Mosadeq called on me today (Thursday) and I took occasion to emphasize essentiality of British and Iranian representatives engaging in discussions on completely frank basis without stenographic records. I mentioned success of this method in our own discussions. Mosadeq fully agreed desirability of this, but commented it would be difficult to work with British on same basis of frankness as Iranian had with us.

I said that British proposal seemed to me to provide good basis for discussions, and that I felt arrangements could be worked out under it entirely consistent with formula under which British were invited to come to Iran. To this Mosadeq disagreed and said that while he was prepared to accept concept of British purchasing organization which would sell to other countries he could under no (rpt no) circumstances agree to British-controlled agency operating within Iran. British proposal was in fact for a concession in disguise. He said moreover he could never sell this to Iranian people. I stated efficient operation of oil industry required foreign agency which could operate as instrument of NIOC, and felt sure that he could get Iranian people to accept a proper arrangement. I pointed out that foreign technicians could not (rpt not) be induced to accept employment directly with Iran Govt Corporation and reviewed some of the reasons for this. As Mosadeq remained adamant in his position and was complacent about disastrous effects of losing oil income, I said that before I left Iran I thought he should permit Levy to explain to his technicians why any agency is essential and that arrangements might be made by Iran Govt to control it and assure that it operates in fact in interest of Iran. Mosadeq accepted this but said that he would like Levy to talk with him directly. He asked that Levy call on him Friday afternoon to spend "two or three hours" discussing matter.

While Mosadeq's present position regarding purchasing organization is an advance, question of operating agency in major issue.
with him and may lead to an impasse.

I have informed Stokes personally and confidentially of Levy's proposed talk with Mosadeg. However, I suggest that this not (rpt not) be discussed with British either London or Washington.

GRADY

NOTE: NRA Message Center informed 8:45 a.m., August 17, WC