Furthermore, subject to satisfactory progress in implementing the Plan, including the financial and administrative measures necessary to make it effective, and taking into account Iran's need for external financing as then established, the Bank will be willing to consider additional loans for other projects as their preparation reaches the bankable stage. Any project submitted for consideration by the Bank should be of a construction nature and of demonstrable economic value as have been those development projects hitherto financed by the Bank.

Early participation by the Bank in the financing of Iran's Plan, even on a small scale, would be indicative of the Bank's interest in, and support of, Iran and of its desire for mutual collaboration. At the same time, small scale participation during the Plan's inception should serve to avoid criticism of both Iran and the Bank - criticism which might be justified were a large loan to be made now when Iran is known to have funds available sufficient to finance the developments recommended by OGI for the early period of the Plan.

The Bank has read with interest the OGI preliminary report and concurs particularly in its assertion that the key to successful implementation of the Plan lies in the setting up of a sound mechanism for its administration and operation. The Bank is also convinced of the urgent need for action in the selection of key personnel to avoid delay in starting work on high priority projects as soon as necessary preparatory studies have been completed.

The preliminary OGI report contains too little material regarding specific projects for the Bank to be able to form a judgment on them at this stage. When the final report is available, the Bank will be prepared to discuss with the Iranian Government and OGI the selection of an initial project, or projects, which might be suitable for Bank financing and such measures as it may be necessary to take in preparation for their technical appraisal by the Bank, as well as matters of general policy and procedure. If found desirable, the Bank would be prepared at that time to send a mission to Iran.

mvp

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date _____

TO-	Name	Room No.
1	Mr. Garner	
2		
3		
4		

FOR-

Action	Initialing
Approval	Preparing Reply
Comment	Previous Papers
Filing	Noting and Returning
Full Report	Recommendation
Information	Signature

REMARKS

act to memo. June 9, 1950

FROM-

Stephens

Iran Negs.

OFFICE MEMORANDUM CONFIDENTIAL

TO: Files

DATE: June 9, 1949

FROM: F. Dorsey Stephens *FDS*

DECLASSIFIED

SUBJECT: IRAN

JUN 06 2013

WBG ARCHIVES

Mr. Gorlitz, of the State Department (Officer for liaison with the Bank on Middle Eastern Affairs), telephoned to say that a special emissary had arrived from the U.S. Embassy in Teheran with the message that the Shah was very anxious to obtain the "moral and tangible support" which a foreign loan would give him at this time and wanted to know whether the U.S. Government would favorably consider such a loan.

Mr. Gorlitz said that the State Department does not want to make a direct loan to Iran and has the intention of so informing the Iranian Government, advising the latter, at the same time, that it would give support to a loan application made to the Bank for economically justified projects.

Mr. Gorlitz said that the Bank undoubtedly would be approached--perhaps in September--on projects totaling some \$50 million and wanted to know whether this was a figure that the Bank would consider as reasonable. I told Mr. Gorlitz that the Bank's position was that it could say nothing on the subject of a possible loan to Iran until it had had an opportunity to examine the reports of Overseas Consultants, and that on Mr. Garner's recent trip to Iran, he had been advised by Mr. Ebtehaj that the Iranian Government did not require foreign financing at the present time and probably would not for another year and a half, or perhaps longer.

I asked Mr. Gorlitz whether this new demarche meant that Iran's foreign exchange position had deteriorated. He said that it had not as far as he knew, except that he understood that the Iranian Government finds it politically difficult to make the proposed change in note cover requirements, with the result that its financial position is a little tighter than had been anticipated.

Mr. Gorlitz asked that I discuss this matter only with Mr. Garner as it was highly confidential. He said that he would telephone again on Monday after talking to his colleagues in the Department. He thinks it would be a good idea to have a high-level conversation on this new approach from Iran.

FDSStephens:mmr

cc: Mr. R. L. Garner

Iran - Neg.

OFFICE MEMORANDUM

TO: Mr. Robert L. Garner
FROM: E. A. Bayne
SUBJECT: Iran

DATE: May 24, 1949

May 19th

Attached is a file memorandum on Mr. Strike's report to us on his trip to Teheran. Mr. Dulles and Mr. Barker should be returning by June first. When I said you would like to discuss Iran with both these gentlemen when they returned, Strike stated that he particularly wanted to be present at such meetings. He would not, he said firmly, like to have either of these men to report on O.C.I. without his knowledge. I would judge that this attitude, so frankly expressed, confirms the situation previously determined by you.

Iran - Neg

OFFICE MEMORANDUM

TO: Files DATE: May 19, 1949

FROM: Patrick Acheson *PA*

SUBJECT: Iran - Report of Mr. Strike, President of O.C.I.

Mr. Strike visited the Bank on May 18. Mr. Dunn, Mr. Gorlitz and other members of the State Department were present in addition to Messrs. Bayne, Welk and Acheson of the Bank.

The main points brought out by Mr. Strike were:

1. Reports

Mr. Strike assumed the preliminary report would be ready for presentation to the Majlis committee on May 22. It would recommend a one-year operational program to cost not more than 1 billion rials (\$30 million), the foreign exchange component of which would not amount to as much as \$10 million. It was Mr. Strike's own view that the Planning Board would not be able to spend as much as a billion rials during the first year and that the 1.6 billion rials which Ebtahaj had available for the Seven-Year Plan would be sufficient to finance the first two years of the program.

The final report would be ready by July 1. It would consist of one volume on the general problems common to all sectors of the Seven-Year Plan -- fiscal, economic, legal, administrative, etc. -- and separate volumes on each of the seven sectors of the Plan, which would include an outline of the projects, their order of priority and cost estimates. However, the engineering of the projects would still remain to be done. O.C.I. would not do this itself but would submit a list of suitable firms for selection by the Planning Board. The final report would be prepared in the United States by the O.C.I. teams, most of whom were expected to leave Iran on May 21.

2. One-Year Program

The first-year program to be recommended in the preliminary report would consist of projects in the sectors of agriculture, education, health, road building (especially in the Northern Provinces), and telegraph. There would be no projects in the industrial sector except for retooling some of the existing plants and getting rid of the deadwood in their management. The criteria used by O.C.I. in drawing up the first-year program were:

- a. Flash plans
- b. Availability of manpower
- c. Basic needs
- d. Road building, preparatory to future phases of the Plan.

3. Third-Phase Contract

Mr. Strike had expected to sign the third-phase contract while he was in Teheran. However, Prince Abdul Reza wanted an opportunity to

review the results of the second phase before he signed the third-phase contract. It might, therefore, be several months before the new contract was signed. Mr. Strike thought that a gap between the presentation of the report and the beginning of the third phase could be avoided because under the terms of the second-phase contract O.C.I. was empowered to begin work on the third phase.

4. O.C.I. Policy Decisions

a. O.C.I. would act as consultants to the Plan Administration rather than try to operate the Plan themselves. As consultants, they would advise on how operations should be done and recruit personnel abroad to work on the Iranian payroll. They would recommend lists of firms whom they considered competent to carry out specific projects but would leave final selection to the Plan Administration Board. They would advise on the terms of contracts. They planned to have a very small staff in Iran for the duration of the third phase and would send out missions on a per diem basis to deal with special problems.

b. It was O.C.I.'s thinking that the Plan Administration must be a separate entity from the ministries. Teams of Iranians to be trained to administer projects would be chosen from all available sources, including the ministries. However, members of ministries would have to resign from the ministries before they could work for the Plan Administration. It was Mr. Strike's thought that these administrative teams would eventually be moved into the appropriate ministries where they would replace the "derelicts" who now operated those ministries.

PAcheson/pnn

IRAN

OFFICE MEMORANDUM

TO: Mr. D. Crena de Iongh

DATE: May 9, 1949.

FROM: A. S. G. Hoar

SUBJECT: IRAN

95/12-

Thank you for letting me see the correspondence between Warburg and Brinckmann regarding possible investment in Nosratian's development proposals for Iran.

I have looked through the documents and discussed them with Bayne. You may care to see Bayne's note to me on the subject and, if you wish to include any of the ideas he expresses in your reply to Brinckmann, as general comments of your own, you are perfectly at liberty to do so.

Hoar

OFFICE MEMORANDUM

TO: Files DATE: April 28, 1949
FROM: E. A. Bayne
SUBJECT: Iran - Interview with Overseas Consultants, Inc., New York
April 26, 1949, (9:30 a.m. - 12:45 p.m.)

Present: Mr. James Barker
Mr. Paul Coffman
Mr. Hamill
Dr. Turner

After a general exchange of views concerning present conditions in Iran, particularly including the operation of the planning administration, I restated the Bank's feeling that while the technical side of the OCI investigation seemed to be progressing in extremely competent hands in various fields, we felt that our view concerning the need for analysis of the internal financial picture had been reinforced. We had not been convinced by Governor Ebtehaj of the Bank Melli that the Government or OCI had any clearly defined idea of how the domestic financial side of the seven-year plan, even for its first two years of operation, would be worked out. I also pointed out that Mr. Buckwalter and Max Thornberg agreed with this and reported that Mr. Buckwalter had repeatedly requested OCI in New York to provide financial personnel.

Mr. Hamill replied at this point that OCI had agreed with this for some time. They had had in mind covering this important area at an appropriate moment in their investigation and they now had three people going to or in Teheran working on this problem. I asked who they were and he replied that Mr. Allan Dulles was already there working on tax problems and the legal side of the development program, including the third OCI contract. He reported that a Mr. Hettinger, (who had recently been an economist with the General Foods Corporation), a private economic consultant, was now in Teheran working with Dulles and Mr. James Barker was returning there the following day.

In stating the Bank's fears, I mentioned that in the first report issued by OCI in January, the statement had been made that the physical and manpower resources of Iran were adequate to carry out the plan as presently envisaged. I said that we felt that this statement epitomized an attitude we thought to be unfounded since the financial capability had not been demonstrated. We had no opinion then or now on whether or not it was possible to finance the program internally. Mr. Barker took careful exception to our opposition since, as he pointed out, he had been originally responsible for that particular position, but agreed that a more detailed examination was required.

Mr. Coffman reported that he had had a telephone conversation with Mr. Lotz from Rome that Taghi Nasr, Alternate Executive Director of the IBRD, had been appointed as the Chairman of the Iranian Planning Administration.

Dr. Turner, who had just returned from Iran having headed the health section of the OCI, reported that he had travelled to Geneva with Governor Ebtehaj, who was planning to have some treatments (for ulcers) and then possibly proceed to Paris for further medical attention. It was not clear in Ebtehaj's mind whether a surgical operation would be necessary, but Dr. Turner's view was that it would be between four and six weeks before Ebtehaj could return to Teheran.

Mr. Barker then posed the question of whether, in our view, the potential loss of Governor Ebtehaj to the program would be irreparable if it came to pass. I said that in view of the position of the Shah and his active participation in the Plan through Prince Abdul Reza, that not all of the dynamic would be lost even though Ebtehaj had always supplied a great deal of the impetus. It would be a serious setback in any event. Mr. Coffman feared that if Ebtehaj got out, the present Minister of Finance would attempt to capitalize the patronage in the Plan politically. He had already been a stumbling block in the present OCI program, through failure to make appropriated money available to the Planning Administration without excessive delay. If the present Minister of Finance himself was incapable of replacing Ebtehaj, the patronage involved in the program was so great that almost any politician would attempt to win the control of it.

Dr. Turner then gave a report on his work which indicated that there had been considerable local cooperation on the part of the Iranian provincial health officers and other officials in the OCI survey, and that as the Plan actively got under way in malaria control and other immediate programs, a high degree of cooperation and understanding from the Iranians in the field could be expected. He said that the OCI team itself appeared to be working extremely smoothly. He reported the success of a series of coordinating conferences that were being held leading to the preparation of the whole OCI report.

Mr. Hamill then pointed out that the Planning Administration is to present a report to the Majlis by the Middle of May, although OCI was not bound to deliver its report until June. However, since the Planning Administration's report would be in effect the work of OCI, OCI is giving a provisional report to the Administration for translation and presentation to the Majlis now. This would include an economic and financial analysis. This would be followed by the more complete and definitive study about the first of June, and it will be upon the second report that an active program would be based. No one expected any difficulty in meeting the deadline.

I then had an hour's talk with Mr. Barker alone, during which I was most favorably impressed with the approach he was planning to make to the Iranian situation, and in his detachment from the general attitude of OCI. He clearly realizes that the OCI group have only recently realized the extent of their economic and financial responsibilities, but he feels that this late recognition has come in good time. It will thus be possible to present a report which will be infinitely better than the Morrison-Knudsen report. I suggested that when he returned (in a month's time) that the Bank would like very much to have some conversations with him on his own estimates of the financial situation, which he agreed to do.

In general, I feel that OCI has now recognized the urgent requirement for economic and financial analysis. As a result, possibly of IBRD pressure and that of others, OCI has undertaken to rectify this before their second report has been delivered to the Iranian Government.

Iran Nego.

OFFICE MEMORANDUM

TO: Files

FROM: E. A. ~~Wayne~~

SUBJECT: Iran - Local financing of Seven-Year Plan

DATE: April 20, 1949

It is Ebtehaj's view that there will be no need for borrowing from the IBRD for at least 18 months. The local financing side, which will have a direct effect on the time lapse before Iran will require to borrow, depends on several rather uncertain factors:

(a) Tax reform. A tax reform bill is being discussed by the Majlis, but whatever bill is eventually passed, the problem of tax collection will remain as difficult as ever.

(b) Reduction in note issue cover. A bill has been presented to the Majlis to reduce the present 76% gold and foreign exchange cover for the note issue to 50%. This would release additional foreign exchange for imports or would permit up to 50% increase in the present note issue. It is not yet clear to which of these purposes it would be put. However, the bill has now been tabled by the Majlis.

(c) Increase in oil royalties. Iran is asking for a 300% increase in the oil royalties rate from the AIOC and will probably receive an increase of between 150% - 200% as well as a share now in the undistributed profits of AIOC, which under the present contract will not become due until 1933.

(d) Transfer of deposits from Imperial Bank of Iran to Bank Melli. The Bank Melli will receive 55% (including Treasury Bills) of the Imperial Bank's rial deposits which will amount to a net increase in rial deposits of about 400 million rials, including some Treasury Bills.

(e) Other methods of local financing discussed include a tax at source on large contracts and an equity bond issue.

It seems highly unlikely that more than 1.5 billion rials can be spent in the first two years of the Plan, a view with which OCI concur. However, until there is some firmness in the local money picture and a revaluation of the rial (a plan for compensated export-import rates averaging 41.5 rials to \$1 has recently been passed), it will be impossible to decide

- (a) when a loan will be needed
- (b) how much inflation is likely
- (c) whether the administrative requirements of the Plan can be met.

CROSS REFERENCE SHEET

COMMUNICATION: Report On Loan Operations

DATED: Between February 18 - April 8, 1949

TO:

FROM:

SUMMARY: Loan Director attended a meeting in New York of the Board of Directors of OCI on March 18th Stated Bank's position with respect to the Iranian Development Programme. He also pointed out that in his view it was essential that special attention should be paid by OCI to the financial aspects of the programme.

FILED UNDER: Loans

CROSS REFERENCE: Iran Negotiations

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Jan
A. H. ...
W. V.
PA

INCOMING WIRE

Date of Wire MARCH 17, 1949
To ILIFF
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
From CAIRO

TEXT: BOCKEWALTER, THORNBURG, EBTEHAJ AND OTHER OFFICIALS STRONGLY OF OPINION OCI SHOULD SECURE SERVICES TOP FLIGHT FINANCE AND ECONOMIC GROUP AS SOON AS POSSIBLE. IDEAS REGARDING FINANCING PLAN INCLUDE OIL ROYALTIES, RELEASE OF PART OF NOTE COVERAGE AND TAX REFORM. HOWEVER, THESE EXTREMELY VAGUE AND REQUIRE WORKING OUT IN POLICY AND PROCEDURE. OUR OPINION UNLESS THIS TAKEN IN HAND PROMPTLY SERIOUS MISTAKES WILL OCCUR RESULTING IN INFLATION AND SUCCESS OF PLAN MAY BE JEOPARDIZED. BELIEVE TOP MAN THIS GROUP SHOULD HAVE BOTH PRACTICAL AND THEORETICAL KNOWLEDGE OF GOVERNMENTAL FINANCE AND PERSONALITY TO DEAL WITH HIGH OFFICIALS PARTICULARLY TO GET EBTEHAJ'S RESPECT. PROBABLY SHOULD HAVE WITH HIM TAX EXPERT AND GOOD GENERAL ECONOMIST. UNDERSTAND BOCKEWALTER HAS ALREADY MADE REQUEST BUT RECEIVED NO REPLY FROM OCI NEW YORK. EBTEHAJ, THORNBURG AND BOCKEWALTER HOPE BANK CAN SEND OUT LATER SOME ECONOMISTS WORK ALONG WITH OCI FINANCIAL GROUP AND I PROMISE TRY TO WORK THIS OUT BUT BELIEVE PRIME RESPONSIBILITY SHOULD BE WITH OCI. EBTEHAJ ALSO REQUESTS BANK DISCUSS WITH OCI AND

ROUTING:

ACTION copy to

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ORIGINAL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

PAGE TWO

Date of Wire

To ILIFF

From CAIRO

TEXT: ADVISE HIM REGARDING SELECTION OF AUDITING AND INSPECTION
STAFF TO WORK UNDER PLANS BOARD OF CONTROL. THINK SOME
OUTSTANDING FIRM OF ACCOUNTANTS WITH FOREIGN EXPERIENCE MOST
DESIRABLE. FURTHER DISCUSSION CAN WAIT MY RETURN BUT THINK
ADVISABLE MENTION THIS TO OCI.

GARNER

REC: MARCH 18
VIA STATE DEPT. CODE.

ROUTING:

ACTION copy to MR. HOARE

INFORMATION copy to

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INCOMING TELEGRAM

DEPARTMENT OF STATE—DIVISION OF COMMUNICATIONS AND RECORDS

TELEGRAPH BRANCH

n: DCL

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WBG ARCHIVES

Control 6689

FROM: Cairo

TO: Secretary of State

March 17, 8 a.m.

FOR ILIFF FROM GARNER

Bookwalter, Thornburg, Ebtehaj and other officials strongly of opinion OCI should secure services top flight financial and economic group soonest possible. Ideas regarding financing plan include oil royalties, release of part of note coverage and tax reform. However these extremely vague and require working out in policy and procedure. Our opinion unless this taken in hand promptly, serious mistakes will occur resulting in inflation and success of plan may be jeopardized. Believe top man this group should have both practical and theoretical knowledge of governmental finance and personality to deal with high officials particularly to gain Ebtehaj's respect. Probably should have with him tax expert and good general economist. Understand Bookwalter has already made request but received no reply from OCI NY. Ebtehaj, Thornburg and Bookwalter hope bank can send out later some economists work along with OCI financial group and I promise try to work this out but believe prime responsibility should be with OCI. Ebtehaj also requests bank discuss with OCI and advise him regarding selection of auditing and inspection staff to work under the plans board of control. Think some outstanding firm of accountants with foreign experience most desirable. Further discussion can wait my return but think advisable mention this to OCI.

PATTERSON

WMH: PAF

CONFIDENTIAL

INFORMATION COPY

See also



Boyer, vol
of April 20

Mr. D. D. Higgins

Cairo, Egypt
March 15, 1949

Mr. John J. McCloy
President
International Bank for Reconstruction
and Development
Washington, D. C.

Dear Jack:

We left Teheran on the 11th by train on our way to Abadan to visit the Anglo-Iranian Oil works and from there to fly to Cairo today.

Our chief impressions of the Iranian situation are -

1. There seems to be a general realization that, in view of the Russian menace, prompt and positive steps must be taken to improve the conditions of the masses or Iran may blow up. Everyone freely admits the bad economic conditions, incompetence and corruption. This realization of the necessity for action is the most important factor in the situation. With a full understanding of the habitual lethargy and weakness for action of the Iranians, we believe that there are strong assets in the serious character of the Shah and his brother and in the driving force of Ebtahaj.
2. There is an unquestionably entrenched opposition to reform on the part of landlords and traders and these elements are strongly represented in the Majlis, which under the present Constitution has power with little responsibility. However, there is considerable hope that the new Constituent Assembly, which is probably to be elected in the next few weeks, will revise the Constitution to make a stronger government. The attempt on the Shah's life has unquestionably strengthened his hand.
3. Whether or not the approach to development through the 7-year Plan is the most practical, we believe that, as things now stand, it is the only hope. It represents a goal and a symbol and, if it is not made to work, I see no other practical substitution.
4. The present task of OCI is to produce by the end of May a general report confirming or modifying the types of development and priorities in the various fields. With minor exceptions, they will not in this phase work out the specific projects. However, there are a certain number of such projects which they tell us are well

advanced technically as the result of the work of the Iranians, Morrison-Knudson, Alexander Gibb and others. Their report will be submitted for final approval by the Majlis and the way will then be clear to set up administration, begin work on certain projects that are ready and move into the third phase of the technical development of other projects which are selected for priority. It is the understanding both of OCI, Ebtehaj and others that a new contract is to be made under which OCI will secure the services of necessary personnel to organize, supervise and, in some cases, direct all the development work as the third phase. They have in mind that personnel would include not only engineers and other professional people, but foremen, superintendents and skilled mechanics. This seems absolutely essential, and even if the cost is high, it will be justified. Otherwise, the work will be done both incompetently and corruptly. I

5. As we see it, the outstanding weakness in the current program is the lack of financial and economic personnel in OCI. In the beginning they apparently conceived their job as merely a technical one and accepted the general assurances of the Iranians that they would have no difficulty in financing it. However, the people on the ground are now aware of the importance of having financial aspects taken in hand. When we arrived we were told that Ebtehaj represented a stumbling block to this, but we have received from him the most direct and positive assurances to the contrary. He merely insists that he wants top flight men to do this work. We have cabled Iliff to this effect and we hope that he will be able to impress the importance of this point when he meets with the OCI directors.
6. Important as the financial angles are, I am convinced that the greatest difficulty will be administrative. On this point Thornberg seems to be doing valuable work. (Incidentally, he is retained independently by the Iranian Government and is acting as liaison between them and OCI. I gather that he is not on OCI's payroll)
7. Quite to our surprise Ebtehaj states definitely that he does not wish a loan from the Bank until the government has committed all of its available funds, which he does not expect to be short of 18 months to 2 years. Several times he expressed the opinion that he would probably never need to ask us for a loan. He stated that all that he had ever wanted from the Bank was the understanding that, if Iran handles her affairs and pushes her development soundly to come up with well planned projects, the Bank will be in position to finance them. I told him that short of a catastrophe which would change the whole picture, he need have no

worry that we would not have the available funds nor be willing to help him. He expressed complete satisfaction with this position. He does, however, wish the Bank to maintain a close touch with Iranian affairs and the progress of the development plan and urges that at the appropriate time we send people out who can work with the economic and financial people in OCI, both to keep the Bank informed and to be prepared to act promptly when and if they may need a loan. I think behind all of it is the sincere desire for the Bank to show interest in Iran. It is obvious that they are most anxious to have moral as well as specific support from the West, particularly the United States. I think that it is very advisable for us to keep in pretty close touch and have people come out from time to time, but I do not think anything should be done about this until after we return.

8. Legislation covering the development plan calls for a Board of Control which is in essence an auditing group. This is supposed to consist of a group of representative non-political members. Ebtehaj realizes that it will be essential to have a staff of independent foreign auditors working under them and asked the advice of the Bank on the selection of such auditors. Although it would be possible to get an individual controller and get him to build up his staff, I am inclined to favor the retention of a firm of recognized public accountants. Perhaps a British firm would have a better background of experience, although there are American firms such as Price, Waterhouse who have British affiliates with wide experience abroad. This will be a necessary protection in the administration and I think we should use our efforts to see that first class people are secured. This job should probably include not only the auditing functions but a type of end use supervision such as Madigan has worked out with our Treasurer's Department people. I think that any action on this is not pressing and can await our return.
9. It is quite apparent that the Shah and his brother and Ebtehaj are the key figures in the country. Ebtehaj has unquestionable ability and driving force. However, he is very emotional and opinionated, makes extreme statements and is apt to brush aside difficulties. He is exceedingly vague on the problems of financing the plan and I am not sure whether this comes from ignorance or an unwillingness to admit difficulties. On the other hand, I think he is quite sincere in his determination to push the country forward and, if he does not kill himself from overwork and strain, I think that he will be able to accomplish quite a lot. As you know, I was concerned that we would have considerable difficulty with him, but to the contrary he was most friendly towards us and to the Bank. I think our visit here has proved most useful, both because of our relations with the Iranians and the OCI.

On the whole, I am more optimistic regarding the possibilities of something being accomplished in this country than before I came. At the best, I do not believe that the 7-year Plan can work as laid out, but if they accomplish 25 to 50% of their objectives it can do quite a lot for the country both in material development and in setting a pattern of competent and honest work. From the Shah down the question of corruption is frankly discussed and I believe there is a good deal in their point that it rises primarily from tradition in high places and from the fact that the great mass of government employees must steal or starve. The Shah said that one of their primary objectives is to reduce the number of government employees and to pay them better. It does not seem unreasonable to divert a substantial number of them into other activities in connection with their development plan.

Negotiations are now under way to revamp the Anglo-Iranian Oil contract and two of the officials are out here from London. The Iranians feel that under existing conditions the contract is unfair to them and that they should have a larger slice. This has resulted from a great increase in oil prices. I do not know what the specific issues of this question are and did not attempt to discuss them with the Iranians. However, Thornberg is very critical of the company and thinks it is inevitable that they must make real concessions to give the Iranians an equitable share in the very rich profits. Of course, this matter is of critical importance to Iran and I think it is going to be a very critical one to settle.

Our railway trip was through some of the most rugged and beautiful country and although it was not de luxe it was quite comfortable.

Kindest regards.

Sincerely,



R. L. Garner

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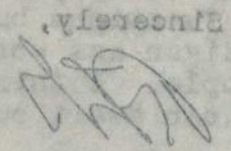
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Sincerely,


R. L. Garner

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Teheran, Iran
March 12, 1949

MEMORANDUM FOR MR. GARNER:

The following are some brief notes on the political situation in Teheran during the past few weeks as gleaned from American, British and other diplomatic officers:

1. Proposed Constituent Assembly. Towards the end of February the Shah discussed with his Cabinet and a number of elder statesmen his desire to bring about certain constitutional changes in order to have a more businesslike and responsible government. It had been his intention also to dissolve the present Majlis, but he was persuaded by his Persian advisers (especially Taqizadeh, Seyid Ziaeddin and Hakimi), as well as by the United States and British Governments that this would be unwise.

Three ideas seem to be uppermost in the Shah's mind in connection with the proposed constitutional reforms:

- (1) He feels that the executive power of the State should be strengthened, either by adding more outstanding political personalities to the present Saed Government, or perhaps even by appointing a new Prime Minister under whom Saed himself and most of the Cabinet might be willing to serve;
- (2) He is determined to insist that the Majlis pass legislation setting up a Senate (as provided by the Constitution) and that it revise the Electoral Law so as to ensure more independent and fairer elections;
- (3) The Shah desires to call a Constituent Assembly to provide the necessary procedure for amending the Constitution and for dissolving the Majlis and the proposed Senate.

The Shah was successful and on February 27 the Majlis agreed, almost unanimously, in a secret session to convoke a Constituent Assembly for the following purposes:

- (1) To add one article to the Constitution providing procedures for amending it;
- (2) To implement Article 44 of the Constitution which provides for the establishment of a Senate;

- (3) To revise and implement Article 48 of the Constitution which makes provision for the dissolution of the Majlis under certain circumstances.

About a week ago the Shah issued an Imperial Decree (called in Persian, "Firman") calling for the meeting of the Constituent Assembly.

2. Moscow Radio Broadcasts. The violent propaganda campaign against Iran which Radio Moscow has been indulging in for a long time has recently increased in intensity. Moscow even accused the United States that its Embassy in Teheran had chosen the Deputy Abbas Qobadian, who is the Chief of the Kalhur Kurds, as the future head of a new Kurdish State to be carved out of portions of Iran, Iraq, Turkey and Syria! Other broadcasts have attacked the Minister of Education (Dr. Manushehr Eqbal), the Chiefs (Khans) of the Kashghai Tribes, and other prominent Persians who are reported to be friendly disposed toward the United States. These radio attacks got so bad that the Persian Foreign Minister (Ali Asghar Hekmat) a few days ago delivered a rather firm note to the Soviet Ambassador in Teheran (Mr. Sadchikov) protesting against the tone and contents of these broadcasts.
3. Martial Law. All important cities in Iran are now under martial law. The object of the Persian Government is to liquidate the Tudeh (Communist) Party throughout the country. Some people -- especially those opposed to the government -- believe that this measure is not solely aimed at the Communists but may be connected with the coming elections for the Constituent Assembly and for the 16 Majlis. Although this suspicion is probably not well founded, it would as a matter of fact be difficult to hold normal elections under martial law. Most people, including the military, seem to think that by the time the elections take place martial law may have ceased, or that it may be suspended during the period of the elections.
4. Elections. In accordance with Article 53 of the Electoral Law of 1926 the Shah on February 25 issued the usual decree ordering elections for the 16th Majlis. (The 15th Majlis comes to an end on July 28, 1949).
5. Trials of Editors and Tudeh Leaders. Towards the end of February five Persian newspaper editors received sentences ranging from one year's imprisonment to five year's hard labor after being tried by a military court for attacking the royal family, the government, and the army. They were accused that by using violent language in their papers they became accessories before the fact in the attempt on the Shah's life which took place on February 4.

On March 2, fourteen leaders of the outlawed Tudeh Party went on trial before a military court, and the trials are still continuing. The most prominent among the defendants are Dr. Morteza Yazdi (an ex-Minister of Education), Dr. Jowdat (the Tudeh Youth Leader), and Dr. Nureddin Kianuri. They have engaged the services of several excellent lawyers, including several members of the Majlis. Although the government had announced that the trials would be public, no foreign observers have so far been admitted to the hearings.

6. The Press Law. The Bill which was introduced in the Majlis several weeks ago to curb the Persian newspapers which had been inciting the public against the Shah and the government before the attempt on his life, was passed by the Majlis on March 3. However, at the last moment an amendment to the law was adopted making it possible for anyone to publish a paper without a license! Most observers believe that this amendment nullifies much of the value of the law which was intended to make the press more reasonable and responsible.
7. The Budget. The present Minister of Finance has the distinction of belonging to the first Persian Government in seven years which has presented an annual budget to the Majlis before the expiration of a fiscal year.

Cornelius Van H. Engert

INCOMING AIRGRAM

MONTHLY ECONOMIC AIRGRAM
February, 1949

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

A-79

From: Tehran, Iran

UNCLASSIFIED

Date: March 3, 1949

Mailing Date: March 7, 1949

THE SECRETARY OF STATE

Mar. 15, 1949 12:07

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The Iranian Majlis (Parliament) on February 15 authorized the Government to proceed with the execution of a Seven-year Economic Development Program involving the expenditure of 21 billion rials. At the official rate of exchange of 32 rials for \$1 this is the equivalent of \$656,000,000. The funds are to be spent in the following categories:

In Millions of Dollars

Agriculture	164
Railroads, roads, ports and airports	156
Industry and Mines	94
Petroleum	31
Posts and Telegraphs	23
Social and municipal reforms	188
	<u>656</u>

The Planning Organization which will be charged with supervision and execution of the plan is permitted to vary the amounts spent in each category by 10% either way and will have considerable discretion in allocation of funds to specific projects.

The program is to be financed from three principal sources. First, the Government's oil royalty receipts from the Anglo-Iranian Oil Company are to be allocated to the Plan. These royalties are understood to have amounted in 1948 to the equivalent of \$35,000,000. Iranian oil production is expanding and moreover, concession negotiations are currently in process which may have the effect of increasing Iran's receipts from the oil company. Thus, over the seven-year period the income from the oil concession applicable to the development plan should amount to at least \$250,000,000.

Secondly, the Planning Organization is authorized to borrow up to 4.5 billion rials (\$140,000,000) from the National Bank of Iran (Bank Melli). In order to improve the bank's ability to finance the economic development plan, the management of the bank is currently endeavoring to obtain consent from the Majlis to halving the present statutory 100% reserve requirement for the note issue.

Thirdly, the Organization is empowered to negotiate up to a \$250,000,000 loan from the International Bank for Reconstruction and Development, subject to approval of the Majlis.

Tehran
March 3, 1949
A-79

- 2 -

The Economic Development Law provides for the creation of a Planning Organization consisting of a High Council, a Board of Control and a Managing Director. The High Council will be composed of seven members appointed by Royal Order on proposal of the Government and approval of the Majlis and will hold office throughout the period of the execution of the program. The High Council will possess broad supervisory powers. The Board of Control is to consist of six members selected by the Majlis, appointed for two years, and having investigative powers on matters referred to it by the Government. The Managing Director is to be appointed for three years by royal order on proposal of the Government and approval of the Majlis and is to be the principal executive of the Organization.

The Planning Organization will be in a position to proceed with the execution of specific projects as soon as:

- (1) Personnel selected by the Government for the High Council, Board of Control and Managing Director have been approved by the Majlis and appointed by royal order;
- (2) The Program Commission of the Majlis approves detailed plans which are to be submitted by the Planning Organization before May 15, 1949. The American firm Overseas Consultants, Incorporated, is serving in an advisory capacity to the Planning Organization in the development of detailed plans for the program.

During February the National Bank made two further reductions in exchange rates, in accordance with the Exchange Simplification Plan passed on January 16. On February 15 the Bank reduced dollar exchange from 53.25 to 52 rials and on February 20 a further reduction to 50.75 was announced. Simultaneously with these actions, the Bank reduced the proportion of official rate exchange given for essential imports from 55% to 53% and thence to 50%.

Despite the expiration of its concession on January 30, 1949, the Imperial Bank of Iran continued normal operations in the month of February. Negotiations were in process between the Bank and the Government as to its future basis for operation.

SCARVILLE

500
RSWilliams:amh

cc to: Division of Greek, Turkish and Iranian Affairs.
American Embassy, London
American Embassy, Cairo

UNCLASSIFIED

Iran Nego.

IRAN

3 March 1949

Dear Mr. Strike:

Thank you for your letter of 25 February which reached me only this morning. I notice, however, that the envelope was postmarked New York, March 1, 8:00 P.M. I mention this circumstance only to explain the apparent delay in my reply.

I shall be pleased to attend the next meeting of the Board of Directors of your Company, and, if convenient with you, the week beginning 14 March would be suitable so far as I am concerned. I have spoken this morning to Mr. Madigan and he has undertaken to arrange with you for a definite date during that week.

With kind regards.

Yours sincerely,

W.A.B. Iliff
Loan Director

Mr. Clifford S. Strike
President
Overseas Consultants, Inc.
51 East 42nd Street
New York 17, N.Y.

SIR ALEXANDER GIBB & PARTNERS.

CONSULTING ENGINEERS.

SIR ALEXANDER GIBB, G.B.E., C.B., LL.D., F.R.S., M.INST.C.E.
M.I.MECH.E., M.I.CHEM.E., M.AM.SOC.C.E., M.E.I.C. (HON)

ALISTAIR M. GIBB.

T. A. L. PATON, B.Sc., M.INST.C.E., M.AM.SOC.C.E.

J. GUTHRIE BROWN, M.INST.C.E., M.I.E.AUST.

R. L. FITT, B.Sc., M.INST.C.E.

F. W. MATTHEWS, M.INST.C.E., M.INST.C.E.I.

CONSULTANT:

SIR LEOPOLD H. SAVILE, K.C.B., M.INST.C.E., M.I.E.AUST.

Telephone: WHITEHALL 9700.

Telegrams: GIBBOSORUM LONDON.

Codes: BENTLEY'S.

QUEEN ANNE'S LODGE,

WESTMINSTER,

LONDON, S. W. I.

PLEASE REFER TO

J/1954.

1st March, 1949.

W.A.B. Iliffe, Esq., C.M.G., M.B.E.
International Bank for Reconstruction and Development,
Washington 25 D.C.,
U.S.A.

Dear Iliffe,

IRAN.

We were very disappointed not to have seen you during your recent visit to London, I hope that you have now fully recovered from whatever it was that laid you low.

A few days ago I received a visit from Bayne who told me that he was en route for Tehran via Istanbul. He wanted to know how Anglo-American co-operation on the Seven Year Plan investigation was functioning, and I was able to tell him that so far things were going very well.

There is no doubt that Bookwalter, the Project Manager, sent out by O.C.Inc. has had a great deal to contend with, but Olivier, who has been in Tehran since the end of January, has been able to do much to help him. Our Tehran administration, with Farrington and Sykes in charge, has also lent a hand. There has been a little bother over an adviser on Port Administration, but this is now happily straightened out.

I have just heard from Tehran that a Commission from the World Bank is due in Tehran on 7th March and that they will be returning home on the Queen Elizabeth ex Cherbourg on 6th April. Mr. Garner's name is mentioned as head of the Commission. Olivier will be in Tehran when they arrive (he is due to leave for the United Kingdom on 10th March) and may meet them. Do you think that any useful purpose would be served by any contact between the Commission and ourselves. We could endeavour to arrange this on their homeward journey.

With best wishes,

Yours very sincerely,

RLD:it

Iran Nego.

OVERSEAS CONSULTANTS, INC.

51 EAST 42ND STREET
NEW YORK 17, N. Y.

February 25th, 1949

Mr. W. A. B. Illif, Loan Director
International Bank for Reconstruction
and Development
1818 H Street, N. W.
Washington, D. C.

IRAN

Dear Mr. Illif:

You will recall, no doubt, the meeting which some of our group and Mr. Ebtehaj had with you, Mr. Garner and Mr. Bayne at your office on October 7th, 1948.

Since that time, Mr. J. R. Lotz, Mr. Paul B. Coffman, Mr. M. J. Madigan and I, either together or individually, have discussed our problem informally with the officers of your bank. We have advised you as to our progress and have sought information relative to the extent of the bank's interest.

We have reported to the other directors of Overseas Consultants, Inc. that the World Bank does have an interest in this program.

I think it would be very helpful to our work if at a meeting of the Board of Directors of our Company, it would be possible for you to join with us for further discussion. There has been no date set for the next meeting of the Board but there probably will be one during the third week in March and again toward the end of the month.

I would appreciate it if you would advise me whether or not you would care to meet with us and further, as to your availability for the dates suggested.

Very truly yours,

OVERSEAS CONSULTANTS, INC.

Ack 3 Mar



Clifford S. Strike
President

CSS

b

FILE COPY

Scan kept.

February 24, 1949

Dear Mr. Strike:

As you probably have heard, Mr. Garner has left Washington for a tour of some of the Mediterranean countries.

In his absence I am writing to acknowledge and to thank you for your letter of 18 February with which you sent two copies of the first report by OCI made to the Iranian Government in connection with the Seven-Year Development Programme.

Yours sincerely,

W.A.B. Iliff
Loan Director

Mr. Clifford S. Strike
President
Overseas Consultants Inc.,
51 East 42nd Street
New York 17,
New York

Trans. Legat

OVERSEAS CONSULTANTS, INC.

51 EAST 42ND STREET

NEW YORK 17, N. Y.

February 18th, 1949

Mr. Robert L. Garner, Vice President and
General Engineer
International Bank for Reconstruction and
Development
1818 H Street
Washington, D. C.

Dear Bob:

We have obtained clearance from the Govern-
ment of Iran to release to you copies of the first
report which our Company made in connection with
the Iranian 7-Year Development Program.

Two copies are enclosed.

*one given to Mr. McCloy
2/23/49*

Very truly yours,

OVERSEAS CONSULTANTS, INC.



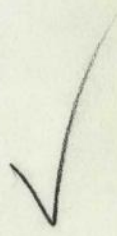
Clifford S. Strike
President

CSS
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Enclosures (2)

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OVERSEAS CONSULTANTS, INC.

51 EAST 42ND STREET

NEW YORK 17, N. Y.

February 18th, 1949

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General Engineer
International Bank for Reconstruction and
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1818 H Street
Washington, D. C.

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The copies are enclosed.

Very truly yours,

OVERSEAS CONSULTANTS, INC.

Clifford S. Scripps
President

CSB
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Enclosures (2)

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RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

one copy m/19

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February 15, 1949

My dear Governor:

This is just a personal note to tell you that I am looking forward with keen anticipation to the opportunity to visit Iran, ~~in the near future~~. My present plans are to leave Washington on February 20, stopping briefly in Paris and Athens and reaching Turkey on February 28. In view of some uncertainty regarding commercial airplane schedules into Iran, I have made tentative arrangements, which I trust will work out, to be flown either by American diplomatic or military plane to Teheran on or about March 7. I shall be able to advise you more precisely regarding the expected time of arrival after I ~~have reached~~ Turkey. Accompanying me will be Messrs. E. A. Bayne of the Loan Department and J. A. Villechaise of the Economic Department, and my secretary, Mrs. Russell.

The purpose of my trip is primarily to enable me to get some personal feel and understanding of the conditions in the various countries, ~~which I shall visit~~ which should be helpful in our subsequent consideration of possible Bank financing. I regret that it will not be possible for me to spend as much time in any one of the countries as I would like. I realize that the 6 days scheduled for Iran is a very short time, but it is the maximum which I could arrange. Bearing this in mind, I shall greatly appreciate your assistance in arranging that I get as much as possible out of my visit. I would like to divide the time between ^{talking to} seeing the proper people, both in and out of government, and of having an opportunity to see something of the typical parts of the country. I ~~will~~ trust your judgment as to how this can best be arranged.

We have had the opportunity of talking to Messrs. Strike and Lotz of Overseas Consultants, Inc. and I expect to see Mr. Coffman later this week. I hope we will also have an opportunity to see some of their people when we arrive in Iran.

I trust that as a result of my visit we ^{shall} ~~will~~ be able to determine more specifically the schedule and composition ^{for} of a mission from the Bank which, as we

previously discussed, should come out during this second phase of the Overseas Consultants work.

All good wishes.

Sincerely yours,

R. L. Garner

His Excellency

Honorable A. H. Ebtehaj
Governor for Iran
International Bank for Reconstruction
and Development
Teheran, Iran

Bank Melli Iran

FILE COPY

Iran - Bureau
w app

February 16, 1949

My dear Governor:

This is just a personal note to tell you that I am looking forward with keen anticipation to the opportunity to visit Iran. My present plans are to leave Washington on February 20, stopping briefly in Paris and Athens and reaching Turkey on February 28. In view of some uncertainty regarding commercial airplane schedules into Iran, I have made tentative arrangements, which I trust will work out, to be flown either by American diplomatic or military plane to Teheran on or about March 7. I shall be able to advise you more precisely regarding the expected time of arrival after I reach Turkey. Accompanying me will be Messrs. E. A. Bayne of the Loan Department and J. A. Villechaise of the Economic Department, and my secretary, Mrs. Russell.


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All good wishes.

Sincerely yours,



R. L. Garner

His Excellency A. H. Ebtahaj
Governor for Iran
International Bank for Reconstruction and Development
Teheran, Iran

ECONOMIC DEVELOPMENT PROGRAM

Considerable progress was made in 1948 in advancing Iran's plans for a seven-year economic development program. A special commission of the Majlis (Parliament) was created to draft a law for the program and on September 26 this committee submitted a comprehensive report on economic development together with a draft bill.

The bill would authorize the Government to proceed with the execution of a seven-year program involving the expenditure of 21 billion rials. At the official rate of exchange of 32 rials for \$1, this is the equivalent of \$656,000,000. The funds would be spent in the following categories:

In millions of Dollars

Agriculture	164	5,248
Railroads, roads, ports and airports	156	4,992
Industry and mines	94	3,000
Petroleum	31	1,992
Posts and Telegraphs	23	736
Social and municipal reforms	<u>188</u>	

656

The Planning Organization, which would be charged with supervision and execution of the plan, would be permitted to vary the amounts spent in each category by 10% either way and would have considerable discretion in allocation of funds to specific projects.

Within four months after enactment of the bill into law the Government would be required to submit its detailed plans to the Majlis Committee for approval.

The program would be financed from three principal sources. First the Government oil royalties received from the Anglo-Iranian Oil Company would be allocated to the plan. In 1948 these royalties were in the neighborhood of £8,500,000 or \$34,000,000.

Secondly, the Planning Organization would be authorized to borrow up to 4.5 billion rials (\$140,000,000) from the National Bank.

Thirdly, the organization would be empowered to negotiate up to a \$250,000,000 loan from the International Bank for Reconstruction and Development, subject to the approval of the Majlis.

The Economic Development Bill provides for the creation of a Planning Organization consisting of a High Council, a Board of Control and a Managing Director. The High Council would be composed of seven members appointed by Royal Order on proposal of the Government and these members would hold office throughout the period of the execution of the program. The High Council would possess broad supervisory powers. The Board of Control would consist of six members selected by the Majlis, appointed for two years, and would have investigative powers on matters referred to it by the Government. The Managing Director would be appointed for three years by Royal Order on proposal of the Government and would be the principal executive of the Organization.

Up to the close of the year the Majlis had not taken action on the Bill proposed by the Special Commission. There was, however, strong public sentiment for proceeding with an economic development program*.

In November a group of five American experts from Overseas Consultants, Incorporated, New York, visited Iran briefly at the request of the Iranian Government to survey the possibility of the company preparing, on contract, a comprehensive report on the subject of Iran's economic development plans. Details of the proposed contract had not been worked out by the end of the year.

FINANCE

State Budget

According to figures released by the National Bank of Iran, the Government's revenues in the 1947-48 years** amounted to 6,716,529,000 rials and expenditures were 6,773,639,000 rials, indicating a deficit of 57,100,000 rials. This deficit, however, was more than covered by the fact that Government oil royalties in sterling were included in revenues only to the extent that such sterling was actually converted into rials. In the 1947-48 year, an amount of sterling substantially exceeding the equivalent of 57,100,000 rials was received but not converted. In the 1946-47 year, revenues of 5,797,000,000 rials exceeded expenditures of 5,644,280,000 rials by 153,000,000 rials.

The budget presented by the Government to the Majlis on April 15, 1948, for the 1948-49 year showed estimated revenues of 7,154,000,000 rials and expenditures of 8,891,000,000 rials indicating a deficit of 1,737,000,000 rials. Included in the budget were over 1,000,000,000 rials for economic development, of which a part represented funds which would otherwise have been included in the ordinary budget. The principal increases in expenditure proposed were for government buildings, irrigation and the Ministry of War.

* The Majlis on February 15 authorized the Government to proceed with the execution of the Seven-Year Plan on the basis of the bill prepared by the Special Commission of the Majlis, with minor alterations.

** March 21, 1947 to March 20, 1948

FINANCE (continued)

As had been the case for several years, the Majlis failed to approve the budget and the Government continued to operate on the basis of monthly budgets which required the Government to limit its expenditures within revenues actually collected.

The Government's internal debt in December 31st, 1948, amounted to approximately 5.4 billion rials, virtually unchanged from the beginning of the year. Nearly all of this internal debt is owed to the National Bank. The Government's cash balance during 1948 increased by 900,000,000 rials, suggesting that Government revenues may have exceeded expenditures by this amount.

In November, 1948, the Government redeemed its last remaining external funded debt by calling an amount of £76,637 representing the outstanding balance of an Iranian loan floated in London in 1911.

Banking and Currency

Currency in circulation fell about 4% during the year, amounting to 6,631,000,000 rials on December 21st, 1948, as compared with 6,905,000,000 rials on December 22, 1947.

Demand deposits at the National Bank increased from 7,531,000,000 rials on December 22, 1947 to 9,389,000,000 rials on December 21st, 1948. Of this increase, about 900,000,000 rials represented increased cash balances of the Government. The fact that currency in circulation declined 4% despite an increase in commodity prices of about 10% suggests that the deposit increase in part reflects an increasing tendency on the part of the public to employ the bank as a deposit medium instead of retaining currency.

Figures are not available regarding the trend of deposits of the Imperial Bank of Iran, the only other important commercial bank in Iran. At the end of the year its deposits were understood to have been in the neighborhood of 1.3 billion rials.

Loans and advances by the National Bank on private account increased from 743,000,000 rials on December 22, 1947, to 912,000,000 rials on December 21, 1948.

In general the money market was tight throughout the year with bazaar rates for secured loans ranging from 20% to 35%. The Bank Melli reduced its official discount rate from 5% to 4% on August 23, 1948. This rate was nominal insofar as the trading community was concerned because it was applicable only against prime short-term credits.

The Anglo-Iranian Financial Agreement of November, 1947, was extended one year to November, 1949. As operated up to the close of 1948, the British Treasury, under this agreement, converted sterling into dollars for Iranian purchases in the dollar area on a relatively free basis.

Foreign Exchange Controls

On February 9, 1948, a decree was issued stating that the Exchange Commission would issue foreign exchange permits valid at the official rate for the importation of the following goods:

"sugar, loaf-sugar, tea, cotton piecegoods, agricultural and industrial machinery, scientific and technical books, magazines, newspapers paper, drugs, scientific, surgical and laboratory instruments, trucks, gunny and hessian cloth".

The Exchange Commission was deluged with applications for this official-rate exchange. Partly due to administrative difficulties and partly due to opposition from the National Bank representatives on the Exchange Commission to the issuance of any permits at the official rate, practically no permits were issued under the terms of the decree. The National Bank representatives constituted only two out of five members of the Exchange Commission, but the remaining three representatives were not disposed to over-rule their opposition. The view of the bank representatives was that opportunity should be taken to stabilize Iranian exchange at a single rate either through formal devaluation or through stabilization of the market for exchange certificates.

This controversy had a markedly deterrent effect on trade. In the first place, the large receipts of foreign exchange from the oil company were not released for trade purposes with the result that the free exchange rate was bid up. The dollar was quoted above rials 60 throughout the first half of the year. Foreign trade commitments by merchants involved a high element of risk not only because of fluctuating exchange rates but also because of the possibility that the Government might eventually release exchange at the much lower official rates for certain types of imports.

Near the end of July, the controversy was resolved by the issuance of a decree with the following principal provisions:

- (1) Exchange was to be released at the official rate only to the Government. Later on, an amount of £2,850,000 was set aside for sale at the official rate for certain categories of industrial and agricultural equipment. Applications for this exchange were screened by the Ministry of Agriculture and the Ministry of National Economy and by the end of the year all this exchange had been allocated.
- (2) Two categories of relatively essential goods were established, on one of which official rate exchange could be obtained equal to 60% of cost, and on the other exchange equal to 30% of cost. Goods eligible for 60% official rate exchange included cotton piece goods, pharmaceuticals and paper. Goods eligible for 30% official rate exchange included iron and steel, dyes and chemicals, trucks and truck tires.

- (3) The National Bank was authorized to reduce and stabilize the free exchange rates by becoming a buyer and seller of exchange certificates. The Bank acted immediately to reduce dollar exchange rates from 67 to 61. In September the rate was further reduced to 57.50 and by the end of the year the Bank rate was 54.50*.

Reaction of the import trading community was generally favorable to the new decree and unusually heavy orders were placed for goods from abroad. The effect on Iranian exports was naturally unfavorable and by the end of the year there were many complaints with regard to the position of exports.

The Council of Ministers passed a foreign exchange decree on December 29, 1948, the principal provision of which enables exporters to deduct the selling price of exchange sale certificates from the valuation placed on exports at customs houses in order to determine the amount of the exporters' exchange undertaking. An anomalous situation had previously prevailed under which exporters were being asked to deliver an amount of exchange which considerably exceeded the exchange proceeds from their exports, unless they were able to prevail upon customs houses' appraisers to give a modest estimate of the local market value of the exports.

Cost of Living

Living costs in Iran, as measured by indexes compiled by the National Bank, rose 7.7% between January and October, 1948 as compared with a rise of 5.2% between January and December 1947. The food component of the index showed the most pronounced upward tendency with an increase of 15% between January and October 1948. The index in October stood at 928 (with 1936-1947 as 100), 17% below the war-time peak of 1,121 reached by the index in August 1944.

Wholesale prices at Tehran rose 10% between January and October 1948, influenced largely by the foodstuff component which showed an increase of 19.5%. In 1947, wholesale prices increased 10% between January and December. The index in October 1948 stood at 759, (1936-37 equals 100) as compared with a war time peak of 716 in July 1944.

The position of the cost of living and wholesale prices for various selected months is given in Table 1.

PETROLEUM

In 1948 the Iranian economy received increasing financial benefit from the oil concession granted to the Anglo-Iranian Oil Company (AIOC). Total receipts of foreign exchange from the oil company amounted to approx-

PETROLEUM (continued)

imately £25,000,000 as compared with an estimated £20,000,000 received in the year 1947. The £25,000,000 received in 1948 included from £8,000,000 to £9,000,000 paid to the Iranian Government in the form of royalties, in accordance with the terms of the concession. The balance of the exchange was sold by the Company to the National Bank at the official rate in order to obtain rials to cover operating expenses in Iran. The foreign exchange received by Iran from the AIOC is estimated to have amounted to almost twice the exchange received from Iran's general exports.

Crude oil production in 1948 amounted to 24,870,000* tons as compared with 20,194,838 in 1947, an increase of 23%. Part of the increased production was accounted for by deliveries of crude oil to Socony Vacuum Incorporated, and Standard Oil Company (New Jersey). These American companies concluded a long-term contract for purchasing crude oil from AIOC in December, 1946.

In the fall of 1948 the AIOC started construction of a 56-mile pipeline from the Agha Jari Field to tanker loading facilities at Bandar Mashour. This 20-22" pipe line will carry approximately 100,000 barrels daily of crude, of which a substantial proportion will be exported to the United States.

Textiles

The two Government-owned cotton spinning and weaving plants at Behshahr and Shahi produced 15,000,000 yards of cloth in the year ending March 21, 1948*. Production in the nine privately owned textile mills in Isfahan amounted to 7,900,000 meters of cotton cloth, 2,270 meters of woolen cloth, and 2,500 metric tons of cotton yarn. Production figures on the 15 or so textile mills elsewhere in Iran are not available.

A private company in Shiraz ordered a 12,000 spindle spinning mill from the United States and considerable interest was manifested in the purchase of cotton spinning and weaving machinery by various other groups of Iranian capitalists. Prices for imported piece goods receded toward the end of the year with the result that some of these plans for new plants were in abeyance.

The principal woolen-goods manufacturers, with mills in Isfahan, threatened to discontinue operations unless the Government provided assistance. The Government responded by prohibiting the importation of second-hand clothing, reducing the import quota for woolen cloth and ordering that Government needs for woolen goods be met from domestic production.

* Production figures for previous years are not available.

The Government's silk factory at Chalus produced 400,000 meters of silk tissues in the year ended March 21, 1948, as compared with a potential capacity of 1,000,000 meters.

Production of burlap in the Government's jute plant amounted to about 1,000,000 sacks in the year ended March 21, 1948.

Rugs

The weaving of rugs, although a handicraft activity, is an important Iranian industry providing direct or supplementary income to many thousands of Iranian families. In the year ended March 21, 1948, exports of rugs amounted to 2,689 metric tons, a quantity considerably below exports of 3,367 metric tons in the preceding year, but approximately comparable to exports in the pre-war years 1938-1940.

Sugar

Reflecting favorable crop conditions, the Government-owned sugar mills produced 52,000 metric tons of refined beet sugar in the year ended March 21, 1948, as compared with 32,700 metric tons in the preceding year. Total sugar consumption in 1948 is estimated at about 135,000 metric tons.

Cement

The cement plant at Tehran owned by the Industrial and Mining Bank is the only cement plant in Iran and produced 43,000 metric tons of cement in the year ended March 21, 1948. This was an amount far below the country's need and the Industrial and Mining Bank announced an adjudication for the purchase of a new cement plant with a capacity of 300 tons a day. A private company in Shiraz concluded a contract for the purchase of a 200 metric ton per day plant from an American supplier and negotiations were in process for the purchase of one or two other cement plants.

Tobacco

The factories of the Tobacco Monopoly, owned and operated by the Government, were managed with relative efficiency and the revenues accruing to the Monopoly represented about 20% of total governmental revenues. Cigarette production declined in the year ended March 21, 1948, to 3,060,000 cigarettes from 3,550,000 in the preceding year. This interruption to a previous steady upward trend of consumption was caused by an increase in retail prices.

Mines

There were no important developments in the mining industries. Coal production was roughly estimated at about 200,000 tons of which

about 120,000 tons were taken from Government mines. Approximately 10,000 tons of red iron oxide were exported from the Government-owned deposits on Hormoz Island. Small amounts of copper, lead, arsenic, and sulphur were produced.

TRANSPORTATION AND COMMUNICATION

Railroads

The rolling stock of the Iranian State Railways underwent a gradual deterioration in 1948 owing to lack of adequate maintenance and a shortage of spare parts.

Coincident with the deterioration of rolling stock, there was a mounting demand for railroad haulage facilities. An increased tonnage of imports was shipped by rail from the southern ports to Tehran. Also there was rising consumption of petroleum products in the country most of which was shipped by rail from the Anglo-Iranian Oil Company refinery at Abadan. Oil shipments comprised an estimated 50% of revenue freight on the south to north haul.

The railroad administration recognized that the situation required prompt remedial action if a transport crisis were to be avoided, but was handicapped by lack of funds. The railroad negotiated a settlement with the British Government for the use of the railway during the war which would involve a payment by the British of £5,700,000, but at the end of the year the requisite ratification by the Majlis had not been obtained.

Rail-laying on a 100-kilometer line from Qum to Kashan was half completed during the year and it was expected that the line would be in operation in 1949. A small amount of grading work was accomplished for the projected Shahroud-Meshed and Mianeh-Tabriz lines.

R o a d s

Although a few small projects were undertaken, there were no major road building projects in 1948. The amount of highway asphaltting did not exceed 150 miles. A substantial portion of the road budget was spent on maintaining the dirt and gravel roads which comprise most of the country's road mileage. In general, road deterioration continued to outdistance road repair.

The volume of motor vehicle transport expanded. Gasoline sales were up 8% over 1947 and diesel motor oil sales up 81%. In the period from March 1947 to March 1948, 3,000 passenger cars, 150 busses and 2,200 trucks were imported, according to Iranian customs statistics. The number of vehicles in operation at the end of the year was not recorded officially but may be estimated at 9,000 passenger cars, 12,000 trucks and 3,200 busses.

Civil Aviation

The Iranian Airways Company made considerable progress during 1948 in expanding and improving its service and in overcoming serious maintenance problems. During the first half of the year, there were times when the company had only one plane in flyable condition. Flight schedules, in consequence, were highly irregular. By the end of the year, due to the purchase of spare parts and increased attention to maintenance, Iranian Airways Company had five planes in operation and was adhering rather closely to its published flight schedules. These schedules included regular flights between principal Iranian cities and weekly services to Cairo and Karachi.

After prolonged negotiations Iranian Airways and Transcontinental and Western Air signed an agreement on September 7, 1948, settling the claims and counter claims of the two parties arising out of TWA's managerial contract with Iranian Airways from December, 1945 to March, 1947. TWA retained its share of stock in Iranian Airways, amounting to about 12% of the total.

A second Iranian air transport company, Eagle Airlines, started operations in June but discontinued in November because of financial difficulties. The company purchased three eight-seater British-made Dove aircraft. During its brief period of operations it scheduled 3 flights a week from Tehran to Abadan, and one weekly flight each to Meshed, Isfahan and Babolsar, a summer resort on the Caspian Sea. Eagle Airlines had an operational maintenance contract with British Overseas Air Corporation. The B.O.A.C. also secured British pilots for the Iranian company. Eagle Airlines encountered losses from the start and in November, B.O.A.C. cancelled its contract with Eagle, because of non-payment of amounts due. At the close of the year there were no definite plans for resumption of operations.

Five non-Iranian airlines operated scheduled flights to Tehran during 1948: Air France, KLM, SAS, BOAC, and Iraqi Airlines. All of these companies were operating weekly flights. Irregular rate conditions existed during most of the year, involving different rates used for converting foreign currency prices into Iranian rials.

AGRICULTURE *

Agricultural Production

In general, agricultural conditions in 1948 were favorable. Including feed grains and timber produced in farm woodlots, total agricultural production is estimated at over 9,700,000 metric tons, or slightly above that produced in the 1947 crop year. Vegetable products accounted for an estimated 7,900,000 metric tons or over 80 per cent of total production, and animal products for 1,800,000 metric tons, or slightly less than 20 per cent of the total.

Wheat and Barley

Wheat and barley are the principal field crops of Iran.

Production estimates for 1948 are 1,900,000 metric tons of wheat and 850,000 metric tons of barley. This compares with a wheat production of 1,925,000 metric tons and barley production of 776,000 metric tons in 1947.

According to revised estimates, in the 1946-1947 crop year 3,235,000 hectares, or almost 67 per cent of all crop land in the country (excluding land in fallow), was planted to these grains. The area seeded for the 1948 harvest is estimated to have been 3,000,000 hectares, the decrease being due to low precipitation in the fall of 1947. However, the area actually harvested in 1948 was only slightly below that of 1947, due to the failure of dry land cultivation in 1947. Fall seeding for harvest in 1949 was below normal due to unseasonably cold weather and heavy snow in the early winter months.

* There are no official agricultural statistics in Iran. The figures employed in this section are for the most part estimates by the Embassy. Most of these statistics do not have a high degree of reliability.

As in the previous years, wheat and barley were collected by the Government from landlords having a surplus production at prices considerably below the open market price and distributed at low prices through authorized bakers to urban customers. Government wheat collections from the 1946-47 crop amounted to 127,400 metric tons and barley collections were 25,300 metric tons. Government collections from the 1947-48 crop did not exceed 112,000 metric tons of wheat and 30,000 metric tons of barley. Due to the unusually low carry-over stocks from the previous crop year and the reduced wheat collection in 1940, the Government had difficulty in providing enough cheap flour. During the late summer and autumn of 1948 bread riots were reported in many parts of the country. Stringent Government collection laws, abolished at the end of the war, were renewed and, in a further attempt to improve the wheat supply, the Government appealed for, and was granted an allocation of 40,000 metric tons of wheat by the International Emergency Food Committee. At the end of 1948, arrangements had been completed for the purchase of about three quarters of this amount.

R i c e

The 1948 crop of milled rice is estimated at 308,000 metric tons, 38 per cent above the 1947 crop of 223,000 metric tons. Hectarage devoted to the production of rice in 1948 was not larger than the previous year, but favorable growing conditions resulted in a higher yield.

Domestic consumption for the 1948-1949 crop year is forecast at 280,000 metric tons, compared with 229,000 metric tons in 1947-48. Stocks as of July 23, 1948, were estimated at 40,000 metric tons. Exports in the 1947-48 crop year were approximately 16,000 metric tons, but are expected to be even less in the 1948-49 crop year because of a Government decree

issued in January 1948 which cancelled all authorizations for rice exports due to the shortage of bread grains.

Fruits and Nuts

There were several marked increases in the 1948 production of fruits and nuts, as compared with 1947. The 1948 raisin crop is estimated at 38,000 metric tons, 18,000 tons over the previous year. Pistachio nut production in 1948 is estimated at 4,000 metric tons compared with 870 tons in 1947. This sharp increase resulted from efficient pest control, particularly in the Kazvin area. Almond production, shelled basis, is estimated at 6,000 metric tons or 500 tons more than the previous year. Dried apricot production is believed to have been about the same in the two years, approximately 4,000 metric tons.

Cotton

Cotton production in 1948 is estimated at 22,000 metric tons, ginned basis. This is about 25 percent above the 1947 crop of 17,500 metric tons and the largest crop since 1941.

Domestic consumption of cotton in the 1948-49 marketing year is estimated at 19,000 metric tons. During the years 1935-41 Iran was an exporter of cotton. In recent years, however, cotton production had been less than domestic requirements, and it has usually been necessary to import. The relatively high 1948 production made possible the export of 1,475 metric tons of ginned cotton in the period July 24, 1947 to July 22, 1948. Stocks as of July 22, 1948, were estimated at 2,000 metric tons.*

S u g a r

Sugar production in 1948-49 is forecast at 42,000 metric tons, considerably less than the 51,900 metric tons produced in 1947 but well above the 32,700 metric tons produced in 1946. The area planted in 1948 was 37,000 hectares or 2,000 hectares above plantings in 1947. Decreased production was due in part to damage to the crop by the "caradrina" pest. Stocks amounted to 63,561 metric tons as of August 23, 1948, compared to 26,700 metric tons the same time a year earlier.

In January 1948 the Government abolished the sugar rationing system which had been in effect since early 1942. The market was supplied with ample quantities of sugar at fixed Government prices and the black market in sugar gradually disappeared. The 1947 level of consumption, approximately 135,000 metric tons, was maintained in 1948 by increased imports.

Although at present sugar is one of the principal Iranian imports, the ultimate aim of the Government is to provide for most the country's needs through domestic production. Equipment for two new sugar refining factories has been delivered from Czechoslovakia and it may roughly be estimated that the resultant increase in domestic refining facilities will be about 18,000

metric tons.

T e a

Tea cultivation was introduced into Iran in 1898 by an Iranian consular representative in India. Up to 1932 the area under cultivation was below 10,000 hectares. Since 1932 the area has expanded gradually to approximately 12,550 hectares in 1948. Production is estimated to have increased from 7,000 metric tons in 1947 to 7,660 metric tons in 1948. Quality of the Iranian tea continued to be poor.

Consumption, amounting to approximately 12,500 metric tons, is considerably higher than production, so that it is estimated that about 5,000 metric tons of tea will be imported in the marketing year ending March 21, 1949.

T o b a c c o

Iranian tobacco production in the 1948 crop year is estimated at 17,000 metric tons, slightly above the previous year. Domestic consumption is estimated to have increased from 11,280 metric tons in 1947-48 to 11,500 metric tons in 1948-49. Exports amounted to 200 metric tons in 1947-48 and are expected to expand somewhat in the 1948-49 marketing year. Imports have been negligible.

L i v e s t o c k

Sheep raising is Iran's principal livestock enterprise. Sheep numbers as of the end of 1948 are roughly estimated at 13,000,000 head compared with 13,190,000 head the previous year. On the basis of estimates for the last ten years, the sheep and lamb population in Iran has been slowly decreasing.

Wool production for the year ending March 21, 1949 is forecast at 13,300 metric tons compared with 13,600 metric tons a year earlier. The bulk of Iranian wool is coarse carpet wool used in the production of carpets coarse woollen cloth and for export. Domestic consumption amounts to approximately 8,000 to 9,000 metric tons annually.

F o r e i g n T r a d e

Iran is almost completely self sufficient in the production of all major agricultural items, except sugar and tea. Agricultural imports in the 1948 marketing year are forecast at about 139,000 metric tons or about 5,000 metric tons below last year. Exports of agricultural products (including smuggling) are forecast at 270,000 metric tons or about 33,000 tons below last year. It is anticipated that (excluding oil) agricultural commodities will continue to account for about 90 per cent of the volume, and about two-thirds of the value of all exports. Illegal exports are

13
68
25
223

likely to continue, and in aggregate will probably account for close to 100,000 metric tons in 1948, consisting mostly of grain. These illegal exports have been encouraged by the higher prices in neighboring countries, especially in Iraq.

While in previous years the U.S.;S. R. purchased rather substantial quantities of Iranian agricultural commodities, very little trade took place in 1948.

Agricultural Credit.

In the 1947-48 marketing year the Agricultural Bank made close to 10,300 loans, having a total value of 154,500,000 rials. At the end of the Iranian calendar year 1326 (March 20, 1948) the value of the outstanding loan was reported to be 391,000,000 rials. About half of the loans, made in 1947-48 were used for irrigation and land reclamation.

Irrigation Development

Action was taken on several irrigation plans in 1948 by irrigation companies financed and operated jointly by the Government and private interests.

Work was started in October by the Koohrang Irrigation Company to divert the Karun water through the mountains to increase the flow of the Zayandeh River which irrigates the Isfahan area. Construction was completed of a tunnel 4,400 meters long from the Maroun river for the irrigation of the Behbahan area. The construction of a reservoir dam by the Lorestan Irrigation Company has been completed, while a weir for the irrigation of Lorestan province is nearing completion. The effectiveness of the "ganat" system in the Tabriz area has been doubled. A power plant and pumps have been ordered by the Jahrom Irrigation Company for the irrigation of central Fars, and plans have been made for the utilization of Gargar fall in the Mian-ab area. Work on the Saveh project south-west of Tehran is at a standstill pending investigations by a soil mechanics engineer.

* Wells connected underground

FOREIGN TRADE AND TRADE CONTROLS

In the year ended March 21, 1948, Iran maintained its role as the world's second largest exporter of petroleum products with shipments of 17,913,000 metric tons valued at the equivalent of \$312,900,000. In comparison, exports of merchandise other than petroleum were valued at \$63,000,000.

Inasmuch as revenues from petroleum exports are received by the Anglo-Iranian Oil Company as concessionaire and are not directly available to the Iranian economy, it is of interest to compare Iran's foreign trade on a basis excluding the exports and imports of the oil company. Based on Iranian customs statistics this trade was as follows:

TABLE III - Merchandise Foreign Trade of Iran
In Millions of Rials*

	:	:	:	Excess of
	:	Exports	Imports	Imports
	:	:	:	over
	:	:	:	Exports
1324 (March 21 1945 to March 20, 1946)	1,684	2,963	1,279	
1325 (March 21, 1946 to March 20, 1947)	2,284	3,841	1,557	
1326 (March 21, 1947 to March 20, 1948)	2,056	4,603	2,547	
1327 (six months (March 21 to September 21, 1948) on annual basis	1,800	3,618	1,818	

Source: Customs Administration

In the Iranian year ending March 21, 1948, exports declined 13% from 1,285,000,000 rials to 1,056,000,000 rials. Imports in the same year increased by 20% from 3,841,000,000 rials to 4,603,000,000 rials. The characteristic surplus of imports over exports increased to 2,547,000,000 rials in the year ended March 21, 1948, the largest import surplus ever experienced. Iran has been able to experience successive import surpluses without a damaging effect on its economy because of the foreign exchange receipts from the Anglo-Iranian Oil Company.

Preliminary statistics for the six months March 21, 1948, to September 21, 1948, indicate a further decline in exports of about 10 percent. Imports during this period were, on an annual basis, more than 20% below imports for the year ended March 21, 1948 a condition which was partly caused by general uncertainty as to the government's foreign exchange policy.

The principal Iranian exports and imports in the year ended March 21, 1948 are summarized in Table IV.

TABLE IV - Principal Iranian Imports and Exports in 1326 (1947-48)

Exports	Value in 1,000 Rls	Imports	Value in 1,000 Rls
Rugs	428,949	Sugar	555,905
Dried fruits & nuts	425,026	cotton piece goods	480,050
Medicinal plants & seeds	227,135	Metals and metal products	369,393
Gums	180,738	Tea	366,010
Opium	178,434	Silk cloth (pure and artificial)	345,180
Rice	112,004	Woolen cloth	264,946
Wool	84,896	Automobiles & trucks	262,629
Lambskins	57,412	Tires & tubes	183,594
		Pharmaceuticals	150,374

Source: Customs Administration

One of the principal developments in Iran's foreign trade relationships in 1948 was the virtual cessation of trade with the Soviet Union. In the year ending March 21, 1947, trade with the Soviet Union represented 22% of Iran's total foreign trade. In the following year the proportion attributable to the Soviet Union fell to 10% and in the six months period March 21, 1948 to September 21, 1948, Soviet trade accounted for less than $\frac{1}{2}$ of 1% of Iran's total trade. This suspension in trade resulted from a failure of the two governments to agree on a satisfactory trade agreement, negotiations for which were carried on sporadically. Owing to the increased availability of imports from other markets of the world and alternate markets for exports, the discontinuance of trade with the Soviet Union has caused no apparent distress to Iran's economy.

Iran's import regulations were simplified in 1948 by removal of the requirement that importers must obtain import quota reservations in advance of opening of letters of credit. The only commodities for which previous reservation continued necessary were 23 items on a restricted list which included automobiles, rayon and woolen piece goods. Iran continued in operation but the quotas were so substantial that importers were virtually free to bring in any amount of merchandise. The most important commodity on which the quota was exhausted in 1948 was passenger automobiles.

On June 8, 1948, the Majlis attached to a Bill restricting the export of rice, a rider which prohibits the issuance of import licenses to non-Iranians. This nationalistic legislation discriminating against foreigners was protested by nearly every diplomatic mission in Iran, but up to the end of the year there was no evidence that the Iranian Government intended any revision of its policy. In its application, the measure had little effect on Iranian trade because various circumventory procedures were adopted, such as the establishment of dummy companies with the stock nominally in the hands of Iranians.

During the year trade negotiations were conducted with Czechoslovakia, France, India and the U.S.S.R., but no treaties or agreements were signed.



Record Removal Notice



File Title Iran - General - General Negotiations - Correspondence 03		Barcode No. 1805821		
Document Date undated	Document Type Biographical dossier			
Correspondents / Participants				
Subject / Title Dossier on political and business figures in Iran				
Exception No(s). <input checked="" type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input checked="" type="checkbox"/> 7 <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input type="checkbox"/> 10 A-C <input type="checkbox"/> 10 D <input type="checkbox"/> Prerogative to Restrict				
Reason for Removal Personal Information Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"> <tr> <td>Withdrawn by Sherrine M. Thompson</td> <td>Date Jun 6, 2013</td> </tr> </table>	Withdrawn by Sherrine M. Thompson	Date Jun 6, 2013
Withdrawn by Sherrine M. Thompson	Date Jun 6, 2013			

Iran neg

OFFICE MEMORANDUM

TO: Mr. Iliff

DATE: February 11, 1949

FROM: E. A. Bayne *EB*

SUBJECT: IRAN: Correction and Addendum

The foggy phrasing is regretted in my memorandum of 8 February.

What was meant:

that Naficy, in talking with Engert, indicated that the information was an official reply to our questionnaire. Therefore, even if we had seen it only informally so far, it was sufficiently official in the eyes of the Iranian Government to be regarded as such by us. Hence, to put it to commercial use, if such is to be the case, is inappropriate.

Dr. Bayne

If there is any impropriety about handling this stuff out to Mai, the Iranian Embassy or not ours. But what about getting it before the v.?

EB
11 Feb.

Iran - Neg

Mr. Liff

February 10, 1949

E. A. Bayne

IRAN

The following was received today by the State Department from the U. S. Embassy in Teheran:

"Ebtehaj, Bank Melli, has had word that Mr. Garner and a party from World Bank expected in Teheran about 8 March. Ebtehaj has stated by that time work of Overseas Consultants should have progressed to a point where the visit will definitely be useful."

Mr. Dunn suggested that "this might be the basis of a formal invitation."

I have since learned that you have arranged for this through the Iranian Embassy here.

Iran Neg

OFFICE MEMORANDUM

TO: Mr. Iliff

DATE: February 8, 1949

FROM: E. A. Payne

SUBJECT: IRAN: Economic Information

I attach a copy of a memorandum by Mr. Bochenski on Iran's answer to our basic questionnaire. The material in question was hardly adequate when first shown to us, even though Naficy had mentioned to Engert in December that information had been presented to the Bank and gave it an official flavor in Iran. Actually, to have Ala'i work on the data may improve it, but the question is raised that the Bank might well be made an unwitting participant in a commercial promotion as a result.

Probably there isn't much to do about this at the moment, except to continue pressing the Embassy for the material in view of Mr. Garner's projected trip.

Attachment/1

cc: Dr. Welk
Mr. Bochenski

Dr. Payne
What on earth does X mean?!
W.S.
9/22/49

OFFICE MEMORANDUM

TO: Dr. William G. Welk
 FROM: F. G. Bochenski *F. S. B.* *1/2/23* DATE: February 7, 1949
 SUBJECT: Iran's Answer to the Bank's Questionnaire.

1. As you know, conversations with Iran with regard to the possibilities of a loan have been dragging on since October 1946.

As very little reliable data with regard to this country are available, it has always been regarded as essential to collect at least such information as may be found with the Government and Bank Melli. Accordingly, a questionnaire was sent to Mr. Naficy in Tehran in September 1947 by Mr. Hill, and another copy of the same questionnaire was given to Mr. Nemazee of the Iranian Embassy in November 1947.

2. No answer was received until October 1948, when Mr. Magidian, an Iranian -- who at that time worked for the I.M.F., and at present is the representative of the Bank Melli in New York -- presented a set of drafts, representing a large part of the answers to our questionnaire. In cooperation with Mr. Bayne's office, I made a preview of this material, and, later on, accompanied by Mr. Magidian, visited Mr. Nemazee, Commercial Counsellor of the Iranian Embassy. We reviewed the whole material, cleared which additional points could be answered immediately and which ones would have to be investigated by a Mission on the spot, and agreed that he would retype and edit the available material which we returned, and send it to us by the end of November 1948.

3. Until now, the material has not been returned to us. Mr. Magidian, to whom I talked about it at the last day of his work in the Fund (Dec. 31, 1948) explained to me, with some embarrassment, that a person outside the Embassy has been entrusted with the "editing" (retyping was really nearly all that was required) of the material, and that this outsider apparently was trying to make the most of this little job by re-writing and analyzing it, which caused this unnecessary delay.

4. A few days ago, Mr. Bayne introduced me to Mr. Heshmat Ala'i, from the Middle East Research Bureau, Inc. in Washington. During a longish conversation, I learned that it was Mr. Ala'i's above-named Bureau which kept the material in question. As far as I could make out, this Bureau tried to use the material for a propaganda book on Iran, and there seemed to be some misunderstanding between the Embassy and the Bureau over the whole subject.

5. I saw Mr. Nassr, the new Alternate Executive Director for Iran, etc., the other day, and mentioned to him this regrettable delay. He said that he would try to dig out the material again, and expressed his regret that, as a result of this delay, Mr. Garner may not be properly briefed on Iran before his journey.

FGB:eh

Iran - Neg.

OFFICE MEMORANDUM

TO: Files

DATE: January 26, 1949

FROM: E. A. Byrne *EB*

SUBJECT: IRAN

Mr. Garner was interviewed this morning by Mr. Taghi Nassr, Alternate Executive Director for Iran, and related the meeting to the writer later. Mr. Nassr made the following points:

1. That he felt there should be an expressed assurance from both the United Kingdom and the United States of full support for Iran's seven-year development program (it was not clear whether this reference to the United Kingdom had specific reference to the convertibility into dollars of sterling receipts from Anglo-Iranian oil revenues).
2. That the Bank should keep in mind that in talking with Iran it was discussing a program that required an enormous amount of enthusiasm in a generally lethargic economy, and that a strictly business approach would not assist in emphasizing anything but defeatism, and a possible failure of the whole effort.
3. Mr. Nassr felt that a basic problem in Iran and one which he felt should be clearly understood by Overseas Consultants, involved the creation of an independent authority. Since much of the existing development in Iran was already in the hands of government ministries, it was difficult to see how one rail project could be operated, for example, independently of railroads already under the Ministry of Communications. If this conflict were to be carried into other fields, how much authority could be given effectively to a government instrument not responsible to the existing Government?
4. He suggests, therefore, that OCI might well confine its detailed studies to those projects which would not conflict with government operating authorities that already exist.

Mr. Nassr also raised with Mr. Garner the possibility of Garner's visiting Iran during his forthcoming trip through the Mediterranean. Nassr suggested that such a visit might be useful, although he did not know what his Government's position would be at this time, apparently he would cable his Government for an opinion.

Mr. Garner suggested that after discussing the results of the first survey by OCI, the timing and constitution of a mission to Iran to be coordinated with his visit there be considered, and that some suggestions be made as soon as possible.

Jan -
neg

OFFICE MEMORANDUM

TO: Mr. Garner

DATE: January 25, 1949

FROM: E. A. Bayne

SUBJECT: IRAN: Overseas Consultants, Inc. Program

The State Department has recently received a copy of the second contract between the Government of Iran and Overseas Consultants, Inc. from a confidential source, and has made the contract available to us privately. OCI has not yet indicated its findings to the State Department openly. Included with the Department's despatch from Teheran was a copy of the draft report of the first OCI mission who visited Iran in December, written for oral presentation to Messrs. Naficy and Ebtehaj before the return of the first group for the United States. Presumably, OCI is now preparing a written report for presentation to the Iranian authorities which would be based upon this draft.

It will be noted that this brief report (a copy of which is attached) indicates that OCI believes that the physical and manpower resources of Iran should be able to stand the weight of the Seven-Year Plan under certain conditions, and to this extent it agrees with the previous Morrison-Knudsen survey. Among these conditions is the establishment of a nonpolitical development agency along the lines conceived in the present legislation before the Majlis. The report also points out that any economic development plan for Iran should be broad and not rigid. It emphasized that the managing director of the proposed development agency must have a high degree of operating authority, presumably free from political complications.

The second OCI contract, now in effect, the cost of which is not to exceed \$600,000, provides for the detailed working out of the plan within the scope of the present economic development bill. It does not differ materially from what we understood it would be when Governor Ebtehaj discussed their plan with you during the autumn.

So far as I know, this is the first report that the Bank has had of OCI's first mission. I believe we understood in October that OCI would indicate to us what particular areas of the economy they thought most profitable for the Bank to study at this time. On this basis, we indicated to Governor Ebtehaj during his discussions here that we would be prepared to accept or reject these preliminary OCI recommendations and then indicate to Iran what projects in general we wished to pursue with them. These views would be offered by a general Bank mission to be sent during the duration of the second OCI contract, presumably in February or March 1949. Unless OCI is prepared to give us more details than those provided in this report, it would be difficult for the Bank to offer any reasonable judgment on either projects or general approach. It now appears that we must await the results of the second OCI survey where specific projects will be worked out, then to be presented to us for study. Such a plan, if this is OCI's program, overlooks the fact that we would undoubtedly wish to examine Iran as a whole ourselves, and not rely exclusively upon OCI, however sound they may prove to be.

Judging from Ebtehaj's discussions with us in September and subsequently with Engert in Teheran last month, he may be extremely disappointed if the Bank does not indicate soon (as we said we would do as a result of OCI's preliminary work) in what areas it might be willing to support the Seven-Year Plan. I suggest that it might be useful to have a confidential conversation with OCI to determine whether this report, as attached, is all they offer at the moment or whether they could give the Bank more specific recommendations at this time.

I have talked this over with Mr. Madigan, who will arrange a meeting between you and the OCI people next week if you agree. If you have a moment, we might discuss this, particularly in the light of your proposed visit to the general area.

Attachment/1

cc: Messrs: Schmidt
Welk
Madigan



Record Removal Notice



File Title Iran - General - General Negotiations - Correspondence 03		Barcode No. 1805821		
Document Date Dec 15, 1948	Document Type report			
Correspondents / Participants American embassy, Tehran, Iran				
Subject / Title Enclosure No. 1 to Despatch No. 359 dated December 15, 1948 Draft of Proposed report of Overseas Consultants Inc. in fulfillment of agreement with the Government of Iran for expert services, dated, October 7, 1948				
Exception No(s). <input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input checked="" type="checkbox"/> 7 <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input type="checkbox"/> 10 A-C <input type="checkbox"/> 10 D <input type="checkbox"/> Prerogative to Restrict				
Reason for Removal Information Provided by Member Countries or Third Parties in Confidence				
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Withdrawn by Sherrine M. Thompson	Date Jun 6, 2013			

Iran Nego
File
Jan

OFFICE MEMORANDUM

TO: Mr. R. L. Garner

DATE: 24 January 1949

FROM: W.A.B. Iliff

SUBJECT: Overseas Consultants, Inc.

DECLASSIFIEDCONFIDENTIAL**JUN 06 2013****WBG ARCHIVES**

I attended a meeting at the British Embassy on Thursday, 20 January. There were present Mr. J. W. Taylor (H.M. Minister, Commercial), Mr. Bromley, his assistant, and Mr. Fitt and Mr. Olivier, representing Sr. Alexander Gibb and Partners. Mr. Fitt is one of the partners in the firm and Mr. Olivier is his South African engineer who has been working for the firm in Iran for the past two or three years. Mr. Fitt and Mr. Olivier had flown over especially from London to discuss with OCI the extent to which Gibb might be able to participate in our plans for Iran.

Mr. Fitt told me that arrangements had now been made for a team of seven to proceed to Iran almost at once to undertake phase two of the operation. The team would consist of:

1. Project manager - Mr. Bookhalter of Stone and Webster
2. General engineer - believed to be called Weeks
3. Health expert - a doctor Turner
4. Educational expert - Dr. King Hall from the University of Columbia
5. Agricultural expert - Dr. Johnston
6. Office manager, and
7. Secretary

It was probable that the general engineer will be replaced by a group from Gibb whose function it will be not only to study specific engineering projects within the plan, but to give engineering advice right across the board.

Mr. Fitt told me he thought their conception of the Seven-Year Plan was good. He doubted, however, very strongly the capacity of Iran to execute the Plan. The main difficulty in the way was lack of technicians to operate installations once they had been constructed. He thought that Iran was faced with the need of training, over a period of years, numbers of technicians in every field.

Memo - R.L.Garner - Overseas Consultants, Inc.

Mr. Fitt told me he thought Bookhalter was a good fellow but doubted if he was high level enough to determine priorities between the various sectors of the Plan. Fitt thought, however, that the arrangements would probably provide for such questions to be remitted back to the Board of OCI for determination.

I told Fitt what the Bank's position was. I said that there could be no question of us making a commitment to invest \$250 million in Iran's Development Plan and that if any of his colleagues in OCI or any authorities in the Persian Government harbored any illusions on this point then he could do a very good service in dis-illusioning them. I said, however, we should be prepared to give sympathetic consideration to any well thought out, modest, specific projects which might emerge from OCI's examination of the situation, and which were within Iran's capacity to finance both from the point of view of availability of local capital and from the point of view of Iran's capacity to finance external debt. Fitt said he was completely in agreement with our approach. I asked Fitt for his views about when would be an appropriate time for the Bank to send the promised mission to Iran. He said he thought the middle of March would be an opportune moment. This would be about half-way through OCI's present operations.

Mr. Bromley raised the point that the British Foreign Office had suggested that some of the experts on the staff of the Middle East Office in Cairo might usefully be associated with OCI in this operation. Apparently the proposal had been discussed with U.S. State Department who took a sympathetic view. I said I thought it would be a mistake for either the British Foreign Office or the U. S. State Department to take any initiative with OCI in this direction. I agreed that some of the British Middle East Office experts could make a useful contribution, but I thought that the best way to achieve something on these lines would be if the suggestion was made by the Iranian authorities, themselves, to OCI. The Iranian authorities might be appropriately stimulated by the U.S. and British Embassies in Teheran. Everyone present agreed that this was the desirable approach.

In the course of the general conversation, Fitt told me that he regarded the direct contacts between British and American engineers as being most useful and productive. He had discovered that methods in the two countries were completely different and he thought that each would learn a lot from the other. I think this rather indicates the usefulness of Mr. Madigan's projected trip to Europe.

(Dictated 21 January)

Not read

Iran-Report
17

Report to Majlis,
based on first OCI report



INITIAL REPORT
OF THE
GOVERNMENT OF IRAN
ON THE
PROPOSED SEVEN-YEAR PLAN
January 12, 1949

January 12, 1949

His Excellency The Prime Minister
Government of Iran
Tehran

Your Excellency:

Under date of October 7, 1948 Overseas Consultants, Inc. entered into a contract with the Government of Iran titled "Agreement for Expert Services" which provided for an initial study in Iran of a program under consideration by the Government for the improvement of the economic and social welfare of Iran.

Under this agreement Overseas Consultants, Inc. agreed to furnish an opinion based on the data available or to be secured within the limited period provided for this study as to the ability of the economy and physical and man power resources of Iran to support the proposed development program of \$650,000,000 (U.S.) (21 billion rials), which program, it is contemplated, will be carried out within the forthcoming six or seven year; and to review the presently established allocation of the over-all appropriation to the several elements of the Iranian economy by categories. The report, as provided for in this Agreement, is submitted herein.

In accordance with the Agreement, a group of five individuals—comprised of directors and representatives of Overseas Consultants, Inc. visited Iran, arriving in Tehran on November 14th. They were joined there by Max W. Thornburg, who worked with the group throughout their study as consultant and as liaison with representatives of the Iranian Government. The group remained in Iran until December 2nd. Throughout their stay they worked in close association with Dr. H. Mocharrafi-Naficy, Director of the Provisional Development Programme Organization; and were afforded the aid and co-operation of Mr. A.H. Ebtehaj, Governor of Bank Melli Iran. They were furnished with all available documents relating to the Seven-Year Plan, and with such statistical records and data as had been assembled as a matter of record in the various Government departments or agencies.

In the course of their stay the group journeyed to the Caspian Sea Provinces, part travelling by road and part by railroad; visited a number of the industrial plants in that area and observed the agricultural activities, living conditions and other elements of the economy of the district; and later visited Isfahan, Kashan and intervening areas, again making observations, visiting schools and industrial plants. The group also spent one entire day traveling by air over the larger part of the central portion of the country.

We are confident that the Government of Iran will recognize that the short time available for this preliminary study necessarily limited detailed consideration of the Seven-Year Plan and of the monetary allocations proposed in the Bill now before the Iranian Majless, and that the background for opinions on the fundamental questions outlined in the above-mentioned Agreement could only be arrived at by the following procedures:

1. Acquiring information by travel and observation as comprehensively as possible as to broad fundamentals of the Iranian social and economic structure.
2. Meeting and interviewing individuals most competent to provide the group with considered and impartial judgment on the major aspects of the Iranian situation.
3. Analyzing official statistics and information of the country.
4. Reviewing the provisions of the proposed Seven-Year Plan from a practical viewpoint rather than from a purely technical one.

It is evident that there would have been no need for the Seven-Year Plan, nor for our present report, if social and economic conditions in Iran had been entirely satisfactory. As support for our conclusions, it is necessary to summarize some of the conditions which without doubt are responsible for the proposal of a Seven-Year Plan. Such summary must not be taken as criticism of one country by a group of nationals from another, but as reflecting our endeavor to be most careful in attempting to diagnose the needs of Iran. Certain outstanding characteristics of the present over-all situation in Iran are apparent or readily determinable. Those which in our opinion are pertinent to this report are summarized below:

1. While the Government of Iran has certain internal and external debts, in our opinion these are not material as related to the Government's financial position.
2. The resources and revenues of the country are capable of improvement and expansion.
3. The Iranian economy is far from being a free economy.
 - (a) A substantial part of the large businesses of Iran are Government owned and operated. In our opinion, this contributes materially to inefficiency and for the discouragement of private investment in industry.
 - (b) The railroad system is Government owned and operated, with limited maintenance which tends increasingly to diminish the efficiency of its operations.
 - (c) The administration of the Government, itself, and Government-controlled businesses is concentrated and centralized at Tehran. As a result, Iran is not developing competent regional and local administrators. We believe such procedure to be highly undesirable, eventually tending to become dangerous, as the affairs of a great country cannot be efficiently run by concentrating the power of decision on matters of regional or local importance in any one city.
4. Social stratification is extreme. There is a small ruling class which generally does not seem to have developed the feeling of broad social responsibility. The middle class is insignificant in numbers and influence. The great mass of people which constitutes the remainder of the population is generally under-nourished, disease-ridden, indigent and illiterate.

5. The level of public health is extremely low, which is attributable to certain all-too-general conditions, such as:

- (a) Malnutrition
- (b) Bad housing conditions, both rural and urban.
- (c) Improper water purification and household water supplies.
- (d) Inadequate organization for handling endemic diseases.
- (e) Lack of sewerage systems in cities, and sewage disposal generally.
- (f) General lack of even the simplest medical care. This comes from the lack of a general plan for training doctors, nurses and public health officials, and lack of provision of facilities for their work.

6. The educational system is inadequate at all levels, both in general and in vocational training.

7. The feudal system in the form of village ownership by a single landlord exists widely in the country.

8. The national statistical service is unsatisfactory and unreliable.

9. The level of administrative morality in Government is not high.

10. The road transportation system, thanks to the fortunate accident of availability of war surplus trucks and chassis for buses, is well equipped, but it runs on inadequate and improperly maintained highways with consequent high depreciation of the vehicles.

11. The physiographic characteristics of the country make its adequate development difficult but not impossible. Its water resources are substantial but crudely and inadequately used. The mineral resources are probably large but, except for petroleum, almost undeveloped and relatively unprospected.

12. The agricultural and pastoral methods are primitive. The qualities of agricultural products are generally far below the desirable and possible standards which should be reached and maintained. Soil erosion and waste of timber resources are menacing to the future well-being of the land.

13. No country can thrive unless it has a reasonably well developed system for collection, storage and distribution of its surplus production. Iran generally does not have enough surplus agricultural production over the needs for minimum local subsistence, nor where these surpluses are produced is

there any adequate means by which they can be collected, transported and distributed to those localities which need them to supplement their own subsistence requirements. This is extremely important.

- 14. Tax reform is imperative. The system now in effect for the the imposition, apportionment and collection of taxes is acting as a brake on the progress of Iran.

The foregoing summary lists some of the major characteristics of the Iranian economy, but we have not attempted to make the summary complete.

We have, of course, studied not only the characteristics of Iran, itself, but we have also given attention to the provisions of the Seven-Year Plan bill now before the Majless. We have, likewise, studied Dr. Mocharraf Naficy's "Preliminary Report on the Persian Seven-Year Plan", dated Azar 10, 1326, and consider it an outstanding and statesmanlike document. The social and political reforms proposed in this report are far-reaching, and their great importance lies ^{not} only in their intrinsic character, but even more in the way that they would be administered. The time available has not permitted us to study each of the proposed reforms and, likewise, what is extremely important--namely, their prospective interrelationship and interactions. The need for some of these reforms is assuredly more pressing than for others, and we have found it necessary, for the purposes of this initial report, to focus our attention primarily on the economic aspects of the Seven-Year Plan.

As a result of the group's study, we herewith offer our judgment on the proposals of the Seven-Year Plan, having clearly in mind that the success of the Plan will be determined not simply by the proposals embodied in the bill, but even more by the skill and competence with which the facilities thereby provided are co-ordinated and administered.

It is our judgment, based on this preliminary study, that if the bill as proposed is enacted into law, and its provisions and facilities are guided, co-ordinated and administered with honesty and singleness of purpose based on the ideal of improved well-being for the Iranian people, the physical and man power resources of Iran should be able to stand the weight of the Plan. It is obvious that the carrying out of the projects of the Seven-Year Plan will cause some strains on the Iranian economy. Some of these strains will be of an inflationary nature and probably cannot be avoided completely, although they are subject to control. No national economy is completely independent of the situation in which the

other nations of the world find themselves, and the Iranian economy will be to some extent influenced by the conditions which will exist contemporaneously in other countries. Stable conditions for seven years, or even for seven months, cannot be expected in the present world. In spite of uncertainties such as these, our judgment is that the bill proposing the seven-Year Plan should now be enacted into law in order to enable the Government to begin without further delay the constructive work of the Plan. The characteristics of the present situation which have been enumerated are cogent evidence that action on a development program ought to be started promptly. Prompt legislative action to pass the pending bill and make the Seven-year Plan the law of the land should convince the Iranian people that their Government intends to alleviate and correct their social and economic ills by a sound development program.

We state further that the presently established allocation of the over-all appropriation appears to us to be satisfactory. We believe that the allocation, both divisional and chronological as well as geographical, provides for the present sufficient flexibility so that certain parts of the Plan, which should be started immediately, can have the necessary priority of action

In making these statements of approval, we wish to emphasize that the outstanding character and competence of the men who have been guiding the Seven-Year Plan up to the present will need to be reinforced with the wholehearted support of the Government, itself, and with a sufficiently large group of able and experienced experts in the various fields covered by the Plan, so that the very large amount of work which must be done will be properly guided in its efficient accomplishment.

We have certain broad suggestions for the carrying out of the Seven-Year Plan once it has received legislative approval. It is important that the development as defined in the bill be thought of as a broad program and not as a rigid and unyielding mould in which the Plan must be cast. No building of importance was ever constructed which did not have to have some of the details modified or changed as the work

proceeded. The same thing is true for a great enterprise like the Seven-Year Plan. Changes are sure to be needed within the broad program of the Plan as its development proceeds.

Our further suggestion has to do with the administration of the Plan. This is a field in which we have had wide experience, and we base our recommendations on that experience. The Plan will do no more than limp and stumble along unless the job of carrying it out is clearly defined and definitely placed on the shoulders of an able man who has power, authority and responsibility. If he is not thus endowed, the Plan almost certainly will become snarled in a tangle of conflicting and divergent authorities swayed by special interests. As has been previously made clear, our judgment that the national economy of Iran can stand the strain of the Plan is contingent on its honest and efficient administration. Such honest and efficient administration can only be insured by giving a strong, capable, honest and efficient Planning Organization the necessary authority and making it fully responsible for the exercise of that authority. So far as it is humanly possible to insure the success of the Plan, such insurance will best be provided by placing a capable man in the post of Managing Director, backed by a capable Planning Organization which has the responsibility and delegated authority to carry through the Plan without interference and in co-operation with the existing Government Organizations.

Throughout their stay in Iran our representatives received the utmost co-operation and assistance from Mr. Ebtehaj, Dr. Naficy and their staff, and from all Government agencies concerned, without which they could not have completed this task within the time allowed. Pertinent records and statistics were placed freely at their disposal, and arrangements for their transportation and living accommodations were made with the greatest care and consideration. For all of this, we express our appreciation.

Respectfully submitted,

OVERSEAS CONSULTANTS, INC.

J. R. Lotz, Chairman of the Board

Clifford S. Strike, President

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Iran Neg?

OFFICE MEMORANDUM

TO: Mr. R.L. Gerner

DATE: December 28, 1948

FROM: W.A.B. Iliff

SUBJECT:

I am sure you will be interested to read this paper by Mr. Acheson on Iranian Political Conditions. I think it is excellent and shows a display of thoughtfulness on Mr. Acheson's part which is commendable.

I have made one or two minor comments myself. My only substantial disagreement with Mr. Acheson would be in his final conclusion on page four but his guess here is probably as good as mine.

*Interesting
Thoughts*

W.A.B. Iliff

Attachment.

Sean Neg

OFFICE MEMORANDUM

TO: Mr. E. A. Bayne
DATE: December 23, 1948

FROM: Patrick Acheson PA

SUBJECT: Iran - Political factors affecting the Economic Development Plan

Since the fall of Prime Minister Qavam in December 1947, cabinets in Iran have succeeded each other in fairly rapid succession. This lack of stability in the Government may prove harmful to the proper execution of a seven-year economic development plan, consideration of which has now been shelved by the Majlis (Parliament) because of growing opposition to the appointment of Mocharraf Naficy, Alternate Governor of the Bank and Fund, as head of the board which will supervise the execution of the plan. Mr. Naficy is the logical candidate for the post since he is the author of the plan which is based on the Morrison-Knudsen Report.

The individualistic nature of the Iranian people has not been conducive to the formation of strong political parties. Mr. Qavam attempted to form a Democratic Party shortly before the elections in 1947. At the time, in addition to being Prime Minister, he held the position of Minister of the Interior. The latter post enabled him to exercise a large measure of control over the election and many of his adherents were returned to the Majlis. The Majlis is not a very representative body, most of its membership being drawn from among the large landowners and merchants who live in Tehran and rarely visit their constituencies. However, it was not long before the Democratic Party broke up into small blocs. These blocs combine to attain a specific objective and then regroup themselves. As a result the Government is rarely able to command a stable majority.

Under the Constitution the Majlis elects the prime minister. However, he must be appointed to office by the Shah, whose approval he must therefore command. Neither the prime minister nor his cabinet, which is customarily drawn from among a small group of some forty or fifty influential men, are members of the Majlis though each member of the cabinet has his adherents in that body, whose support may be rather ephemeral in character.

The Tudeh Party professes to represent the interests of the workers, the peasants, the liberal intellectuals and the minority groups. The Party is directed by a hard core of communist leaders who have centered their attention upon the working classes. The Party's platform has all the features of traditional liberalism including demands for progressive labor legislation, improved standards of living for the peasantry, free education and general health services. A large number of the intelligentsia who are seriously desirous of radical national reforms have joined the Party, many for lack of a more effective instrument of reform. In order to appeal to this group the Tudeh Party is agitating against the employment by the Government of foreign advisers. The Party lost considerable prestige as a result of the overthrow by the central Government of the autonomous Azerbaijan Government, which it had established with Russian help, though it is beginning to regain a little of its lost influence. Its strength probably does not exceed 50,000 at the present time.

The wretched conditions under which much of the population lives continue to provide a fertile field for the Party's activities. Its chief support comes from the urban working classes in Northern Iran. Agricultural labor is hard to organize for political and economic purposes and therefore does not easily become a factor of social unrest. However, those who left the farms to work for high wages on road construction for the British and U.S. armies during the war have now returned to their villages sullen and discontented. They are liable to fall an easy prey to the promises of the Tudeh Party and help to stir up trouble among the peasants who eke out a bare existence and are usually in debt to the local landowner or money lender as the result of their purchase of agricultural equipment and seed. The Tudeh Party does not command much support in the southern parts of Iran but, according to the State Department, Soviet agents have been active recently among the oil workers and in the large cities.

Present Situation

The present Government of Mohammed Saed is not expected to be long lived. Mr. Qavam's adherents in the Majlis have apparently agreed to give it their support for the next three months. Prime Minister Saed is a man of great integrity but has little administrative ability. He is considered anti-Russian, having rejected a northern oil concession demanded by the Russians when he was Prime Minister in 1945.

Qavam himself is a very shrewd and able executive with a considerable following in the Majlis. He is perhaps one of the few men in Iran capable of getting the seven-year development plan into operation. However, during his last administration, he appointed to various posts men whom the Shah considered inimical to him and in a final radio speech before his departure from office Qavam bitterly attacked the Shah. Until recently the Shah refused to consent to Qavam's return to office but has lately had several conversations with Qavam which may pave the way for a reconciliation.

Order has been largely restored to the country. The Nomadic tribes which in the past grew strong and independent when the central Government was weak have in recent months returned to central Government control. The Kurdish tribes who have been living in Russian territory since the failure of their Soviet-sponsored independence movement are now returning to Iran because of the intention the Russian Government has expressed to move them to Armenia where they would have to live amid a non-Moslem population.

Domestic Problems

The internal problems that confront the Government are:

(1) The passage of an annual budget. The Government has been subsisting on a month-to-month basis since last March. The budget is expected to be the first order of business now that the Government has been given a vote of confidence by the Majlis.

(2) Constitutional reform. The Shah is pressing for the creation of a Senate as provided for in the constitution but never established. The Shah desires the power to appoint half the members of this second chamber and thus enhance his power.

His wife is a "White Russian".

But he is now an old - and sick - man.

This is a heremias with problem with the Iranians.

(3) Bread riots. Bread riots are a constantly recurring problem due more to poor distribution than to any shortage of flour. The shortage has been aggravated by the prevalence of high prices in Iraq which has caused a large amount of flour to be smuggled across the border.

(4) Unemployment. There is both an unemployment and an under-employment problem to be faced. Many of the government-owned factories were closed down during the war for lack of raw material and have not been reopened. Government departments are employing probably three or four times the number necessary for their efficient operation. The British and American authorities employed about 10,000 men on road building during the war. These were drawn largely from agricultural communities whither they have now returned. There is not sufficient work for them to do on the land and the living they are able to gain is meagre compared with the relatively high standard of living they enjoyed while working for the British and American authorities.

There is growing awareness in Iran of the necessity of improving the lot of the mass of the people. The seven-year plan it is hoped will cure unemployment, raise living standards and take much of the strength out of the communist-led reform movement. To this end the Government has recently held conversations with the Anglo-Iranian Oil Company with a view to finding out whether the company will discuss an increase in the oil royalties at this time. An answer from the company is expected next January. The increase in the royalties would help finance the development plan. Though the Anglo-Iranian Oil Company may oppose any increase in royalties at this time, it may be expected to help rather than hinder any development plans.

The Shah is young, energetic and consumed with a desire to modernize his country. Such is his interest in the plans for economic development that he has appointed his brother, Prince Abdur Riza, who was educated in the U.S., to follow the progress of these plans for him. The Shah's influence is especially strong in the Majlis at the present owing to its divided state. It may be expected that he will exert it to some effect in the interests of getting the development plans into operation. It is difficult to estimate to what extent the Shah's popularity and influence depend upon his father's memory, particularly through surviving and still powerful military officers who were his father's comrades.

The main opposition to the development program within the country will come from the great landlords and the religious leaders until they decide that they have less to fear from reform than from revolution. Both of these elements are very conservative in outlook but the latter no longer exert much influence, having been shorn of most of their power by the present Shah's father.

Foreign Relations

The domestic problem of Iran's social and economic development, however, is tied up with foreign relations and with the international situation. It is difficult to assess at this time whether the country will be allowed to make its way unhampered.

Iran's relations with Russia have remained uneasy though quiet since Iran successfully withstood Russia's demands for an oil concession in 1947. Recently, Russian pressure on Iran has again begun to mount. According to

but I think they are remaining some of their influence.

The Russians always in 15 depend on Iran's acceptance of foreign financial aid. This is the Russian body of opinion which is more to loan to Iran's economic & political advice.

press reports high Government officials have been warned by the Soviet Embassy that U.S. military influence is excessive and that Moscow feared the West might employ Iran as a base for an attack against the U.S.S.R. According to the State Department there is a provision in the Russo-Persian Treaty of 1921, that the U.S.S.R. may intervene if in the opinion of the Russian Government Iran is threatened from a foreign source even though the Iranian Government may itself not be aware of any such threat. Furthermore, at the time these warnings were given the U.S.S.R. staged troop maneuvers on Iran's northern frontier. There have also been minor border incidents. An unconfirmed report has even appeared in a Tehran newspaper to the effect that Prince Firuz, a former cabinet minister and ex-ambassador to Russia, had formed a "Free Iranian Government" in Moscow. These straws would indicate the possibility that Russia would take over the country by force should the moment prove propitious in view of her previous diplomatic failure in Iran. Moreover, the Iranian army is weak and poorly equipped and could offer little resistance beyond guerilla warfare to a full-fledged Russian invasion. Nor can Iran count on much, if any, assistance from the United States or Great Britain. It is unlikely that the U.S. will be prepared to give Iran aid on the scale that it has provided for Greece and Turkey, while Great Britain's defense strategy now calls for a defense based on East Africa rather than the Middle East.

Conclusions

So far as Iran's internal condition is concerned, the instability of the Iranian Government is a factor in holding up the execution of the plans for economic development. However, it may be expected that the Shah's influence will be exerted with some effect to stabilize the political situation in the near future perhaps by permitting the return of Qavam to power. The Shah's interest in the development of his country assures some measure of continuity in this respect.

However, the future of Iran will depend largely on the course that Russia pursues towards her. If Russia decides that her interests demand the seizure of Iran, there seems little that can prevent it. Whether Russia will take such action it is impossible to estimate at this juncture.

I don't think I agree with this appreciation. I should think have thought that if any event would precipitate World War III it would be a Russian penetration in the direction of the Persian Gulf - & the oil of Iran & Iraq.

W.

Prince Firuz

*Iran -
Negots*

OFFICE MEMORANDUM

TO: Mr. A.S.G. Hoar
FROM: E. A. *Bayne*
SUBJECT: Iran - Overseas Consultants

DATE: 23 December 1948

Mr. Clyde Dunn, of the Iranian Desk at the State Department, informed us on December 20 that

1. The Council of Ministers in Tehran had approved on December 15 a \$600,000 contract with Overseas Consultants, under the terms of which the latter would make a four-month over-all economic survey and recommend projects to be started immediately. This contract would be signed in Washington within the next few days.
2. He had no information as to when the Overseas Consultants' report on their recent mission to Iran would be ready.
3. Consideration by the Majlis of the bill implementing the seven-year economic development plan had been postponed indefinitely owing to the opposition which had developed to the appointment of Mocharraf Naficy as head of the board to administer the plan.
4. Prince Abdur Riza, the Shah's brother and liaison man for the economic development plan, is now in New York. The Iranian Embassy is apparently reluctant that he talk to the State Department. His ideas on the implementation of the development plan are at variance with those currently prevailing in Tehran.

OFFICE MEMORANDUM

TO: Mr. E. A. Bayne

FROM: Patrick Acheson PA

SUBJECT: Iran - Overseas Consultants.

DATE: December 20, 1948

Mr. Jeffrey Kitchen of the State Department told me in a telephone conversation this afternoon that a second contract between the Iranian Government and Overseas Consultants, Inc., had been negotiated and would be signed shortly in Washington. Under the contract Overseas Consultants would send a party of 30 or 40 to examine in greater detail the projects envisaged under Iran's seven-year plan.

Mr. Kitchen did not know when the report of the preliminary mission would be ready though the fact that a second contract had been negotiated would indicate that the report would be favorable. He undertook to keep us informed of any further developments.

Later this afternoon Mr. Clyde Dunn of the State Department called to say that on December 15 the Council of Ministers in Tehran had approved a \$600,000 contract with Overseas Consultants for a four-month over-all economic survey and ~~have made~~ ^{to make} recommendations for projects which could be started immediately. This contract would be signed in Washington in the near future.

Mr. Dunn reported that opposition had developed in the Majlis to the appointment of Mocharraf Naficy as head of the Development Board. Naficy was the logical choice for this post as he had drawn up the seven-year plan on the basis of the Morrison-Knudsen report. As a result consideration by the Majlis of the economic development bill to implement the seven-year plan has been postponed indefinitely.

Prince Abdur Riza, brother of the Shah who is acting as liaison for him in regard to the development plan, is now in New York suffering from "diplomatic sinus trouble." Apparently he has ideas at variance with those held by Max Thornburgh, which prevail in Tehran at the present moment. The Iranian Embassy does not want the State Department to see Prince Abdur Riza who is, however, expected in Washington within a week or ten days.

Prince Abdur Riza's chief adviser on the seven-year plan is Taghi Nassr, the Bank's Alternate Executive Director, whom Mr. Dunn characterized as a very able person.

Iran - Nego.

OFFICE MEMORANDUM

TO: Mr. E. A. Bayne

FROM: Patrick Acheson PA

SUBJECT: Iran

DATE: November 23, 1948

On November 17, in the absence of Mr. Clyde Dunn I saw his assistant, Mr. Kitchen, at the State Department. During the course of our conversation Mr. Kitchen made the following points:

(1) Reasons for Political Instability in Iran. For generations the Iranian Government has been subject to pressure from the British and the Russians. The British influence has waned and for the time being so has the Russian. The United States has been unwilling to fill the vacuum thus created. As a result the Iranian Government is finding great difficulty in standing unaided upon its own two feet.

There are no political parties in the American sense of the word in the Majlis. The members rather form themselves into blocs who combine together for specific purposes. When these purposes have been accomplished, the blocs dissolve -- and the Government usually falls. Neither the Prime Minister nor his Cabinet are members of the Majlis. I inferred from what Mr. Kitchen said that great astuteness and an ability to conduct political intrigue are prime requisites for a Prime Minister if he were to stay in power for any length of time.

(2) Ghavam. It was Mr. Kitchen's view that Mr. Ghavam, a former Prime Minister, was perhaps one of the few men with the ability and drive to carry through Iran's seven-year program. Unfortunately, he and the Shah have no great liking for each other. Ghavam while in power appointed a number of men to office whom the Shah considered to be his enemies. Furthermore, in a final radio address just before his resignation Ghavam aimed some rather pointed barbs directly at the Shah. For these reasons the Shah has not forgiven Ghavam and there seems little likelihood for the time being that Ghavam will be able to return to power though Ghavam is doing his best to return to the Shah's good graces. Mr. Kitchen considers this situation unfortunate since Ghavam is very able and has a strong following in the Majlis.

(3) Mohammed Said. Mohammed Said is the present Prime Minister. He preceded Ghavam in this office back in 1945. He is considered as anti-Russian having refused oil concessions to the Soviet during his first administration. He is a man of great integrity but he is well aware of his own shortcomings as an administrator since he seems to lack executive ability. Apparently Ghavam's followers in the Majlis have agreed to support him for ninety days hoping in the meantime to patch up relations between Ghavam and the Shah. What will happen if this does not come about Mr. Kitchen was unable to predict.

(4) The Shah. The Shah has influence but no power. He is respected where his father was feared. He is moderately progressive in his views, is able and desires the development of Iran. The court clique and the army are his main support but they alone cannot give him control of the country. Similarly, Ghavam's following in the Majlis does not give him sufficient strength

to return to power without the Shah's support. The Shah has very close relations with the army Chief-of-Staff, a very able man. Stories have been spread that the Chief-of-Staff has ambitions to take over the country. These are not verified and apparently have not affected his relationship with the Shah. Many army officers have been trained abroad but in spite of this the army remains very weak.

(5) Other Influences. The Tudeh movement, according to Mr. Kitchen, no longer has a very large following. What strength it has is centered in the Azerbaijan region. However, Soviet agents have been trying to foment trouble among workers in the south with some success. The Iranians have no love for the British and the Anglo-Iranian Oil Company wields but little influence though it does have contacts in high places through former British intelligence agents now on its staff.

(6) Relations with Russia. It is Mr. Kitchen's personal view that Russia's next move against Iran, if it is made, will be that of military invasion. It appears that under the 1921 Treaty the Russian Government has the right to intervene in Iran if in the opinion of the Russian Government Iran is threatened from a foreign source even though the Iranian Government may not be aware of any such threat. This was intended to protect the Soviet Government against a White-Russian attack through Persia. The State Department is pressing the Iranian Government to submit a memorandum to the United Nations Security Council stating that it considers this provision of the 1921 Treaty no longer in force since there now existed international machinery to deal with any threats to peace.

(7) General remarks. Mr. Kitchen said that the Nomad tribal chiefs, many of whom have been educated abroad, were now prepared to come under the control of the central Government. The late Shah had pursued a policy of sending young men abroad to be educated. Unfortunately, when they returned they did not want to live anywhere but in Tehran. Consequently, there was a shortage of doctors, etc., in the provinces and an oversupply in the capital. These young men finally found themselves some job in a Government department. There was, therefore, a considerable number of people in Government employ who could be drawn on for the administration of the seven-year plan. Mr. Kitchen felt that it was essential that ^{the} plan should be under the control of a non-political commission which would not depend for its existence on the fate or the whims of the Government in power.

(TRANSLATION)

I R A N

Draft Bill
re Seven-Year Plan
submitted to Majlis May 2, 1948.

suclosed with
Sugerts # 37
Nov. 13, '48.

Iran Nego.

Art. 1.

For the purpose of increasing production and exports, supplying the needs of the people within the country, developing agriculture and industry, discovering and exploiting mines and underground wealth, especially oil, improvement and extension of means of communication, improving the health of the people, launching upon activities that spell prosperity for the country, raising the standard of living and enlarging the income of the inhabitants of Iran, and lowering the cost of living, the Government is required to execute a series of activities within seven years from the date of approval of this bill, the sum total of which activities will constitute a Seven-Year Reform Plan.

Art. 2.

For the execution of the Seven-Year Plan, the capital earmarked for the purpose will be distributed and spent in the various economic and social branches as listed below:-

Part I: Agriculture

<u>Field</u>	<u>Millions of Rials</u>
Scientific institutions and research	400
Combating plant and animal diseases; animal breeding	1,100
Protection of national wealth, i.e. forests, pasture-lands, etc.	450
Development of agricultural products	900
Addition to the capital of the Agricultural Bank of Iran	100
Participation in the capital of co-operative societies	350
Purchase of agricultural machinery and preparation of chemical fertilizers	200
Irrigation and construction of dams and barrages	<u>3,000</u>
Total Part I	6,500

Part II. Railway, Motor Roads, Ports and Aerodromes

Railroad construction	2,000
Road construction and asphaltting	1,050
Ports	250
Air Fields	<u>400</u>
Total Part II	3,700

/Part III.

Part III. Mines and Industries

Millions of Rials

Weaving Industries	1,400
Sugar	500
Iron and steel	550
Technical Industries	450
Ceramics	150
Carpet weaving and miscellaneous crafts & industries	100
Mines	<u>450</u>
Total Part III	3,600

Part IV. Oil

Capital for the establishment of an Iranian Oil Co.	1,000
Total Part IV	<u>1,000</u>

Part V. Post, Telegraph & Telephone

Extension of postal communication facilities	300
Extension of wireless telegraphic and broadcasting facilities	<u>400</u>
Total Part V	700

Part VI. Social & Municipal Reforms

Building of low cost houses	1,500
Loan to municipalities for creation of water systems and establishment of power plants	1,000
Prophylactic measures to improve public health	1,000
Aid to technical institutes to train experts for useful vocations; raising the level of the technical knowledge of industrial and agricultural workers	1,000
Map-making and compilation of statistics	300
Building of prisons in important towns	200
Other works of public utility	<u>500</u>
Total Part VI	5,500

Grand Total of All Parts

21 million rials.

Funds appropriated by this Article to the various Parts will be utilised exclusively for the purpose defined.

Should the amount of money allocated for each part fail to be adequate for the purpose or should the amount prove to be more than that actually needed, the Government can increase or decrease the amounts up to 10 per cent of the allocated sum.

The Government is required, within four months of the approval of the bill, to prepare a detailed programme of the allocation for each year for each branch as per this law, and report it to the Majlis.

/Article 3.

Art. 3.

The annual distribution of the funds in Art. 2 will be as follows:-

<u>Year</u>		<u>Amount in millions of rials</u>
1327	(March 21, 1948 to March 20, 1949)	1,000
1328	(" 1949 " 1950)	2,000
1329	(" 1950 " 1951)	2,800
1330	(" 1951 " 1952)	3,300
1331	(" 1952 " 1953)	3,500
1332	(" 1953 " 1954)	3,600
1333	(" 1954 " 1955)	3,600
1334	(" 1955 " 1956)	<u>1,200</u>
		21,000 million rials

The Government is authorized, when necessary, to vary the annual allocation by 10 per cent.

Art. 4.

Funds stated in Article 3 above will be distributed to the various provinces of Iran so that none of the provinces will receive a share smaller than 1,000,000,000 rials during the seven years of the Plan.

Art. 5.

In 1327, Rials 600,000,000, and in the following years, pending the execution of the Plan, all the revenues of the Government accrued from the royalties of the A.I.O.C. will be exclusively appropriated to the execution of the Plan.

On the completion of the seven-year period, the revenues stated in this article will be used for reimbursement of loans and the payment of interest on those obtained under the law for the execution of the Plan.

Art. 6.

To supplement funds needed for the execution of the Plan, the Government is authorized:

(a) to obtain a 2 per cent loan of Rials 4,500,000,000 from the Bank Melli Iran. This loan will be obtained within a period of seven years and the amount obtained per year shall not exceed Rials 750,000,000;

(b) the Government is authorized to enter into negotiations with the World Bank to obtain (for the purpose of undertaking activities directly resulting in the production of wealth) a loan amounting, at the maximum to \$250,000,000. The proceeds of the loan will be used in instalments and under conditions mutually agreed by both parties. Nevertheless, any contract or agreement compiled in this connection must be approved by the Majlis before it becomes binding and final;

(c) the Government is authorized to obtain credit for the purpose of completing financial facilities from internal, non-governmental establishments and/or from foreign commercial institutions or firms.

/Art. 7.

Art. 7.

Income accruing from the execution of projects described in the Plan will be used primarily for executing the Plan. After the completion of the Plan, as long as the debts of the Government incurred for this purpose have not been reimbursed, any income will be utilised exclusively for liquidation of the debt.

Art. 8.

Provision of preliminary means and facilities for the execution of the Plan, supervision over the efficient working of projects, co-ordination and co-operation among the various branches executing the Plan and general supervision of the execution of the Plan will be assigned to a five-man Board of Supervision. This Board will be nominated by the Council of Ministers and appointed with the approval of His Imperial Majesty the Shah in a Royal Decree.

Members of this Board will discharge their duties as full-time officials and will not be allowed to engage in any other paid or honorary public or private enterprise or work.

Art. 9.

The Board of Supervision may make recommendations and carry them out with the approval of the Government in the following matters:-

- (a) General policy and mode of action; allocation of annual credit to various branches.
- (b) Detailed annual budget.
- (c) Rules and regulations regarding the execution of the Plan.
- (d) Detailed plans and projects and their order of priority.
- (e) Monthly and annual reports of the various agencies executing the Plan.
- (f) General principles on which agreements and contracts (for the execution of the Plan) should be based.

NOTE: Regulations needed for expediting and efficient execution of the Plan, in instances wherein the observation of adjudication rules or some of the provisions of current financial, accounting and foreign exchange rules is not required, will be approved by the Government upon the proposition of the Board of Supervision.

Art. 10.

The Board of Supervision is required to bring together regularly the results of operation of the different agencies assigned to the execution of the Plan, record them and report to the Government at the end of every month a summary, from the financial and technical viewpoints. In addition, the Board will report its own views and comments. At the end of every year, the Board must prepare a balance-sheet of the progress of the Plan. This report will be submitted to the Government. Likewise, the Board is required to send to the Accounts Tribunal within the first three months of the year all the accounts of the previous year, so that the Tribunal may audit and certify the accounts.

To ensure the smooth working of the affairs and to obtain any information, the Board of Supervision is authorized to refer directly to agencies engaged in executing the Plan. When necessary, the Board may call these agencies to account and report to the Government for any defects or irregularities noticed in the agencies. In such cases the Government is required to investigate the matter at once and issue appropriate instructions so that the cause of the complaint is removed within a month.

Art. 11.

The Board of Supervision will have an adequate technical and clerical staff to assist it in the preparation of projects and in exercising financial and technical supervision. Credit for payment of such salaries and expenditures will be established in the administrative budget of the Plan and paid in accordance with the approval of the Government.

All members or individuals whose services are required (as regular employees) for executing the Plan as well as for consultation by the Board of Supervision, will be chosen from among the present employees of the Government, except under special circumstances, when an adequate number of technical experts are not available among government employees.

The Board of Supervision can, with the approval of the Government, engage foreign experts for periods not exceeding the expiry of the Plan by more than one year (i.e. up to eight years).

Art. 12.

The constitution of the Board of Supervision as well as other regulations concerning the execution of this law, will be approved by the Council of Ministers.

Each Ministry is charged with the execution of this law within the limits of its duties.

Signed: A. Najm
Minister of Finance

Signed: Ibrahim Hakimi
Prime Minister

13.5.48.

Iran kept

OFFICE MEMORANDUM

TO: Mr. A.S.G. Hoar
FROM: E.A. Bayne
SUBJECT: IRAN: Economic Questionnaire

DATE: 2 November 1948

About a week ago, an Iranian staff member of the I.M.F., Ahmed Majidian, telephoned me to say that considerable material in reply to our basic questionnaire had been received by the Iranian Embassy. Since it was unorganized data, he would like to discuss it with us before he, on behalf of the Embassy, put it in shape for the I.B.R.D.

We suggested an early session with Dr. Welk and Mr. Bochenski, and after a week of study with him, Bochenski put together a schedule of existing information and what more was needed. Mr. Majidian hopes to prepare a formal return in a month with at least some of the holes plugged. Mr. Nemazee, Commercial Attaché of the Embassy, stressed to me the informal nature of the returns at this stage, but also supported Majidian's promise to give us a first formal return by early December.

The information so far informally presented will need considerable amplification, but the effort to reply early should be noted.

October 18, 1948

IRAN

1. Proposed
Loan

Borrower: Government of Iran
Amount: \$250,000,000 (or less)
Terms: Not yet discussed
Purpose: General development of the country including various agricultural, industrial and transportation projects.

2. Contact

(a) Assistant Loan Officer: Bayne
(b) Conversations: The Iranian Ambassador (Hussein Ala), in letter dated 24 October 1946, informed President of IBRD (Meyer) that Iranian Government had decided to apply for a long-term credit of \$250,000,000. Bank replied suggesting negotiations which, however, did not take place for some time.

Several conferences took place between representatives of the Bank and the Iranians between September and December 1947. Copies of the Bank's general economic questionnaire were given to the Iranian representatives and it was explained to them that the Morrison-Knudsen report on Iranian development projects, which previously had been made available to the Bank, could not be regarded as a sufficient basis for loan discussions. In September 1948, IBRD was requested to supply advisers who would implement specific planning of the Iranian seven-year program. The Bank replied and suggested that Iran hire a firm of consulting engineers with experience in all fields, and suggested that International Basic Economy Corporation or

Overseas Consultants, Inc. were likely candidates. The Iranian Government subsequently hired Overseas Consultants, Inc. to undertake a three-part survey of the Seven Year Plan in the light of Iran's own domestic resources and its foreign exchange prospects. In October, the Bank was informed of these arrangements by the Iranian Government, and stated that, when the first stage of the work of Overseas Consultants Inc. was completed, the Bank would be interested in sending a mission to Iran. The first stage would involve a determination of the strength and domestic prospects for Iran's development plan. The second stage would be a definition of the plan's individual components, whether industry, or agriculture, or communications. The third stage involves the detailed engineering of individual projects.

(c) Correspondence: On 30 March 1948, a letter was sent to the Iranian Government explaining the basic policy of the Bank with regard to development loans. A second letter was sent August 20, 1948, suggesting the services of OGI. The Bank also possesses an aide memoire covering the conversation between the Iranian Government and Mr. McGloy, indicating the degree of the Bank's co-operation, dated 2 Oct.

3. Special problems

- (a) Lack of political stability and - in connection with it - little continuity in relations with Government which, at times, has made pronouncements indicating that a loan from the Bank was not even wanted.
- (b) Insufficient economic information about conditions in Iran.

(e) Difficulties with regard to supervising the operation of the Iranian economic plan may be experienced.

(d) Ulen Co. objects against granting of loan before their claims against Iran are satisfied.

4. Progress
to date

1. It has been made clear to them that the Bank (a) could not finance their whole program, and (b) would need additional information before financing even parts of it.
2. A preliminary background study on Iran has been prepared by the Loan Department.
3. The Economic Department has prepared studies on:
 - (a) The increasing importance of Middle East oil to Western Europe;
 - (b) Royalties on Iranian oil;
 - (c) Labor and the Textile Industry in Iran.
 - (d) The Economic Department is expecting to update the preliminary background study on Iran sometime before January 1949.

5. Programme

1. The next move is with the Iranian Government and should consist of:
 - (a) answering the questionnaire;
 - (b) presenting the results of the OCI work and consulting with the Bank concerning the highest priority for projects which are to be proposed.
2. The Bank mission expects to go to Iran in January or February 1949.
3. Meanwhile the Economic Department will prepare a preliminary report on Iran, enlarging the existing Loan Department study.

OFFICE MEMORANDUM

TO: Mr. E. A. Bayne ✓

DATE: October 18, 1948

FROM: Patrick Acheson

SUBJECT: IRAN - Interview with Mr. A. I. Tannous, Office of Foreign Relations, U.S. Department of Agriculture (S.Bldg., room 5933, ext. 2903)

This morning I went over to the Department of Agriculture to see Mr. Tannous whom Mr. Garner had met at an Iranian Embassy party. Mr. Tannous is working on the agricultural aspects of the U.S.-Greek-Turkish Aid Program.

In the course of our conversation Mr. Tannous made the following points:

(1) It was an excellent idea to lay out an over-all plan for the development of Iran but it would be illusory to attempt to accomplish it in so short a period as seven years. Past efforts at reform had been sporadic and largely ineffective. Mr. Tannous cited the failure of the late Shah's attempt to settle the Nomad tribesmen which had only resulted in a drastic reduction of their flocks and herds while reducing them to the level of day laborers. To have a chance of success the Development Plan should be spread over, say, from 25 to 50 years.

(2) If the objective of the agricultural phase of the seven-year plan was the raising of the level of agricultural production, this could better be done by such comparatively cheap methods as the proper selection of seed, pest control, the erection of storage facilities and the training of farmers in improved agricultural techniques. When the farmers had digested such improvements as these it would be time enough to build dams and carry out large-scale irrigation projects.

(3) The measure of any scheme of agricultural development in Iran should be the improvement in the lot of the share cropper who at present receives but one-fifth share of his crop. Until there was a drastic revision

in the present system of land tenure, under which 90 per cent of the land was owned by the State or absentee landlords, whereby the farmers were enabled to own the land, there could be no lasting improvement in Iranian agriculture.

(4) Mr. Tannous suggested that only small projects be financed to begin with and that no additional projects be undertaken until the initial projects had proved successful. This would allow time not only to train suitable personnel, of whom there was a great lack, to administer the Development Plan but to prepare the population for the further changes contemplated. He feared that no consideration had been given to the impact of westernization upon the Iranian people. He felt they could take it in their stride if they were given adequate time in which to adjust themselves to the new conditions.

(5) Mr. Tannous expressed the opinion that the present system of government was not sufficiently broadly based to have any stability. He, therefore, suggested that a guarantee be got from the Shah that the Development Plan would be carried out.

Dean Key
W

OFFICE MEMORANDUM

TO: Mr. Iliff
FROM: E. A. Bayne *EB*
SUBJECT: IRAN

DATE: October 7, 1948

In replying to Mr. Somerville's desire to join in with the meeting this afternoon with Mr. Ebtahaj, the Overseas Consultant's Inc., and the IBRD, Mr. Burland and I suggested that, if Mr. Somerville desired to come, he should come on Mr. Ebtahaj's request and not at ours. Mr. Somerville informed me this morning that Mr. Ebtahaj had made the request for Mr. Somerville to accompany him, and that, probably, there would be someone from the office of Economic and Financial Development Policy of the State Department also.

OFFICE MEMORANDUM

TO: Files

DATE: Oct. 6, 1948

FROM: E. A. Bayne

SUBJECT: IRAN - Interview, October 6, 1948, with Dr. A. H. Ebtahaj, Governor,
Bank Mellī, Iran

Since this was the first meeting of this division with the chief Iranian proponent of the country's development plan, and a first meeting with the key negotiator of an actively potential borrower, every effort was made to establish a close personal relationship. However, within a conversation that covered a wide range of discussion, a few points should be noted.

As Dr. Ebtahaj had experienced, a few days previously, an unpleasantly negative interview with the Export-Import Bank, he was defensively anxious to determine the extent the IBRD's interest in Iran. He had, he said, received a general assurance from Mr. McCloy that the so-called Seven-Year Plan would be supported if the projects constituting the Plan were in themselves acceptable. Did this mean, Dr. Ebtahaj wondered, that the Bank could be counted upon to provide over the seven- or eight-year period the estimated \$250,000,000 that would be required? As sympathetically as I could, I pointed out that the IBRD could not possibly give any such commitment now, regardless of its interest in Iran; simply because its own dollar financing position could not be prejudiced that far in advance. When looked at in this banker's view, Dr. Ebtahaj agreed, a commitment was not possible, although he did wish that he could return to Iran with some concrete progress made.

I gave him my assurances that progress was being made, that the relationship between Iran and the Bank was considerably closer than in 1947. Further, if, as a result of the work of Overseas Consultants, Inc., a specific loan application could be made in the Spring of 1949, there seemed to be no reason why a loan could not be made, assuming the project fulfilled the usual requirements, and the economy of the country gave promise generally. I suggested rather firmly that the first application should be relatively small, as a tightly-knit project, with a direct dollar revenue aspect - in effect, a showpiece, in order that the whole IBRD relationship with Iran could be fortified by the most positive sort of negotiations. He agreed, and (later with Mr. Hoar) suggested that the Bank be prepared to send a general mission in January, after initial work of OGI had been done, but before the detailed engineering for any project was completed.

Iran Negot.

Files

October 4, 1948

E. A. Bayne

IRAN

Telephone conversation with Mr. James Somerville, Commercial Attaché,
United States Legation, Teheran, October 1, 1948

Mr. Somerville reported that after some local delays, the first contract between the Iranian Government and Overseas Consultant's Inc. was signed September 30th in Washington, the delays brought about by last-minute hesitancy on the part of the Premier which was overcome by the Shah's re-affirmation of the development program.

This first contract calls for five officials of OGI to proceed on October 15th to Iran to make a two-week cursory survey of the development program, including a tentative division of funds (500,000,000 rials) for various fields, establishment of priorities, and determination of the number of specific exports required for detailed field investigation and subsequent engineering. Under the general agreement between OGI and Mr. Ebtahaj (who signed the contract), the second stage of OGI work will be field investigation, and the third stage will be the detailed project engineering. Presumably each stage will require a new contract.

EAB:smb

cc: Mr. Hoar
Mr. Burland

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Mr. Bayne

The Iranians will
send us a clean copy
incorporating my amendments to
the last two paragraphs.

W.S.

W.S.

auto memo book 1548

*Tehran Meeting
Iran*

2 Oct. 1948

Aide memoire of discussions held between Mr. John J. McCloy, President of the International Bank for Reconstruction and Development, and Mr. A. H. Ebtehaj, Governor of Bank Melli Iran and Governor for Iran to the World Bank and Fund, on October 2, 1948.

Others present were:

- Mr. Robert L. Garner, Vice President
- Mr. W. A. B. Iliff, Director, Loan Department
- Mr. F. Nouri-Esfandiari, Iranian Charge d'Affaires and Alternative Executive Director
- Mr. M. Nemazee, Iranian Commercial Attache
- Mr. A. Majidian

Mr. Ebtehaj gave full details of Iran's development program explaining that Morrison-Knudson International Company Inc. recommended 240 projects with a total cost of U.S.\$ 1,250 million. The Iranian Planning Board after long deliberations and careful studies prepared a new plan with an estimated overall cost of about U.S.\$ 650 million.

Mr. Ebtehaj further stated that, as explained last year, the intention of the Iranian Government is to request the Bank for a loan of U.S.\$ 250 million to be spread over seven years with a comparatively small sum for the first two years; but since it was pointed out last year that it would be better to start with a small loan just to have Iran's name on the Bank books, the Iranian Government would be prepared to make necessary application if the Bank was still of the same opinion.

It was further stated that a group of four or five executives of Overseas Consultants Inc. whose recommendation would be more or less acceptable to the Bank were to go to Tehran on or about October 15. They would carry out overall survey of the plan not only on its general economic and financial aspects but also from the point of view of the availability of manpower and labour. The task of making more detailed studies on specific projects will fall on a group of 20 to 30 engineers and specialists who will be selected by the first group.

Mr. Iliff stated that in his previous discussions with Mr. Ebtehaj he had said that although much depended on the repute of the firm in question, nevertheless, the Bank reserved the right of sending out a mission of its own should it be decided upon and that Mr. Ebtehaj had suggested that if it was deemed necessary to send a mission, in order to save time, it would be desirable to send them while the second group was still in Tehran.

Mr. McCloy agreed that if the Bank was to send out its own experts, they would go to Iran while the O.C.I. men were still there. As regards the possibility of financing the plan Mr. McCloy added that although under the present unsettled conditions the Bank refrained from entering the market fearing a probable failure but he was sure that it could be done under more favourable conditions. It was further asserted that although no definite promise could be made, the Iranian Government could rest assured of the Bank's desire to assist

Iran in her development plans once the political conditions now prevalent in that area were settled. Mr. Etehadj explained that as Iran was not a member of the Arab League the present situation in Palestine would not affect her and as regards general world conditions he said there was no difference between Iran's position and that of countries in other areas, since if there was going to be a war the whole world would be affected and all development plans would come to a standstill and if there was no war Iran could carry out her development program uninterruptedly.

Mr. McCloy again emphasized that although the Bank could not give any assurance over a long period even if there was an undertaking in writing as everything depended on the availability of funds he said nevertheless that if the Bank were satisfied with the progress of the development program and with the manner in which things were conducted in Iran, Iran could count on the Bank to give her during the seven-year period the amount it had requested. He added, however, that the position would be different if there was a communist government in power in Iran.

Mr. Garner stated that a further point which should be borne in mind was that the Bank would have to give consideration to applications from other member countries, as the Bank could not confine its activities to certain areas only.

contracts

that presumably the Bank would be ^{concerning banking} ~~able~~ able to dispose of its own securities for a very substantial time so that Iran could feel a certain assurance that ~~its~~ ^{its} financial ~~adventures~~ ^{adventures} in ~~its~~ ^{its} ~~own~~ ^{own} ~~and~~ ^{and} ~~productive~~ ^{productive} ~~enterprises~~ ^{enterprises} the Bank would be in a position to aid

See attached Amendment - 657.

Mr. McCloy again emphasized that the Bank, as now organized, could not give a commitment extending over a long period. He pointed out that the Bank would in all likelihood be a continuing and growing institution, able to mobilize substantial sums of money as it disposed of its own securities and drew increasingly on the capital subscriptions of its members. Assuming good financial management of her affairs and the presentation of productive and practical projects, Iran could feel a certain assurance that the Bank's facilities would continue to be available to her over a long period. Subject to overall conditions, if the Bank were satisfied with the progress of the development program and the manner in which things were conducted in Iran, Iran could rely on the Bank to extend to her financial assistance in the implementation of her development program to the extent compatible with Iran's needs, with her capacity to service foreign indebtedness, and with the overall demands on the Bank's available resources.

Mr. Garner pointed out that the Bank could not exclude consideration of applications from other member countries as the Bank could not confine its activities to certain areas only.

*Iran. Negot.**Ca.*

OFFICE MEMORANDUM

TO: Files

DATE: September 24, 1948

FROM: E. A. Bayne *EB*

SUBJECT: IRAN

Interview with Mr. James Somerville, Commercial Attaché, United States Legation, Teheran (with Mr. Burland).

According to Mr. Somerville, recent cables to the State Department from Legation officials and from Mr. Max Thornburgh indicate that the Iranian Government is making progress in establishing machinery for its Seven-Year Development Plan. This follows on the general recommendation of the IBRD (letter to Iranian Legation of August 28, 1948) that the development program be implemented by further definition, particularly before beginning any large projects or attempting loan negotiations. Further, it was suggested that this detailed work and specific project engineering be done by a firm of foreign technical advisers. Chief among these might be, it was suggested, Overseas Consultants, Inc., or the International Basic Economic Corporation. Mr. Thornburgh returned to Teheran to obtain the consent of Iranian authorities to the hiring of Overseas Consultants, Inc.

The Iranian Government has appropriated \$400,000 for preliminary studies by OCI, and a proposal was now being considered both by OCI and the Iranians for a preliminary two-week mission for five executives to visit Teheran. They would then discuss the terms and scope of a contract that would cover the detailed writing of the Seven-Year Plan. It was planned that following this preliminary meeting, Overseas Consultants would prepare the comprehensive plan of execution for development. This would require about twenty technicians working for about three months. The contract would be signed some time after the end of October when the Majlis had passed the annual budget, and had enacted legislation for the creation of an executive planning and development agency, which would, in turn, contract with OCI, as the government contracting and purchasing agency. This agency would probably be under the direction of Mr. Ebtahaj. This enabling law, incidentally, will require that the agency, within four months of its creation, return to the Majlis a development plan and timetable (based upon the current outline of the Seven-Year Plan) for specific approval by the legislature. Whereupon the detailed engineering for specific projects could be set in motion.

Mr. Thornburgh is to be named liaison officer between the Government and Overseas Consultants, Inc., and paid out of the \$400,000 fund.

Mr. Somerville also reported that the State Department was in receipt of an informal opinion by a Mr. Pyman, Iranian Affairs Officer of the British Foreign Office. This official had been gratified at the Iranian Government statement that it would welcome British engineers and technicians in the Overseas Consultants' program (although the Iranian Government did not feel this was necessary in the early stages). However, Mr. Pyman also felt that the inclusion of only British and American personnel might give rise to local Iranian press criticism, providing material for a line that a limitation to these two nations was in essence anti-Soviet. It would be better, he thought, to include

Danish and Swedish engineers, firms of each nationality having had engineering experience in the country. Mr. Somerville said that the State Department position was that OCI was in a position to work extremely quickly and that the job of planning might well be done before political opposition would have had time to form. This speed might offset the political obstacles.

Mr. Somerville related that he and Mr. Thornburgh has approached the Export-Import Bank a few weeks ago. They discussed a project announced by the Minister of Agriculture of Persia requesting \$4 million for agricultural machinery. The general substance of this discussion with the Export-Import Bank was that this project had not been fully conceived. Further, the State Department felt that the request should be cut to a million dollars or less and limited to well-drilling equipment or pumps for local irrigation schemes. They had also discussed the possibility of Eximbank financing for a cement factory and power plant.

It is expected that Mr. Ebtahaj, who will be in the United States during the Bank and Fund meetings, will be able to describe the functions and prerogatives of the proposed development agency in more detail.

EAB:b

cc: Mr. Hoar ✓
Mr. Burland

Iran nego
M

OFFICE MEMORANDUM

TO: Mr. Cliff

DATE: September 22, 1948

FROM: E. A. Bayne

SUBJECT: Heshmut Ala'i

You once inquired what Mr. Ala'i did, and this may be an appropriate time to reply briefly.

The Middle East Research Center, Inc. is a reasonably earnest effort to supply the public with general economic information on the Middle East, as a show-piece for specific commercial promotions. Ala'i related to me, for example, his difficulties in standardizing and merchandising dates for a mass market in the United States. It appears the major date collectors in Persia could not see their way clear to give up short-term profit for a long-term development.

Ala'i is making an effort to operate for all the region, including Turkey, but he is an Iranian and apparently permits himself a pardonable emphasis. His father, incidentally, is a director of the Bank Melli, and frequently supplies him with local information. His publications, some of which you have seen, are of a general nature, but undoubtedly useful for business people interested in the market and similar customers.

He seems to like the idea of being on cordial terms with the Bank, by the way, but at the moment I can see no harm in it. He is interested so far in rather general information, and asked if we could let him have a copy of an Iranian Government press release on the Seven-Year Plan. Do you agree?

↓
Mr. Bayne Yes. *hst.*
28/ix.
27 Sept

ROUTING SLIP

Date

8/17/48

TO-	Name	Room No.
1	Mr Bayne	413
2		
3		
4		

FOR-		
	Action	Initialing
	Approval	Preparing Reply
	Comment	Previous Papers
	Filing	Noting and Returning
	Full Report	Recommendation
	Information	Signature

REMARKS

Perhaps you should keep
this for the Iran File.

act to eat 8 4 Aug '48

FROM-

EGB

MAX WESTON THORNBURG
FOREIGN INDUSTRIAL CONSULTANT

*Iran Nego
(IDB)*

*Recd
Aug 9, 1948*

*Baltimore Hotel - 1632
N.Y. - N.Y.*

New York, August 4, 1948

UMM A'SABAAN ISLAND
BAHRAIN, PERSIAN GULF

Mr. Thomas Burland
International Bank for Reconstruction
and Development
Loan Department
1818 - H Street, N.W.
Washington 5, D. C.

Dear Tommy:

I have just yesterday returned to New York from a brief visit in Bogota and within ten days expect to be on my way to the Middle East. Before I leave, however, I shall be in Washington for one or two days, probably about the middle of next week, and hope to spend the better part of one day with various men in your bank. About two weeks ago, on my way through, I had a short visit with Welk and another Loan officer, whose name I do not recall at the moment, although I have his card somewhere. In any case, he was in charge of the area including Iraq and Iran. I spent an hour or two discussing the Turkish and other Middle Eastern situations with these two officers and hope to continue that discussion next week when I come down.

In Bogota, I met two members of the Bank staff who were there studying the Colombian loan situation. We agreed there that when I returned to New York, I would get in touch with you as I want very much to see you again anyway and between us, arrange a meeting of those who might be interested in discussing Middle East problems. When I come down, I would be very glad to have such a group lunch with me on that occasion or to fall in with any of the plans which might be made. In any case, you and I must get together and have at least a branch office meeting of the luncheon meeting to represent the California contingent in Washington.

A cable this morning from Ebtehaj (Governor, Bank Melli) raises another point which is of considerable interest to me. You may or may not know that I have devoted a great deal of time during the past three years to working with Ebtehaj and others in or connected with the Government of Iran on the preliminary and later development of what now promises to become an extensive program of national economic development. While I have not been officially retained by that Government, I have devoted close attention to their work and several of them, including Ebtehaj, Dr. Naficy and even the Shah himself told me when I left there a few weeks ago, that as soon as the bill now in the process of enactment in the Majliss is passed, they would like to have me serve in the capacity of Consultant to them. As

August 4, 1948

a matter of fact, my present visit to New York was made at their request for the purpose of exploring the possibilities in the field of expert advisers who will be available for that Government to call upon immediately the proposed bill becomes law. On my recent visit to Washington, I discussed this question briefly with the officers previously mentioned. The Iranian Embassy is also quite familiar with the general situation and with my recent activities concerning it.

The steps I took here two weeks ago started these explorations in two directions. I had suggested to Ebtehaj, Naficy and, in fact, to a General Assembly, including most of the Cabinet and the members of the special Majliss Committee, which has the proposed Plan in hand, that we might follow one of two general plans to secure the consulting services they sought. Previously, I had eliminated as unwise their own suggestion that a single person (conceivably myself) should act as their General Consultant. It would be better, I pointed out, to acquire an entire organization to serve in this capacity. My reasons for this will need no detailing to you, I am sure.

One possibility, which appeared to have a strong appeal to them, would be to engage Nelson Rockefeller's IBEC organization with its subsidiary, Technical Services, Inc., to perform for the Government of Iran the same type of "disinterested" advisory managerial services that they have made available to several of the Latin American countries during the past couple of years. Fortunately, a current issue of NEWSWEEK, the one bearing a cover picture of Nelson, described this organization in favorable terms and coming close on the heels of my own recommendation, seemed to persuade them that they would do well to engage IBEC.

The other possibility I suggested, would be to arrange, if possible, for a consortium of widely known consulting firms, representing a diversity of special talents to act as General Consultant. In this latter connection, I explained that the Government should not use for general advisory purposes any firm which looked forward to securing any contracts of importance under the program. My reasoning here will be obvious to you as it was to them. At the same time, they must avail themselves of the highest order of skill and broad experience that we have in this country. The way to do it, it seemed to me, would be to bring together a large enough group of outstanding consulting firms to insure against any emphasis on subsequent special interests of anyone in the group. This plan also received general approval. It appeared to have some advantages over IBEC in that the agencies called upon would be long established organizations with conspicuous records of successful achievement, whereas the IBEC group is new and would be faced with the necessity of putting together an organization to undertake such an extensive program in a new area of the world. In favor of IBEC, of course, was the unimpeachable integrity attached to Nelson's name and record and the fact that Technical Services, Inc. would not under any circumstances consider actual contract work growing out of its consulting services.

The upshot of these discussions was that I should explore both of these possibilities in particular as well as any others which came to light

August 4, 1948

and make tentative arrangements which might be quickly developed into a firm contract the moment the bill is passed. It was generally agreed that the first few weeks and even the first few days would be critical in determining the course of the program. The fact was recognized with some apprehension that there are a considerable number of "experts" and contractors and material suppliers of all nationalities and persuasions in Teheran ready to benefit from the three-quarters of a billion dollars equivalent which promises to become available as soon as the bill is passed. For this reason, the Government wished to have its General Consultant on the job at that critical time. Therefore, as soon as I reached New York, I met with Nelson and his principal associates and described the Iranian situation. Although Nelson himself seemed enthusiastic about this opportunity to broaden his field of activities, some of his associates and advisers felt that for them to take part in this might be misconstrued in this country as taking the Arab side of the present Middle East conflict and that Nelson would do well to keep his name out of it. During my absence in South America, the whole matter was referred to the "Elder Statesmen" of that general group and I have just learned that the final decision is to allow the Jewish - Arab trouble to settle itself a bit before the Rockefeller interests move into the Middle East. This bit of information should not be made public but I feel that you must have it yourself to understand what has taken place. I shall find some other reason to explain their unavailability at this time.

About the time I left Iran, I learned that a group of widely known American consulting firms had been brought together in Washington and requested by our own Government to act as a group in making certain economic and industrial studies in Japan. This group was formed under the name of Overseas Consultants, Inc. and, as you no doubt know better than I, did a thorough job for the Government and rendered a bulky report a few months ago, after which the group was dissolved. It occurred to me at once that if this very same group could be reconstituted without any connection with our Government, of course, it would be exactly what we were looking for. With this in mind, I met a few of the top men in the companies concerned at lunch and put the situation up to them. At a subsequent lunch, which included nearly all the heads of the group, we went into the possibility more fully and during my recent absence, it appears that they have about reached the decision to reorganize and make themselves available through a reincarnation of Overseas Consultants, Inc. to the Government of Iran.

It will be another day or two before the decision becomes final, at which time I shall meet with them for a detailed discussion of terms and conditions which can be reported to Teheran upon my return. It is to complete these arrangements that I am now remaining in New York and it is very largely to discuss them in Washington that will take me down there next week.

The cable I received today from Ebtehaj to which I referred earlier is quoted below -

August 4, 1948

"BILL WILL PROBABLY RECEIVE UNANIMOUS APPROVAL PARLIAMENTARY COMMITTEE WHEN IT HOLDS FINAL SESSION SOON STOP PRACTICALLY ALL MAIN POINTS ALREADY APPROVED STOP HOPE RATIFICATION WILL BE COMPLETED NEXT TWO MONTHS STOP MEANWHILE WITHOUT AWAITING FINAL RATIFICATION GOVERNMENT WILL ASK PARLIAMENT AUTHORIZE ENGAGEMENT SEVERAL TOP FOREIGN TECHNICAL EXPERTS IN ORDER TO COMMENCE WORK ON PREPARATION DETAILED PROJECTS STOP INTEND ASK INTERBANK ASSIST IN SELECTING THESE MEN REGARDS"

This is the latest of a series of cables I have been receiving since leaving Teheran either from various officials of the Government or from John Wiley, our Ambassador there, forwarding messages from such officials. Apparently the program is moving ahead satisfactorily though, of course, I have no way of knowing what changes have been made. The last cable to reach me in Bogota was from John Wiley, stating that "Ebtehaj and others" requested that I return to Teheran as soon as possible with the information I had promised to secure.

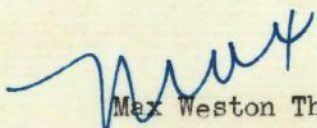
The cable quoted above indicates that the International Bank will be asked at least to express an opinion and, perhaps, to take more definite action in connection with the engagement of what Ebtehaj refers to as "experts". I am quite sure that what he means by this term is the same thing as I call the "General Consultant" although the plan as drafted provides for a considerable number of specialists in various fields, such as agriculture, public health, communications, port development, etc.

I have gone into the foregoing matters at such length to bring you generally up to date with this program as I have been concerned with it. I would appreciate it very much if you would pass this along to the interested Loan officers or whomever else in the Bank is concerned with it. As soon as I can fix the date for my Washington visit, I shall telephone to you and see what can be done about the general meeting mentioned earlier.

While in this letter I mentioned only Iran, I have been interested for some time, as you no doubt know, in generally corresponding plans and programs which are in various stages of development in other Middle Eastern countries. Perhaps we can touch on some of these at the same time.

Meanwhile, with best personal regards, I am

As ever,


Max Weston Thornburg

P.S. - Since dictating the foregoing, I have just this morning had a short but significant meeting with the entire group involved in Overseas Consultants,

Mr. Thomas Burland

- 5 -

August 4, 1948

Inc. They have just told me that they have actually incorporated for the purpose of undertaking the program referred to above and any others of that general nature which become available. I have a copy of their articles of incorporation and a draft of the proposal which they suggest I discuss with the Government of Iran upon my return. Therefore, we may consider that this group is definitely available for the purpose outlined and that the International Bank will be called upon to express an opinion concerning its competence and other qualifications for the task. If the International Bank members concerned with this are not already familiar with the earlier history of the original Overseas Consultants, Inc., I suggest that they take a quick look at its record.

M.W.T.
M.W.T.

IRAN

OFFICE MEMORANDUM

CONFIDENTIAL

Negots

TO: Mr. A.S.G. Hoar,

DATE: 4 August 1948

FROM: F. G. Bochenski *F. S. B.**Mr. Barne*SUBJECT: Iran
DECLASSIFIED*Re para 6 — Mr. Somerville may certainly have a copy of the letter in question.*

JUN 06 2013

WBG ARCHIVES

1. Mr. James Somerville, Commercial Attaché of the U.S. Embassy in Tehran is spending some time in Washington. He has already seen Messrs. Iliff, Burland and Consolo and should like to pay you a visit as well as try to see the President, Vice-President and the U.S. Executive Director.

Es 9 VIII

On Mr. Consolo's request I have been keeping currently in touch with Mr. Somerville, who was most cooperative and in particular, made available to me some of his official files containing valuable information on developments and economic conditions in Iran.

The following points, gathered from contacts with Mr. Somerville may be of some interest to you:

2. Political stability. The change of government in December 1947 from Ghavam to Hakimi signified a thorough shift in policy, the importance of which - though not necessarily its trend - can be compared, in Mr. Somerville's words, to the change from the Hoover to the New Deal Administration. This and other political and international factors presumably account for delays and waverings in Iran's approach to its development plans and - consequently - to negotiations for a loan.

The governmental crisis in June 1948 (change from Hakimi to Hajir) will presumably not initiate any deeper changes. Hajir was Finance Minister under Ghavam; he is supposed to have a sound approach to economic problems.

A possible return of Ghavam to power would, if anything, rather accelerate the carrying out of present economic plans.

The Shah, who in Mr. Somerville's opinion - represents the strongest single influence in Iran is interested in the Seven Year Plan and has appointed his younger brother, a graduate (with honors) from Harvard, to act as his liaison officer with regard to all matters connected with the plan.

3. Seven Year Plan. This plan, which - as we know - is largely similar to previous plans arising out of the Morrison-Knudsen report, has been introduced to the Majliss on May 4th. It was originally planned that it should pass the legislation in August but the Shah's temporary absence may cause some delay.

There seems to be no substantial opposition to the plan, apart from the Tudeh party. Mr. Taqisadeh, in particular, appears to be reconciled with the plan now and Mr. Ebtehaj's position has recently been rather strengthened.

The greatest discussion will probably arise with regard to the powers and terms of reference for authorities to be in charge of the plan's operations. At one time the Hakim government had whittled down considerably the role of the Central Directing Agency and - as things look now - most of the specific decisions would have to be made by the Government itself. This was strongly criticized by M. W. Thornburg, who advocated greater power to a firm of technical advisers (to act in part as Central Agency for the Plan.) Separate jobs would be distributed by this Agency under contracts.

This raises the problem of foreign supervision of any projects or loans in Iran. Mr. Somerville believes that a great part of governmental people - among them the more responsible elements - would in fact welcome some amount of control from outside as a guarantee against graft and misuses. Few leaders, however, and certainly not Mr. Ebtehaj, would openly admit such considerations.

4. Attitude to loan. What has been said above applies also to the problem of a loan from the Bank which is being frequently discussed in public.

I pointed out to Mr. Somerville and he agreed, that these public controversies pro and contra a loan from the IBRD (usually associated with figures above the \$200 million mark) seems somewhat unrealistic and ~~is~~ not reflected, at the moment, by any more vivid contacts, let alone negotiations, between the Bank and Iran.

While former Prime Minister Hakimi is known to have said in January 1948 that the country did not need a Bank loan, opposite tendencies seem to prevail now.

5. As you may remember Ulen Realisation Corporation, represented by Mr. F. A. Rediker, has repeatedly approached the Bank in connection with their claims against Iran. Mr. Somerville has told me that Mr. Rediker, while criticizing the Department of State for being allegedly indifferent to these claims, boasted that Mr. Garner had told him the Bank would grant no loan to Iran until his claims were settled.

6. Finally, Mr. Somerville asked whether he could see a copy of our letter to Minister F. Noury Esfandiary dated March 30, 1948. This is the letter explaining in general terms the Bank's approach to development loans. As it hardly contains any confidential material and practically nothing about Iran, I would see no objection to letting Mr. Somerville see it confidentially, but told him, of course, that I would have to ask my superiors about that.

Could I, please, have your decision with regard to the last matter.

Miss Ingepd
Please let me see this letter. —
CS

Central Files

2ram neg

SEP 13 REC'D

FRANK H. REDIKER
1135 SIXTEENTH STREET, N. W.
WASHINGTON, D. C.

September 11, 1948.

Mr. John J. McCloy,
President,
International Bank for Reconstruction
and Development,
1818 "H" Street, N. W.,
Washington, D. C.

Dear Mr. McCloy:

I am sending for your information a "Memorandum on Recent American Diplomacy in Iran" prepared by Dr. A. C. Millspaugh of the Brookings Institution, which deals with current political, financial and economic conditions in Iran.

After you and other officers in the Bank have read Dr. Millspaugh's Memorandum, I am confident, you will appreciate the motives which prompted me, on behalf of my principals, to file with you, on October 16, 1947, the Petition of the Ulen Realization Corporation, et al, to deny the application of the Government of Iran for a \$250,000,000. loan, or any part thereof, until the Government of Iran recognizes and discharges its financial obligations.

Sincerely yours,

Frank H. Rediker

Frank H. Rediker,
Agent and Attorney-in-fact
ULEN REALIZATION CORPORATION.

Enclosure

went to file.

cc and enclosure to Mr. Black,
" " " " Mr. Garner,
" " " " Mr. Iliff,
" " " " Mr. Parker.

FILE COPY

Iran 641

20 August 1948

The Honourable F. Noury Esfandiary
Minister of Iran
3005 Massachusetts Avenue, N.W.
Washington, D.C.

Dear Mr. Minister:

We have carefully considered the request of your Government that the International Bank for Reconstruction and Development should nominate a number of technicians to work with the Supreme Planning Board of Iran. The role of these technicians, as we understand it, would be to assist the Board in the preparation of technical data for projects to be included in the proposed Seven-Year Plan.

As we have previously stated, we are desirous of helping your Government in its approach to its development problems. We have some doubts, however, as to the practical results to be obtained by selecting a group of individual experts in the various fields suggested by your Government, without first assuring that the work of the experts themselves will be adequately planned and coordinated.

In our opinion, the first step should be for the Supreme Planning Board to select a coordinating consultant to act as a general advisor to the Board on development matters. Initially, such a consultant should prepare and recommend a programme and a schedule for technical investigations to be carried out in each specialised field. Only after this has been done would we suggest that technical specialists should be selected to carry out detailed studies in each field. Furthermore, the consultant should coordinate the various technical studies and make recommendations to the Board on the relative priorities to be accorded, within the general plan, to the various fields of development as well as to the individual projects within each field. And, finally, the consultant should be expected to advise on the manner in which the selected projects should be organised, financed and operated.

To insure the necessary continuity over a period of years it is our opinion that it would be preferable for such a general consultant to be an organisation rather than a single individual. An organisation would be able to provide from its own staff a considerable range of experience and skill as well as to secure the services of any additional technicians which might be required.

FILE COPY

Letter to:
Minister of Iran
20 August 1948

Page 2.

We know of two organisations which we believe you may find suitable for this task. While both of these organisations are American, they would be able to augment their technical resources with specialists from other countries, particularly those that have had development and engineering experience in Iran.

One of these organisations is Overseas Consultants, Inc., 51 East 42nd Street, New York 17, N.Y. This is a consortium of 11 firms in the fields of engineering, statistics and management organised in 1946 at the request of the United States Government to undertake an industrial and economic survey of Japan. The organisation is now available to undertake survey and consultant work in other areas. All of the participating firms are widely known and highly regarded.

The second organisation is Technical Services, Inc., 30 Rockefeller Plaza (Room 5118) New York, N.Y. This group was formed by Mr. Nelson Rockefeller and his associates, and up to now, we understand, has confined its activities to Latin America.

The Bank is prepared to recommend either of these organisations.

With respect to future participation of the International Bank in the financing of development projects in Iran, our letter of March 30, 1948, outlines our policies and procedures. In order, however, that there be no misunderstanding we should like to emphasize certain basic points.

Before we would be able to consider specific loans, we would wish to be satisfied that the financial and economic policies of your Government, and the implementation of them, are such as to establish a foundation on which sound development can be built and that any financial assistance extended will be economically productive and within Iran's capacity to repay. Furthermore, we cannot commit ourselves to finance a general programme of development extending over a period of years. We would, instead, hope to make a modest beginning with specific projects which have been selected with adequate regard to the resources of Iran and its general development needs, which require moderate amounts of foreign exchange, and which will show productive results within a relatively short period of time.

I hope that the views set forth in this letter will be of some value to your Government in determining the scope and character of any planning which it may undertake, and we shall be pleased to discuss them further with you in Washington or, if your Government believes it would serve a useful purpose, we should be glad to send a Bank representative to Iran for discussion there.

Sincerely yours

R.L. Garner
Vice-President

Iran 64

OFFICE MEMORANDUM

TO: Mr. R.L. Garner

DATE: 20 August 1948

FROM: W.A.B. Iliff

SUBJECT: Iran

The Iranians telephoned me this morning and asked when we should be in a position to let them have a reply. I therefore asked Noury-Esfandiary to call on me, which he did this afternoon accompanied by Nemazee, the Commercial Counselor. I went over the whole situation with them and they agreed to accept a letter in the terms of the attached. *letter filed Iran 64*

They seemed quite pleased with the line that the Bank had taken. They had already made some preliminary soundings with Overseas Consultants and were rather taken aback to hear the size of the fees that would be charged. They are of the following order:-

- (a) A retaining fee of \$10,000 a month.
- (b) Per diem fees for individuals employed in Iran on the work varying from \$250 a day for partners down to about \$75 a day for junior technicians.

I do not think myself that these fees are unreasonable having regard to the magnitude of the operation which the Iranians wish to have carried out.

Noury-Esfandiary is reporting back to his Government at once on the basis of our letter. I handed him a copy of the draft and he said he would be quite happy to receive the authoritative copy over your signature dated 20 August, after you return to Washington.

W.A.B. Iliff

Attachment:

Iran - Negot.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Files

DATE: August 17, 1948

FROM: E. A. Bayne

SUBJECT: IRAN

Mr. Cliff to see.
Ex

Conversation with Mr. Clyde Dunn, United States State Department

Yesterday I had a meeting with Mr. Clyde Dunn, Chief of the Political Desk for Iran in the State Department, with specific reference to the Bank's recommendation to Iran that a firm of technical consultants including possible nationals of other Allied countries, be utilized to work with the Supreme Planning Board for detailed aspects of the proposed Seven-Year Plan.

1. While there is no formal alignment of British and American policy in Iran, there is, according to Mr. Dunn, relatively constant consultation between the two governments and general agreement on the method of approach toward economic development in that country. Overhanging all considerations to both governments, Dunn said, was the strategic consideration of the area, but beyond this, it is believed that any joint approach to Iranian internal political problems is unnecessary. All manner of assistance by Allied countries is to be encouraged for its obvious propaganda values within the country. Mr. Dunn particularly pointed out the work of the Near East Foundation in thirty-five villages in Iran around Tehran where a party of medical and social workers have been making efforts to raise health standards and facilities on a community basis. He felt that the Seven-Year Plan was somewhat visionary but that in general the Bank's effort to break down such a plan into given projects which would make economic sense in themselves was sound.

2. On the specific question of whether the United States would have any objection to the Bank suggesting that technical consultants suggested by the Bank include other Allied nations, Dunn felt that there would be no objection and confirmed this view by checking with the Economic Development Division of the State Department (Mr. Havelik).

3. Mr. Dunn felt that the Bank was unusually favored in its operations in Iran and the Middle East generally in having Mr. Cliff in charge of operations. Dunn felt that Mr. Cliff was one of the best informed government representatives for the area.

Mr. Bayne
I have always
had a high
opinion of Mr.
Dunn's sagacity
to judgment !!!
W.B.
19/viii

CABLE RECEIVED FROM TEHERAN ON AUGUST 6, 1948

For the completion of the Seven Years' Plan, the services of thirty foreign specialists is required. Seven should be highly qualified and experienced in the following lines:

- 1 - Agriculture
- 2 - Irrigation
- 3 - Industries
- 4 - Petroleum and mining
- 5 - Construction of public works
- 6 - Railway administration and operation
- 7 - Economics, international trade and markets

These seven specialists should be selected in consultation with the International Bank for Reconstruction and Development and should reach Iran about the end of September and remain until the end of March, working under the instructions of the Supreme Planning Board. The seven highly qualified specialists are to select the other twenty-three men to assist them in their particular line of work. These twenty-three men are to proceed to Iran as required.

Please refer the matter to the President of the International Bank and report the result as soon as possible.

Iran Neg.

OFFICE MEMORANDUM

TO: Mr. W.A.B. Iliff *W.*
 FROM: F. A. Consolo *F.A.*
 SUBJECT: IRAN

DATE: July 2, 1948

*hi. Engert
to see.
LST
6/11*

Following on my memorandum with which I sent you the fifth article on the Seven Year Plan, attached are: (1) text of the Finance Minister's message to Parliament presenting the draft of the law for the realization of the Seven Year Plan extracted from the Journal de Tehran of May 6th and (2) the first of the series of articles on the Seven Year Plan, entitled "The Old and the New," extracted from the Journal de Tehran of May 7th with the initialled signature F.

*Scanned
CWS
7/6/47*

The new program of development, whilst covering the same fields and coming up to the same total of 21 billion rials (about \$660 million) as the program on which an Iranian press release was made in January of this year, has, nevertheless, certain differences in some of the sectors. Thus, for example, agriculture and irrigation have been increased by \$47 million, road and railroad development have been reduced by \$40 million, industries and mines have been increased by \$18 million, post and telecommunications have been decreased by \$9 million, power and water distribution have been decreased by \$16 million and the public health program has been decreased by \$16 million.

The means for financing the Seven Year Plan are substantially the same and make provisions for the allocation of all AIOC royalties to the implementation of the plan, a loan of 4.5 billion rials from the Bank Melli, and a \$250 million from IERD. The sale of government properties is no longer contemplated. Articles V through VII of the draft of the law are particularly interesting.

It may be a case of wishful thinking but I was struck by the fact that certain of the concepts illustrated in your letter of March 30 to Mr. Noury-Esfandiary find their place in the articles of the draft of the law, particularly Articles VII through XI.

The leading article is particularly interesting for the comprehension of the Bank's attitude on the loan when it was first broached.

Subsequent to the presentation of the draft of the law, the Hakimi cabinet resigned and we have no indication as yet of the position of the new Hajir cabinet in this matter.

Don't you find it surprising that, contrary to what was done in January last, the Iranian representatives in Washington have made no mention to us of the developments of the Seven Year Plan and that we should gather this information so late and quite accidentally through outdated Iranian newspapers?

cc: Mr. Hill

JOURNAL DE TEHRAN

SEVEN YEAR PLAN

May 6, 1948

Sunday, May 2, 1948, Mr. Nadjm, Minister for Finance, submitted to the Chamber of Deputies the draft of a law for the realization of the Seven Year Plan:

To the National Parliament,

The unsatisfactory condition of the country has drawn the attention of the deputies and the governments have always taken this into consideration.

The governments have always realized the deficiencies of the country, have insisted on the necessity for economic reform and have taken these matters under consideration.

If up to the present the governments have not been able to do anything in this field, it is because they have not been able to devote the necessary time to carrying out studies on the subject. It was not clear how and from where these reforms had to start.

This is the reason why, before starting on this work, it was necessary to study in detail the deficiencies to be filled.

Fortunately, the study of the reforms was delegated some time ago to a group of specialists who succeeded at the end of their work in discovering the principal reasons for our economic and social deficiencies and consequently proposed efficient and useful methods of remedying them. The points mentioned below summarize the reasons for these deficiencies and for the unsatisfactory condition of the country:

1. Iran in the course of several centuries was not able to benefit from progress realized by other civilized countries in the world and under the reign of the late Reza Chah Pahlavi, whilst the government was rapidly bringing

about economic and social reforms, our country had to face the miseries deriving from the Second World War and consequently had to stop not only its forward march but in addition had to face deprivations and a moral and material weakening.

2. A part of our social deficiencies such as illiteracy, illnesses, etc. are the result of our economic weakness. If necessary measures are taken for the improvement of our economic system and for the creation of wealth-producing enterprises, it is certain that our social deficiencies will be remedied.

3. Reforms must be realized simultaneously in all economic and social fields as the effort devoted in one field to the detriment of another would not be fruitful, for the paucity of our means is such that the government could not, without the collaboration of the people, provide for the minimum needs and realize the reforms considered. It is indispensable that there should be close and active collaboration between the government and the citizens.

4. The financial capacity of the country is not sufficient to allow us, without recourse to foreign capital, to realize our economic and social reforms exclusively with our own resources.

5. The collaboration between the government and the citizens on the one hand and recourse to foreign capital on the other will be possible only if a detailed plan is drawn up in which will be ^{included} the scope of the projects and the means by which the reforms will be carried to an end.

In considering the points mentioned above, it was necessary to establish a practical and detailed plan which should be reinforced by law so that the changes in government would in no way influence the implementation of the economic plan, but on the contrary, that each new government coming into power should be able to continue it.

I therefore submit a draft for a law to the approval of Parliament.

Draft of Law Relating to Seven Year Plan

Article I. With a view to increasing the production, developing exports, providing for the needs of the population of the country, extending agricultural and industrial activity, exploiting mines and underground riches, principally oil, improving and completing the means of communication, improving general health, taking all necessary measures for the development of the country and increasing the standard of life of the population and lowering the cost of living, the government must in the space of seven years, starting from the approval of this law, realize all the reforms and take all measures possible which constitute the seven year plan.

Article II. The sums allocated to each economic and social field and destined to the realization of the Seven Year Plan are the following:

Chapter 1. Agriculture

Study of scientific installation	400	million	rials
Conservation of livestock	1100	"	"
Forestry and Pastures	450	"	"
Development of Agricultural Production	900	"	"
Increase in capital of the Agricultural Bank	100	"	"
Participation in the capital of cooperative societies	350	"	"
Purchase of materials and preparation of commercial fertilizers	200	"	"
Irrigation and dams	<u>3000</u>	"	"
Total	6500	"	"

Chapter 2. Highways, Railroads, Ports and Airports

Railroads and highways	2000	million	rials
Road surfacing	1050	"	"
Ports	250	"	"
Airports	<u>400</u>	"	"
Total	3700	"	"

Chapter 3. Industry and Mines

Textile industries	1400	"	"
Sugar industries	500	"	"
Steel Mills	550	"	"
Chemical industries	450	"	"
Building materials	150	"	"
Rug manufacture and other industries	100	"	"
Mines	<u>450</u>	"	"
Total	3600	"	"

Chapter 4. Oil

Capital for the creation of an Iranian oil company	1000	"	"
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Chapter 5. Post and Telecommunications

Improvement in postal system	300	"	"
Improvement in telegram system and radio transmitting stations	<u>400</u>	"	"
Total	1700	"	"

Chapter 6. Social and Public Works Reforms

Construction of low cost dwellings	1500	"	"
Loans to municipalities for water and installation of electric power plants	1000	"	"
Prophylactic measures for the development of general hygiene	1000	"	"
Assistance to technical institutions for the instruction of specialists and the improvement of the standard of industrial and agricultural instruction	1000	"	"
Planning and statistics	300	"	"
Construction of prisons in principal towns	200	"	"
Other public works	<u>500</u>	"	"
Total	5500	"	"

Grand Total 21,000 " "

All the sums which are allocated to the different chapters under Article II will be exclusively destined for the specified purposes. If the amounts estimated for one chapter are insufficient or too great for the requirements, the government may increase or diminish them up to 10%. The government is authorized in the space of four months from the approval of this law to prepare a detailed plan within the limits of estimated credits for each year in each field and to submit it to the Chamber of Deputies.

Article III. The amounts mentioned in Article II will be apportioned as follows for the years 1327 (1948-49) 1,000 million rials, 1328--2,000 million rials, 1329--2,800, 1330--3,300 million rials, 1331--3,500 million rials, 1332--3,600 million rials, 1333--3,600 million rials, 1334--2,200 million rials. The government is authorized in case of need to reduce up to 10% the credits allocated for one year and to carry them forward to the next years.

Article IV. The amounts mentioned in Article III will be proportionately divided between the different provinces of the country in such a way that the share of each one of them, in the course of the seven years, shall not be less than 1,000 million rials.

Article V. In the year 1327 600 million rials and in the following years up to the end of the Seven Year Plan all the government revenues from AIOC will be used for the implementation of the plan. After the expiration of the seven year period, the revenues mentioned above will be used for the amortization of the loans which in conformity with this law will have been contracted for the realization of the plan.

Article VI. In order to complete the sums for the realization of the Seven Year Plan the government is authorized: (1) to borrow from the Bank Melli Iran up to 4,500 million rials during seven years at an interest rate of 2%. For each year the amount borrowed must not exceed 750 million rials; (2) negotiations will be started with the International Bank for Reconstruction and

Development for a loan of \$250 million, on terms to be approved by both parties. This amount will be directly employed in productive enterprises. However, any agreement between the International Bank and the government in this field can be definite only after the approval of the Chamber of Deputies.

Article VII. The revenues accruing regularly from the implementation of the Seven Year Plan will be first of all added to the amounts necessary for the implementation of the plan and will continue to be allocated in the same way as long as the loans contracted by the government will not have been amortized.

Article VIII. The preparation of the preliminary plans for the realization of the Seven Year Plan, the control of the work, the creation of the collaboration between the various services of the plan and in general the control of the plan will be in charge of a committee composed of five people proposed by the government and approved by HIM Chahinchah. The members of this committee will be remunerated and will not accept any other post during their functions.

Article IX. In the following cases proposals will be made by the Control Committee to the government and will be able to be executed after government approval:

- (a) In respect of the method of work, the annual distribution of the credits within the different fields.
- (b) In respect of detailed yearly budgets for the Seven Year Plan.
- (c) In respect of the regulations and statutes relating to the realization of the Seven Year Plan.
- (d) In respect of plans and detailed projects of work as well as their priority.
- (e) In respect of monthly and annual reports on each service engaged in the realization of the Seven Year Plan.

(f) In respect of the general agreements which must be contracted for the realization of the Seven Year Plan.

NOTE: The measures which will be necessary for the acceleration of the work of the Seven Year Plan and which would not require the application of financial settlements will be taken by the government on proposal of the Control Committee.

Article X. The Control Committee must gather the results of the activities of the services engaged in the realization of the Seven Year Plan and must conserve them in special registers. It will have, from a financial and technical point of view, to draw up a report at the end of each month and submit it to the government accompanied by observations. At the end of each year, it will moreover, draw up a similar report of the activities of the different services and will submit it to the government. It must also after the first quarter of each year draw up accounts of all expenses of the preceding quarter and send it for examination to the Court of Accounts. In order to follow the efficient operation of the work and obtain all the information desired, the Control Committee is authorized to address itself directly to the services entrusted with the execution of the plan and in case of need, ask them for statements of accounts. It must also bring to the government's attention the deficiencies noted and the criticisms it has on the application of the plan. On its side, the government must immediately take action on the report of the Control Committee and give such instructions as to eliminate within one year the reasons for criticism and complaint.

Article XI. The Control Committee will have at its disposal a sufficient number of experts and staff in order to prepare the desired projects and to exercise technical and financial control. Their remunerations will be included

in the administrative budget of the Seven Year Plan and will be paid by government decree. The members and staff necessary for the realization of the Seven Year Plan will be persons amongst the staff of the ministries and administrations. If amongst the staff the desired experts cannot be found, other personnel can be engaged. The Control Committee can, with the agreement of the government, engage foreign experts for a duration not exceeding one year for the realization of the plan.

Article XII. The statute of the Control Committee and the other regulations relating to the realization of this law will be approved by the government. Each ministry is responsible for the application of this law within the framework of its jurisdiction and responsibility.

The President of the Council:
Ibrahim Hakimi

Minister for Finance
Nadjm

JOURNAL DE TEHRAN

SEVEN YEAR PLAN

1. THE OLD AND THE NEW

May 7, 1948

On Sunday last Mr. Nadjm, Minister for Finance submitted to the Chamber the draft law of the Seven Year Plan and on Wednesday, the six bureaus of Parliament each elected three members which will form a special commission for the purpose of studying the plan and preparing a report for the legislative body.

The conception of a Seven Year Plan for Iran does not date from yesterday for the government under the reign of the late Reza Chah Pahlavi, ten years ago to be exact, the founder of the present dynasty, had considered a seven year plan for the economic development of our country. However, World War difficulties of all sorts put this matter in the background of the thoughts of the governments and it was only after the solution of the Azerbaidjan question, Mr. Ghavam took up again the idea of a seven year plan for Iran. For two years the studies which have been made around this plan, although not modifying it in principle, have changed one of its elements. The Ghavam cabinet had estimated expenditures totalling approximately 6 billion rials and extending over seven years, i.e. 6.5 million rials per year.

This plan had not only the scope of the economic development of Iran but also of the reform of our administration as such.

At that time, although the majority of experts had pronounced themselves in favor of a plan for Iran, they had criticized the Ghavam plan, reproaching the mixture of administrative reforms which must be the daily and ordinary preoccupation of a government, with a particular plan which must be realized outside the administrative and political activities and which must aim at establishing new bases for the development of our country.

At that time as the Chamber was not in session, Mr. Ghavam was not able to submit his plan and when the Fifteenth Legislature met it had, first of all, to consider the problem of oil in the north. A ministerial crisis followed and Mr. Ghavam had to give up his post which passed to Mr. Hakimi.

The new President of the Council, contrary to what one was given to understand, had never opposed a plan for the development of our country but considered that certain conditions in the one drawn up during the Ghavam administration did not fit in with the situation of our country. Thus it was that Mr. Ghavam had considered as a "starter" of the plan a loan of \$250 million from the International Bank.

Conversations were held between representatives of the government and of the Bank but it was quickly realized that this international organization was not in a position to loan to Iran unless our country was able to prove that this loan would be utilized for productive purposes and that the increase in resources due to the realization of the plan would be sufficient to cover the loan. In effect the International Bank would not accept the Iranian Government's request and this was one of the reasons why the studies had to be modified. On the other hand, the new cabinet, whilst recognizing that loans from the International Bank cannot be assimilated with those from a foreign country, considered that a loan was always a dangerous thing and that one had to have recourse to it only as a last resort and with the certainty that this loan would be utilized to its maximum and would lead to an increase of production and exports so as to be able to be amortized without affecting the ordinary resources of the country (direct and indirect taxes, customs revenues, etc.).

This is why, differing from the first seven year plan, the plan, which is at present to be studied by the special commission of the Chamber, contemplates only as a last resort and after two years an eventual approach to the International Bank. On the other hand, whilst the first seven year plan provided that these \$250 million, if and when granted, would be devoted to the realization of the plan as such, the new plan in its Article VI says that "this sum will be directly employed for productive enterprises." Finally, as it is a loan from abroad, even if it is not a loan from a foreign government, the authors of the plan have wanted to assure the Chamber that it will not find itself before "fait accompli" and that Parliament, after having been duly informed of the realization of the plan during the first two years, will have to approve or reject a loan from the International Bank. (Article VI of the draft).

The first plan contemplated the sale of certain government enterprises against which sale violent criticisms had been launched but the second plan has abandoned this idea considering that the Government must conserve its enterprises as present circumstances do not allow not only for the sale at acceptable terms but also their exploitation in the interest of the country.

These enterprises will form part of the seven year plan and will be equally charged with its realization. They will profit from the economic development of the country and will be able to be transferred to private enterprise at more favorable conditions for the government, if it so decides. As another reference from the first seven year plan, the total cost of the second amounts to only 21 billion rials which represents 3 billion rials per year. As this sum will be entirely drawn on extraordinary revenues such as those of AIOC, the Bank Melli

Iran loan and eventually on a loan from the International Bank, it will not affect the current receipts and expenditures of the administration. This particular characteristic of the second seven year plan is brought further into light by the budget which the government has submitted to Parliament which contains two parts; on the one side, the current expenses and on the other the special credits for urgent reforms such as the rehabilitation of roads which must fall within the normal activity of the government and not be part of the seven year plan. If this budgetary system will be maintained in the future, the economic development of Iran will be pursued on two distinct but parallel tracks: the budgetary tracks and the track of the seven year plan.

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