TOP-SECRET

CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

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Memorandum for the Director of Central Intelligence

Subject: The Harriman Mission

After more than two weeks of complex and delicate discussions with both Iranians and British, Averell Harriman has succeeded in arranging a meeting between the two governments for the purpose of re-opening oil negotiations. The agreement to re-open negotiations is based on a number of important concessions by both sides.

The Iranian Government:

a. Agreed to negotiate with the British Government, acting as representatives for AIOC, rather than directly with AIOC.

b. Agreed to adopt a more cooperative and less obstructive attitude toward British AIOC personnel at Abadan in order to reduce tension in the area.

c. Avoided all mention of the 9-point nationalization law which calls for the eviction of AIOC from Iran and the expropriation of all oil installations in southern Iran.
The British Government:

a. Formally accepted the “principle of nationalization” of the Iranian oil industry as a basis for negotiation.

b. Agreed to avoid withdrawing British AIOC personnel from Iran as long as possible.

c. Avoided all mention of the ICJ ruling calling on Iran to permit AIOC to operate normally pending the outcome of negotiations.

These concessions reveal a genuine desire on the part of both Iran and the UK to work out a settlement. Moreover, although neither Iran nor the UK have retreated from their basic positions, Harriman’s discussions in Tehran and London have indicated that by patient negotiation ways may be found of reaching a settlement. However, if agreement is to be reached the following conditions will probably have to be met:

a. Iran must have at least titular control of all oil operations within Iran.

b. The company which operates the oil installations, even though a subsidiary of AIOC, must be registered as an Iranian company and its connection with AIOC must be disguised.

c. British technicians under British management must continue to operate the oil installations.

d. Iran must receive at least 50 percent of the profits from Iranian oil.
e. More Iranians must be trained more rapidly to take over responsible positions in the oil industry.

An agreement based on these general terms would probably be acceptable to Mossadeq and most Iranian leaders. Considerable astuteness and legal contortions will be required to make such an agreement appear to conform to the 9-point nationalization law, but this difficulty is probably not insuperable. The major difficulty from the Iranian point of view will be in keeping ultra-nationalist feeling under control during the negotiations. The British will almost certainly be willing to agree to a 50-50 split of profits but will view with grave misgivings having to release to the Iranian Government even titular control of oil operations. However, in view of the fact that the British will continue to control the marketing of Iranian oil, they should presumably be in a position to counterbalance any pressure which Iran might in the future exert through its control of operations within Iran.

The chances of an ultimate settlement depend on a variety of considerations, including the personalities involved in the negotiations, Tudeh activities, Mossadeq's health, his control of the Majlis, the effectiveness of martial law in Kustan, the morale of British AIAC personnel now that production has ceased, etc. Probably the most important consideration will be the continued presence of Harriman in Tehran and his active, though indirect, participation (assuming British and Iranian consent) in the negotiations. At the moment, the atmosphere for negotiations is as favorable as could reasonably be expected. The Tudeh Party has been quiescent since the demonstration and violence of 18 July. Mossadeq is now reportedly fully recovered from his illness and back at his home. His position has been strengthened...
by the success of the Harriman mission and by the passage through the Majlis of a bill which will ease the government's serious financial situation for two or three months. Extreme nationalists like Makki and Mulla Kashani are keeping relatively quiet. If the negotiations can be completed fairly rapidly and preliminary measures adopted to resume tanker loadings and oil operations within a week or two, there is a real possibility that a solution can be reached.

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