Burrows has given us the substance of Mr. Eden's telegram of October 11 to Sir Oliver Franks and the draft UK note to Mossadegh.

We had fully anticipated that the note to Mossadegh would be of the general nature contained in the draft and have no comment to make with respect to it.

We fail to see the point of the last sentence of Mr. Eden's telegram as given to us, QUOTE Mr. Acheson and his department have repeatedly recognized the fairness of the joint proposals and have declared they do not wish to urge us to accept or offer anything going beyond them. UNQUOTE Our last note to Mr. Mossadegh contained the statement that there were doubtless other equitable methods of arriving at a settlement of claims and counter-claims than the method put forward in the joint proposal. The British note contained similar language. What we are trying to do is to see whether another equitable and workable method can be developed. Since Mr. Acheson's conversation with Sir Oliver, we have done further work on our side and now believe that it may be possible for us to work out a procedure by which we could in a matter of days make available up to...
$100,000,000 as an advance against oil purchases. We further believe it may be possible for us to do this through Anglo-Iranian, or a subsidiary of Anglo-Iranian, which might eliminate the necessity for American private participation in an oil distributing company.

It may also be that it would not be substantially more difficult to persuade Mossadegh to offer a lump sum settlement of 50,000,000 tons of oil than to persuade him to offer 30,000,000 tons of oil.

Burrows also stressed a continuing joint approach to the Iranian problem. To us a joint approach implies a full exchange of information and an effort to try to solve the problem. The question is how do we propose that the problem be solved. Do we really believe that Mossadegh or any other Iranian leader can or will accept the joint proposals as originally formulated? What ideas could the "suitable person" have? What is within the realm of the possible? Can a settlement really be conceived of without some substantial advance to Iran? How is this advance to be made unless it is against future oil purchase? Who is going to make this advance if the United States does not participate in it? What is the British analysis and how does it differ from ours?
If the conclusion were that the matter is insoluble, we would find that an unacceptable basis for a joint approach. If Mr. Eden thinks it would be helpful for someone from Washington to come over to London to discuss these matters, we will be prepared to do so.

There are two minor points which might merit clarification. Mr. Acheson did not say the possibilities of a settlement by intergovernmental negotiation are probably exhausted. Obviously no settlement is possible without intergovernmental negotiations of some sort. He said he thought the possibilities of negotiation as to the principles underlying a settlement of compensation are probably exhausted and that the best hope probably lay in a specific lump sum settlement. Also he had had no thought that Mr. Eden should commit himself in advance to any specific proposal; he made the reverse clear. He did, however, wish to exchange views promptly as to the general concepts involved.

Copy of above is being given to Burrows.

Hope you will have earliest opportunity discuss this with Eden.

Text of extract from telegram dated October 11 from Eden to Franks follows.

ACHESON

TOP SECRET — SECURITY INFORMATION
Department of State

RECEIVED DC/ST
ACCEPTANCE UNIT

USTR (INFORM) 13
04830

SENT TO: Embassy, Tehran
PRIORITY: 899

NET 12 5 14 PM '52

ONLY PENDERSON

HEP have informed us of reply which they intend make to Iran.

While it rejects latest proposal and is firm, it nevertheless is moderate in tone. They have also indicated that proposal (HEP INTEL 869) they made to them on which they have not yet commented specifically will probably be unacceptable to them.

We have explored situation within USMID and now believe it will be possible for our GOVT to advance to subsidiary of AIOC against purchase of oil which will be resold to AIOC up to one hundred million dollars which funds will be available for advance by them to Iran against purchase of oil. Advance to be liquidated out of proceeds of twenty-five percent of oil or products sold.

We are considering talking to Maki just prior to his return outlining only broad elements of our plans without stating AMS, that is, (1) lump sum settlement of compensation payable in oil, (2) commercial arrangement, (3) large advance against maximum purchase of oil. We WLD like US opinion advisability this step.

We are not contemplating any formal reply on our part to Moeaqq's last MSG to us.

We do not wish indicate anxiety to Moeaqq over possibility of his
 withdrawing IRAN AIDS to LCN. We think it WLD be helpful, however, if you
saw Monday, that we are not contemplating any ADS ourselves,
that nature of his demand upon IRAN made reply of type they have made
inevitable, that we do not believe there is any utility in further public
MGS back and forth. You might also refer to thought contained in our last
MGS that QTR there are doubtsless other equitable methods, UNMID and say that
from PR knowledge of USGов you believe we are engaged in intensive study,
that you do not despair of producing something useful but that any solution
will obviously require cooperation and flexibility on our part as well.

FIT we suspect individual named in IRAN ADS to be Camille Gott.

ACHESON

ACRONYM ACHESON

TOP SECRET SECURITY INFORMATION
FROM: Tehran

TO: Secretary of State

RE: 1496, October 13, 11 a.m.

TELEGRAM

1. Info contained in DEPTEL 889, Oct 12 appreciated. I would be much surprised if British would accept our proposals. For your info only I obtained impression from expression Middleton's face and voice when he said it, apparently being contemplated in Washington that International Distribution Co. would probably be incorporated in US and there was possibility people like Jones might be in it, that British beginning become suspicious US trying take advantage situation to assume leading role in future in Iran picture; that US contemplates operation oil industry in Iran with aid considerable number of oil experts and importation Iran oil at low prices. British may be wondering, for instance, why AIOC cannot (repeat not) buy oil direct rather than through company in which Americans participate, particularly when Mosadegh says he quite prepared sell to AIOC. I believe Iranians in general would prefer be obligated deliver 20,000,000, preferably less, tons annually to AIOC and be free sell balance their production as they please rather than be bound deliver 30 million tons annually to company in which AIOC participates. Iranians have studied AIOC operations carefully and have no (rpt no) admiration for manner in which International Oil Companies, of which AIOC is member, operate. For instance, they consider that AIOC has consistently played dominant role of character harmful to producer countries in IPC and KOC.

2. I would like again emphasize that in our opinion it will be politically extremely difficult if not (rpt not) impossible for Mosadegh accept cash in form of advance on future sales of oil.

3. It seems likely to me this plan suggested to British will in present form be unacceptable not (rpt not) only to them but also to Mosadegh. In my opinion it would be preferable for us to propose no (rpt no) plan to Mosadegh for time being rather than to come forward with suggestions which would cause him believe either that we take lightly his various statements or that we are again.
-2- 1496, October 13, 11 p.m., from Tehran

are again cooperating with British in trying to get him accept
arrangements which would put Iran in worse position re future
its oil industry than it was before nationalization. If we
really are working on plan which (A) will give practically all
Iran's present oil output to company in which AIOC participates,
(B) will yield Iran only about noguarantee* for oil from which
must be deducted production costs, (C) will permit Iran to have
cash only in form of advance to be paid back from proceeds of sales
of oil from which deductions are already being made for compensation,
I earnestly recommend no (rpt no) matter how fair and reasonable
it may seem to Western eyes, we drop it.

HENDERSON

DU:NLG

*As received. Correction to follow.

NOTE: Mr. Stutesman's office (OFI) notified 10:20 a.m. 10/13/52 PMH