PRIORITY.

SENT DEPT 736, RPTD INFO LONDON 160 EYES ONLY AMBASSADOR.

FROM HARRIMAN TO PRESIDENT AND SECRETARY.

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This morning (Tuesday) in our talk with Mosadeq it appeared to Stokes and myself that there was little if any chance to come to a workable arrangement with him. He stated that he wanted the British staff to continue working in Iran for NIOC just as they had before for the AIOC and then completely refused to accept any arrangement which would make it possible for them to work. Stokes offered to abandon the proposal for an operating agency and to develop a plan by which the staff could continue under a general manager reporting to and under the direction of NIOC. Mosadeq also refused this idea, repeating a suggestion he had made yesterday that some 20 section heads, all to be British, would report directly to the Board of Directors. The Board of 12 members would consist of British and British experts selected from continental European countries. Stokes and I tried our best to explain to him how the chaos which would result from such a scheme would make it impossible for the representatives of any foreign 

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2-9738. August 22, 9 a.m., from Tehran.

Legislation nationalizing oil industry creates profitable business and everyone is expected to help Iran on terms that he lays down.

He appears to ignore all of the info and advice Levy and I have been trying to give him and his associates during the past weeks.

I was told Mosadeg would call Majlis tomorrow and explain negotiations in a highly colored manner. Therefore, decided to write him a temperate letter reviewing the positions I have taken, and as releasing it to the press. Text has been telegraphed to Department.

I have just learned that Stokes has a letter from Mosadeg asking him to assist in writing for consideration by Iranian Govt his definite proposals for retention of Brit staff. Stokes will consult me tomorrow morning on how to reply to this letter. Difficulty is that whatever Stokes writes will probably be used against him by Mosadeg with Majlis to obtain vote of confidence.

GRADY