FROM HARRIMAN FOR THE PRESIDENT AND SECRETARY, DISTRIBUTION ONLY AS DIRECTED BY THE SECRETARY'S OFFICE.

Sunday Grady briefed me on developments and at his suggestion I saw Mosadeq yesterday alone except for an interpreter. I called on him in the morning and he came to my residence in the late afternoon. Between the talks Grady and I lunched with Shah.

At my first talk Mosadeq received me most cordially at his home. His only significant remark was: "When there are two divergent points of view it is good to have the help of a third party." Otherwise he gave me his interpretation of events as told to and reported by Grady on numerous occasions. I proposed that we should discuss the details of the problems of oil production and distribution at our next meeting.

For the afternoon session he brought with him Hashi, Under Secretary of Finance and Saleh, chairman of the National Oil Co. Walter Levy gave these two men probably their first frank detailed education on the technical aspects of how the worldwide oil business was conducted. While these technical discussions were being carried on, I talked with Mosadeq about how a settlement might be reached. He was completely rigid in his statements. He had no desire to talk with representatives of the British Government or the oil company. He asked that I propose a formula of settlement, provided it conformed to the nine points of the recent Nationalization Law. If this formula met his approval, he could then take it to the British. This I declined to do, but emphasized the need for an immediate modus vivendi. I explained the disastrous results that would follow a shut-down of the refinery, not only in the immediate effect on the Iranian economy but in the problem of getting the business going again. I explained the difficulty of bringing an operating organization together again and of selling oil after the market had been taken over by other sources. Mosadeq took the position that then Iran would fall into Communist control. This he considered was the obligation of the British and ourselves.
and ourselves to prevent. I told him quite bluntly that while such a happening would be unfortunate for the free world it would be the end of his country.

He appears obsessed with the idea of eliminating completely British Oil Company operations and influence within Iran, though willing to sell oil to them. I told him we could not associate ourselves with any proposal that treated the British with such lack of consideration. I emphasized the importance of free world solidarity and declined to believe a way could not be worked out by which Iran could get the essential benefits of British help for production and distribution and yet preserve the desire for control of Iranian resources and the elimination of the political influence which he considers the AIOC had exercised. (I will send further details of this conversation when the notes are written up).

I reiterated the immediate necessity for a temporary arrangement by which oil could begin to move promptly. Then there would be time to work out a permanent solution. In reply to his request I agreed to consider with Grady whether we could make a suggestion for such a modus vivendi which might be acceptable to both parties.

In spite of Mosadegh's cordial attitude, I am gravely concerned over his rigid and adamant position, not only in regard to his objectives but also to the precise and impractical manner in which he is determined to attain them.

The Shah seemed more vigorous than I expected. He is relieved that there is nothing basically wrong with his physical condition, and he has regained his strength following the operation. He discussed the situation calmly, explained that unless a solution could be worked out with Mosadegh a very grave situation will be created, particularly since it would be difficult or impossible to replace the Mosadegh Govt unless there is a complete change of attitude in the country towards him and his program.

I will have a full talk with Grady today and decide what our next move should be. There is a slight possibility that Levy's conversations with the Iranian officials may weaken Mosadegh's confidence that he can "go it alone" without British cooperation in some form.

GRADY

DUGGER

Note: Read by Mr. Kitchen (22) 12:50 p.m., 7-17-51, TEM.