Memorandum of Conversation

Place: Walter Reed Hospital

Date: October 24, 1951

Present: Secretary of State Acheson
Assistant Secretary of State McCooe
Mr. Paul Mitre
Lt. Colonel Walters
Prime Minister Mossadegh

After the usual exchange of amenities, Secretary Acheson said that unfortunately he had to leave the following morning to catch the Steamer America in New York, and would then be on his way to Paris. In the meantime, however, he would be completely at Dr. Mossadegh’s disposal. He was anxious to clarify certain points of his understanding of Dr. Mossadegh’s position. The Secretary said that what we were trying to do was to find out exactly what Dr. Mossadegh’s thinking was, and then perhaps to formulate an American proposal which we could submit as something which could be worked out. We would not indicate to the British that Dr. Mossadegh’s agreement had been obtained to this. If this were done and we felt that a reasonable basis for settlement existed, he might then be able in Paris to talk to the British, while Mr. McCooe and Mr. Mitre would be available to the Prime Minister here in the United States.

Dr. Mossadegh expressed his gratitude for this disposition on the part of the Secretary.

Secretary Acheson said that from what had been reported to him, he thought he understood Dr. Mossadegh’s position fairly well, but there was a few points that needed further exploration. He could not, as a government, take the responsibility for making a proposal unless we were absolutely convinced that there were reasonable chances of a settlement. Secretary Acheson said that Dr. Mossadegh’s position had been set forth in a memorandum which had been submitted to him. He said he would like to review this memorandum and see if he understood Dr. Mossadegh’s position on various matters.

Regarding the composition of the National Iranian Oil Company, he understood that Dr. Mossadegh was willing to have a board of directors composed of three Iranians and four foreigners of neutral nationality. Dr. Mossadegh said that he was willing to do this, and that this could be inserted in the statutes of the National Iranian Oil Company.
The Secretary then said that he believed Dr. Mossadegh was willing to have under his board of directors a technical director of neutral nationality to be appointed by the board of directors of the NIOC from a nationality which would have been previously designated by the Iranian Government.

Dr. Mossadegh, surprisingly, said that he had never discussed this question, but uponEllen out some notes of a conversation which he had had previously with Mr. Medhess and having read to him by Colonel Walters his statement agreeing to this, he then, equally surprisingly, completely agreed.

The question of the technical director's right to hire foreign technicians then came up. Dr. Mossadegh said that he had talked to his colleagues and they did not feel that any British technicians should be hired. The Iranians had sufficient technicians to ensure the production of crude oil, and his offer on the refinery would eliminate the need for British technicians there. If any additional technicians were needed for the oil fields, they could be obtained from the company operating the refinery.

Mr. Medhess said that he had understood that Dr. Mossadegh had been willing to have some British technicians in the oil fields, though none in the refinery.

Dr. Mossadegh said that he had spoken to his colleagues and that they all felt that if any British technicians returned, it would be a defeat for Iran. The Iranians had wanted the British technicians to stay and they had been unwilling to do so, and had finally left the country. Now if they came back, it would look like a defeat for Iran. He did not feel that any British technicians were necessary to start operations in the oil fields again.

Dr. Mossadegh then said that concerning all the matters Secretary Johnson was mentioning in his memorandum, he could not make any written agreements with anyone. It was an internal Iranian affair and could not be the subject of any written agreement with any foreign power.

Secretary Johnson said he understood this, but nevertheless he wanted to clarify certain points to see whether we felt there was a reasonable hope of reaching a settlement of this question. He said, however, that it might be helpful if Dr. Mossadegh would make some sort of statement regarding his intentions on these matters, as in the case of foreign technicians, some people might think he intended to hire Russians.

The Prime Minister said this was impossible and he would not do it. He also added that he would make a statement to the Majlis, or he would even be willing to make a statement before he left the United States to this effect. It would, of course, be bilateral. The Secretary felt this would be helpful.
Secretary Johnson then said he knew Dr. Mossadegh would understand that we would not wish to be a party to arranging an agreement that would upset the whole world fabric of agreements in the oil industry. As a nation we had an interest in the stable production of petroleum, and as we were willing to understand Dr. Mossadegh’s problems, we trusted he would in a similar way understand ours.

Dr. Mossadegh said that it was not at all the intention of the Iranian Government to upset the fabric of world oil agreements; that all he wanted was a just and reasonable settlement. Dr. Mossadegh then said that he would like to make a statement in order to facilitate Secretary Johnson’s understanding of the whole question. He then reviewed his reluctant entry into politics, the National Front’s formation of the government, the illegality of the 1933 agreement which was reached under duress, and the evils of the dictatorship of the late Reza Shah Pahlavi, including his own imprisonment. He then touched on his familiar line considering the danger of the present situation in Iran, and wound up his statement with some emotion, assuring the Secretary that his only interest was to solve this question once and for all, and not to go home empty-handed. If he were obliged to do so, the consequences for Iran would be disastrous, and therefore equally disastrous for the preservation of peace. The United States would then have to fight a war in Iran like the war in Korea, equally without result.

The Secretary said he understood Dr. Mossadegh’s feelings, and himself felt great sympathy for his position. He himself, said the Secretary judiciously, had had the ambition for his life to be intelligent, rich and obscure. But when the President had made him Secretary of State, he had lost his chance to be rich, he couldn’t be obscure; and a lot of people did not think he was intelligent.

Dr. Mossadegh was highly excited, though he could not agree that many people did not think the Secretary was intelligent.

The Secretary then said he understood the problem with which Dr. Mossadegh had to contend, and as he had stated previously, he was anxious for an equitable settlement which would enable Iran to derive the maximum amount of revenue from her petroleum resources.

The Secretary then said that in regard to the refinery, it was his understanding that the Iranian Government was willing for the refinery to be turned over to a non-British company which would then own and operate it, and would assume responsibility for the payment of compensation to the former owners, the AIOC. Dr. Mossadegh said this was correct.

The Secretary then said that there would likewise be claims for installations in the oil fields, and that there were also Iranian counter-claims. These might perhaps cancel one another out.
Dr. Mossadegh said that in his mind they would cancel one another out, and he was anxious to settle this as quickly as possible. The Secretary then asked whether in this cancellation of counter-claims the Iranians included the revenues due the Iranian Government and still unpaid by the AIOC. Dr. Mossadegh said that he felt that in return for the AIOC installations in the oil fields, the pipe lines and other properties, including the small refinery at Kermanshah, the Iranians were willing to forgo all counter-claims, but they would want a release from the AIOC releasing the Iranian Government from any claims whatsoever. They would be willing on their part to give a similar release. He did not want a lot of matters pending.

The Secretary then took up the question of the duration of the contract for the purchase of oil. He said that the purchasing organization would undoubtedly wish to have a long-term contract guaranteeing itself a continuous supply of petroleum. Dr. Mossadegh then ventured the figure of ten years.

The Secretary did not feel this would be long enough. He thought 20 or 25 years would be more acceptable. Dr. Mossadegh said that 25 years would be too long, and the Secretary then said 15 or 20 years. Dr. Mossadegh then said he would accept the Secretary's orders and agree to 15 years. The Secretary laughingly said that he had no orders to give. Dr. Mossadegh then reiterated his acceptance of a 15-year contract.

Dr. Mossadegh then said that as far as he could make out, the main question on which no agreement had as yet been reached was the question of price. This was the most important question of all. He begged the Secretary not to forget the matter of price. Dr. Mossadegh then said that he had asked his experts for prices, and produced a list of prices for petroleum products. He indicated that the price which he had been given by his experts was much greater than the price which had been indicated to him by Mr. Hines and Mr. Hufnagel.

The Secretary explained to him that this was the list price, or the posted price. This was not the actual cost to purchasers who acquired oil in this area. Dr. Mossadegh was not able to understand this very clearly, and inquired whether a better price than that given him by Mr. Hufnagel and Mr. Hufnagel could not be obtained.

Mr. Hufnagel said he did not believe it would be possible to sell at the price which would make Iranian oil competitive. He explained that there was a surplus of crude petroleum available and that if it cost the distributing companies more to acquire it in Iran than to produce it elsewhere, they would simply increase production elsewhere. Dr. Mossadegh said this would be too bad for the Iranians. He said that the company had been able to pay 20 million pounds in taxes to the British Government, and inquired as to where this money was now going.
It was explained to the Prime Minister that there were in reality two markets for world oil. The first, the market where the distributing companies bought it from the producers. This was the price which had been given him by Mr. McKeen and Mr. Nitze. The price he had given was the correct price for the second market, namely, when the petroleum was sold by the distributing companies to the consumers.

The Prime Minister said that he did not see this, and he could not understand why, even if we were correct, the price of the second market was nearly twice as much as the price of the first market. He inquired as to what was done with the difference.

It was explained to him that the distributing companies have to make their profit, have to pay for depreciation and losses of equipment, and have to pay taxes to the various governments of the countries in which these distributing companies were organized.

Dr. Mossadegh said that he could not understand this, and that his people would never be willing to accept the price which had been indicated to him by us.

The Secretary said that apart from the question of price, there must be an underlying confidence on his part that we were attempting to get for him the best possible settlement, that would give him maximum possible revenue.

Dr. Mossadegh stated that he had this confidence in us, but that he did not think he could go to his people and tell them that the petroleum was being sold for this price. As a result of the agitation against the Anglo-Iranian Petroleum Company in recent years, many people in Iran had become oil experts and had gone into questions of price, etc. He did not think he could convince his people that he had made a good settlement on this basis.

The Secretary said that one of the geniuses of the late President Roosevelt was his ability to present matters to the people in such a way as to make them acceptable. He felt sure that Dr. Mossadegh possessed the same genius. Dr. Mossadegh delightedly assured the Secretary that he did not. The Secretary said that in presenting this to the people the emphasis should be on the revenue rather than on the price.

Dr. Mossadegh inquired what revenue, and it was pointed out to him that with a net profit of 2 pounds per ton on crude petroleum, his revenues, depending on production, would run in the case of 36 million tons, to 52 million pounds, or his higher figure of 38 million tons, to 64 million pounds. Added to this he would have the revenue provided by the 55 percent tax on the profit of the refinery.
Dr. Mossadegh indicated as to the approximate figure of such revenues. Mr. Mikes said that this would be hard to set exactly, but he thought it would amount to another 10 million pounds, or $25,000,000.

The Secretary then said he felt that Dr. Mossadegh could present the matter to his people in the following way: He could point out that as a result of his efforts Iranian revenue from petroleum had gone from some 28 million pounds to nearly three times that amount; that through his efforts British operations and interference in Iran had been stopped. He would have settled the matter of compensation, claims and counterclaims. He would have insured for Iran a revenue large enough to permit that country to make the large-scale social reforms, the necessity of which he had pointed out. He felt that with a presentation of this type he could obtain the acceptance of a settlement on these terms.

Dr. Mossadegh still did not think he could do so. He suggested that his oil experts meet with Mr. MacShee and Mr. Elisee, as the figure they had given him was much higher. He then indicated that he did not think there would be much use to this, as his experts would undoubtedly abide by the figures they had given him. He said that he had sent for Mr. Asadalli to come at once, bringing with him data to support the price which the Iranian experts had given him, and he would shortly be here.

The Secretary expressed concern on the question of time. Dr. Mossadegh pointed out that some time would elapse before a British Government was constituted, and that they really had that time available.

The Prime Minister did not seem to comprehend the first and second markets which had been explained to him. Secretary Johnson then pointed out as a comparison the sale of cattle in the State of Maryland. He sold cattle to the distributing company in Baltimore at about 25 cents a pound. The cattle were then taken to Baltimore, slaughtered, the hides sold, the bones sold, and the meat then cut up, with a retail sale price of 90 cents a pound. He pointed this out as a parallel to Dr. Mossadegh.

Dr. Mossadegh was still unable to accept the price which had been indicated to him, that is 42 8/-. He inquired whether it would not be possible to obtain 43 8/-. The Secretary, Mr. Marsh and Mr. Elisee all felt that it could not be possible. The oil companies had told us in confidence some of the prices, and a number of them were lower than the 42 8/- figure.

The Secretary assured Dr. Mossadegh that we were endeavoring to assure for him the largest possible income; that under a settlement along these lines Iran would receive many times more income than she had ever received or been offered in the past. This price was essential to assure the sale in sufficient quantities of Iranian petroleum. Price was an extremely complex thing, and he felt it should be more a matter for executive action than legislative action.
The Prime Minister said things did not run this way in Iran. He would like Mr. McHone to come to Iran and spend some time there so he could see for himself what the real situation was. He again expressed doubt that he could ever get this price accepted.

The Prime Minister suddenly said he would like to at least settle the question of the refinery and compensation. He would not go home empty-handed. He could leave the question of the sale and price of petroleum for settlement at a later date. In reply to a question, he said that he would be willing to let the refinery import crude oil from Kuwait, refine it and pay tax on the profit derived therefrom; or, he indicated that he would also be willing to sell all to the refinery at his price of 85 1/2 cents per barrel and they could then pay no taxes.

Mr. McHone then pointed out to the Prime Minister that if he asked to cut the prices on crude petroleum, all he would do would be to bring down the price structure in the Persian Gulf, with no corresponding gain for Iran.

The Prime Minister said that everyone would make the decision they felt was best for them.

Mr. McHone then suggested that a board might be set up to determine a fair price for the sale of petroleum. He thought the board of directors of NDIP might serve this purpose. Dr. Nasser said he could not agree because such a board had a majority of non-Iranians. He reiterated his desire to reach at least a settlement of the refinery and compensation questions, then the question of price could be discussed further, either through the American Embassy in Iran, or by further discussions in the United States; or Mr. McHone could go to Iran to continue negotiations on this question.

It was then agreed that his experts would come down to Washington, and that Mr. McHone and Mr. Kites would talk to them, though the Secretary emphasized at this point the need to secure a basic agreement in principle. He then added that he would like to think this matter over and talk to Dr. Nasser further on it. He, himself, of course, would be leaving on the following day. Mr. Nasser had suggested when he would have further talks on these questions, and Mr. McHone indicated that the Prime Minister would be going out to his farm on Thursday, and that they could talk at that time, and that if further talks were needed, they could meet subsequently.

Dr. Nasser then expressed his warmest thanks to the Secretary of State for the kindness of his reception and for the time he had given him. He said that he wished to express the thanks of the whole Iranian Nation to the Secretary for the interest and sympathy he had shown them.