TO: Secretary of State  

FROM: Tehran  

RE: 589, August 12, 11 a.m.  

PRIORITIZED  

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FROM HARRIMAN  

After consultation with London on general principles involved, Stokes has prepared for discussion with Iranian Government suggestion as to possible arrangement between British and Iran. Plan was developed after detailed discussions with my staff, particularly with Levy on technical aspects. I have refrained from giving it my approval, but have said that it appeared to provide good basis for discussion. I believe it essential, in order to maintain a neutral position at this time, to avoid impression that I have endorsed any particular plan. Covering memorandum and suggested plan follow:  

(a) Memorandum by British delegation.  

"1. This document submitted by British delegation without prejudice to any party concerned.  

2. British delegation on behalf of NNZ and of AIIC, recognize principle of nationalization of oil industry in Iran, on basis of correspondence recently exchanged between two governments.  

3. British delegation are accordingly ready to negotiate on basis of formula proposed by Iranian Government and agreed to by NNZ, and in accord with this formula, to discuss manner in which law of 20th March should be carried out  

insofar as
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in so far as it affects British interests.

4. There is no doubt a variety of methods whereby principle of nationalization of oil industry in Iran could be achieved in accord with Iranian law. In light of discussions which have already taken place between the two delegations, British delegation now wish to submit for consideration of Iranian Government outline of possible arrangement which might be found suitable.

5. It is sincere hope of British delegation that Iranian oil shall flow again as soon as possible into world markets, so as to enable Iran's economy to benefit from increased oil revenues and standard of living of people to be raised. British delegation are confident these objectives are fully shared by Iranian Government.

6. British delegation wish further to declare that suggestions which they are now presenting should be regarded as being governed by principle that AIOC will cease to exist in Iran and that Iranian Government will acquire full authority over exploration, extraction and exploitation of oil in Iran.

(B) Attachment

"1. AIOC will transfer to NIOC the whole of its installations machinery, plant and stores in Iran. As regards assets in south Iran compensation by NIOC to AIOC would be included in operating costs of oil industry in area. Compensation for assets used in past for distribution and marketing in Iran will be dealt with under separate arrangements suggested in paragraph 7 below.

2. A purchasing organization will be formed in order to provide assured outlet for Iranian oil which is only
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basis upon which an oil industry of magnitude of that of Iran could hope to maintain itself. This will be done by means of long term contract, say 25 years, with NIIOC for purchase f.o.b. of very large quantities of crude oil and products from south Iran.

3. Purchasing organization under agreement will be placed at disposal of NIIOC a world-wide transportation and marketing service, including one of the largest tanker fleets in the world, and will be entering into firm commitments with its customers for fulfillment of which it will be relying on Iranian oil. It will, therefore as matter of normal commercial practice, have to assure itself that oil in necessary quantities and qualities will come forward at times required. In order secure this objective purchasing organization will make available to NIIOC an organization which, under authority of NIIOC will manage on behalf NIIOC operations of searching for, producing, transporting, refining and loading oil within area. Purchasing organization will arrange from current proceeds finance necessary to cover operating expenses.

4. In order that proposed purchasing organization can be induced to commit itself to purchase of large quantities of Iran oil over long period of years, commercial terms must be not (not not) less advantageous than purchasing organization would secure elsewhere either by purchase or development. In effect this means net profit realized f.o.b. from all sales by purchasing organization under agreement, would now be on commercial basis and would have to be divided equally between that organization and NIIOC.

5. Apart from this arrangement NIIOC would be able to make additional sales of oil subject to normal commercial provision that such sales should be affected in such a way as not (repeat not) to prejudice...
6. In event of foregoing suggestions being accepted by Iranian Government as basis for future operation of oil industry in south Iran, it is suggested that they should be expanded into heads of new agreement which could later be developed into detailed purchasing arrangement between Iranian Government and proposed purchasing organization. Heads of agreement would also provide for immediate resumption of operations in south Iran on interim basis.

7. It is suggested that all assets owned by Kermanahah Petroleum Company, Ltd. which produces and refines oil for consumption in Iran together with installations, machinery, plant and moveable assets of AIOC which have been used in past for distribution and marketing of refined products within Iran should be transferred to Iranian Government on favorable terms.

8. Operating organization will arrange that there will be Iranian representative at board level and will of course only employ non-Iranian staff to extent it finds it necessary to do so for efficiency of its operations. It will also offer its full cooperation to AIOC in any programme of training on which latter may wish to embark."

Stokes handed copy of foregoing to Bahshir this morning (Saturday) with suggestion that he consider it and discuss it with Mosaddeq, advising Stokes as to whether it should be presented to Mixed Oil Commission group and other Iranian Government negotiations at meeting scheduled late this afternoon. In subsequent conversation with me Bushehri mentioned three questions regarding first paragraph of attachment which had come to his mind, but said he wished to have document translated in order that he could study it more carefully and discuss it with Prime Minister. His questions related to (1) whether Iranian Government could agree to new arrangement extending beyond period of 11 years, i.e., end of the D'Arcy concession; (2) with regard to compensation aspect of paragraph one of document, he stated that while equal sharing of profits might be reasonable if assets of company were turned over without compensation, he doubted that this would be satisfactory if compensation was included in cost. Moreover, he said that if compensation for assets is raised, Iranian Government would have substantial counterclaims; (3) regarding transfer of assets of Kermanahah Petroleum Corporation, arrangements were vague and would require clarification.

In commenting upon these questions I pointed out that it would appear to make good business sense to assure the sales arrangements for as long a period as possible, particularly since customers might,
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customers might, if period established is too short, seek alternative sources of supply to assure their ability to maintain steady flow to their markets over long term. In connection with compensation aspect, both as regards his points two and three, I said it was a matter to be worked out in detail negotiations, but pointed out the value to Iranians of obtaining a guaranteed market and technical skills and that whatever figure was agreed to between them for compensation would be handled similarly to charges for depreciation.

Bushehri informed Stokes just before latter's meeting with Iranian Government delegation this afternoon that Mosadegh had asked that he be given time to study translation British document before it is handed to Iranian negotiators.

My guess is that Mosadegh will have vigorous objections to British suggestions, but I hope outright rejection can be avoided and detailed discussion of points objected to can be arranged.

GRADY

MRC:GER

Note: Mr. Ferguson (OTI) was notified 11:30 a.m., 8-12.
CWO-FED.