The British Ambassador called at his request. He first of all stated that he had, on reflection, discovered that the first question raised in the Aide Memoire which he had brought to the Department the previous evening had due to oversight not been discussed. This point involved the British proposal, subject to approval by the Cabinet, to announce a phased withdrawal of British technicians in Iran starting with those in the oil fields and ending with those in the Abadan Refinery. The withdrawal could be stopped at any time if the Iranian Government should prove more cooperative in working out a settlement of the oil issue. The Department representatives confirmed that this point had not been discussed, whereupon the British Ambassador asked what the Department's views were in this matter.

The Department's representatives replying that the proposal would in their judgment be wrong from a tactical standpoint, since the Department had always believed that the best policy for the British to pursue was to hold on in Iran as long as possible in the hope of a turn for the better. Indeed this had, up to now, appeared to be the British policy. If, in fact, the British did not wish to withdraw and were announcing their intention of withdrawal only to induce the Iranians to back down, they ran the risk that
that the Iranians might not back down and that the British might be forced to carry out their announced intention. It was thought that everyone had agreed, particularly Mr. Drake, the AIDC Manager, that once the British withdrew it might prove very difficult or impossible for them to ever come back in any test of will with the Iranians or any attempt at a bluff the British might, in the light of the highly irrational and emotional view of the Iranians, not be successful. Evidence from other similar situations, as for example that in Mexico, has shown that people do not easily recede from emotional nationalist positions even when the economic stakes are high. The Department recommended that the British not make the announcement in question, but rather attempt to hold on in Iran with all the patience at their disposal in a hope of a change in the situation.

The British Ambassador then stated that he had a note from Mr. Herriman which he had been instructed to give to the Secretary in hopes that it could be given to Mr. Herriman before his departure (copy attached). Mr. Herriman read the note but stated that he did not feel it proper for him to comment on the points raised. No comment was made either by any of the Department representatives present. The British Ambassador stated that he was not requesting comments, that his purpose had been achieved when the note in question had been delivered to Mr. Herriman. He merely wished Mr. Herriman to have the US point of view with respect to his mission and hoped that he would keep these points in mind in his discussions with the Iranians.

The British Ambassador then reviewed at some length the difference between the U.S. and U.K. positions with respect to the Iranian issue, and asked what the U.S. could do to facilitate the success of Mr. Herriman's mission. It was in general suggested to the Ambassador that it would appear best for the U.K. not to take any new steps for the time being either to increase their pressure against the Iranians or to redefine their position, pending Mr. Herriman's arrival. The next step to be taken could, it is believed, best be determined after Mr. Herriman has had an opportunity to explore the situation on the ground with the Iranian officials and the British and American ambassadors. The British Ambassador stated that he hoped Mr. Herriman would consult freely with the British Ambassador, who is at his disposal, since the British Government relied greatly on the "man on the spot".

I then outlined my own views as to how I thought Mr. Herriman might approach his task in terms of the various elements of the problem. I stated that the Iranians had in accordance with their own view now nationalised their oil properties, however they had not yet discovered any effective means of operating them under their nationalisation laws. The British, on the other hand, stood ready to provide both the technicians, the management, the tankers, and the markets which were necessary to the Iranian oil industry. The customers of Anglo-Iranian were prepared to pay for the crude and products which were taken away from Iran. The immediate problem seemed to me to put these elements together in some type of interim trusteeship arrangement as suggested by the EDP. Such arrangement should provide for the imposin
of the receipts, the taking out of the expenses of the operation, and the ultimate division of the profits remaining in accordance with the agreement reached. It seemed to be that somewhere along these lines a solution could be found.
In accepting President Truman's offer to send Mr. Harriman to Tehran, Mossadegh has re-affirmed Persia's position as regards The Hague Court's recommendations and his stand on the nationalization law. In these circumstances it seems likely to be extremely difficult for Mr. Harriman to find a profitable basis on which to discuss the problem with Mossadegh and it is obvious that the latter will use Mr. Harriman's visit to try to bring further pressure on us to accept the nationalization law (as distinct from the principle of nationalisation) and prejudice our position further.

2. We therefore hope that the main objective of Mr. Harriman's visit, which he will always keep in mind, will be to impress on Mossadegh the implications of ignoring the Hague Court and to induce him to accept the Court's recommendations. In our opinion an essential condition for the opening of any negotiations must be a cessation of present Persian interference in the company's operations and achievement of operations by the company under the company's management as recommended by the Hague Court. Subject to this we would be ready at any moment to discuss a settlement on a basis of the offer already made to the Persian Government by the company during the visit of their delegation to Tehran, which fully accepted the Persian thesis of nationalisation. If there were any discussion of a settlement, we trust that Mr. Harriman will keep within the limits of this offer and will not make any new proposal without consulting us. We trust moreover that there will be no difference of opinion between us and the Americans either privately or publicly about the vital necessity of doing nothing whatever to strengthen Mossadegh's political position and that Mr. Harriman will keep this constantly in mind. Finally we hope that Mr. Harriman, during his visit, will keep in closest touch with Mr. J. Shepherd, who will be at his disposal to give him any information he may require.