Mr. Hopkins,

Copy of this telegram sent to The President via Signal Center.

G. E. Santun
Telegraph Room

8/18/51
FROM: Tehran
TO: Secretary of State
NO: 704, August 18

PRIORITY.

SENT DEPT 704, LONDON 151 EYES ONLY AMBASSADOR.

FROM HARRIMAN FOR PRESIDENT AND SECRETARY.

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In his meeting with Mosadeq Friday afternoon Levy outlined technical reasons why foreign organization was needed to conduct oil operations in Iran as agent NIOC, and reviewed arrangements in other countries which assured that operating agencies carry out their work in conformity agreements with govt. Talk was most friendly, and Mosadeq showed real interest in presentation and asked number of questions. Although he did not (rpt not) deny validity arguments presented Mosadeq repeated that he did not (rpt not) accept agency arrangement. Levy stated Brit proposal provided basis for negotiations which wld be fully within formula under which Brit mission came to Iran. The only basis upon which Mosadeq disputed this was that Iran did not (rpt not) control agency since "the servant (meaning Brit) wld be bigger than the master". Mosadeq again showed complacency at possible result of loss of oil revenues.

Iran negotiating committee has meeting with Brit mission late this afternoon (Saturday) at which I may be asked to be present. Stokes tells me he is going to state he is ready remain another week if real negotiations are undertaken. I may, however, with Iran committee separately to urge that they not (rpt not) take position which wld make it impossible for Brit to continue negotiations and to have Levy repeat presentation which he made to Mosadeq yesterday in hope this group can be convinced that agency arrangement is essential and can be made with adequate safeguards for Iran.

I saw Shah this morning and later Ala. I reviewed developments in detail and pointed out Iran Govt had not (rpt not) in fact negotiated in accordance with formula. Since Mosadeq had insisted on his complete control and censorship of Iran negotiating committees mtgs with Brit, I expressed my concern over the resulting disaster if breakdown in negotiations shld occur asked whether
asked whether it was not (rpt not) time for people who had interest in future of Iran to become involved in situation before it was too late. Shah said that it wld be far easier if agreement cld be reached with Mosadegh but that he had never been too optimistic this wld be possible. He agreed to send Ala to Mosadegh today with strong msg from him, and said that in any event I shld see Iran negotiating committee. I told him I must make some public statement within the next 24 hours, form of which wld depend on what tranpired this afternoon, as I understood Mosadegh or some of his associates were spreading report that, if Brit left, US companies with encouragement of US Govt wld step in and make more favorable deal.

Ala said not (rpt not) to be too discouraged as there might still be more favorable developments. He emphasized that Iran reaction to Stokes proposal had so far been influenced by Mosadegh and his group contending it was simply return to status quo through Brit control of both purchasing organization and operating agency. I believe he himself understands that this need not (rpt not) be the case if proper safeguards are worked out, particularly with Levy's and my help and advice.

There are unconfirmed rumors that certain more reasonable members of Senate and Majlis are beginning show concern over possible breakdown of negotiations and that Kashan has made contact with Sov agents here to obtain Sov assistance.

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NOTE: Mr. Halla (GTI) notified 8/18/3:30 p.m. EMS

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[Signature]

GRADY

[Stamp]