FROM: London
TO: Secretary of State
NO: 543, July 26, 9 p.m.

SUBJECT:
SENT NIAC TEBRAN 29, NIAC DEPT 543.
FOR HARRIMAN EYES ONLY GRADY AND HARRIMAN.
EYES ONLY SECRETARY.

I am just informed of cabinet action. It is disappointing but perhaps not hopeless. Instructions have gone to Shepherd which he is to discuss with you before making any approach to Iran Govt. The instructions include a note for Iran Govt which in its opening conforms to substance of draft quoted first paragraph my 28 (rpt Dept 501) yesterday. However, Morrison feared, Cabinet insisted on some action on interference with British personnel before sending minister; moreover, it seems to me Cabinet went dangerously further in also saying sending minister could not (rpt not) be done while company's operations being interfered with. Also, Shepherd is instructed to make clear that UK cannot accept position under which the whole of the company's operations have been brought to a standstill and I understand that Brit note will say that UK will expect Iran Govt to send instructions to their authorities in the sense that interference with company's operations and restrictions with staff both be discontinued. I protested vigorously that this sounded like the ICJ decision allowing company resume operations as before and thought it might well be disastrous. I was told that it is deliberate that no (rpt no) criteria were set forth as to what was meant or what would be needed to meet British wishes in this matter of company's operations. (Shepherd's instructions do not (rpt not) in fact make any mention of ICJ ruling).

On the whole, I concluded that the British would like to see some concrete action in Khadiesten that would show Iran is sincere in trying to work out deal with them. Shepherd will explain that earnest of Iranian good will would be withdrawal of Makki and other trouble makers. It is important in showing that British hope negotiations will take place that Shepherd and Brit Consul General Khorrimehahr have been ACCEP TED
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been instructed to try to persuade staff to stay on for present in spite of difficulties.

Morrison wished me to convey to you his great appreciation of what you have done and are doing. I urged in conclusion that speed was of the essence as I thought that favorable situation in Iran which you had created did tend to degenerate with delay. No public statement is to be made by British today and there is no (rpt no) decision on when one will be made.

Gifford

AB: JEO

Note: Mr. Ferguson (CSI) informed 7:40 p.m. (r.m.)