FROM HARRIMAN TO PRESIDENT AND SECRETARY.

NO DISTRIBUTION EXCEPT BY DIRECTION OF SECRETARY's OFFICE.

For reply of Persian del to proposals of Brit del was handed last night by Iran negot committee to Brit del.

(Without prejudice to the rights of two parties).

Persian del does not consider that proposals for future operation of oil industry in south which Brit del acting on behalf of former oil co submitted to Persian del, conforms to definition of nationalization of oil industry stipulated in Persian law and which former part of formula put forward by Mr. Harriman and accepted by HMG and former oil co.

According to formula nationalization of oil industry is defined as meaning that oil* exploration, extraction and exploitation operations are in hands of Persian govt. But principles of nationalization del will not only take out of hands of Persian govt substantial part of powers of management of oil industry, but will also revive former AIOC in new form.

Leaving out certain minor points, main headings proposed by Brit del and arguments which are now put forward on various subje are as follows:

1. Purchasing organization:

In these proposals, estab of a purchasing organ for export of Persia's oil is envisaged. This organ will enter into a long term contract, say for 25 yrs, with Persian Natl Oil Co. This organ will buy Persian oil in very large quantities in such a way as to approximate to a monopoly.

Although provision is made in Art 3 of Brit del's memo for Persian Natl Oil Co. to be able to engage in additional transactions...
transactions for sale of oil, nevertheless condition is imposed that these organs actions must be carried out in such a way that they shall not prejudice interests of purchasing organ.

Persian Govt is ready to sell to England, on basis of ordinary commercial contracts, oil products in quantities which have been supplied in recent yrs for Brit consumption. Persian Govt cannot, however, accept sitn approximating a monopoly for sale of oil.

2. Price of oil and division of profits:

In Brit del's memo it is suggested that purchasing organ shall buy oil from Persian Nati Oil Co at commercial Persian ports (FOB) at prices subj to discount in such a way that Persian Nati Oil Co. will receive, after payment of production expenses and amortisation of compensation, a residuary profit equivalent to profit accruing to purchasing organ in consequence of this discount; in other words, that profits of Persian Nati Oil Co. shall be divided 50-50 with purchasing organ.

Basis of price discount and division of profits is unacceptable to Persian Govt. In addition it does not accord with normal commercial practice, because purchasing organ, which buys oil at Persian ports (FOB) prices and takes into account its transport, insurance and distr costs, and its profits in prices at which it sells in consuming markets, has no further justification for requesting a discount on FOB price in such a way that half profits of production of oil shld accrue to suggested purchasing org.

3. The operating organization.

Third important point of Brit del's memo is that purchasing organ will, in collaboration with NIOC, come to an agrmt about creation of an operating organ. This organ will, under authority of NIOC, administer operations of exploration, production, transportation, refining and shipment of oil in area. Iran Govt will be represented in this organ.

Iran Govt is convinced that such an organ is clearly contrary to principle of nationalization of oil industry, constitutes limitation of sovereign rights of Iran and revives former AIOC under a new guise. In addition, a similar proposal with minor differences, and even in more favourable form, was submitted by del of former AIOC. This proposal was rejected by Iran Govt and this fact was set forth in fourth sect of formula presented to Mr. Harriman and submitted to Brit Govt.

The Iran Govt
The Iran Govt is conscious of its need for presence of experienced for specialists for effective admin of oil. It also realizes it is nec that these experts responsible for oil operations which they will conduct for govt and NIOC, shld have auth and sufficient freedom of action in respect of exec and tech matters. Iran Govt will also give experts new powers according to laws and internal ordinances of Iran and in accordance with indiv agrnts which have been entered into with them. Iran Govt is not, however, prepared to hand over control of oil operations to for orgn or to restrict sovereignty of Iran.

4. Transfer of Co's properties and method of pymt of compensation:

In para 1 of Brit del's proposals it is provided that former AIOC will transfer all its installations, machinery, apparatus and equip in Persia to NIOC and, in case of assets situated in south Persia, compensation to be paid to former AIOC by NIOC will be counted as part of expenses of running oil industry that area.

In case of assets of Kermanshah oil (sic) and similarly all installations, machinery, apparatus and movable property of former AIOC which in past was used for marketing of refined products in Persia, it is provided in para 7 that these properties will be transferred to Persian Govt on favourable terms.

As regards compensation, as has been explained repeatedly and is now stated again, assets of former co have been vested in Persian Govt by virtue of the law for nationalization of oil industry. The govt is ready to investigate fully and fairly just claims of former AIOC, taking into consideration claims which Persian govt has against co and in respect of its assets in Persia and outside Persia, and to settle these claims after rights of both parties have been established.

By explanation which have been given it is proved that proposal of Brit del is not consistent with sense of formula submitted by Persian Govt and if estee-lyco-m* del will consider objections and criticisms of Persian del, this del, as it has repeatedly said and proved in practice, will welcome most warmly continuation of negota.

My comments will fol.

GRADY

RSP: KL

NOTE: Mr. Halla (9TI) was notified 6:20 p.m. 8/19/51 CWO/PED

*As received. Repetition has been requested.
FROM HARRIMAN TO PRESIDENT AND SECRETARY.

NO DISTRIBUTION EXCEPT BY DIRECTION OF SECRETARY'S OFFICE.

Foil reply of Persian del to proposals of Brit del was 

handed last night by Iran negot comite to Brit del. 

(Without prejudice to the rights of two parties).

Persian del does not consider that proposals for future 

operation of oil industry in south which Brit del acting 

on behalf of former oil co submitted to Persian del,

conform to definition of nationalization of oil industry 

stipulated in Persian law and which formed part of formula 

put forward by Mr. Harriman and accepted byaldo and former 

oil co.

According to formula nationalization of oil industry is 

defined as meaning that new exploration, extraction and 

exploitation operations are in hands of Persian Govt. But 

principles proposed by British del wld not only take out of 

hands of Persian Govt substantial part of powers of manage-

ment of oil industry, but wld also revive former AIOC in 

new form.

Leaving out certain minor points, main headings proposed 

by Brit del and arguments which are now put forward on 

various subje are as fola:

1. Purchasing organization:

In these proposals, estab of a purchasing organ for export 

of Persia's oil is envisaged. This organ wld enter into a 

long term contract, say for 25 yrs, with Persian Natl Oil Co. 

This organ wld buy Persian oil in very large quantities 

in such a way as to approximate to a monopoly.

Altho provision is made in Art 3 of Brit del's memo for 

Persian Natl Oil Co. to be able to engage in additional 

transactions

REPRODUCED FROM THIS
MESSAGE IS REPRODUCED
-3- #706, August 10, Noon, from Tehran.

The Iran Govt is conscious of its need for presence of experienced for specialists for effective admin of oil. It also realizes it is nec that these experts responsible for oil operations which they will conduct for govt and NIOC, shld have auth and sufficient freedom of action in respect of exec and tech matters. Iran Govt will also give experts nec powers according to laws and internal ordinances of Iran and in accordance with indiv agrs which have been entered into with them. Iran Govt is not, however, prepared to hand over control of oil operations to non organ or to restrict sovereignty of Iran.

4. Transfer of Co's properties method of pmt of compensation:

In para 1 of Brit del's proposals it is provided that former AIOC will transfer all its installations, machinery, apparatus and equip in Persia to NIOC and, in case of assets situated in south Persia, compensation to be paid to former AIOC by NIOC will be counted as part of expenses of running oil industry that area.

In case of assets of Kernanah oil (sic) and similarly all installations, machinery, apparatus and movable property of former AIOC which in past was used for marketing of refined products in Persia, it is provided in para 7 that these properties will be transferred to Persian Govt on favourable terms.

As regards compensation, as has been explained repeatedly and is now stated again, assets of former Co have been vested in Persian Govt by virtue of the law for nationalization of oil industry. The Govt is ready to investigate fully and fairly just claims of former AIOC, taking into consideration claims which Persian Govt has against Co and in respect of its assets in Persia and outside Persia, and to settle these claims after rights of both parties have been established.

By explanations which have been given it is proved that proposal of Brit del is not consistent with sense of formula submitted by Persian Govt and if esteemed Brit del will consider objections and criticisms of Persian del, this del, as it has repeatedly said and proved in practice, will welcome most warmly continuation of negota.

My comments will fol.

GRADDY

RSP:XL

NOTE: Mr. Halla (OTI) was notified 6:20 p.m. 8/19/51 CWO/FED.