August 20, 1951

To: The Secretary

Through: S/S

From: MR. BERRY

Subject: Latest Developments in Iranian Situation.

At the beginning of last week, the British submitted to the Iranians an eight-point proposal. A summary was given in my memorandum of August 13 to Mr. Webb, a copy of which is attached.

In mid-week, the Iranian Deputy Prime Minister without the Prime Minister's approval stated to the press that the British proposals had been categorically rejected. This statement, however, was not regarded as having the Iranian Government's sanction and therefore did not affect the course of the negotiations.

Mr. Harriman, however, got the impression that the Iranians were definitely planning to reject the British proposals. He therefore saw the Shah and the Prime Minister and induced them to arrange for an Iranian negotiating team to sit with the British. He agreed to participate in the discussions.

At last Saturday evening's meeting, the Iranians submitted to the British a communication which the Iranians intended to make public last night. In the Iranian statement, the Iranians rejected outright the British proposals, saying that the proposals did not conform to the formula which Mr. Harriman had developed to bring both parties together. Among other things, the Iranians objected to the following points in the British proposals:

1) The Iranians contended that the purchasing organization envisaged in the British proposals would give the British a 25-year monopoly over the export sales of Iranian oil.

2) The formula suggested for the pricing of oil and the division of profits was not acceptable.

3)
3) The Iranians expressed the view that the operating organization suggested by the British constituted a restriction of Iran's sovereign rights and that such an organization would represent a revival of the former AIOC under a new guise.

4) The Iranians disputed the right of the British to offer to turn over all of its AIOC installations to Iran against compensation. The Iranians said that the assets of the AIOC had been vested in the Iranian Government by virtue of the nationalization law and that the British proposals in this regard were not pertinent. The Iranian Government would investigate AIOC's claims for compensation and in consideration of Iran's counter claims Iran would settle the matter justly and fairly.

Yesterday morning Mr. Harriman made a long statement to the negotiating teams. Among other points, he stressed the following:

1) In order to sell its oil in world markets, the Iranians must make arrangements with a large organization such as envisaged in the British proposals that could transport and distribute Iranian oil on a world-wide basis.

2) The Iranian Government must have a competent foreign management or operating organization to run the industry.

3) The British proposals provide a good basis for negotiating a fair settlement. Further, the proposals conform to the formula under which the British were asked to come to Tehran. Under these proposals, adequate safeguards fully protecting Iranian interests can be worked out.

4) Under the proposed arrangements, Iran could control its oil industry and could obtain an income estimated in the neighborhood of 90 million pounds sterling. Income of this magnitude would make it possible for Iran promptly to begin carrying out an extensive development program designed to improve the health and welfare of the Iranian people. The United States is anxious to assist the Iranians in this regard.

5) Collapse of the negotiations would lead to further misery for the Iranian people.

6) Publication of the statement handed to him would further confuse the already much confused Iranian public as to the facts of the international oil business and the real intent of the British proposals. If the Iranians issued such a statement, he would have to make a public statement along the lines of what he had told the group.

As a
As a result of Mr. Harriman's efforts, the Iranian Government agreed to withhold publication of its statement. Further, arrangements have been made for Prime Minister Mosadeq to negotiate directly with Mr. Stokes. Mr. Harriman, who is participating in these discussions, says that this action has been brought about in part through the Shah's influence.

In the light of the crucial situation described above, we believe that this week will indicate whether any chance exists for working out some kind of arrangement satisfactory to the British and the Iranians.

Attachment.

cc: G - Mr. Matthews.