Iranian Cabinet met most of Monday over questions which Oil Committee discussed with me on Sunday and reported in my telegram 304 of July 23. Finance Minister and representatives of Oil Committee met with me late Monday afternoon. They reported to me Cabinet had agreed to inclusion of the word "principle" and gave me draft of formula for meeting with British as follows: "In case the British Govt on behalf of the former Anglo-Iranian Oil Company recognizes the principle of nationalization of the oil industry in Iran, the Iranian Govt would be prepared to enter into negotiations with the representatives of the British Govt on behalf of the former company."

They explained omission of reference to discussion of any other matters of mutual interests referred to in my above telegram was only because Oil Committee had no (rpt no) competence in anything except oil but that Govt would, of course, be ready to discuss any such matters. They then said in order that I might be fully informed of attitude of Iranian Govt and Cabinet had decided that I should be given translation of minute of meeting at which above decision was made and approved by entire Cabinet and Oil Committee.

This minute, in addition to setting forth as point (1) the above quoted statement, included the following points: (2) before sending representatives to Tehran British Govt should make formal statement of its consent to principle of nationalization of oil industry on behalf of former oil company, and (3) by the principle of nationalization of oil industry is meant proposal which was approved by special Oil Committee of Majlis and confirmed by

FROM HARRIMAN FOR THE PRESIDENT AND SECRETARY.

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FROM HARRIMAN FOR THE PRESIDENT AND SECRETARY.

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and confirmed by law of March 20, text of which proposal is:

"In the name of the prosperity of Iranian nation and with view
to helping secure world peace we, the undersigned, propose that
oil industry of Iran be declared as nationalized throughout all
regions of country without exception, that is to say all
operations for exploration, extraction and exploitation shall
be in the hands of the government."

Continuing under (3) minutes said: "In this connection for
Mr. Harriman's further info, copy of note which representatives
of former oil company submitted to Iranian Government on their
methods of accepting principle of nationalization of oil industry,
which note was not (rpt not) acceptable, is enclosed (Jackson's
proposal)."

They explain that only formula in first para above was intended
to be formally communicated to British, and that points (2)
and (3) were being communicated to me only in order that I
might know the basis for their conclusion.

I told them that I would of course have to inform British
Government of this minute which they had given me and that I
was sure as it stood it would make proposal under point (1)
unacceptable to British Government without likewise making
qualification on its part. I explained British Government
could not (rpt not) be expected to accept by implication this
law without clear understanding of its interpretation. I
emphasized difference between acceptance of principle of
nationalization and acceptance of law. They stated they were only
referring to first law and not (rpt not) to nine-point law and
to them first law merely established principle of nationalization.
I said, for example, that phrase "in the hands of the government"
could be implemented in number of different ways and British
Government obviously could not (rpt not) agree in advance of
negotiation upon manner of carrying it out. I said further
that they had led me to believe they were prepared to consider
foreign-owned company to act as agent for Iran National Oil
Company in conducting operations in Iran and asked whether this
was within their interpretation of the above language. They
replied "the hands of" might equally well be translated
"under authority of" and, therefore, such an arrangement they
considered would be possible. They emphasized that Jackson's
proposal was objectionable because they considered it was AIOC
"appearing with different face".

All Iranian officials, even those considered most friendly to
British, are determined Government should have sufficient control
over operations so as to avoid political activities in which
they contend company has historically engaged. I pointed out
to them that I had consistently maintained this subject was one

which they could
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which they could not (rpt not) discuss with me but had to work out in their negotiations with British.

Returning to their proposal they suggested I pass it on to British and obtain from British Government its reaction questions or comments. I declined to do this on grounds it would lead to endless communications on subjects which should be matters for negotiation after British had come to Tehran, and also that this would place me in position of mediator which I was unwilling to assume. After considerable discussion I said I would be prepared to do following:

(A) advise British Government of Iranian Government's formula for arranging meeting with British as quoted in first paragraph above.

(B) inform British Government of Cabinet minute which, because of manner in which it was being transmitted, would in no sense bind British should they agree to make statement recognising principle of rationalization on behalf of AIWC.

(C) In connection with third point of Cabinet minute I must be authorized to advise British Government that "Iranian Government is prepared to negotiate the manner in which the law will be carried out insofar as it affects British interests".

The Committee agreed to (A) and (B) but pointed out they could not (rpt not) speak for government regarding (C). This matter was subsequently discussed at Cabinet meeting and I have been advised by Minister Busheri that government has now authorized me to make statement contained in (C).

Throughout our discussions re representatives of Iran Government have frequently stated they believed if member of British Government came to Tehran with good-will and understanding of national aspirations of Iranian peoples settlement could be found satisfactory to both sides. This was reiterated several times at our last meeting. I believe this is so, provided British Minister approaches negotiations with flexible point of view and is prepared to take into account very strong public emotion which is roused throughout the country.

In opinion of all Americans here (rpt not) responsible Iranians with whom I have talked, any Iranian Government, whether it be that of Musadeq or someone else, cannot run counter to this emotion. Levy and I have consistently made it plain that Iranian Government would not (rpt not) expect to obtain financial return greater than that of other countries under comparable conditions. We have also made it plain that the operation in Iran must be run on an efficient
run on an efficient basis and this could only be accomplished through foreign-owned operating company with freedom in day to day management though sowing under policy principles established by government or National Oil Company.

The question that appears to give Iranians greatest concern is how they can prevent AIOC from returning under different guise and operating politically in manner in which they maintain has been the case in the past; also, manner in which arrangements could be worked out and not (rpt not) give appearance of setting aside nationalization law. I believe they recognize that they cannot (rpt not) conduct operations but want access to all information and supervision beyond board membership as was set forth in Jacksons proposal. They also want training of Iranians for increasingly import and administrative and technical positions as they qualify.

I believe they now understand they are dependent upon AIOC for shipping and marketing. If British agree to negotiations I believe it would be well for them to be prepared to include, if company to operate within Iran, certain interests in addition to AIOC, such as Shell or AIOC affiliates in other countries. I am in no (rpt no) sense suggesting inclusion of any American interests.

It is my impression that atmosphere exists in Tehran today in which British can make satisfactory settlement and I doubt whether as favorable situation will present itself again. With all of the increasing difficulties and grave dangers involved in delay, I believe the sooner member of British Government with appropriate advisers, including representative of AIOC, comes to Tehran the better it will be. Although this proposal will not (rpt not) be all that British would like I strongly recommend that it be accepted if at all possible.

In phrasing the proposal Iranians obviously had in mind the last paragraph of British Ambassador's aide memoire of May 24 to Foreign Minister suggesting sending of government mission to Tehran headed by member of government. I am informing British Ambassador here early Tuesday morning. I recommend that you discuss matter fully with Franks in Washington and instruct Gifford to discuss it with British, urging them to accept.

Although it is better psychologically for me not to leave here, I am prepared to go to London on short notice if it is considered advisable.

GRADY

Note: Read by Mr. Ferguson 1:45 p.m. 7/24/51 KW. Advance copy to SS 7/24/51 3:30 p.m. KW.