DEPARTMENT OF STATE

TELEGRAPH BRANCH

TO: Secretary of State

FROM: Tehran

NO: 380, July 25, 4 p.m.

PRIORITY

SEN'T DEPT 380, LONDON 73 (EYES ONLY AMBASSADOR)

FROM HARRIMAN FOR THE PRESIDENT AND SECRETARY.

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I am naturally concerned over two subjects. First, whether British Government fully understands disastrous consequences of failure to accept in friendly manner gesture of Iranian Government contained in proposal for negotiations through government mission and whether British will not (rpt not) try to rear up conditions which I believe will get them nowhere and will destroy atmosphere essential to successful negotiations.

British shld realize extent Iranian Government has retreated from previous rigid positions: (A) Non-insistence on prior acceptance of nine point nationalization law; (B) Readiness to negotiate manner in which first general nationalization law of March 20 is to be carried out; (C) Agreement to negotiate with British Government instead of oil company although insisting that such negotiation be on behalf of company; (D) Readiness to negotiate for foreign-owned company to operate within Iran as agent for National Oil Company; (E) Recognition of Iran's dependence upon goodwill of foreign companies for shipping and foreign outlets; (F) Readiness to negotiate a free and clear and repeated statement by me that government cannot (rpt not) expect greater income than other producing countries under comparable circumstances, and (G) Acceptance of principle that they must deal with AIOC in working out above arrangements in spite of widespread hatred and distrust of company.

I earnestly hope you and Gifford will continue to use maximum influence to prevent British from trying to settle any substantive question before Minister's arrival Tehran or to discredit Iranian Government before people by demands such as for removing management of oil operations to British before negotiation. Report coming to me from objective.
-2- 380, July 25, 4 p.m., from Tehran.

American newspaper correspondent recently returned from South is that, although morale of British is extremely low, it is due to discouragement that British Government has not (rpt not) taken direct action and to indignities of having Iranians "push them around." Incidents have been magnified by company officials whereas correspondent calls them to considerable extent "pin pricks to pride." It is difficult in Tehran to appraise charges and counter-charges as between British and Iranians although there is no (rpt no) doubt that Iranian Government has acted unwise to say the least, and extremists such as Maleki have been arrogant and provocative.

Secondly, if British agree to send mission, the selection of Minister to head it is of utmost importance. I can think of only two, Morrison or Gaittiskill. Noel-Baker, Minister of Fuel and Power, will in my opinion be inadequate. Some Iranian officials who knew Shawcross at UN speak well of him but I have had no (rpt no) direct dealings with Shawcross and therefore have no (rpt no) opinion. I feel perhaps Gaittiskill will be best man. On other hand Morrison has more prestige.

GRADY

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