INCOMING TELEGRAM

TELEGRAPH BRANCH

FROM: Tehran

TO: Secretary of State

NO: 276, July 19, Noon

Priority

FROM: Harriman for the President and Secretary.

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Grady had five friendly Iranian political figures to dinner Tuesday night which gave me an informal opportunity to explain the economic consequences of oil shut-down and necessity of working out arrangements in some form with British. They appeared to agree that a solution with Britain should be reached. They also said that the opportunity provided by my presence must not (rpt not) be lost. On other hand, they pointed out that they had little influence on Mossadegh at moment and that he had captured popular emotion and widespread support.

Wednesday morning Ala, Minister of Court, present Tuesday night, called on me. We had a long and frank discussion. He explained the Shah's position, saying that he realized the issues at stake and yet could not (rpt not) safely take any direct action. The country is so strongly behind Mossadegh that no (rpt not) other individual could now obtain popular approval of a deal with British. He believes every effort must be made to persuade Mossadegh to be reasonable. Ala said that even Mossadegh could not (rpt not) repudiate the nine point Nationalization Law but could interpretate the points liberally and make additions. In any event British political influence in Iran affairs must be stopped both by oil officials and British Govt. He referred to 'shooting trips' by Military Attaché which in fact were for purpose of contacting tribal leaders.

I told him I had come to conclusion that only way to break impasse was through govt to govt (British-Iran) discussions and suggested the advisability of a member of British Cabinet coming to Tehran while I was still here.

I said I was sure his govt could attain its political objectives.

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as above, but the oil deal would be difficult considering Mosadeq's rigidity. In answer to his question I pointed out new operating company of Iran registry owned by British and perhaps other previous customers (consisting mostly of European subsidiaries of AIOC held solely or jointly with other international oil companies) could be organized to act for a fee as agent to Iran National Oil Company for operation of oil fields and refinery. Also a long-term contract with AIOC for sale of oil might be made at substantial discount from market. I told him bluntly that whatever the form of arrangement the oil companies in total would have to obtain equivalent of 50 percent of the net receipts. This point we discussed at considerable length. I believe he understands clearly reasons and indicated that Iran Govt's objective should be to sell largest volume of oil possible to produce maximum income regardless of percentages.

Wednesday afternoon I was invited to meet separately the Presidents of Senate and of Majlis with a group of members of both Houses. At meeting with Senators over half of membership, about 35, were present. Following several cordial and flowery speeches of welcome and expressions of respect for President Truman, I spoke at some length. After expressing US great interest in Iran and President Truman's personal concern over present controversy and free world solidarity, I presented forcefully the economic dangers of loss of their oil industry. I told them now that they had attained their political objectives through nationalization laws they must combine reason with enthusiasm and protect their oil income as a basis for economic development. From questions that followed I gained impression that they understood implications of what I had said. Individuals expressed privately to me their concern that the Govt was being too rigid and had made mistake in rejecting oil company's last proposal out of hand. Several asked for further personal talks.

Majlis group consisted of about dozen. Most of them made speeches to me of cordial but general nature. I said much the same as I had to Senate. The meeting was more formal and I could not [rpt not] appraise their reaction except for feeling that they all hoped that in some manner my mission would be successful. I am seeing Alp Thursday morning and Shah in afternoon. Also the mixed oil commission is calling on me later. I plan to see Mosadeq following day. I hope that some influence will by then have been brought to bear on him from my various talks. My objective will be to induce him to agree to immediate Govt to Govt talks with British and acquiesce to a British Cabinet Minister's visit to Tehran. If he should agree, regarding which I am not [rpt not] at present optimistic, he cannot make rigid conditions of prior acceptance by
To Mr. Bums.

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acceptance by British of his nine points nor can the British insist on observance of Hague Court recommendations.

If British Minister—preferably, I think, Gitskill—would come without a fixed formula but with latitude to negotiate he might well be able to work out an acceptable deal, or at least a modus vivendi which could serve as a basis for a final agreement.

GRADY

Note: Advance copy to SS/R 7/19/51, 4:30 p.m., MG.