I gave to the Prime Minister early this morning a memo based on your number 36 July 30. The Prime Minister expressed surprise and wanted to know, "Then Mr. Harriman finds our proposal unacceptable?" He said he could not (rpt not) understand Mr. Harriman's reaction since the Persian reply said nothing more than he had said to Mr. Harriman. He said, "It is now (rpt now) up to Mr. Harriman to tell me where our formula is not acceptable. Mr. Harriman understood that we would accept the British mission only on the basis of the formula and that formula was clearly defined in the minutes of the Cabinet minutes with which Mr. Harriman is familiar." The Prime Minister again went over a number of the points which I made yesterday morning (EMEPEL 90 July 29).

After leaving the Prime Minister, I got in touch with Mr. Gushawi and discussed the whole matter with him. He had been with the Prime Minister and at once returned after our conversation. The Prime Minister called a Cabinet meeting and has just sent for me and given me a note in which he asked me to ascertain from Mr. Harriman "what sentence in the Persian reply last night (EMEPEL 91 July 29) has created difficulty and caused him to think that the HMG does not (rpt not) facilitate resumption of negotiations". I said that Mr. Harriman, in his wire to me (EMEPEL London 36), had suggested that the Iranian Government rephrase its reply in accordance with suggestion EMEPEL London 33. He felt that the suggested reply by the Iranian Government was too simple and abbreviated -- that he thought it was essential that the British understand and accept the Persian formula with the elaboration in the minute.

He said that on the question of tension he feared that this might be interpreted to include actions which the Iranian
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Government was not (rpt not) prepared to take. I saw Bashiri afterwards and he asked me to tell you that on June 27th, if the term was changed from "tension" to "favorable atmosphere" and was not (rpt not) limited to the south but to all of Iran that the Iranians would accept it.

Prime Minister further stated that he thought it would be most advisable for you to stay in London for at least two days longer in order that any misunderstanding still existing may be cleared up.

GRADY

MAN:ED