FROM: Tehran
TO: Secretary of State
NO: 786, August 24, noon

PRIORITY

SENT DEPT 786, RPTD LONDON 173 (EYES ONLY AMBASSADOR)
FROM HARRIMAN FOR PRESIDENT AND SECRETARY.

NO DISTRIBUTION EXCEPT AS DIRECTED BY SECRETARY'S OFFICE.

At request of Shah, Ali told me Thursday that Mosadeq had seen Shah and that he believed Mosadeq was now more concerned about future and was prepared to settle the oil business. He asked that I stay over for few days to see if I could reach an understanding. I replied that I was seeing Mosadeq that afternoon and would spend all day Friday which would give ample time if he in fact was ready to face realities.

Busheri also told me that Mosadeq wanted to "speak from his heart to me", that he was now ready to settle basic points of management and price of oil on a practical basis, and that he hoped my call would not (rpt not) be only PF. I replied that of course I would listen to and comment on whatever Mosadeq wanted to say and take to London any constructive suggestions that might be evolved.

Thus encouraged I repaired to Mosadeq's house with determination to see if I could make some further progress. We first discussed management questions. Mosadeq in general terms said he would agree to contract with agency to conduct operations providing British would agree that board of directors of agency would consist, as Stokes once informally proposed, of two Iranians, two British and two Americans and that these directors would select general manager. As he had previously abruptly turned down this idea, I got impression it might be possible to settle this question so pushed on to price of oil and compensation. On this I go nowhere. He maintains same position he took on my arrival. He expects to take all the profits after payments for compensation for assets. Price of oil received would be Persian Gulf quoted price less perhaps a small discount. He said Iran public opinion expected this and he was helpless to accept any other deal. I suggested he and his ignorant
-2- #786, August 24, noon, from Tehran.

Ignorant advisers had created this public opinion and unless a deal was made on a commercial basis, Iran would go nowhere, with disastrous results. We said it was British and European responsibility to prevent economic disaster in Iran or Communists would take control.

He asked me to tell British Govt they should pay him money AIOC owed Iran.

Although I will see him again today, it appears utterly hopeless to get any sense out of Mosadeq. I am seeing Shah this morning and will tell his situation as I see it.

GRADY
DU:RC