From: Tehran

To: Secretary of State

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Priority

From Harriman for the President and Secretary.

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I have reported by separate telegram the general course of my discussions with Iranians. It might be useful to outline to you some of the basic elements of the situation which I have found and which must be taken into account in my efforts to work out some solution.

There is complete unanimity of opinion among qualified American officials that Mosadeq is strongly supported by very large majority of Iranian people, and no (rpt no) Iranian program has ever been backed to the extent of his program to eliminate British influence in Iraq and nationalize the oil industry. In whipping up public emotions on this issue, however, Mosadeq has created an atmosphere which has made it possible for extreme elements, both right and Communist, to establish situation under which it is practically impossible for him substantially to retreat. While it is generally believed that Mosadeq is the only man who could make deal of any kind with the Brit without it resulting in strong opposition and violence, he cannot conclude an agreement which he did not (rpt not) square with the nine points of the nationalization law.

Mosadeq's rigidity thus results as much from practical political factors as from his emotionalism. There is chance that he can be convinced to some extent upon the practical realities on the oil company operation, and that his emotions can to degree be tempered with realism. It is more unlikely, however, that he can be convinced that the political aspects of the problem will permit him to seek an amicable settlement with the Brit which will appear to involve concessions on his part.

From my conversation with the Shah and Ali, it is clear that they believe the Shah cannot now afford to replace Mosadeq.
Mosadeq and install a more amenable govt; and US officials question his current power to do so in any event. Under the circumstances the less talk by the Brit and ourselves about possible change in govt, the better. If dangerous crisis is to be avoided we must try to deal with Mosadeq, and every effort shld be made to find solution which will protect basic Brit interests, but which will not (rpt not) admit that the nine points of the nationalization law are not (rpt not) being adhered to. Rather, results might be achieved through interpretation of law and perhaps additional legislation.

The most encouraging factor that I can report at this time is that there is growing feeling among responsible Iranians that opportunity of settlement provided by my presence shld not (rpt not) be lost.

GRADY

RSF: JEO