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Amembassy TEHRAN Date: August 16, 1955

The Current Reorientation of Iran's Military Procurement —
A Summary Record of U.S. Efforts to Cause a [illegible]

POUCH:
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Summary: Political, economic, and military factors combine to [illegible] a near-crisis in U.S.-Iran relations as the Shah has attempted [illegible] bargain with the U.S., lessen his dependence on us, and diversify [illegible] military procurement -- and in so doing moved in the direction of inviting a significant Soviet military intrusion into the area [illegible] picture. A number of trends are in evidence: The Shah seeks political benefit, in terms of demonstrating more independence in foreign affairs, from diversification. This is hence a continue. He has [illegible] increasing [illegible] to control his military [illegible] that in assessing the threat, and [illegible] resources to meet that threat (which to him is lesser, [illegible] Soviets) he must have the ultimate responsibility for decisions. [illegible] attitude will become more pronounced. It is in keeping with Iran's currently [illegible] economy. The Shah's greatly improved internal position and the [illegible] a close and [illegible] military relationship with [illegible]

The record [illegible] that there is serious doubt that the U.S. economic [illegible] Iran's [illegible] could have been [illegible] of the cost of unnecessarily [illegible] in which we need not in [illegible] but the record [illegible] that the [illegible] diplomatic efforts [illegible] to the Soviets has been worthwhile [illegible] to be such a [illegible] successful. [illegible] "Mutual Understanding" provided [illegible] 1954 Memorandum of Understanding [illegible]

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POL:[illegible]/[illegible] August 16, 1955 The Ambassador [illegible]

SA [illegible] (in draft) DCM [illegible] (in draft)

[illegible] to specify a U.S. [illegible]
[illegible] to a major blowup in [illegible]
[illegible] later time. One [illegible]
[illegible] interest of the U.S. [illegible]
[illegible] Iran's military procurement. In [illegible] Shah's [illegible]
[illegible] from his hitherto [illegible] U.S. is not [illegible] for us, it has decided advantages for us.

* * * *

[illegible] and Motivations. A shift in Iran's [illegible]
[illegible] in June, 1965 when the Shah visited the Soviet Union and accepted [illegible] Year which led to an agreement to construct a steel mill in Iran [illegible] natural gas. [illegible] agreement was [illegible] to be [illegible] in Iran. It enhanced the position of [illegible] the Soviet [illegible] to the [illegible] Shah. [illegible] the September [illegible] 1965 [illegible] that [illegible] reliance on the [illegible] United States [illegible] procurement could [illegible] own then experiencing [illegible] action that he seemed to lack [illegible] standing with the United States, [illegible] and controls over the size of the [illegible] Iranian military expenditures. [illegible] the end of 1965 also contributed [illegible] his military relationship with [illegible] he went about this in an [illegible] that relationship while pushing [illegible] United States.

2. The Memorandum of Understanding. [illegible] Understanding had [illegible] concerned, was [illegible] supplies to [illegible] into account [illegible] Our Memorandum [illegible] 1965 [illegible] qualification that [illegible] a manner as to [illegible] the program may be [illegible] The agreement [illegible] It had [illegible]

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* It is interesting that when the Shah in early 1966 complained about the inadequacies of the 1958 agreement, he wrote [illegible] "[illegible] correspondence with you, Mr. President, I will [illegible] dealing with a [illegible] of mutual [illegible]. If the United States is not in a position to [illegible] our [illegible] in addition to the [illegible] Year Plan [illegible] to be done to [illegible] I [illegible] advisedly [illegible] conditions, [illegible] (underline supplied).

[illegible]

[illegible] and
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[illegible] lost light.
[illegible] Iranian
[illegible] ing able
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[illegible]

[illegible] changing
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The U.S. in January decided to send a military survey mission to Iran. Meanwhile the Shah sent [illegible] Lieutenant General Hassan Ardalan, to Europe to survey the availabilities of military equipment there. This action was not announced to us, but the results were not discussed with our military mission. In January the Shah also began complaining [illegible] oil revenue [illegible] the consortium and cite the Mossadegh [illegible] oil income [illegible] to be anticipated (by certain unilateral [illegible] justifications) he might have to reduce Iran's policies, including the military procurement [illegible]. In late February, [illegible] was vacillating. [illegible] cannot [illegible] by purchasing our military [illegible] with our limited [illegible] who are [illegible] "[illegible] and conditions" [illegible].

A survey mission under Brig. Gen. Peterson arrived in Tehran on February 14 [illegible] (the [illegible] Iran [illegible] and [illegible] (the [illegible]). [illegible] which [illegible] the [illegible] [illegible] would be a right [illegible] and [illegible] conditions. [illegible] the Shah [illegible] financial, which [illegible] the political advantages — [illegible] already [illegible] from the [illegible].

[illegible]

[illegible]

these two countries (and not to mention), have added to the feeling of the Shah and his working subordinates that Iran is once more being taken for granted by Washington, that the "pro-Iranian" attitude of the Ambassador toward Iran's military requirements is an affront to the national dignity, that Iran has the means to purchase what is needed for its defense, that present U.S. balance of payments policies [illegible] Iran's [illegible] economic programs and that the best way to deal with Uncle Sam is to make a public scene" (Tehran 1185). The Ambassador began warning against the dangers of holding the military [illegible] issue to the public [illegible] Persian Gulf Area, who seems to have been assigned the role of "[illegible]" by the Shah, eagerly agreed and said he had that very day made the same point to the same [illegible]. In a return visit [illegible], the Ambassador said that if when the U.S. [illegible], there would be no [illegible] do if Iran decided to "[illegible]" the policy but that his conviction was that in that event Iran would suffer most (Tehran 1194).

If any indication was needed that the whole mechanism of the Annual Review was no longer in keeping with the realities of our relationship with Iran, the Shah supplied it in a conversation with the Ambassador on March 14 when he said that the urgency of the problem of arms procurement was increasing and "there was no need to delay because of the annual review." He said that his private and public statements were not "black, white or blackmail". He pointedly contrasted the price of a HHG, which he said was available for about $300,000, with what he had heard the price of F-4C's to be, namely between $3,000,000 and $5,500,000. The Ambassador once more made it clear that if what we might do was not enough, Iran would have to make its own decision regarding the wisdom of reorienting its policy. He referred to the 1962 and 1964 Memoranda of Understanding and said that "whatever emerged from the Peterson survey would require [illegible] of the Interagency coordination with the Annual Review." The Shah seemed taken aback and reluctantly agreed to the proposal as outlined by the Ambassador; but it was a stormy interview in which the Iranian demeanor seemed angry to place the onus on what would happen in the U.S. In a conversation with Ambassador Hare in April, the Shah once more warned that the U.S. must not let the military supply issue turn into "another cheat will hold out" — another threat (or prediction) that he might resort to the Russians.

7. Reading for the Record. After the Peterson mission had departed and while it was preparing its report, the President replied to the Shah's letter and gave the mission status by referring to it. There were also references to the forthcoming Annual Review, thus making clear our interest in continued economic contacts, and to Secretary McNamara's role in developing revolutionary analytical tools for weighing cost factors in the increasingly complicated choices that have to be made. This letter reflected [illegible] the Shah's hard sell so he saw the situation very simply as a question of the value that the United States attached to the

friendship of Iran, and perhaps also of the importance that the U.S. [illegible] attached to keeping the Soviet Union out of the military supply picture. When the [illegible] report finally became available, the Shah presumed [illegible] it was a document that would guide the American Government [illegible] and that [illegible] at least [illegible] rough orders of magnitude of the prices of American [illegible] [illegible].

At this point, the difference between the U.S. and Iranian positions increased [illegible]. While waiting for the Interim [illegible], it became clear [illegible] the Shah expected [illegible] U.S. [illegible] which did not seem in the cards, to [illegible] further [illegible] economic [illegible]. When the Iranian Government [illegible] for [illegible] Annual [illegible] to [illegible] equipment; and in fact we were confidentially [illegible] that the Shah, when confronted with the figures submitted by the [illegible], had "[illegible]" that [illegible] of the [illegible] Embassy [illegible] in [illegible] Shah [illegible] steadily dislikes the [illegible] of [illegible] military expenditures, there is no pr[illegible] need was [illegible] what he [illegible] (with [illegible]) [illegible] the defense establishment [illegible] produce [illegible] in the [illegible] of the country." This document [illegible] limits within which the [illegible] exercise had to be conducted [illegible] requirements of the 1964 Memorandum of Understanding.

To [illegible] (unintended) implications of the forthcoming shortcomings to the [illegible] of top [illegible] policy-makers, the [illegible] obtained [illegible] military. He stressed [illegible] the importance of [illegible] the F-4's, the [illegible] the interest rate which has been [illegible] to the Iranians (who compare [illegible] with the [illegible] by the Russians), and the political aspect of [illegible] the U.S. does not "take [illegible] granted." He saw [illegible] Secretary McNamara and [illegible] and of [illegible] and his [illegible]. [illegible] the role [illegible] aid, was playing [illegible], and the still [illegible] view [illegible] U.S. could in some way determine what proportion of its [illegible] Iran [illegible] spend for military hardware. While no final decisions were made [illegible], it [illegible] the gap between Washington and the [illegible] had been [illegible].

At the time of the Annual Review, on May 25, the Embassy still did not have cost figures [illegible] be given to the Shah; but a [illegible] of the U.S. was [illegible] to him to [illegible] a $200 million [illegible] at a rate of interest averaging between [illegible]5 and 5 per cent. [illegible]

[illegible] fairly size[illegible]
[illegible] talk about "[illegible]
[illegible] available credit, [illegible]
[illegible] also [illegible] bombs, [illegible]
[illegible] have liked this [illegible]
[illegible] this Shah [illegible]
[illegible] of air defense equipment
(Kohran 1959).

The [illegible] portion of the Annual Review was quickly accomplished. [illegible] Ambassador pointed out the absurdity of certain assumptions, [illegible] a 17.5% increase in oil income, the size of the budget deficits projected [illegible] future years, [illegible] increase of the proportion of military expenditures to GNP, and the accompanying burden of debt servicing. The Shah [illegible] economic policy, talked about a gas pipeline to Europe and other family [illegible] tional projects, and quickly reverted to the military threat to Iran's oil wealth. When the Shah [illegible] that I bring the MAAP economic [illegible] the [illegible] of the Prime Minister and of top GOI financial authorities", the Ambassador requested, "and that we keep this subject under constant review and discussion" (Kohran 1959). As a Parthian shot, the Shah accelerated the discussion by referring to Soviet interest in selling MiG's to [illegible] (the [illegible] point he had [illegible] mentioned the possibility of [illegible] Soviet tanks). Shortly after this [illegible], the Shah departed on a [illegible] trip to Romania, Yugoslavia and [illegible]. [illegible] was not willing to [illegible], then to the Shah, and if [illegible] the Shah [illegible] hoped there would be [illegible] further [illegible].

[illegible] figures and information on [illegible] available in early June, [illegible] one squadron of F-4C's, which [illegible] million, was at $50 million. Blue Streak [illegible] million to [illegible] million. The Sheridan tanks were [illegible] million. The Hawk battalion [illegible] million. Vulcan (anti-aircraft artillery) was [illegible] million. Finally, "shoehorning" all [illegible] million [illegible] had become a virtual [illegible] that the Shah's intention to

the situation, as it had been conveyed to him by General Zahedian, [illegible] that it was "hopeless". In addition to [illegible], he was informed that instead of the F-86 squadron of 16 planes each, the U.S. proposed to provide him only with [illegible] of 12 planes. He called at the [illegible] for R&D ([illegible]) [illegible] the U.S. [illegible] to [illegible] Iran. The Prime Minister [illegible] that it was almost [illegible] the Shah would "[illegible] with the devil" but that in desperation this could [illegible]. The Ambassador issued a [illegible] warning against the inevitable repercussions if Iran were to turn to [illegible] (Tehran 1683).

The Shah returned to Tehran on June 27. On June 29 he summoned the Ambassador and General Zahedian [illegible] and [illegible] the most "[illegible] the U.S. and especially did [illegible] wish to procure [illegible] from the Soviets, noting that "once a pilot is in the air he is beyond control and can in fact turn against his country." On the other hand, [illegible] agreement, which did not provide the same opportunities for [illegible] which he procured elsewhere, probably from the Soviet Union. The Ambassador warned against inevitable complications that would ensue. At this the Shah complained that he must have "liberty of action", and he began to [illegible] the U.S. could trust Iran, which was standing by us in the matter of Vietnam, and that we should understand that by taking an "independent" stance he was really frustrating Communist attempts to undermine the stability of his country. The interview, which was a difficult one, ended with the Shah [illegible] to be informed about any "strings" (i.e., consequences in case he turned to the Soviets) so that he could make alternative arrangements now rather than later. The Shah made it clear that he still hoped to obtain two F-4C squadrons from the U.S., as well as Blue Shark and certain other items.

9. Public Confrontation. In two interviews with American newspapermen, Alfred Friendly of the Washington Post and Thomas F. Brady of the New York Times, the Shah in early June began to indicate that he had decided to approach the Soviets about arms purchases. He cast this in terms most useful to Iran, and obtained the desired results — but at a price. One element of that price was [illegible] that might limit his [illegible], he also [illegible] himself in so drawing back became more difficult. During the same week we learned that the Soviet Union had in fact been approached. Some of the Shah's closest advisers, including military officers, came to the Ambassador urging that the U.S. should come forward with more attractive offers to head off a calamity. In a reasoned exposition of the situation, the Embassy urged that the U.S. should desist from a public reaction, that a special effort should be made with respect to [illegible] the Shah and draw a distinction between diversification of military procurement involving resort to various European sources, and resort to the Soviets (Tehran 603).

The most important thing now became getting into the Shah's head the message that he could not simply pick what he wanted from the U.S. and buy the rest from others, including the Russians -- i.e., that there were security limitations as well as political repercussions that he had to take into account. The problem was thrown into bold relief by the message received by the Ambassador through Premier Prime Minister Alam on July 5 that if the U.S. policies were improved, the Shah would be willing to "transfer some items from the Russian list to the American list". This was despite the fact that the Ambassador had only three days before stressed the security implications (e.g., that we could not connect to control our highly advanced facilities in Iran if the Soviets were manning surface-to-air missiles in the country. Tehran 031). Alam had as usual been greatly impressed, but it was clear that he was not conveying the full flavor of the message to his sovereign. Alam mentioned that the Shah felt he was being treated like a "lackey" by the U.S. The Ambassador mentioned that he was not sure the Shah was on the same wavelength, that he seemed unwilling to listen, and was too quick to take offence (Tehran 080).

In other words, the psychological factors became ever more important. From Alam we heard that the Shah was irritated by a rumor (baseless) that the United States was encouraging anti-Iran politicians to think that we might bring them to power to upset the situation, and from Iran we heard mutterings that the U.S. seemed to be holding people "in reserve" for possible action -- a reference to dissident Iranian students in the United States. In one conversation with the Ambassador the Shah even said that it would be against his interests if he had to divert some of his security officials from the task of watching the Soviets to watching U.S. activities in Iran. -- On the other hand, we received reports that the Shah, having made a basic decision, was now no longer restless and irritable but serene and self-confident, as if a weight had been lifted from his mind. The ball was now no longer in his court. In a conversation on July 11, he told the Ambassador that he (by implication the Soviets) he could not deny them a hearing -- even if the U.S. made a more generous offer -- as he would then be regarded as a "puppet". This same reservation, of course, could also apply if a Soviet offer was received and the Shah then did not accept at least part of it.

10. Here [illegible]. Up to this point, when the Ambassador had pointed out that security considerations alone would make it inevitable that the U.S. would withhold certain items if Iran resorted to the Russians for military equipment, the Shah usually had countered (e.g., Tehran 145) that these were "excuses" -- i.e., that he considered such warnings to be advance rationalizations of future political retaliation. An opportunity to drive our point home came when the President in late July sent another letter to the Shah, which was presented by the Ambassador. In the ensuing discussion of the security angle, which the President had pointed out with great clarity, the Shah once more tried to brush it aside by saying that the U.S. Government could always find "excuses". The Ambassador thereupon took a pencil and

[illegible] simply be fired -- nor kept apart -- as easily as he had [illegible]

Other [illegible] of F-4; that not only technical but also political considerations [illegible] the contract [illegible] us with serious problems in carrying forward our military assistance if Iran were to enter into [illegible] with the Soviet Union and, perhaps most [illegible] a [illegible] drafted sentence, which visibly impressed the Shah and which he must have read with a sigh of relief, it was stated that "if Iran should turn [illegible] close relationship, but I do fear the impediment to our military assistance program." (A remark by the Shah during the same interview, that the U.S. seemed ready to leave Iran, with "luggage packed and with first-class tickets", indicated how worried he must have been that pressure not from the USSR would bring not only an "impediment" of our program but perhaps its complete cessation.) Still, while the Shah said he would tolerate no Soviet conditions, such as the ouster of our own military mission, withdrawal from CENTO, or even [illegible] of Soviet troops in Iran, he seemed to assume that there would still be some pressure not from the USSR. He even opined that by dealing with the Soviets he might divert their efforts to build up a bloc of communist "progressive" states in the Middle East (Tehran 56).

A slight backsliding movement now began to be noted. It was clear that a month after the Iranian approach to the Soviet Union, no very forthcoming [illegible] towards us seem to have [illegible] general [illegible] they apparently were dragging their feet. Evidence began coming to us that the prospect of a Soviet arms deal was not nearly so popular as the Shah had predicted, that there were mutterings even among the military, and that the Shah's advisers (except perhaps for Prime Minister Hoveyda) were urging caution. There was talk about a shift of naval procurement to the British (Tehran 492), which seemed a kind of diversification that was acceptable to us and even salutary. According to former Prime Minister Alam, who is perhaps the Shah's closest confidant, the monarch had recently remarked that undue involvement with the Soviets in military matters was like bringing together "gasoline and fire". The President's letter, and the detailed [illegible]

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arguments about security concerns, were sinking in further. On top of this, there was a [illegible] of Iran's Soviet activities [illegible] with the [illegible] program. The temperature was down, but the [illegible] was still warm-cool (Tehran [illegible]).

11. [illegible] early August, the U.S. position was ready to be communicated to the Shah. We were prepared to move ahead with Iranian purchases within the $200 million credit, but our offer to sell major armaments, [illegible] was conditioned on all Iran had clarified [illegible] to possible military procurement from the USSR. [illegible] of this aspect were left deliberately uncertain. Within this limit [illegible] we were prepared to discuss the full range of military items available [illegible] we proposed to let Iran [illegible] items from "the production", i.e., at an early date, but at no significant reduction in price. On the other hand, a price con[illegible] was made in waiving R&D charges on the Hawk battalions. Most [illegible] expected to provide the $200 million credit (at [illegible]) in 500 million tranches, which would make the early funding of Iran's [illegible] impossible, and proposed to make each tranche [illegible] on the outcome of the Annual Review under the 1964 Memorandum (State 23[illegible]).

This latter provision was the most delicate one, especially since the instructions (State 23[illegible]) provided for amendment of that Memorandum to include the phrase, "subject to satisfactory mutual conclusions being reached in the reviews provided for in (the Annual Review.)" This gave the appearance of the U.S. wanting to transform what had been in effect a provision to reason together mutually, into one with teeth in it whereby U.S. decisions would be the judge whether Iran was over-extending itself, with some kind of veto power as conclusions would have to be mutually satisfactory. Since we could already, if we chose, interpret the Annual Review provision of the 1964 Agreement in this sense, it seemed that the proposed revision was needlessly abrasive; and the Embassy pleaded (Tehran 570) that "this is a most sensitive aspect involving Iran's sovereign right to determine what it will devote to its defense. Making a negotiating issue of this one point... is unnecessarily provocative... [illegible] the Shah for tactical reasons were to accept the proposed rewording, it would cause deep rancor and new seed for trouble in the future." The Department (State 23991) agreed that the point could be made orally, thereby avoiding what would undoubtedly have been a major blow-up.

The new U.S. position was communicated to the Shah on August 10, by Ambassador Meyer and Deputy Assistant Secretary of Defense Hoopes. In accordance with instructions stress was laid, among other points, on the continued importance we attach to the Annual Review. It was also made clear that we were concerned that Iran was over-extending itself and that availabilities under the $200 million credit would be affected by the impact of third-country military

purchases. A large number of additional points were made. The [illegible] amenable, and he said that while the Soviets had requested [illegible] "in principle" to the approach, "he did not wish to consider [illegible] (they) appeared to be less than [illegible]." He [illegible] given up the idea of preserving the State from the Russians, [illegible] the idea that they could be isolated from sophisticated U.S. equipment. He seemed impressed with arguments that he might be able to do [illegible] surface-to-air missiles [illegible], whether Hawk or Sa-2's, and he [illegible] that the latter had been quite ineffective in North Vietnam. On the other hand, he seemed determined to buy something from the Soviet Union and mentioned "some sea-sick guns, armored personnel carriers, and helicopters." These, presumably, would not be in the category of what would affect the possibility of "major, sophisticated, aggressive" items by the U.S.

On a contingent basis, he now wanted [illegible] 1000 [illegible] million [illegible] of course, was whether and to what extent Iran would still [illegible] equipment from the Soviet Union. Another one was whether the [illegible] 400 million of petroleum and naval equipment from Iran. [illegible] or currently [illegible] package deal, [illegible] extent of such action on the package would be. If Iran were to [illegible] surface-to-air missiles at this time, there might be [illegible]. At one place, that conventional artillery could be provided [illegible] Iranians, and this [illegible]. [illegible] the question [illegible] for Iranian procurement of the bulk of its needs from the U.S., so he then seemed anxious to do. But his desire for political [illegible] of the current [illegible], suggest that [illegible] as long as originally believed.

12. Implications. [illegible] useful to note some [illegible] so far. [illegible] United States [illegible] the time of the [illegible]

[illegible] -- but it still does not wish to be "[illegible]", i.e. still expects some preferential treatment as a [illegible]. [illegible] to be taken into account when it comes to invoking the revised 1904 Agreement.

The question has often come up whether the Shah was bluffing when he threatened to resort to the Soviets for aid; [illegible] the U.S. [illegible] "[illegible]", "[illegible] orders" and being treated [illegible] "[illegible]", in return for a political decision [illegible] the Soviets [illegible] the U.S. might have [illegible], or might still do, prevent the Shah from getting arms equipment from the Soviets?

We are not going [illegible] in the case of the U.S. we have been unable to determine [illegible] what it would be worth to us to maintain our military mission [illegible] to the Shah -- who is [illegible] a man of [illegible] a fixed [illegible] political [illegible] independence) would [illegible] relations with the U.S. [illegible] our [illegible] basic military and economic decisions, he might have [illegible] to the Soviets.

This does not mean, however, that the U.S. [illegible] any chance of being [illegible] in the Shah's [illegible] of 1955. The public [illegible] Shah's U.S. military [illegible] of military [illegible] This [illegible] not necessarily be [illegible] signal [illegible] by building [illegible]

[illegible] of the [illegible] and [illegible] to

REASONS FOR MILITARY SALES TO IRAN [illegible] FAVORABLE CHECKS

1. **Despite Winds of Anti-Americanism, the Shah Remains Our Friend**
   - a. Friendship forged during Azerbaijan and Mosadeq crises
   - b. Faithful CENTO ally
   - c. Iranian medical team is in Viet-Nam
   - d. Special facilities

2. **New Relationship is Emerging: Healthier and More Durable**
   - a. Iran is standing on its own feet (which was our goal)
   - b. USAID programs are phasing out
   - c. Appears almost to be complete turning of our backs — TAB A
   - d. Transition should be such as to protect our investment ($[illegible].6 bil.)
   - e. Shah willing to buy but wants favorable treatment on terms — TAB B

3. **Some Military Augmentation is Justifiable**
   - a. Wealth-bearing oil installations are increasingly vulnerable
   - b. Materiel recommended is defensive and gap filling (air defense)
   - c. Iran's capability markedly inferior to UAR, Turkey, even Iraq — TAB C
   - d. Shah wants to cope with regional threats (No Iranian Viet-Nam)
   - e. Objectives: deterrence and self-reliance
   - f. Requirements confirmed by [illegible] military judgment

4. **Iran's Economic Capability Should Not be Underrated**
   - a. Iran is thriving; far different from five years ago — TAB D
   - b. Land reform program, literacy corps and health corps outstanding
   - c. Abundant credit-worthiness according to IBRD — TAB E
   - d. Oil income over $500,000,000 annually and rising
   - e. Growing awareness of potential economic difficulties — TAB D
   - f. Other countries are vying for Iranian business — TAB F

5. **Chain of Adverse Reactions if Our Response is Inadequate**
   - a. Iran will buy elsewhere, breaking US pattern (MIG's $700,000)
   - b. Our capability for influencing Shah will diminish sharply
   - c. Without such influence, economic difficulties more ominous
   - d. It will be the beginning of the end of Armish/MAAG
   - e. Will be road-block for augmentation of our special facilities
   - f. It will be another success for Soviets in ousting US influence — TAB G

6. **Saleable Package is Needed**
   - a. Practical program within $400 million ceiling — TAB H
   - b. Practical third tranche - FY 67 — TAB I
   - c. Reiteration of economic facts of life during annual review — TAB J

"Appears Almost to be Complete Turning of Our Backs"

Not only are we terminating AID assistance to Iran, but we are also:

1. Proposing harsher PL-480 terms to Iran (10 years and interest at going Treasury borrowing rate); Washington has been unable to provide us with any examples of recent Title IV agreements containing comparably harsh terms.

2. Applying Interest Equalization Tax and voluntary controls to private U.S. capital flows to Iran, thus treating Iran as a developed country and making private borrowing in U.S. more expensive.

3. Unsatisfactory rate of oil offtake. Aramco liftings from Saudi Arabia are at a markedly higher rate than Consortium listings from Iran.

4. The Gulfarzian affair still rankles. Iranian leadership persists in its belief that after two years royal assets could have been released if there were real USG determination.

5. The Iranian student problem. Somehow Iranian leadership figures that anti-regime activities of Iranian students could be muzzled.

6. Continued large-scale U.S. assistance to Turkey and even to Nasser in contrast to AID cut-offs in Iran causes Iranian leadership to believe that the USG no longer values Iranian friendship.

[illegible] "Not Different from Blue Collar Jobs"

[illegible] "Literacy Corps and Health Corps Outstanding"

[illegible] "Increases of Potential Economic Difficulties"

1. [illegible] development program has gained impressive momentum, [illegible] of Iran's oil revenues devoted to economic [illegible] a growth rate last year of about 10 per cent.

2. [illegible] of Iran's economy greatly improved with en- [illegible] also giving evidence of growing awareness of [illegible] economic problems.

3. [illegible] drive in high gear with steadily in- [illegible] of private Iranian and foreign capital.

4. [illegible] has enabled Iran's leaders to have clearer picture [illegible] of the financial resources available to the government and of their alternative uses.

5. [illegible] improved land tenure arrangements in 80 [illegible] villages, has provided land to over a [illegible] and is now concentrating on raising [illegible] and rural living standards. It has been [illegible].

6. [illegible] programs of the Iranian armed forces are bringing [illegible], health, roads, water supply systems and other improvements to thousands of Iranian villages.

7. Literacy Corps of almost 20,000 draftees has been trained and sent into villages to teach reading and writing.

8. Health Corps of drafted doctors and medical personnel has sent 328 teams to improve health conditions in villages throughout Iran.

9. Vocational training provided by the armed forces has given useful skills to recruits which they are now using in villages in all parts of Iran.

"[illegible] Creditworthiness According to [illegible]"

The history shows the I[illegible] months. For the past four years [illegible] foreign [illegible] have come [illegible] dry [illegible] on [illegible] 1969 to [illegible] million years [illegible] foreign exchange [illegible] oil as well as from other exports is [illegible] than can afford to borrow increasingly large [illegible]

Estimates of the amounts Iran could borrow [illegible] managing her creditworthiness range [illegible] figure of $200 million annually for the next [illegible] years on reasonable terms.

Although the government has pla[illegible] economic projects requiring imported [illegible] some of the larger projects will [illegible] many of the others can not be [illegible] the government would like. The [illegible] that Iran's economic development program [illegible] of Iran's debt capacity in the next [illegible] there will be substantial capacity remaining [illegible] military credits.

Conservatively estimated, Iran [illegible] afford to pay at least $30 million annually for military credits in the next several years.

---

* IBRD report of December [illegible] "Iran is in a position to incur some [illegible] borrowing on conventional terms. This [illegible] is reinforced by the likely stability of her oil [illegible] and the fact that in normal crop years, food i[illegible] requirements are only marginal except for sugar and [illegible]."

"r Will Be Another Success for Soviets in Ousting US Influence"

A. Soviet Successes to Date: Alliance with National Aspirations

1. $256 million Steel Mill Project (includes machine tool industry and natural gas), with overtones West refused provide.

2. Multi-year barter agreements with USSR, Poland, Czechoslovakia, Hungary, Romania and Bulgaria.

3. Shah visit USSR June 1965 and scheduled visits Romania, Poland, Bulgaria and Hungary within next five months. Increased high-level visits.

4. Active cultural exchange program: artists, sports teams, films; negotiations on cultural agreement with USSR almost concluded; increasing number Soviet books in Iran.

5. Iran led Soviet aid recipients in 1965.

6. Other agreements: civil air; transit; Caspian fisheries; Aras Dam, Pahlavi harbor, grain silos.

B. Current Soviet Objective: Ouster of West

1. Soviet-directed National Voice of Iran (Baku) attacks: American and British Embassies, ARMISH/MAAG, USIS, US Army Radio and Television Stations, CENTO, US-educated Iranians, Oil Consortium.

2. Tudeh-controlled Peyk-e Iran (Bulgaria) attacks: ARMISH/MAAG and CENTO.

3. Radio Moscow notes publication Soviet book which portrays US assistance as cause for Iranian economic troubles.

C. Final Act: Jettison Iranian Nationalists

1. Long range goal enunciated by Molotov in 1940 remains same: "area south of Batum and Baku in the general direction of the Persian Gulf is...the center of the aspirations of the Soviet Union."

DEPARTMENT OF STATE

Washington, D.C. 20520

SECRET/LIMDIS

January 21, 1972

OFFICIAL-INFORMAL

L. Douglas Heck Esquire
Minister-Counsellor
American Embassy
Tehran

Dear Doug:

Many thanks for your letter of December 18 on Security Assistance Objectives and Program Guidance. We do indeed share your views that those included in Seder's message 4948 to CINCEUR (DTG011829ZDec71) are outmoded and need up-dating.

I am enclosing a copy of a memorandum we did on this subject before receiving your letter. These thoughts were incorporated into an NEA paper which covered a number of countries and forwarded by Sisco to Spiers (PM). At present, PM is endeavoring to work out a cleared DOD/State position at which time a new message would be sent out as a follow-up to State 217955 (December 2, 1971). PM is hopeful that it will be possible to send out such a message by the end of the month.

Sincerely,

Jack C. Miklos

cc: Wolfgang J. Lehmann, Esquire
Political Advisor
CINCEUR
with attachments.

SECRET/LIMDIS

DEPARTMENT OF STATE

Washington, D.C. 20520

January 25, 1972

SECRET

OFFICIAL - INFORMAL

John H. Rouse, Jr., Esquire
Second Secretary of Embassy
American Embassy
Tehran, Iran

Dear John:

Further to Jack's letter to Doug Heck of January 21, 1972, I thought you might like to have a copy of the most recent modifications of United States Security Assistance Objectives and Program Guidance for Iran.

Sincerely,

Robert L. Dowell, Jr.

Enclosure:

Copy of Guidance for
FY74-78 Security Assistance Planning

SECRET

COPY

U.S. Security Assistance Objectives

--Assist Iran in developing armed forces capable of defending Iran against all but a major external attack by the Soviet Union.

--Encourage Iran to play a leading role in providing for the security of the Persian Gulf.

--Maintain internal security.

--Insure continued availability of essential rights, authorizations and privileges.

Security Assistance Program Guidance

--Continue to plan for FMS cash and commercial sales needed to meet our security assistance objectives.

--No FMS credit is being requested since Iran is expected to continue to seek and obtain EX-IM Bank financing for its U.S. military purchases.

--Plan for a continuation of MAP grant aid training support including appropriate MAAG cost category immediately below the level of $500,000 for FY73 and beyond.

THE MILITARY PROBLEM

General Significance

Our military relationship with Iran (credit sales of military equipment and military advisory assistance) is a key element in the strength of our position and influence in Iran. We have been the primary supplier of the Shah's military requirements throughout the postwar period, especially since 1955, and remain so in spite of his recent purchases from the UK, Italy, and the Soviet Union (transport equipment and antiaircraft weapons from the latter). The Chief of ARMISH/MAAG is for the Shah a highly valued, objective and informed advisor on equipment, manpower, and organization. Our military role has had still added significance since concessionary economic assistance and the USAID mission were terminated in 1967. The Shah has said over and over again that what he wants principally from the US is for us to sell him the sophisticated equipment he needs for his defense.

Problem

The Shah's appetitions for equipment keeps us constantly uneasy. We are concerned with the economic burden created by his military establishment, its impact in terms of skilled manpower absorption and availabilities, and its real military effectiveness. In the earlier period, especially when we were providing economic aid to bolster the Iranian economy, we sought to limit the military program so that economic development would not be retarded. We wrote this concept into the military program beginning with the memorandum on military assistance of 1962 and it has become enshrined in a joint annual economic review to assess the economic impact of anticipated military purchases. Our AID and Budget Bureau people still attach considerable significance to this concept. But, now that the Shah is purchasing (on credit terms) his military equipment (and our earlier sizable grant component has stopped entirely), he is becoming less tolerant of such foreign restraints. On our side, recent Congressional reservations regarding foreign purchases of US military equipment in general and the consequent strictures which are placed annually on the amount of government-backed credit have become the more important limiting factors. The high cost of US commercial credit makes resort to it very expensive but there was some of it in last year's credit arrangement.

GROUP 3
Downgraded at 12-year intervals,
not automatically declassified.

Beginning in 1964 we have tried to find an approach, if not a solution, to this problem in developing with the Iranians tentatively agreed long-range programs of military equipment acquisitions. US Administrations, and especially Congress, have, however, been most reluctant to make advance commitments regarding military sales to foreign governments. And on the Iranian side, the 'packages' have tended to come apart almost as soon as they were agreed, as the Shah became conscious of a new, previously unforeseen, need. The steeply rising prices of military weapons and the occasional need to conclude purchases before production of a given item ceases, have also constituted pressures tending to enlarge our annual agreed programs.

Other countries do not share our reluctance to sell Iran greater quantities of military equipment. The Soviet Union has kept constant pressure on the Shah to buy almost anything he wants (MIG aircraft, missiles, tanks) at attractive prices and terms (generally, credit at 2½%). The Western European [illegible] and the UK appear ready to sell without restraint their military products, although their credit terms are not so attractive as the US's.

In general, it has been the country Team view that our most effective restraint on excessive purchases lies in the careful technical advice and professional persuasion of the ARMISH/MAAG. Toward this end we have made some progress in getting the Iranians to think of the whole complex of continuing costs associated with purchase of weapons systems and, particularly, to be conscious of the limiting factor of trained operating and maintenance personnel. Some diversification of Iranian purchases, i.e., from Western [illegible], is acceptable and possibly politically desirable, but the practical limitations and problems are substantial and we would be [illegible] to see much further enlargement in purchases made from others. We have sought to make the point in Washington that, [illegible] discussion here, the Shah has finally made [illegible] certain military equipment, he will get it--from others if we are not willing and able to provide it. In recent years we have found also that it is no use trying to persuade him not to buy equipment on [illegible] that he is overestimating the threat. For example, arguments about the weakness of his Arab neighbors are brushed off as irrelevant [illegible] the Shah rejoins by citing the erratic quality of their leadership, the possibility of their combining against him, etc.

Current Situation

The Shah's concentration on the security problems he feels he must assume with the British withdrawal from the Persian Gulf in ~~1971~~ has brought a still greater sense of urgency to current military "requirements." In 1968 we worked out with him an "illustrative list"

of long-range military needs which whittled down his considerably greater demands to a $600,000,000 level. It was understood that this would be financed in $100 million annual "tranches," subject, of course, to the annual economic review and to Congressional action on the military assistance program and its financing.

Difficulty immediately arose with last year's, the seventh (the series started in 1964), tranche. The rub of the problem was the Shah's insistence that an additional two F-4 squadrons be moved into this tranche to insure delivery by the end of 1971. These squadrons cost $133.3 million at current prices and the cost threatened to mount to $143 million unless a clear commitment to purchase could be given. After considerable pulling and hauling, the problem was met by a "dependable undertaking" by the GOI to buy the F-4s and a US Government approval of "incremental funding," i.e., postponement of $53.7 million of the F-4s' cost to the eighth, FY 1970 tranche. It was understood that the GOI assumed the risks involved if USG credit was not forthcoming in FY 1970, but the Department had to fight hard to gain DOD and Congressional acceptance of the concept of incremental funding. It should be noted that in FY 1969 the GOI also purchased from the US for cash an additional $66 million of military items (primarily spare parts, ammunition, maintenance and technical services).

We are not yet down to the wire on the eighth tranche, and General Twitchell continues to discuss additional proposed purchases. But, the GOI has already indicated its desire to speed up the negotiations for the next $100 million credit and Plan Org. Director, Mehdi Samii, went to Washington in early September to do some credit soundings. (Generally, the annual package of credit terms have been finally agreed by late spring). The shape of the general difficulty can be gathered from the following:

(a) $53.7 million is already obligated to cover the F-4s.

(b) $27 million for the financing of the aircraft warning system (Peace Ruby) is needed.

(d) 155 mm. howitzers at $6 million are required.

(e) 400 M-47 tanks require "retrofitting." We persuaded the Shah to do this instead of purchasing additional new and more expensive tanks. The cost will be a minimum of $25 million.

(f) The Shah continues interested in 234 Sheridan tanks with Shillelagh missiles. Suppliers say (we have not always found such statements fully justified) Sheridan production may lapse if the Iranian order is not placed before January, 1970. Total cost of this weapons system is about $105 million.

(g) A study we did of requirements for defense of the Persian Gulf concluded that a surveillance capability would be sufficient. But even if aircraft in inventory or scheduled for procurement are used and no new ships are purchased (clear Iranian acceptance of this view is not yet forthcoming), three radar installations and three variable depth sonar installations would cost in the neighborhood of $15 million.

(h) Although four years ago we seemed to persuade the Shah temporarily that air defense could be adequately handled by interceptor aircraft without the purchase of point defense weapons (he was thinking of the Hawk system at the time), this decision has come unstuck. The recent confrontation with Iraq over the Shatt-al-Arab river seems to have convinced the Shah that his airfields are too vulnerable to surprise attack. Consequently, conditional contracts have been signed for British Rapier missiles (about $94 million) and Oerlikons for airfield and other sites (about $20 million). We have recently been authorized to discuss the Hawk system with him again in this connection. Although we have not altogether given up the effort to re-convince the Shah that aircraft will do the job, the prospects of doing so do not appear bright. Again, our tactic is to try to get him to concentrate on problems of manpower and real effectiveness.

Obviously, all this, however, [illegible] don't fit into a $100 million package. We may be able to persuade him to postpone some of these items. He may press for an increase in the $100 million ceiling on credit, or some of the less important items might be bought from suppliers other than US. He may also want to buy some of them from us for cash. The Shah appears to be counting on an oil deal, involving sale to the US of some oil above the consortium's usual liftings, to cover the M-47 retrofit [illegible] and the Sheridan tanks. The GM representative here is working on the deal which would have to fit somewhere in the import quotas which are allocated by the USG to importers, not to originating countries. We are not too sanguine regarding the prospects.

There is strong opposition in the various agencies as well as in Congress to expanding the annual credits made available for Iran above the $100 million level. Quite possibly, the limited size of total government-supported credit to be authorized by Congress for military sales to foreign governments would make it infeasible. However, past experience has shown that if the President decides that a credit sale

of a particular size should be made, ways have been found to put together an acceptable credit. Aware of this, the Shah will certainly seek to involve the President in this problem in October, although the President has made it known he prefers to keep his conversations with heads of state on higher level and less specific policy matters.

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RELIGIOUS CIRCLES

Summary

The Shah of Iran maintains a posture of public piety and champions Islamic causes even though Iranians, the vast majority of whom belong to the Shia sect of Islam, are not greatly attracted by pan-Islamic sentiments. The Iranian clergy no longer have major political influence -- though they retain a sufficient following to apply an occasional "brake" to government programs. They have been, for the past decade, fighting a rear-guard and losing action against the growing tide of a secular state overly fascinated by the West, modernization and material progress. Should unforeseen developments, such as a severe economic recession or the weakening of the government (as the result of the Shah's death or a military debacle) lead other segments of the population to challenge the government, the Muslim clergy could undoubtedly drum up some following. In that case, since the US is Christian and is associated with the reform regime and since the clergy has traditionally opposed foreign influence, we would probably come under political attack.

Background

The Shia sect of Islam, to which 90% Iranian Muslims belong, whether or not it was intended to bind Iranians together against the rest of the Muslim world, has contributed in no small way to the development of Iran's distinctive national consciousness. Iranians as a whole are not greatly attracted by pan-Islamic sentiments and tend to view the war with Israel, for instance, as largely an Arab -- not Muslim -- problem. Although the secular reforms of both Reza Shah and the present Shah have antagonized the conservative, traditionalist, religious opinion in Iran, both leaders have been careful to pay deference to Islamic teachings and to contend such teachings both support and demand their reform programs.

Clergy Weakened by Reform

Since the advent of Reza Shah, the Iranian religious community has found itself confronted with one change after another -- each one whittling away the clergy's monopoly over education, community and family relations, law, public mores and morals -- and thereby diminishing its overall popular and political influence. Reza Shah's judicial and educational reforms severely cut back on religious influence. The present Shah, in carrying reforms further into the fields of education, community and family relations, and women's rights, has run directly counter to traditional Shiite opinion. The clergy, which exercised considerable influence over social life, particularly in the rural [illegible] and its temporal role [illegible] decade, the presence in [illegible] government-sponsored Literacy Corps [illegible], Health Corps and the like has [illegible] authority of the clergy. [illegible] that religious opposition to [illegible] -- perhaps abortive -- attempt [illegible] Religious Corps which would place the government [illegible] in the field of religious education for [illegible] as the determination of a last-ditch stand.

Since 1963, however, when [illegible] reforms have caused widespread [illegible] opposed to the regime, the clergy has [illegible] organizing sentiment into political [illegible] has been no clear-cut leader of the Shia Muslims since 1961 when the last paramount leader died. Ayatollah Khomeini, arrested and exiled to Iraq in 1964 as a result of his anti-government activities, aspires to be [illegible] Muslims. But his close cooperation with the Government of Iraq in anti-Shah propaganda and activity has ruled out any chance of reconciliation with the present Shah and has reduced his appeal to many Iranian Muslims who might otherwise share some of his basically literal ideas.

Residual Religious Resentment

The residual religious resentment against the regime remains bitter and deep, but a process of "de-escalation" between dissenting religious circles and the government has been underway. Reactionary and opportunistic as

many of the clergy have often been in their choice of tactics, the clergy as a whole is not yet isolated from the mainstream of Iranian popular opinion. The government has therefore used bribes, threats, royal patronage, control of the leading Shia shrine in Iran (at Mashad), and control and censorship of all public activities to prevent politically-minded religious leaders from developing any sizeable political following. It is generally recognized that the clergy is heavily penetrated by SAVAK, which further reduces its influence. While keeping a tight rein on dissident mullahs, the government endeavors to keep its forces meshed with the taller ones. It has so far failed, however, to produce a pro-government leader who can command widespread, let alone universal, respect among Iranian Muslims.

Possibilities of Clerical Comeback

In any case, the mullahs have been unable to stop the course of development and reform or to find common cause of more than a temporary nature with any other major political force. The working arrangement with the government will, therefore probably continue as long as economic progress is sustained. Should events not foreseen, such as a marked failure in the economy or an apparent weakening of the government's firm hand, lead other segments of the population to challenge the government, the embittered mullahs within the Muslim hierarchy could draw on considerable following, especially among the bazaaris and lower classes. Even in those circumstances, it is unlikely that they will ever return to a historic role such as that of 1892, when they led the attack against the Belgian Tobacco Concession, or of 1907, when they played a key role in the Constitutional Revolution, or of 1952, when they rallied behind the government in the break with the British.

Other Religious Movements

Iran was Zoroastrian before it became Muslim and today the calendar and many customs such as the Now Ruz holidays are carry-overs from Zoroastrianism. In the last year the press and TV have discussed Zoroastrianism with more sympathy than in previous years leading some observers to speculate that the regime might find it useful to re-emphasize their Zoroastrian beginnings. The Bahai -- with perhaps 10,000 followers in Iran -- religion is not in favor officially although one of the Shah's intimates, Dr. Ayadi, is a Bahai, as are other prominent Iranians.

Armenians are not trusted by the regime especially the security services because of their ties with Russia. The Jewish, Bahais, and the Armenian communities encounter discrimination in the hiring practices of the GOI, but they are free to practice their religions.

Effect on U.S. Image

As far as the US policy is concerned, the resurgence --, however unlikely -- of influence by the mullahs would adversely affect our image here, since we are Christian, closely identified in the public eye with the reformist regime and with Israel. Conservative religious leaders lay much of the blame for Iran's secularization, for its liberalization of social mores, and for its close relations with Israel, to American influence. Moreover, the nationalistic clergy has traditionally opposed foreign influence in Iran. Thus, in the unlikely event the clergy were to return to a position of significant political influence in the next few years, we could expect to come under attack.

POLITICAL OPPOSITION - Extremists and National Front

Summary

In Iran effective organized opposition to the Shah -- communist and non-communist -- has practically ceased to exist. Persistent suppression and efficient penetration, internal ideological disputes and the Iran-USSR rapprochement, and significant social reform and economic progress managed by the regime, have cowed, demoralized or persuaded most opposition elements. Hard-core opponents do remain and pose a latent threat in time of crisis. They have little popular following, no known following within the security forces, no viable alternatives to offer nor any known leaders of stature -- and they remain under close SAVAK surveillance. Nevertheless, they have undoubtedly provided recruits for the subversive/terrorist activities which have assumed increasing importance over the past four years -- though still far from a threat to Iranian stability. The main anti-regime activity takes place outside of Iran where the Tudeh Party with Soviet support, Chicom agents and other oppositionists recruit and organize Iranian students abroad, partial anti-Shah propaganda and try to embarrass the Shah on his visits overseas. These groups have little influence today within Iran, except among a relatively small number of university students.

There is no permissible way in Iran to express opposition to the monarch, the monarchy or to policies and programs sponsored by the Shah. Opposition political parties and groups have been disbanded and demoralized, their membership cowed or acquired by the regime. The Tudeh (Peoples) Communist Party has been illegal since 1949 and firmly suppressed since it reached the peak of its popularity in 1952-53. Many of the political leaders of the loose National Front political coalition who supported Mossadegh, have

Group 3
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undergone periods of arrest and remain under close surveillance, and all of them have come to recognize the limits of allowable activity. Reactionary elements led by the clergy and bitterly opposed to such reforms as land distribution and women's rights, were vigorously suppressed when they last led demonstrations in 1963. While kept well under control since then, the clergy still commands sufficient respect to be able occasionally to put the brake on certain GOI programs (e.g. the plans for a Religious Corps). Student, labor, political, religious and other potentially troublesome groups are thoroughly penetrated by the security services. The Soviet-Iran rapprochement and an ideological split into Moscow and Peking factions has further weakened the subversive communist effort; the land and social reform programs of the White Revolution and the Shah's independent nationalism in foreign affairs have met many of the demands of the progressive, nationalist, intellectual elements in Iran; the soaring economy has offered an opportunity for constructive involvement and material reward which for many has proven to be a satisfactory substitute for fuller political participation. A large number of former Tudeh and Nationalist Front supporters have been welcomed back to the fold and are now found even at top levels of the government. In short, effective organized opposition has ceased to exist in Iran, and intractable opponents have been driven underground or outside the country.

But some hard-core oppositionists -- however fragmented -- remain. There are liberal intellectuals, both young and old, who would limit the power of the monarch (some would even abolish the monarchy) and resent the suppression of non-conformist political activities and ideas. There are also elements of the conservative bazaaris and Muslim clergy who would turn back the clock economically and socially -- some well known and still commanding sufficient loyalties to apply the occasional "brake" to GOI programs. There are, finally, elements, particularly among the young, who accept Marxian tenets and would set Iran on the course of "popular socialism"

Groups of young men are occasionally apprehended and tried for communist anti-state activities. In 1969, more than 20 men in all were convicted of forming communist groupings to overthrow the government. In 1971 dissident activity produced the now infamous "Siakal Incident" -- an attack by an armed band on a gendarmerie post at Siakal, a small village in the Alborz mountains some 35 kilometers southeast of Rasht. Two gendarmes were killed and another

wounded before the group fled into the mountains, soon to be pursued by a superior government force (including units of the Iranian Army) which succeeded in killing or capturing most of the group -- whose total number has been put at 150 to 175. Thirteen of those taken prisoner were subsequently tried and executed: and the captured reportedly included two Palestinian Arabs and others trained in Communist China. Approximately 50 of the dissidents, however, escaped capture and subsequent anti-government violence has sometimes been officially blamed on the Siakal Group. There is a growing suspicion, however, the Group as such may no longer exist but is used as a label for the GOI to pin on other terrorists. (The Siakal incident received wide domestic publicity, but only some weeks after the incident.) And in January 1972, the GOI announced that 120 individuals would be brought to trial on charges of murder, bank robbery, bombings, illegal possession of arms and explosives, attempted kidnapping, air piracy, propagation of communism and anti-state activities. Accusations that the prisoners' guilt was predetermined, complaints that the prisoners were tortured, the closing of the trials to the public, and the severity of the sentences (of 32 sentenced to death, nineteen are known to have been executed, ten had their sentences commuted to life in prison, and nothing further has been heard of the other three) brought some strong criticism from Western intellectuals and media -- criticism which has tarnished somewhat the Shah's image, both at home and abroad, particularly Western Europe.

We assume the Government crack-down represented by these arrests and trials has set back terrorist operations and has forced subversive groups to regroup and retrain. Once this is completed, however, it is expected that urban guerrilla activity will resume on a scale similar to that before the crack-down.

The major anti-regime effort takes place outside the country, mainly in Europe. The top Tudeh Party leadership has been outside of Iran for years, enjoying support from the Soviet Union, organizing Iranian students abroad, and operating a clandestine radio station which broadcasts into Iran from Bulgaria or Leipzig, East Germany. Other anti-Shah radio stations broadcast from Iraq and Baku, in the USSR. The East German station is reported to be currently undergoing extreme reorganization. A small Tudeh splinter group formed in 1965 identifies with Communist China, and that country has succeeded in gaining considerable influence among Iranian students in Europe.

Also visible abroad but less active, are elements of the old National Front. Perhaps the most visible and articulate irritant, and certainly the most widely publicized, is the Confederation of Iranian Students (CIS), a dissident student organization with a wide following among young Iranians in Europe and enjoying support from continental intellectuals. It is leftist oriented, received broad support (some say direction) from Tudeh Party elements, and has been instrumental in leading demonstrations against the Shah and his policies.

The real impact of these groups has been in picturing the Shah to fairly wide groups abroad as a tyrant, in bringing unfavorable publicity to bear abroad on trials in Iran, and in embarrassing the Shah and his hosts by demonstrating during his visits overseas.

It is worth noting, finally, the activities of a different kind of dissenter, the late General Teimur Bakhtiar, a former SAVAK chief who carried on a personal vendetta against the regime after his exile by the Shah. He passed the first few years of his exile directing anti-Shah student activities from his residence in Switzerland and then went to Iraq, presumably to become more directly involved in anti-Shah and anti-Iranian operations. (His arrest in Beirut for possession of arms and the Lebanese refusal to extradite him to Iran led to the break in relations between Iran and Lebanon.) General Bakhtiar was assassinated in Iraq in mid-1970, presumably by SAVAK agents.

MINORITY GROUPS

Introduction and Summary

Iran has important minority populations -- tribal, religious and linguistic -- which have created serious divisive problems for the country in the past. The large tribal groups traditionally resisted rule by the central government and became essentially autonomous during the periods of weak central authority. Even in the 20th century, tribal allegiances and pressures significantly affected the fortunes of Iranian governments. In recent years, however, minority groups have been effectively controlled by central government pressures, and by programs for increased integration -- with the promise of greater reward from participation in a prosperous economy. Iran's Kurdish population, situated along the sensitive Iran-Iraq frontier, is carefully watched by the GOI lest their ethnic loyalties involve them in the Iraqi-Kurdish dispute. The sporadic fire-fights which have erupted in the last year on the Iran-Iraq border have generally been south of the Kurdish areas and not due to ethnic or tribal flareups. Southern Iran's Arabic speaking population, living in Khuzistan along the Iraqi border and the Persian Gulf, presents a potential security problem since they are conscious of their Arab character and minority status, listen to radio Baghdad, and live in the vulnerable oil heartland of Iran. Iraqi and progressive Arab efforts to develop active dissidence among this population, however, have achieved few visible results -- and Iran's security sensitivities toward the Arab population are undergoing a gradual and minor decline.

Group 3
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Kurds

The Kurds, Iran's largest ethnic minority, number more than 1,000,000 living for the most part in West Azerbaijan, Kurdestan and Kermanshah, which border areas of Iraq and Turkey also largely inhabited by Kurds. Although independnt-minded, the Iranian Kurds have not in recent years mounted any extensive resistance to government control. The Majabad Republic, an "independent" Kurdish state set up in 1945 by the USSR, attracted little local support, extended only about 50 miles in each direction from Mahabad and folded as soon as Soviet troops were withdrawn from Iran. Nonetheless, until the 1958 Qassem coup in Iraq, Iranian forces thereafter occupied many Kurdish areas as they might have occupied enemy territory. This coup and the subsequent Kurdish revolt there helped persuade the GOI to change its tactics to emphasize regional development programs designed to attract Kurdish allegiance. Such a carrot and stick policy has preserved internal security among Iranian Kurds and has provided some measure of progress in softening attitudes toward the central government.

There are indications, however, that some Iranian Kurds living near Iraq retain their Kurdish identity above their Persian identity, and that some identify closely with Mulla Mustafa Barzani and his struggle to gain autonomy within Iraq. It is likely, therefore, that the Government of Iran is not anxious to see put into operation the agreement reached between the Ba'ath Regime and Iraq's Kurds on March 11, 1970. If fully implemented, that agreement would provide for an important degree of Kurdish autonomy within Iraq -- and not only would Iraq's Kurds no longer provide the internal opposition to Iraq's government that they do now, but Kurdish autonomy in Iraq could stir up among some Iranian Kurds a similar desire for autonomy.

Iran has evolved a policy of aiding Mulla Mustafa Barzani -- even though it was he who, with Soviet backing in 1945 helped form the Majabad Republic. Iran, with Israeli assistance and perhaps guidance has helped supply and arm Barzani's men, and has offered a haven in time of retreat -- the extent of assistance varying with Iran's relations with Iraq, Nasser, and other Arab radicals. The Iraqis on their side have encouraged their loyal Kurds -- such as Jalal Talebani -- to recruit men and stir-up trouble in Iran. Although the potential for trouble has required a relatively large Iranian Gendarmerie commitment in the Kurdish border regions, there is little likelihood the actual security problem in the Kurdish areas will become serious.

Bakhtiari

Something between 300,000 - 500,000 Bakhtiari tribesmen speaking a Persian dialect and practicing Shia Islam, still inhabit the mountainous area west of Isfahan, most now engaged in farming but many still nomadic. Located where they could control the main road south from Tehran and within striking distance of the capital, the Bakhtiaris had significant political influence up through the early 20th century. Bakhtiari armed support helped gain the Constitutionalists their victory over the Qajars, and many Bakhtiaris are still identified among the quiet Constitutionalist opposition.

Although their military power was finally broken down by Reza Shah, wealthy Bakhtiari families have remained prominent to the present. Among prominent Bakhtiaris in recent times have been Empress Soraya (Esfandiari-Bakhtiari), the Shah's second wife; and General Teimur Bakhtiar, former SAVAK Chief, later public enemy No. 1 in exile until he was assassinated in Iraq in August 1970.

Qashqai

Composed of perhaps 200,000 Turkic speaking members, the Qashqai tribes inhabit the areas around and to the west of Shiraz. They are traditionally at odds with the Bakhtiaris, yet like them, the Qashqai's political importance today is largely historical and there is little chance they will ever emerge again as an important independent political force. In 1946 a Qashqai-led rebellion forced the resignation from the government of three Tudeh Party members. In the early 50's Qasnqai tribal leaders supported Mossadegh; and after his fall the tribes were brought to heel and the principal leaders exiled. As late as 1963 the killing of a land reform official in Fars province brought severe punitive measures against the Qashqai which appeared to write finis to any remaining spirit of tribal independence. The GOI remains moderately concerned, however, over the suspected anti-regime activities of certain Qashqais now in exile in Europe.

Arabs

An estimated 400,000 Arab-speakers live mostly in the provinces of Khuzistan and Fars and along the Persian Gulf. Many differ from the Persian majority by their Sunni

religious adherence, as well as their language, and have families and other ties with Iraq or the Arab countries on the south-side of the Gulf. This population has been for some time the target of Arab-expansionist propaganda, originally Nasser-inspired but more recently from Iraq.

The extremeness of Iraqi propaganda against the Shah and the GOI -- the lack of any Iraqi figure with Nasser's appeal and stature -- the worsening reputation of the Ba'athists even among other Arabs -- and the severity of Iraq's treatment of Iranian Moslems (even though Shia) recently expelled from Iraq, all have worked in favor of Iran's efforts to counter separatist tendencies among its Arab population. This, plus the passage of time without serious incidents, helps account for a gradual decline in Iranian concern about security problems from its Arab population.

Other Important Ethnic Groups

Closely related to the Bakhtiaris, the Lar tribes are almost as extensive and almost occupy adjoining territory to the west of the Bakhtiari area. They have been politically inactive for a long time. In the extreme south-east of Iran some 500,000 Baluchis live in the relatively primitive and isolated province in Sistan and Baluchistan, employed primarily in livestock raising. The GOI has done little to assist in developing this region through reviving concern since the Indo-Pak war with foreign efforts to stimulate Baluchi nationalism could lead the GOI to pay more attention to this area. Around 300,000 Turkomans, of Mongol origin and speaking a Turkic dialect, occupy areas of Gorgan and the northeast frontier area of Iran.

Among the religious minorities, the Sunni Moslems amounting to about 10% of the population are most important. Although there is some strong feeling between the Sunni and Shia Moslem communities, religious strife is unusual as the Sunnis usually live in separate communities among ethnic groups such as the Kurds, Arabs, Baluchis and Turkomans. Other notable religious and ethnic minorities include some 75,000 Jews, living mainly in Tehran and Isfahan, who have a long history in Iran but have stayed almost entirely out of political life; around 100,000 Christian Armenians, living in the northwest near former Armenia and in large cities (especially Tehran and Isfahan); and some

70,000 Assyrians, Nestorian Christians living for the most part around Lake Rezaiyeh in northwest Iran. The Bahais, largely composed in Iran of converts from Judaism, have been supressed by the GOI -- perhaps as a sop to the Mullas who view Bahaiism as a Moslem heresy, and perhaps also because of alleged political activity by Bahais.

THE WHITE HOUSE 7210440

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June 15, 1972

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MEMORANDUM FOR:

THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE

SUBJECT: Follow-up on the President's Talk with the Shah of Iran

During the President's talks with the Shah of Iran in Tehran on May 30-31, the President was forthcoming in response to the Shah's general request for continued US support in meeting Iran's needs for military equipment. The President made the specific commitments described below which now require follow-up:

1. The US is willing in principle to sell F-14 and F-15 aircraft to Iran as soon as we are satisfied as to their operational effectiveness.

2. The US is prepared to provide laser-guided bombs to Iran.

3. The US will assign in Iran an increased number of uniformed military technicians from the US services in accordance with the so-called "blue-suiter" approach to work with the Iranian services.

The Defense Department is requested to prepare by June 30, in coordination with the State Department, a memorandum describing the manner in which each of these programs can be carried out in a way that will be consistent with the President's commitment.

Henry A. Kissinger

SECRET

THE WHITE HOUSE

WASHINGTON

SECRET

July 25, 1972

MEMORANDUM FOR:

THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE

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SUBJECT: Follow-up on the President's Talk with the Shah of Iran

The President has considered the memorandum of the Secretary of Defense of July 5, 1972, "Follow-up on the President's Talk with the Shah of Iran," and has approved the following course of action:

1. F-14 and F-15 aircraft. Briefings should be offered as soon as possible to Iran by service teams on the capabilities of the aircraft and the training and logistics requirements associated with them. In order to allow sufficient grounds for comparison of the two aircraft, these initial briefings should be supplemented by appropriately spaced progress reports by service teams as each aircraft moves toward the operationally effective stage. The President has told the Shah that the US is willing in principle to sell these aircraft as soon as we are satisfied as to their operational effectiveness. Within that context, decisions on purchases and their timing should be left to the Government of Iran.

2. Laser-guided bombs. Briefings should be offered to the Iranians as soon as possible by a US Air Force team. It is understood that weapons deliveries could commence seven months after the Iranians place a formal order. The President has told the Shah that the US is prepared to provide this equipment to Iran.

3. Uniformed technicians. Requirements should be obtained promptly from the Embassy and the MAAG in Tehran, and team compositions, terms of reference and costs should be worked out with the Government of Iran as quickly as possible. The President has informed the Shah that the US will assign in Iran an increased number of uniformed military technicians from the US services to work with the Iranian military services.

SECRET

The Department of Defense, in cooperation with the Department of State, should proceed to implement the above as promptly as possible.

The President has also reiterated that, in general, decisions on the acquisition of military equipment should be left primarily to the government of Iran. If the Government of Iran has decided to buy certain equipment, the purchase of US equipment should be encouraged tactfully where appropriate, and technical advice on the capabilities of the equipment in question should be provided.

Henry A. Kissinger

DEPARTMENT OF STATE

WASHINGTON, D.C. 20520

July 26, 1972

SECRET

OFFICIAL - INFORMAL

The Honorable
L. Douglas Heck
Minister-Counselor
American Embassy
Tehran, Iran

Dear Doug:

We now have what I consider a very satisfactory memorandum from Dr. Kissinger which gives everyone his marching orders as to what should be done in following up the President's talk with the Shah (copy enclosed). On the basis of this we shall be getting out to you shortly some operational telegrams implementing Presidential decisions. Already in the mill is my response to your query about military personnel. Hopefully you will receive it before this letter, but the thrust of it is to support fully the Ambassador's comments to Hoveyda that we have no intention of getting into the online operational business but will be as responsive as possible to requests for training personnel. The next message will probably deal with briefing teams on the F-14 and F-15 which can probably be gotten together and sent out to Iran by October if desired.

I believe that the last paragraph of the enclosed memorandum pretty much gives us carte blanche to whistle up any other kind of briefing team you all think desirable--so, please don't hesitate.

Keep the flag flying.

As ever, warmest regards.

Sincerely,

Enclosure:
Cy.memo.fr.Dr.Kissinger
dtd. 25July72

Jack C. Miklos

SECRET

Dear Bill -

Amb. Helms asked me to write him my views about Iran upon leaving. The verbosity attached is the result. I wanted you to have a copy although I have not provided it to anyone else.

I hope you and Mariella enjoyed your leave. I commend Dave to you - he is quick, alert, pleasant, already well-informed, and very hard-working.

All best, John

EMBASSY
UNITED STATES

SECRET

The Honorable [illegible]
American Embassy
Tehran, Iran

Dear Mr. Ambassador:

Within the [illegible] call aircraft [illegible] Washington, D.C. Dear Sir: I have the [illegible] these senior men have told me that this [illegible] particular person (even though they know that he [illegible] never read the report) gave them a feeling of [illegible] which is now lost. It was because of this [illegible] my thoughts about Iran upon leaving in the [illegible] whether or not it would be delivered in [illegible] read the letter has helped me think through [illegible] thoroughly, and has made writing it a [illegible] feel free to share it with anyone you like. [illegible] relationship with, and respect for Bill [illegible] copy.

At the outset, I should declare this. [illegible] my perspective. I have had a deep and [illegible] 1959 when I first came here to spend [illegible] My Iranian friends at my [illegible] and the U.S. They were [illegible] [illegible] I am [illegible] cultus.

I am aware that there is [illegible] completely or partly [illegible] others in the Embassy [illegible] [illegible] in our relations [illegible] [illegible] from Iran, [illegible]

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great deal of help and many facilities for our espionage and intelligence work. I am vaguely aware that Iran has permitted us to do electronic monitoring of neighboring countries and that there is a close working relationship between SRF and SAVAK. This is not enough for me to come to a conclusion about the extent of the risk to Iran and the actual value of the activities concerned. In the absence of more information, my natural and professional skepticism asserts itself.

My perspective on the issues discussed in this letter is over a period of ten to fifteen years, since I would like to be in a senior position in this Embassy at the end of that time. I am thus much concerned with the later results of our present actions and perceptions.

This perspective leads me to try to understand the Shah's method of government in order to make an informed guess as to what is likely to become of it and him. There is a consensus among most Iranologists that the Shah in his early years tried to behave like a constitutional monarch and to implement the democratic ideals which he is said to have acquired at Le Rosey. Whether or not this is true (and I must say that Le Rosey seems to me a most unlikely place for anyone to acquire democratic ideas), it is clear that in the early 50's, especially after the Mossadegh episode, the Shah determined to rule as well as reign. It also seems clear that his choice of a system to carry out this rule was based on a traditionally pessimistic view of the Iranian character which the Shah may have been particularly ready to accept (this acceptance is implied in several places in Mission for My Country) because of the readiness to change sides at will of the Iranian people and their leaders during the Mossadegh period.

A standard statement in books about Iran regardless of when they were written -- James Morier and Sir Percy Sykes in the 19th century, Morgan Shuster in the 1920's and 30's, Norman Jacobs in the 1950's, and Marvin Zonis in the 1960's -- is that Moslem Iran's history of repeated national humiliation and subjugation, broken for a long time only by the Safavids, have engrained in the Iranian personality certain very marked negative characteristics. Since I am going to dwell on these at great length here, I emphasize now that they in no way constitute the whole story about Iranians. Inside the circles within which Iranians feel at ease, there is great loyalty and warmth of friendship. In addition, Iranians have the aesthetic sensibility, regard for language and skillful use of intelligence and perception which are to be expected in any people with as rich and old a culture and civilization as theirs. Furthermore, as I mention later, Iranians are well aware of these negative characteristics and their bad effects and are now beginning to try to nullify them.

Under foreign occupation (Arabs, Mongols, Turks) or manipulation (British, Russians), Iranians preserved their sense of nationhood through their culture, particularly their language in poetry such as Ferdowsi's Shahnameh, and their self-respect in cloistered and concealed private lives behind the high walls which are still typical of Iranian domestic architecture. The world outside was justifiably seen as hostile. Furthermore, foreign domination always creates a sense of "every man for himself" among those dominated, and centuries of it has made this feeling a normal part of every Iranian's public or working life. In this environment, mutual suspicion, distrust, rivalries, and an intense selfish individualism characterize the working relationships of Iranians with one another. (Marvin Zonis' The Political Elite of Iran is a detailed documentation of this). The psychological strain of living in such an atmosphere has traditionally been tempered by elaborate forms of courtesy which are used routinely in the working day, especially between subordinate and superior, and in the support provided by private life. This support comes from extremely close and intimate relations between the members of a very extended family and with old friends. Iranians with such ties to one another may spend most of the Fridays of their adult lives with one another. These are the people whom each Iranian sees as fully human -- they can be trusted, confided in, relaxed with. The rest of the world must be treated cynically, exploited and manipulated to one's own advantage if possible, and submitted to with calculation when necessary.

Having himself accepted this view of his people's character, the Shah chose a governing system which would make use of these qualities. I don't know whether the Shah in actuality consciously borrowed this system from the Achaemenoids with which he so often identifies his regime, but the system he chose in fact very much resembles the method which Herodotus tells us that Cyrus and Darius used to control and govern their empires.

The system is simple and crude, but complicated in use, rather as primitive languages are said by linguists to have the most complex grammars. Every important organ of government is managed by a few men who must be kept in a state of intense rivalry and distrust of one another. All power comes from the Shah, the power which individuals may have must be subsidiary and derived from him. Therefore each rival seeks greater access to the Shah than the others. Those competing at the top apply the same rules to control their subordinates, and so the system and the atmosphere it creates is consistent to the very bottom of every organization in the government.

This atmosphere of intrigue and constant personal competition insures that no one will be seen as autonomous by others and that no one will become enough of a figure in his own right to attract personal followers. Public recognition comes from the Shah -- only he may be acclaimed by the people. Finance Minister Jamshid Amouzegar received from the Shah

[illegible] of the [illegible] Chief, [illegible] of the [illegible] this [illegible] involvement which publicly [illegible] and which in most other [illegible] of a [illegible] Shah [illegible] and, [illegible] that the televised [illegible] the Shah and that [illegible] of television from the [illegible] make a short speech praising the [illegible] of the [illegible]. Furthermore, immediately after the [illegible] trial, the personal publicity for [illegible] was [illegible] and he deliberately obscured himself to avoid the danger of [illegible] [illegible] said "the tallest flower in the [illegible]".

The personal problems at least infinitely. In my own view of [illegible] can be seen very clearly in the [illegible]. The two men at the top competition with one another are [illegible] and [illegible]. Alam's special relation to the Shah through his loyalty, [illegible] during the Mossadeq days and by his willingness to [illegible] as Prime Minister and take the rap for the Shah's miscalculation in inviting the world press to view blatantly rigged elections, is enhanced by Farhat's closeness to the Shah as his only personal oil advisor. Rivalries of rivalries spread out and down through the organization certainly and reaching from this central competition.

The Shah has shown without question remarkable skill, almost genius in operating this system. He must keep the details of more than a hundred personalities and their shifting relationships with one another in mind. He has to insure that not only men but organizations remain in radical competition so that cooperation between men not competing in the same ministry will not threaten him. At the same time, those men and organizations must be manipulated so that while distributing the ambitious and cynical about themselves and their competitors, they nonetheless work long and hard to achieve the common goals the Shah has set the country.

This is the system through which the Shah has governed and administered a stable nation and a roaring economic boom. There is not enough space in a letter like this to describe the auxiliary services to this system provided by the [illegible] of measured doses of repression, the employment of multiple channels of information to the top, and the careful presentation of the ruler's image. In any case, these are familiar to you and are common to well-managed totalitarian regimes anywhere in the world. My purpose in the rest of this letter is to describe the pressures exerted by the maturation of economic development on this system, the effects of twenty years of operating it on the Iran and Iranian society, and to suggest some steps we might take in light of these factors.

[illegible] sophisti- [illegible] are [illegible] [illegible] system.

[illegible]

[illegible] the Shah's unusual skills is excellent for [illegible] and centralizing power. In [illegible] their cultural control and [illegible] that the relatively few [illegible] pushed ahead vigorously without [illegible] hours and fluctuate behavior [illegible] ment is much more a matter of administration and [illegible] a question of construction and [illegible].

The Shah's political control system, however, requires [illegible] at all levels be in a state, not only of [illegible] tion, but also of intense personal rivalry. [illegible] should go to matters of substance are [illegible] intrigue. Since power [illegible] of power and control at the very [illegible] be made there. Thus the [illegible] totalitarian regimes [illegible] system places all power in the Shah, it has not yet been possible [illegible] tion.

Accordingly, the old [illegible] of the [illegible] of [illegible] economic [illegible] protection, and the [illegible] tic [illegible] doctors and engineers. You [illegible] for the latter [illegible] related to [illegible] giving [illegible] in [illegible].

[illegible]

[illegible] Since [illegible] the [illegible] [illegible] conclusively for [illegible] which the [illegible] or repeatedly with their [illegible] necessary to [illegible] tion effective.

To sum up, then, the Shah's [illegible] is an instrument by which he has achieved [illegible] and above all enormous [illegible] cost of using this system has [illegible] of sharply negative characteristics [illegible] the Iranian personality which Iranians [illegible] dislike [illegible] inherently, as well as in their effects [illegible] organization. The greater, [illegible] a form of administration [illegible] artificially [illegible] the regime for a recent [illegible] critic, [illegible] that ideology could bring: it will [illegible] incapable of [illegible] the efficient achievements of its own [illegible].

In this there is obvious danger to our interests in Iran. Whether gradually or suddenly, as discussed above, economic change is only to force political change here. This change could be deferred until the Shah's death in which case there would probably be a long period of confusion and disorder while middle-class Iranians, refusing to accept the continuation of the Shah's system, try to work out a new one. Alternatively, the system might quietly erode for a long period. This kind of erosion might take forms which the Shah would not necessarily recognize at first (for example, see below [illegible] of this control system finally did [illegible] to him, he would [illegible] and precipitantly to correct it, [illegible] by [illegible] which would be unacceptable to the [illegible] in [illegible] this reaction would make his [illegible] to fulfill [illegible] of natural, non-violent change. [illegible] our close identification with him, these dangers to the Shah are dangers to us, which [illegible] him to [illegible] for [illegible] from his efforts to resist [illegible] the U.S. understands this [illegible] of political [illegible]

[illegible]

[illegible]

[illegible] heavy pressure in the future to change its approach and conform to the system. In fact, such an effort is already [illegible] by Chairman [illegible] of the IGAS, [illegible] for the IGAS, [illegible] for Iran.

The pri[illegible] also begun to recognize and act on the need to [illegible] other things. [illegible] in addition which promotes [illegible] encourages [illegible], and this used to be true for private sector employees [illegible] as well. [illegible] private [illegible] sound investment [illegible] offering high salaries and social inducements in recruiting new employees with special skills / for [illegible] business school graduates [illegible] about 120,000 [illegible] a month, [illegible] maximum offered by government is about 50 [illegible]. This underemployment of government workers is of direct concern to us. It is all too easy for a government employee ([illegible] many [illegible] middle-[illegible] employees [illegible] private sector and all [illegible] are underpaid, according to a study by the International Labor Organization) to believe that he is on short rations because the Shah is squandering billions on American arms. This becomes acute when the government employees in question supply vital social services such as health care and education. [illegible] that, [illegible] the full extent of the [illegible] purchased [illegible] billion,

[illegible] to pre-
[illegible] which
[illegible] threat.
[illegible] with
[illegible] with
[illegible] statistics.

Difficulties in [illegible] have also long realized the
[illegible] This is particularly
true of what [illegible] and is now the State Ministry
for Planning and [illegible].

The Shah has [illegible] this organization which
attracts [illegible] strong leaders such
as Abdol Reza Ghotbzadeh and [illegible]. It has given Iran
comparatively [illegible] the system by
trying to [illegible] and by
the personal following its leaders develop among their subordinates.
Accordingly, the Shah has tended to [illegible] the relative independence
of the Plan Organization during the [illegible] years of Iran such strenuous
efforts were being made to meet its goals in time and to prepare the new
plan, and then reduce its scope and change drastically in the opening year
of the new plan. This [illegible] involved firing the Director
although the consequences to his personal [illegible] were less severe over
the years. Ebtehaj went to jail for a time. Farmanfarmaian has only been
rusticated.

The NIOC is now another area of the government. A central question
with which its officials are wrestling as they reorganize to meet their
fresh responsibilities under the new agreements with the Consortium, is
how to use the [illegible] which the Consortium has always had
without running into the teeth of the political control system. The solu-
tion apparently emerging is to [illegible] subsidiary companies organized
on [illegible] to deal with [illegible] leaders while the NIOC parent and
holding company continues [illegible] in the old way and to play its conventional
part in the Shah's multifaceted [illegible]. The strains and pressures which this
will create are obvious.

This will [illegible] in a [illegible] and effective way is making itself felt
in other parts of the [illegible]. There will be many opportunities,
which should [illegible], for you and this Embassy to show
that we [illegible] these efforts. That is easy. To
you also [illegible] of trying to help the Shah understand that
the [illegible] will cause, and the sometimes
disorderly [illegible] of Iran's politics which they will inevitably entail,
are far preferable to the greater instability which will come certainly
and eventually if the Shah either resists or these pressures or relaxes
them by step and by alternations of repression and permission.

So far I have suggested [illegible] interests in the

present situation [illegible] ... [illegible] for other [illegible] policies which are so much a problem [illegible] remain [illegible].

In our [illegible], such [illegible] is [illegible] own [illegible] that the Shah [illegible] and inform [illegible]. This will [illegible] ways, [illegible] standing as an independent nation and is no one's client state, nor [illegible] for it. This [illegible] it clear, [illegible] standing private and [illegible] economic realities. Also, we should [illegible] that just as the Shah is proud of and [illegible] on respect [illegible] values and principles of the [illegible] Revolution, so we [illegible] in, [illegible], and demand due recognition of our [illegible] and the requirements of our Constitution. [illegible] requests that we bend the constitutional rules to suppress [illegible] political activity [illegible] in the U.S. should [illegible] subjects. If the requests are repeated, it should be made clear that they are inappropriate and offensive. Although such requests and rejections are [illegible] quickly [illegible] Iranian [illegible]. [illegible] must also insist on a full [illegible] reciprocity [illegible]. We should not accept limitations on the [illegible] officials. Arguments that such restrictions [illegible] the government to keep track of Communist [illegible] is [illegible], given the efficiency of Savak surveillance, and [illegible] Communist countries' [illegible] the GOI to impose such restrictions [illegible] a matter of reciprocity. In addition, we should require the GOI to give the same respect to U.S. passports that we give Iranians. This applies both to dual nationals residing in Iran and in particular to the difficult question of American wives of Iranians. The usual argument one encounters here is that by international law Iran has the right exclusively to determine the nationality status of persons [illegible]. There is no question about the existence of this right, but [illegible] the exercise of it [illegible] Shah say that we have, [illegible], the [illegible] right under international law to p.n.g. you and me without explanation, but the United States government would certainly not accept such an action from Iran without protest and warnings.

This is a real and very [illegible] problem. Occasionally [illegible] suicides among American wives, [illegible] wives to our Consular Section as they are separated [illegible].

their children by divorce actions under Iranian law, suffer brutality from husbands in order to stay with their children, or find themselves trapped personally in Iran because Iranians will not give the permission to have minor is required for a wife to get an exit visa in an Iranian passport. In one situation it is merely bad, or the woman has high connections in the U.S. Some solution [illegible] can be worked out for her [illegible]. However, in most cases, under present Embassy policy the Consular Section can do nothing. [illegible] that these women are all [illegible] that [illegible] difficult in Iran than elsewhere. It is however, a classic dilemma in American and international diplomatic practice that a nation expects and maintains respect for itself by insisting on reciprocity equivalent treatment for its citizens in its relations with each other country. The merits, merit, and attractiveness of the citizens concerned is irrelevant to this. Insisting on this principle here will give us more respect for us -- many Iranians were deeply impressed by our insistence on exercising our full consular rights during the arrest and trial of Shahla Vaziri, even though the girl herself was obviously totally [illegible]. It will also serve as a reminder to Iranians of our national standards of [illegible] the rights of our citizens and the responsibilities [illegible] government to them and that these standards hold true for us regardless of the nature of other governments with which we may have good and friendly relations. Furthermore, this American wives problem is a potential time bomb in our relations with the Shah as well. [illegible] day one of the suicides of beaten-up wives will turn out, after the fact, to be a Senator's daughter or a Supreme Court Justice's niece. Accordingly, I suggest that this problem be put to the Shah. As far as I know, it has never been discussed with him by any U.S. Ambassador in recent years. I think the argument just made would convince and not offend him and this is the kind of problem which he can solve by a simple directive.

I could go on indefinitely but the time I have available for writing this letter and getting it typed is running out. There are a few final points, some of them relation to the main theme of this letter, which I want to present in no particular order here.

I hope that you will continue your good policy of encouraging reporting of the chips as they fall without requiring adherence to any particular Embassy party line. One difficult question is the reporting of rumors which I have seen recently come up in connection with the Shah's alleged second marriage to Farah Azad. The test here, I think, is whether the rumor is widely believed by important Iranians to the point that they are concerned by it and [illegible] on it. Most of these rumors cannot be confirmed for a long time, but the reaction to a rumor of [illegible] the matter to me is a comfortable fact which ought to be reported.

[illegible] time to time the Iranian government has "public" trials of alleged saboteurs and terrorists. [illegible] trials, conducted by military courts,

not only [illegible] and [illegible] the Shah, [illegible] building [illegible]. Curiously, [illegible] happened at least [illegible] There are two things we ought to do about this. [illegible] or "public", and [illegible] permission for an [illegible] is denied or permission is given. This [illegible] offense, that we [illegible] these trials. From [illegible] point of view, if the GOI [illegible] what goes on in these trials [illegible] and the GOI ready for the inevitable question [illegible] more frequent, and [illegible] forward at home to Iran. Second, [illegible] this kind of show trial is so offensive to most Westerners regardless of their political [illegible] and the guilt or innocence of the accused. This will be [illegible] with Alam or Hoveyda. A second [illegible] pitch to [illegible] would be a discreet reminder that this kind of trial is what the [illegible] do.

The last point of this letter is perhaps the most important. In my three and a half years here, I have served the [illegible] The present conduct of our affairs in Iran obviously requires that [illegible] have a long period of [illegible] with our [illegible]. [illegible] I have [illegible] how very much that [illegible] years more to provide the leadership to this Embassy and the kind of developed relationship with the Iranian [illegible] will need in the difficult years ahead.

Sincerely,

[illegible]

[illegible] of Embassy

DEPARTMENT OF STATE
BRIEFING PAPER

IRAN

Objectives and Setting

Objectives

Your main objectives in meeting with the Shah will be:

-- To explain to the Shah your Middle East peacemaking efforts and your plans on next steps so that he may see how important his aid for Egypt and Jordan is and so that he may understand the effort to split Syria and Iraq.

-- To brief the Shah on the current state of U.S.-Soviet relations in the Middle East and globally, reassuring him that you are still approaching detente warily.

-- To confirm agreement on the Cabinet-level Joint Economic Commission with subordinate working groups, and to agree on an announcement, perhaps during your visit.

-- To reaffirm our intention to keep working as closely as possible with Iran in the fields of regional security and military cooperation. To exchange current views on the Shah's efforts to assist and cooperate with friendly regimes in the region and to relate his efforts to ours.

-- To convey our views on the world economic situation and especially to explain our concern on oil pricing, in the interest of the international economic stability on which Iran's own well-being depends.

Each of these issues is dealt with in detail below with talking points.

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Setting

Iran is riding high, with dramatically increased oil revenues, good economic prospects, increased diplomatic options, and an ability to project power externally which Iran has not had for centuries. The Shah is confident of his domestic political position, and believes he has seized the initiative in the Persian Gulf and OPEC. He is trying to show that Iran will use its oil revenues constructively by such initiatives as free primary education and an expanded national health program in Iran, bilateral lending to some LDC's, loans to the IMF and IBRD, and a proposal for a new multilateral development fund. The Iranians have been the target of criticism for the leading role they played in the December 1973 oil price increase, and have not found much support for their development fund proposal. However, this has had little visible effect on Iranian confidence and ambition.

Our relations with Iran continue to be very close. We have launched an intiative to expand our bilateral relations in the economic and technological area, with the objective of creating a framework and atmosphere for the discussion of such issues as oil and strategic interests. The Shah has responded positively, expressing particular interest in atomic power, and is anxious to get down to details. AEC Chairman Ray is to go to Iran at the time you are there to talk to GOI officials. We also might use this occasion to announce the formation of a bilateral commission on economic cooperation. On the military front, the channels for cooperation are long established and are functioning well, but we may need to deal with the Shah's interest in the production of missiles in Iran and an assurance that we will supply enough technicians to phase in his new U.S. equipment The only clouds on the U.S.-Iran horizon concern oil prices, on which the Iranians are taking a hard line, and the Iranian development fund proposal, which we fear could divert funds that would otherwise go to existing international aid institutions.

Department of State
April 1974

ISSUES AND TALKING POINTS

Arab-Israeli Situation

Analysis/Background

The Shah feels the U.S. should make every effort to bring about an early resolution of the Arab-Israeli situation. He is on record as opposing the Judaization of Jerusalem and supporting Israeli withdrawal from all occupied Arab territories and restoring the legitimate rights of the Palestinians. He will want a briefing on what we are doing now, and how we see the prospects for a settlement.

Your Talking Points

-- Explain the status of Syria-Israel disengagement negotiations and plans for return to the Geneva Conference. The importance of this agreement is that it would break Syria away from the radicals and buy time for further Egyptian-Israeli negotiations and perhaps some move on the Jordan-Israel front.

-- We are walking a narrow line with the USSR, involving the Soviets enough to keep them from being obstructionist while maintaining control over the substance of negotiations ourselves. We believe the Shah will understand this strategy.

-- President Sadat is engaged in a major shift in policy which can help reduce Soviet influence throughout the Middle East. The Israelis recognize this.

-- We greatly appreciate Iran's support for our efforts.

Department of State
April 1974

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DEPARTMENT OF STATE
BRIEFING PAPER

ISSUES AND TALKING POINTS

U.S.-Soviet Relations

Analysis/Background

The Shah takes a close interest in our detente with the USSR and the possibility that it might free Soviet resources for the Middle East. He also follows the progress of CSCE, MBFR, and SALT Negotiations, and is concerned that we may be lowering our guard and leaving our allies in a more vulnerable position. He feels the U.S. should accept nothing less than equivalence in MIRV's. The Shah believes Soviet activity in the Middle East indicates a continuing use of proxies such as Iraq and South Yemen to accomplish Soviet foreign policy goals and will be interested in our assessment of Soviet intentions in the Middle East.

Your Talking Points

-- We will continue to be wary of Soviet intentions in our negotiations on detente and CSCE. We will not relax our guard.

-- It is too early to say what numbers and other arrangements will emerge from SALT and MBFR negotiations, which involve many complex technical questions.

-- In the Middle East, the Soviets are trying very hard to maintain at least a semblance of involvement in Arab-Israeli peacemaking. Since they recognize their recent setback in that area, we want to look carefully at what can be done in other areas like the Gulf and South Arabia to blunt any new Soviet efforts there. Our objective since October has been to structure the diplomatic situation so as to reduce their influence.

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-- Our enhanced naval presence in the Indian Ocean is intended to signal our continuing concern about Soviet activities and intentions in the region.

Department of State
April 1974

DEPARTMENT OF STATE

BRIEFING PAPER

ISSUES AND TALKING POINTS

Intensified Bilateral Cooperation

Analysis/Background

Ambassador Helms has discussed your proposals for intensified cooperation with the Shah in detail. The Shah has responded with enthusiasm. A number of details remain to be discussed and decisions taken.

Your Talking Points:

-- We welcome the Shah's agreement on the formation of a Joint Economic Commission and his appointment of Minister of Economy Ansary as the Iranian co-chairman. Our co-chairman will be the Secretary of the Treasury, with the Secretary of Commerce as alternate. The two co-chairmen should coordinate soon on the timing of the first Commission meeting. What are the Shah's views?

-- If the Shah agrees, the agreement on forming the Joint Economic Commission could be announced during your visit. (A draft announcement is attached.)

-- We will be discussing with Mr. Ansary details of cooperation, including what working groups need to be formed to give substance to its various elements. Our view is that we should be careful to select areas for concentration where special attention is needed and where it can produce progress. We want to avoid simple discussion groups.

-- The Chairman of the U.S. Atomic Energy Commission, accompanied by a number of experts, is prepared to come to Tehran in the very near future to discuss how we can best cooperate in the nuclear field. Teams in other fields will follow as needs and terms of reference are defined. Specific topics which have already been discussed by the Shah and Ambassador Helms should be seen as starting points - not limits on the fields in which we are prepared to explore possibilities for cooperation.

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-- Several items of interest to the Shah, e.g., the manufacture of military missiles in Iran and the provision of larger numbers of U.S. military technicians to advise the Iranian armed forces, pose serious technical and domestic political or legislative problems. However, we are prepared to discuss them in detail in technical channels and to do our best to meet his needs.

-- We welcome the Shah's proposals on the form which intensified political and security discussions would take, i.e., regular meetings in a bilateral context at the Foreign Minister and Chairman of Joint Chiefs of Staff level.

Department of State
April 1974

ISSUES AND TALKING POINTS

Regional Security

Analysis/Background

The Shah remains concerned by the potential for instability - and Soviet exploitation of it - in neighboring countries. He is concerned about radical movements in the Persian Gulf; Iraqi hostility toward Iran; and separatist activity in Pakistan's frontier provinces near his borders. He recognizes the need for, and has been seeking, improved relations and cooperation with the more moderate Arab governments, in order to help them prevent the kind of radicalization that could threaten Iran's Persian Gulf lifeline to the outside world. Establishing this cooperation is not easy because of longstanding Arab wariness toward Iran. However, the Shah recently has stepped up his military aid to Oman's efforts to suppress the South-Yemen-supported Dhofar rebellion, and his government has agreed to provide economic assistance to Egypt. To the east, it has continued to cooperate with the Government of Pakistan while at the same time improving its relations in recent months with India and Afghanistan. While making progress in improving cooperation with some Arab governments Iran has had great difficulty in getting anywhere with Saudi Arabia, and sees Iraq as a Soviet satellite that is unremittingly hostile toward Iran. The Shah is determined to do what he can to keep Baghdad off balance, and in this regard he continues to assist Barzani's Kurdish movement.

Your Talking Points

-- We continue to see eye-to-eye on regional security issues. The US continues to support strongly Iran's efforts to strengthen itself and to work cooperatively with its moderate Arab neighbors.

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-- We are pleased that Iran's stepped-up military efforts in Oman seem to be going well, and we applaud its recent moves to start a program of economic assistance in Egypt. This should reinforce our own economic and diplomatic activity in Egypt, which is designed to maintain the momentum of President Sadat's recent shift away from Soviet influence.

-- We hope the Shah will not be discouraged in his efforts to increase Saudi-Iranian cooperation. We know this is not easy to accomplish, but a collaborative Iranian-Saudi relationship is essential to future stability and progress in the Gulf.

-- We hope it will be possible for Iran to do even more for Jordan, which has a central role in our Middle East strategy, and for smaller countries like North Yemen and some of the sheikhdoms.

-- There have been reports that Iraq is interested in strengthening its ties with Western countries. We would be interested in the Shah's view on this and what implications it might have for how we should deal with Iraq. You may also want to elicit his views on the Kurdish situation.

-- We appreciate Iran's efforts to provide Pakistan with modest military help. This contributes to regional stability by ennancing Pakistan's sense of security and self-confidence. A moderate amount of assistance is not likely to give India legitimate cause for concern, and in any case India has strong economic reasons for staying friendly toward Iran. We were pleased to learn that the Shah responded favorably to our proposal that Iran undertake and finance a tank upgrading program for Pakistan.

-- The Afghan regime seems to have been relatively quiet in recent months on the Pushtunistan issue, but we recognize that the Soviet influence there remains great and that the potential for trouble remains. We would be concerned by any Afghan

adventurism on this issue, though we do not see this as likely in the near future. We welcome Iran's efforts to improve its relations with Afghanistan.

Department of State
April 1974

ISSUES AND TALKING POINTS

Military Cooperation

Analysis/Background

Our military cooperation with Iran has expanded considerably since President Nixon's visit in May 1972. In addition to large sales of military equipment and the continuation of our military advisory mission, we have provided over 500 military technicians on a reimbursable basis to help Iran phase in its new U.S. equipment. We believe that our present bilateral channels of military cooperation are working well, and that no new mechanisms are needed. Basically, the Iranians are satisfied with our military cooperation, but the Shah may seek reassurance that we will continue to support his arms acquisitions with U.S. military technicians. He may express interest in manufacturing small missiles in Iran.

Your Talking Points

-- We will do everything we can to support Iran's U.S. military acquisitions with technical expertise. We will advise His Majesty if and when difficulties should arise in expanding the size of our Technical Advisory Field Teams in Iran.

-- Because of the complexity of the missile question, we would prefer that it continue to be discussed through bilateral military channels.

Department of State
April 1974

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ISSUES AND TALKING POINTS

International Economic Issues

Analysis/Background

The Iranians, who played a leading role in the December 1973 oil price increase, have since taken a number of steps to justify their position and mitigate its effects on LDC's. They have put forward a revisionist view of the world economy, claiming that the disproportionate prosperity of the West was made possible by cheap oil, and that raw materials exporters deserve higher prices for their products. Iran has announced that it will lend $700 million to the IMF and $200 million annually to the IBRD to help cushion the effects of higher oil prices on the LDCs, and has also proposed a new international development fund to aid LDC's.

The Shah continues to believe strongly that oil prices must stay up. Internally, the GOI has greatly expanded its economic development plan, and announced free primary education and an expanded national health program. A Foreign Ministry spokesman criticized that part of your April 15 UNGA speech which suggested that OPEC countries were to blame for high oil prices (the Iranians blame high prices to the consumer on taxes and oil company profits). However, the Shah took a positive interest in your remarks on fertilizers, since he believes that oil should be used more for petrochemicals and less for fuel. Iran can not expand its oil production much further.

Your Talking Points

-- Our interdependent world economy is delicately balanced, and sudden demands from any source are unsettling. We hope that oil producing states will observe moderation in their pricing policies, and will not push their demands at the expense of others.

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-- We are pleased that Iran has accepted the responsibility of assisting LDC's affected by increased oil prices. However, we continue to believe that the most effective assistance would be a moderation of present prices.

-- Iran's proposal for a new development fund is constructive, and we hope that oil-producing countries will develop a means for recycling oil revenues to LDC's which is systematic and objective. We also hope that the oil producers will increase their support for such established institutions as the IBRD and IMF. Our own ability to contribute to a new fund is restrained by our commitments to existing institutions and by congressional authorizations.

Department of State
April 1974

Tehran, Iran

July 10, 1974

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MEMORANDUM TO: AMBASSADOR CLAUDE G. ROSS

FROM: AMBASSADOR HELMS

SUBJECT: Post Memorandum for Inspectors

Iran-US relations are excellent. We enjoy a preeminent position in Iran and play a significant role in its foreign policy calculations. We have virtually parallel views on all issues of regional or international significance, a single exception concerns the supply and price of oil.

Our purpose is to insure that this position is maintained and enhanced. In pursuing this objective we seek a fair share of Iran's dynamic foreign trade, participation in its ambitious economic development plans, and continued access to sites for irreplaceable intelligence and communications activities. We also seek to ensure that Iran continues to play a responsible and constructive role in regional affairs.

Pursuit of these goals requires substantial staff. Tehran is now the largest diplomatic mission in NEA. In addition to the traditional diplomatic mission structure, we have a major military presence in the form of our MAAG, GENMISH and Technical Assistance Field Teams (TAFT). We also have a Peace Corps (195 volunteers), a large and active Iran-American Society, representatives from the Department of Agriculture, the Drug Enforcement Agency, imminent establishment of a regional Internal Revenue Service Office, and some 20 separate units associated primarily with our military and intelligence activities in Iran.

In organizational terms, we have no important problem. The authority and responsibility of the Ambassador for all official US activity in Iran are understood and

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recognized. Subordinate military units operate under the coordinating authorities of the MAAG Chief who is the senior military representative in Iran. He reports to and takes policy guidance from the Ambassador as do all other agency representatives. Vertical and horizontal communications are maintained by daily meetings of section chiefs with the Ambassador, weekly meetings of the country team, and ad hoc meetings of all other US agencies and representatives in country.

Although there is no major issue of significance other than oil which may be disruptive in our relations with Iran or the continued pursuit of our objectives, there are several questions worth mentioning. They are discussed below.

1. POLICY FORMULATION

As noted, the most potentially disruptive issue in US-Iran relations relates to our differing perceptions and attitudes toward the supply and price of oil. Following OPEC's dramatic decision in December 1973 to quadruple the price of oil overnight, this Embassy has consistently and repeatedly urged that the USG enter into a dialogue with producer countries in which our position is set out rationally, objectively, and in full recognition of their own legitimate concerns and interests. We regret that this exchange has not yet occurred, nor have we been provided with an adequate rationale for pressing the case in discussions with the GOI.

In recognition of Iran's enhanced importance we have launched new initiatives to broaden and deepen our relations, primarily through increased trade, investment, and technological and scientific exchange. It was intended that this occur under the aegis of a newly formed Joint Economic Commission. Results to date have been somewhat uneven because there has not been full follow-through on all of our initial proposals. In raising this matter we simply want to note that it remains one of continuing interest and concern. We are not indifferent to the problems Washington has in coordinating and implementing such a major new effort nor to the progress that has been achieved in certain areas such as nuclear energy.

2. EXECUTIVE/MANAGEMENT

By and large we feel the Mission is well staffed with qualified personnel in place or en route. A continuing problem, however, is the timely assignment of personnel to ensure that there is appropriate overlap between an incumbent and his replacement. This is particularly critical in areas of key substantive and operational responsibility where many invaluable contacts and insights are irretrievably lost in the absence of adequate overlap. We would urge a more rational and orderly program of personnel assignment and transfer.

Another area of management concern relates to our budget and budget-making process. In the recent past we have had sharp and unexpected increases in our cost of operation, in the local cost-of-living, in local wage scales and in the cost of housing. We have also had to shift our personnel virtually overnight to provide for new unforeseen requirements. Our present budget and financial system provides for little or no latitude in solving these problems in a timely, effective or efficient manner. We often find ourselves in something of a "Catch-22" situation in which we are told funds are not available because they have not been budgeted. On the other hand, we are told that requests for additional funds should not be included in our budget because we have not provided supporting documentation. It is frequently impossible to satisfy both requirements simultaneously.

3. POLITICAL FUNCTIONS

The Government here is highly structured and authoritarian. All major decisions are made at the top. The Monarch rules as well as reigns. Political activity in the Western sense is nascent and carefully circumscribed. Thus in this restrictive, and not very well informed society, political contact and the exercise of influence is frequently confined to the most senior levels.

Uninhibited dissidence and criticism is neither tolerated nor encouraged. Foreign contact with dissidents or identification with their point of view is not only discouraged

but if pursued vigorously could probably result in one's being PNG'ed. Accordingly, political reporting officers must exercise great care and prudence in developing contacts and information of interest and value to us. Because relationships in Iran are highly personalized, successful political officers must have especially well developed talents of empathy, personality, and judgment. In the recent past political reporting from this post has suffered not only because of the inherent difficulties of the environment but also from staffing deficiencies. In large measure this latter shortcoming has been rectified, and we now look forward to considerable improvement in the quality and quantity of our political reporting.

4. INVESTMENT MATTERS

There are no problems of significance in this area.

5. TRADE PROMOTION

Tehran is the testing ground for new approaches to trade promotion through the implementation of a Country Commercial Program and the operation of a Trade Center. Both are relatively new and we are still in the process of evaluating their effectiveness in furthering our trade objectives. Given the tremendous increase in Iran's import demand and ability to pay, it is difficult to establish an objective cost-benefit analysis of our trade promotion efforts. In terms of activity, however, there is no question that all employees engaged in this work are fully occupied servicing an ever-rising volume of visitors and inquiries locally and from the United States.

We are not entirely satisfied that our present facilities are either adequate or appropriate in providing all of the services we believe desirable. Specifically, we require additional office space for an enlarged economic/commercial staff and we feel strongly that our Trade Center and commercial office activity ought to be located in one building. This view has been conveyed to Washington but no satisfactory response has been received.

6. ENTRY OF ALIENS TO THE UNITED STATES

Our Consul has prepared a memorandum which discusses in some detail the problems we face in our consular activities. He is prepared to discuss these fully with you. Our comment here will be restricted to noting that one of our problems relates to the ever-rising volume of non-immigrant applicants, the difficulties in establishing the bona fides of these applicants and the physical problems of dealing with such large numbers, particularly in the high student-visa season. We have taken a number of remedial steps but there remain procedural and physical problems requiring Washington's attention and decision.

7. INTERNAL INTELLIGENCE

By and large we are well staffed in this area. Intelligence reporting is reviewed for consistency and quality at Counselor or more senior levels, as appropriate.

One area of continuing concern relates to information about the political orientation and activities of the Iranian military. Although we have massive contact with Iran's armed forces through our MAAG and Technical Assistance Field Teams (TAFT), we have yet to obtain the quantity or quality of information we think desirable. We are attempting to rectify this through a more systematic end-of-tour debriefing program of selected MAAG and TAFT officers.

8. POST ADMINISTRATION

Under this general heading I would like to draw your attention to two questions which are interrelated with the problems of budget and fiscal management noted under another heading. The first concerns staff morale. This is not only a large Mission but it is in a large and somewhat impersonal metropolitan city. For all of its size, however, it is still deficient in certain areas. Housing, transportation, and services are perhaps the most significant. We have attempted to ease these problems within our financial and personnel means. Nevertheless, there are shortfalls. This is particularly true with respect to housing. Cost and availability

Inspection Report

THE CONDUCT OF RELATIONS WITH IRAN

Office of the Inspector General, Foreign Service

OCTOBER 1974

SECRET

Department of State

Office of the Inspector General, Foreign Service

Inspection Report

on

THE CONDUCT OF RELATIONS WITH IRAN

October 1974

INSPECTORS

Claude G. Ross
Howard L. Chernoff
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Classification approved by Claude G. Ross

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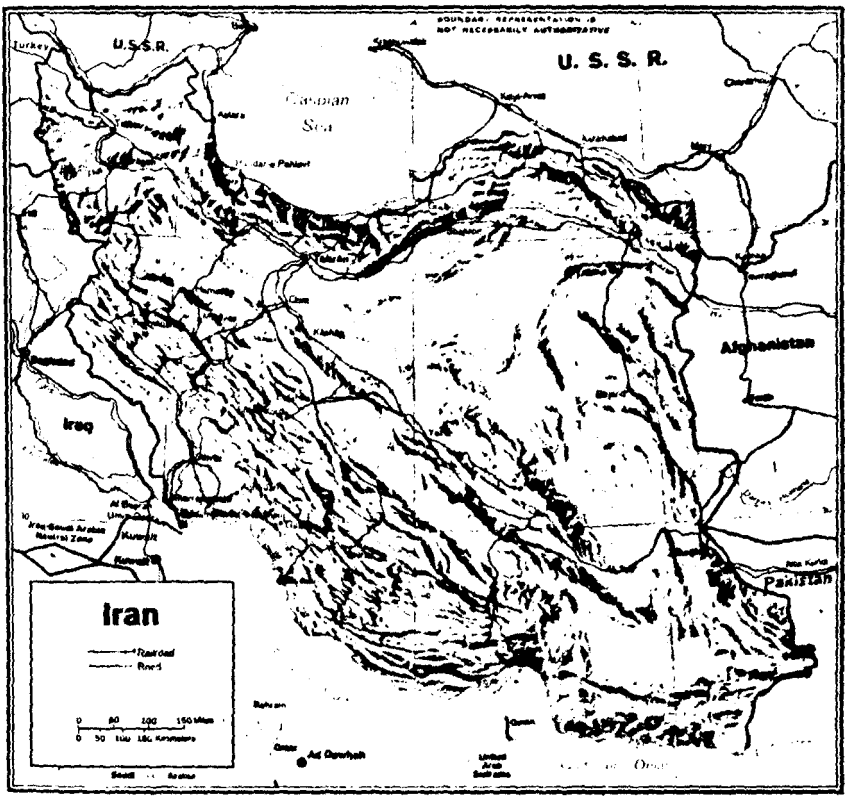
This Inspection Report incorporates the previously separate Reports of Audit. Although a detailed examination of all transactions was not made, audit aspects included appropriate tests to evaluate the effectiveness of internal controls and management operations. The inspection took place in: Washington, 7/1-7/11/1974 and 8/20-0/13/1974; and Iran, 7/12-8/16/1974.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Turkey
U. S. S. R.
Caspian Sea
Afghanistan
Iraq
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Railroad
Roads
Ad Dawhah

THE CONDUCT OF RELATIONS WITH IRAN

OVERVIEW

Geography and oil make Iran important to US interests. Under the Shah, who sees the US playing a vital role in his efforts to modernize his country and make it militarily and industrially strong and self-reliant, Iran offers a favorable environment for the pursuit of US policy objectives. It has become an increasingly stable, dynamic state whose growing economic strength and rising oil income have enabled what was once a tutelary relationship with the US to evolve toward equality. Though this has brought an independence of view that could make for differences, US and Iranian geopolitical interests and positions on most significant regional and international issues are generally parallel. The US enjoys a preeminent position in Iran, and there is close and mutually beneficial cooperation over a broad spectrum of political, economic, military and cultural matters.

With the notable exception of our divergent views on oil prices and supply there are no major differences in US-Iranian relations. There are, however, problems and concerns which the makers and managers of US policy toward Iran have to confront. One is the degree to which the US relationship with Iran is dependent on one man and the uncertainty about what consequences the Shah's demise or removal would have for Iran's stability, external conduct and attitude toward the U.S. Another is the possible effects of the impingement of certain aspects of our relations with Iran on US policies in other areas, especially the Persian Gulf. The military buildup of Iran, for which US arms sales and technical advisors are largely responsible, is resulting in an imbalance between Iran and its Persian Gulf neighbors. This development could adversely affect the future of the Saudi-Iranian cooperation that we seek to promote as essential to Persian Gulf security. It might also encourage heavier Iraqi dependence on the Soviet Union for arms support, increasing the likelihood of an arms race in the area. In any case Iraq's perception of US-military support arrangements with Iran is complicating our efforts to improve our own relations with Bagdad. A third focus of concern lies in the very scope and complexity of our relationship with Iran and the resultant problem of how to ensure that we are aware of all that is happening and that we understand its implications for U.S. interests.

In the light of these problems and concerns two things appear to be desirable. One is a study of our long-range policy toward Iran, including an appraisal of the ultimate effects of our present policy, to provide the perspective and conceptual framework for decision-making. The other is a dependable high-level mechanism to oversee and orchestrate the component elements of our close and extraordinarily multifaceted involvement with Iran.

The Country Directorate and the US Embassy are working together effectively in the conduct of our overall relations with Iran. They are staffed with capable people and the quality of the leadership is high. Resources in the field are generally well utilized by senior management. A difficult operational problem in Iran -- how to ascertain what is going on below the surface of its closed society and among sensitive groups like the military and the opponents of the regime -- is receiving special attention from the Ambassador and senior managers throughout the Mission.

Reducing the cultural and inter-community frictions likely to result from the influx into Iran during the next few years of thousands of American employees of private U.S. contractors will require improved orientation programs for these employees and their families, preferably before they leave the United States. The Country Directorate should step up its efforts to keep the attention of the U.S. contractors involved focused on this potentially serious problem as well as to explore ways in which the Department's resources might be used to assist in the orientation process.

An increase in U.S. Government resources in Iran and shifting some of those already there are necessary to provide adequate support for our policy objectives. This includes the construction of additional Chancery office space and a new Trade Center pavilion on the Embassy compound, relocating the Khorramshahr Consulate, [illegible] reopening a Consulate in Isfahan, [illegible] total of four new officer positions for the Embassy and its constituent posts. In addition, the time is opportune for careful studies of some of our programs in Iran, i.e., USIS and the Peace Corps, to determine how they might be made more responsive to U.S. interests at less cost to U.S. taxpayers.

As a result of the findings and conclusions discussed above, the Inspectors have proposed a number of recommendations to the Department and to our posts in Iran in the report which follows. Six of these merit attention here as being of major importance:

A. That NEA instruct its Interdepartmental Group to undertake a long-range policy study with respect to our relations with Iran.

B. That NEA explore the question of ensuring adequate high level monitoring and coordination of U.S. involvement in Iran. As one possibility it might wish to consider the feasibility of the Assistant Secretary's convening the NEA Interdepartmental Group to handle the task.

[illegible] Embassy Tehran convoke a proposed "[illegible]" [illegible] to examine the problem of what [illegible] effective contact with Iran in your [illegible] on the future [illegible] of the [illegible] Committee.

D. That the Iran Country Directorate study the question of ensuring that American employees of private contractors in Iran and their families receive adequate and timely orientation on the problems of living in Iran. The Country Directorate should seek to devise arrangements for alerting company executives to the desirability of such an orientation program and for providing to the extent possible appropriate Departmental advice and assistance. One avenue to explore might be the possibility of using FSI resources, perhaps on a reimbursable basis.

E. That NEA urge USIA to undertake a reappraisal of the USIS program in Iran with a view to determining whether its resources are being utilized to the best effect and, if not, what changes could usefully be made.

F. That NEA urge the Peace Corps to undertake (a) a review and reappraisal of its programs in Iran with a view to determining what changes may be desirable to make the programs more responsive to Iranian needs and more effective in meeting Peace Corps objectives and (b) a review of the level of support given by the GOI to the Peace Corps programs to ascertain whether, in the light of the GOI's vastly increased financial resources and its support arrangements for UN volunteers, an approach should be made to the GOI on the question of substantially increasing its contribution to the programs.

In addition, the following recommendations carry resource implications:

G. That A/BF support FBO's FY 1976 budget request for funds for the construction in Tehran of two annexes to the Embassy Chancery.

H. That FBO step up its exploration with the Department of Commerce and the Congress of a funding formula which would permit construction of a Commercial Trade Center Pavilion on the Embassy compound in FY 1976.

I. That M/FRM, PER, and NEA approve the Embassy Tehran request for a Market Research Officer position and a DOD-funded Personnel Officer position.

J. That M/FRM, PER, and NEA provide, in addition, two officer positions, one for Isfahan and one for Shiraz, as soon as possible after the opening of those posts.

SECRET

I Policy and Resources

Guides to Existing Policy Toward Iran

There is no approved document that provides a definitive statement of U.S. policy toward Iran. In March, 1973, the Country Directorate drafted a PARA Review, classified Secret, which contained a proposed comprehensive statement of US interests, objectives, policy issues and alternatives, and recommended policies. This PARA was informally endorsed at the Bureau level but was never put through the approval process and hence has received no official sanction.

On the specific issue of arms policy the Country Directorate made available to the inspection team two NSC memoranda entitled "Follow-up on the President's Talks with the Shah of Iran" and dated June 15, 1972, and July 25, 1972, respectively. Addressed to the Secretaries of State and Defense, they approved selling of arms and equipment to Iran and the provision of related military technical assistance.

US Interests.

Iran's strategic location, relative strength among Persian Gulf states, natural resources and burgeoning domestic market make it an area of vital importance to the United States now and for the foreseeable future. We need a stable, secure, independent and friendly Iran that is both able and willing to play a responsible and constructive role in the region, particularly in the Persian Gulf. We need continuing access to the Turkish-Iranian air corridor between Europe and the Orient for our military and commercial aircraft and access to Iranian ports for our naval and merchant ships. We need continued use of Iranian territory for special military and intelligence facilities which, because of geographic considerations, to say nothing of political [illegible], could not be relocated elsewhere to equal [illegible] effect.

US economic interests are major. Fueled by dramatically increased oil [illegible], the market in Iran for US goods and services is rapidly [illegible]ding. In the last two years more than $7 [illegible] in [illegible]ts have been signed. Similarly, [illegible] US private investment which is [illegible] at $[illegible] million and which has prospects of [illegible]sing rapidly [illegible] several billion dollars. Iran is a principal source of oil and natural gas for the European OECD countries and Japan and an increasingly important one for us. We have a strong interest in reliable access to Iranian oil and minerals at fair prices for our friends and ourselves.

US interests in Iran have expanded and prospered in recent years in part because of the Shah's perception of the

usefulness of the United States to his country. In the event of the Shah's death or removal, a successor regime may not necessarily see things in the same way. Moreover, the closeness of US-Iranian relations could become an exploitable issue for radical, anti-regime elements. The US has, therefore, a fundamental interest in long-run political stability in Iran under governments reasonably friendly to the United States and not likely to act against us. For the same reasons the US also has an interest in the cultivation and perpetuation of a friendly attitude toward the US among the Iranian people.

US Objectives

The US objectives that flow from these interests might be formulated as follows:

Contribute to and strengthen Iran's ability and willingness to play a responsible stabilizing role in international affairs, particularly in the Persian Gulf.

Ensure close and cooperative bilateral relations with continuing friendly access to decision makers who can affect US interests.

Retain unimpeded access to the Turkish-Iranian air corridor and to Iranian ports.

Ensure maintenance and unimpeded use of our special military and intelligence facilities on Iranian territory.

Ensure access to the Iranian market for US goods and services and maintenance of a hospitable climate for US private investments.

Ensure reliable access to Iranian oil and minerals at tolerable prices for ourselves and other OECD members.

Encourage Iran to recycle its expanded oil revenues in such a way as to minimize the disrupting effect of higher oil prices on the balance of payments of consumer countries including the US.

Contribute to long run domestic political stability in Iran and to the growth of a favorable attitude toward the US among the Iranian people.

The environment in Iran is in the main a favorable one for the pursuit of these policy objectives; the Shah has strong views regarding what he wants Iran to achieve during his lifetime, and to a certain point, at least, these objectives are complementary to ours. Whether or not Iran reaches the

"world power" status that figures in some of the Shah's more grandiose aspirations, his essential goal is a stable, modernized society, industrially and militarily strong. Most importantly, it is clear that the Shah looks to the US to play a key role in helping Iran move toward this goal, particularly in the military field.

Because of the above, we have been largely successful in satisfying most of our policy objectives. Iran has become an increasingly strong, self-reliant dynamic state that is friendly to the United States and in most respects helpful to our interests. With its new strength has come an independent point of view that may give rise to some differences, but our geopolitical interests are generally parallel as are our views on most issues of regional or international significance. US-Iran bilateral relations are excellent, and we enjoy a preeminent position in Iran. The relationship is not, however, without policy problems and concerns.

Policy Problems and Concerns

The only significant difference on policy matters between the United States and Iran arises from our respective views toward oil prices and supply. The Shah and his Government, though moderate by OPEC standards in the discussions preceding the December 1976 price increase and aware of US concern, remain committed to existing price levels. Our differences over oil have not yet had much impact on other sectors of our bilateral relations. However delay in resolving the issue increases the concern within the Executive Branch and the US Congress, some of whose members have begun to voice dissatisfaction over the lack of progress in persuading oil producing nations including Iran to lower prices. Moreover Iranian criticism of Saudi Arabia's position on this issue complicates our efforts to encourage Saudi Arabia to follow constructive oil policies.

A basic long-range problem affecting our Iranian policy is the dependency, already alluded to, of our close relationship with Iran on the attitudes and perceptions of one man--the Shah. The realities of the Iranian political system are such that in the final analysis the only views that count are those of the Shah, who makes all the important decisions, and our policy is necessarily geared to this phenomenon. In a closed society like Iran, little is known of what the populace is thinking, and there is no way of predicting what consequences the Shah's death or removal would have for Iran's stability, external behavior or attitude toward the U.S. Fortunately, our close relationship with Iran has existed for more than two decades, and a generation or more of Iranians have grown up accustomed to dealing with us and to depending on us. There is reason to hope that some of our relationship has become institutionalized to the point where it transcends

the Shah. Nevertheless it must be expected that in post-Shah Iran our relationship will [illegible]. The question is how much and in what respects. The makers and managers of US policy toward Iran are confronted with an element of fragility and uncertainty that must be taken into account in their calculations.

Certain aspects of our relations with Iran impinge on US policies toward other areas, raising concerns about their possible long range effects. For example, US military sales and technical advisors have been largely responsible for Iran's becoming the dominant power in the Persian Gulf. Given Iran's general political orientation and our close association, this is in most respects a positive development from the standpoint of US interests. However, Iran's arms buildup is producing a military imbalance between Iran and other Persian Gulf states, notably Iraq and Saudi Arabia. In the case of Saudi Arabia there is increasingly the risk of a reaction that could jeopardize our good relations with that country as well as make impossible the Iranian-Saudi cooperation that we seek to encourage as the basis for preserving security and stability in the Gulf. In the case of Iraq, the long history of tension and mutual interference between Baghdad and Tehran might prompt the former to lean more heavily on the USSR for countervailing support, thus setting the stage for an arms race in the area. Certainly our efforts to improve our own relations with Iraq are being complicated by our military supply arrangements with Iran which Iraq inevitably looks at in the context of its recent border incidents and Iran's assistance to the Kurdish rebels.

The dimensions and complexity of our relationship with Iran, which is developing at an accelerated pace, create a special concern for US policy makers and managers: how to stay on top of the situation so that our responses to problems that emerge or new proposals that are made, especially requests from the Shah, can be determined in the knowledge of all their likely consequences, including the effects on Iran's internal progress and stability, the demands on US material and human resources, and the effects on US policy objectives in other areas. In the military field alone we are involved with Iran to an extraordinary degree. Since the 1972 Presidential directive on arms policy which left it primarily to the Government of Iran to decide what military equipment it would purchase, the Shah has turned to us for a wide array of weapons, equipment and related technical expertise. His interest encompasses not only major weapons systems but also sophisticated intelligence, radar, and command and control systems. The Shah is also interested in having Iran manufacture selected US military items, including certain missiles, and develop greater repair facilities for its existing defense inventory. Some of the Shah's requests may be overly ambitious at this stage of Iran's development and inadvisable or difficult for us to accede to. They will require careful handling to avoid their becoming irritants in our relations.

Since the beginning of 1972 we have sold Iran over $2 billion in weapons and equipment with deliveries extending into 1978. We are supplying on a reimbursable basis DOD technical assistance teams (TAFT), distinct from our advisory mission (ARMISH/MAAG), to provide the technical expertise to ease the integration of this new material into the Iranian armed forces. Large numbers of American civilian defense contractor personnel will also assist in the phasing-in of the new equipment and facilities. There are already about 1500 such civilian employees working in Iran, and the number is expected to climb to as high as 12,000 (plus perhaps as many as 30,000 dependents) by 1978, raising the prospect of a multitude of problems in cultural adjustment and inter-community relations.

In addition to these military ties we have an intimate association with Iran in various intelligence and security arrangements. Private American companies are establishing joint ventures with Iranian companies in numerous commercial and industrial enterprises. Recently we agreed to provide enriched uranium for two nuclear power reactors to help the Shah get a nuclear power industry underway. Other transfers of American technological and industrial skills to Iran are likely to follow before long.

The problems and concerns inherent in our policy toward Iran point up the need for a dependable mechanism to monitor and coordinate the component elements of our extraordinarily multifaceted and close relationship with Iran. Their ramifications and their implications for US interests both in Iran and elsewhere must be understood if we are to be in a position to make sound policy and operational decisions. In addition there is a need for a study of US long-term policies towards Iran to provide the necessary perspective for making policy decisions. Two of the principal recommendations set forth in Section II, Management are related to these concerns.

Resources

Resources devoted to support of US policy objectives in Iran as listed in the Resource Table attached as appendix I are not entirely adequate. Some of the levels require upward adjustment if they are to be fully responsive to policy needs.

There is an urgent requirement for the addition of two wings to the existing Chancellery building. These will provide badly needed space for the Consular Section, which has outgrown its present quarters, and for the overcrowded Economic Section and the Defense Attaches among others. In addition, funding is required for the construction of a Commercial pavilion within the Embassy compound to bring

together in one location the commercial office activities and the Trade Center. (See Inspectors' memoranda on Economic/Commercial Affairs and on Buildings and Grounds.)

The growing US involvement with Iran over a broad spectrum of activities is resulting in a large influx of Americans in a number of provincial localities where the Shah is expanding defense facilities and emphasizing industrial development. To give proper service and protection to these scattered American communities and to meet growing commercial and reporting responsibilities in these areas the decision has been taken to reopen a Consulate at Isfahan and to move the existing Consulate at Khorramshahr to Shiraz. Because of budgetary limitations, present plans call for initial staffing of the two posts to be accomplished by transferring one Khorramshahr officer position to Isfahan and two to Shiraz. While this arrangement will serve to get the new posts in operation, it w . not be adequate to handle the foreseeable workloads for Isfahan and Shiraz. Provision should be made to provide two additional officers, one for each post, as quickly as possible. (See Inspector's Memorandum on Personnel).

An important US objective in Iran is to enlarge the US share of the Iranian market. The Embassy's ability to pursue this objective would be significantly strengthened by the assignment of a Market Research Officer to the Economic/Commercial Section. (See Inspector's Memoranda on Economic/Commercial Affairs and on Personnel.)

The Consulate at Tabriz, the value of which was covered in the last Inspection Report in 1972, represents a resource which makes an essential contribution and the continuation of which is fully justified. Moreover it should be carefully staffed with a view to ensuring that its potential is fully realized. (See Inspector's Memorandum on Continuation of Consulate at Tabriz.)

Review of other US activities in Iran reveals a question as to whether existing USIS and Peace Corps programs in Iran are making the best use of the resources at their disposal. This is the subject of recommendations set forth in Section II on Management.

II. Management
(Recommendations I - 6)

Policy Formulation

The multiplication of US-Iranian ties in the military, intelligence, commercial and cultural fields over the past several years has been accompanied by an almost continuous process of policy examination. The Embassy and the Country Directorate under the leadership of the Assistant Secretary for NEA participate actively in this process. They are sensitive to our policy needs in Iran and appreciate the importance of maintaining a close adjustment of resources to policy. In addition to the Embassy and the Country Directorate, S/P, PM, EB and SCI in the Department of State and several offices in the Department of Defense contribute to the process of policy formulation.

Though the basic decision establishing our arms policy was taken by the President following his meeting with the Shah in 1972, the Country Directorate assisted in elaborating operational policies for application of the directive to Iran. Coordination with PM and Defense is close.

The Ambassador personally makes a significant input in the continuous process of policy formulation through his conduct of relations with the Shah and the Government of Iran and through his analysis and recommendations to Washington in telegrams and during consultative visits.

The Country Directorate plays an important role in coordinating the various inputs in the policy formulation process. The new Director gives evidence of the same sensitivity to policy issues and the need for timely decisions on policy questions as his predecessor. Illustrative of the Country Directorate's initiative in this regard was the preparation of a revised contingency plan covering the question of the Shah's demise or removal and the kind of policy choices that might face the US in such an eventuality. The draft is currently under study by the Embassy for its comment and contributions. Another example of close Embassy-Country Directorate cooperation on policy formulation is the series of exchanges between them on proposals for developing the Joint Commission on Cooperation with Iran.

Some of the most important decisions affecting our relations with Iran have been made at the level of the President, National Security Advisor and Secretary. The Bureau and Country Directorate are active in the initial stages of this process, but tend to receive little information concerning the decisions once made. Apart from this, communication and coordination among the participants in the formulation of policy have been good, enabling the conduct of our relations with Iran to proceed in a manner that appears to respond well to our shorter term requirements. However, some of the Washington participants in this process are uneasy, given the

magnitude of our steadily growing involvement with Iran in the military and intelligence field, over the longer term effects of our efforts. They feel the lack of a long-range policy which would provide a framework within which to examine and evaluate the policy implications of the decisions they are called upon to make.

Recommendation to Department

1. That NEA instruct its Interdepartmental Group to undertake a long-range policy study with respect to our relations with Iran.

Policy Execution

Policy is executed skillfully and effectively. There is excellent coordination between the Country Directorate and the Embassy in the overall conduct of relations with Iran. The Embassy and the Country Directorate are staffed by competent people and have able leadership.

Coordination with State by other departments and agencies engaged in policy execution in Washington is in general good but there is room for improvement. Treasury has a tendency to act unilaterally and without consultation, particularly on international petroleum matters. Our military sales program in Iran requires close liaison between State and DOD, but sometimes consultation is less than satisfactory with DOD communications going out to ARMISH/MAAG without appropriate State clearance.

The Ambassador is able to see the Shah promptly whenever he requests an audience; in addition he is occasionally summoned by the Palace to meet with the Shah. The Ambassador also has easy access to the influential Minister of the Court, the Prime Minister and other key civil and military officials. He has a broad acquaintance among other senior Government officials, parliamentarians, business leaders, educators and other members of the intelligentsia. The Deputy Chief of Mission has entree as needed to ministerial and subcabinet level officials as well as senior military officers, and the Political and Economic Counselors are well plugged in at appropriate levels in Government and in the private sector. Mission contacts on the whole are very good and cover a broad range of the Iranian scene.

In present day Iran the Government is still highly authoritarian with all major decisions being made at the top. Important substantive questions and bilateral matters are dealt with at the level of the Ambassador and the Shah or Court Minister, tending to bypass the Foreign Ministry. Inevitably with contacts and negotiations being carried out at that level many of the pertinent communications are highly classified and receive very limited distribution. The Ambassador makes a point, however, of assuring that all of his collaborators in the Mission who have a need to know are kept informed.

The Chief of ARMISH/MAAG, as the senior US military officer in Iran, exercises informal but effective control over all the more than twenty US military units operating in Iran with the exception of the DAO. He acts as the Ambassador's point of contact with US military activities in the country; on the one hand he is the channel for keeping the Ambassador informed and on the other hand for conveying the Ambassador's directives to the US military. Coordination is close and prompt, with the Embassy's Political/Military Affairs officer playing a key role in the process. The Chief of ARMISH/MAAG not only sees the senior Iranian military officers on a regular basis, but he also meets with the Shah at frequent intervals. Those meetings are invariably reviewed with the Ambassador before and after they occur.

The only other US official who meets with the Shah on occasion is the head of SRF. The Ambassador is kept fully informed of these meetings also, both before and after the fact. As in the foregoing case, the matters to be raised are carefully screened with the Ambassador. The SRF Chief also has certain coordinating and supervisory functions with respect to the operations of the U.S. intelligence facilities in Iran except for several where such functions are handled by the DATT. The Ambassador is kept fully in the picture concerning these intelligence operations as well.

Policy execution and the conduct of relations with Iran generally would be facilitated by the creation of some kind of high level mechanism to monitor and coordinate the whole range of US involvement in Iran in the political, economic, military, intelligence and technological fields with a view toward providing policy makers and managers the clearest possible picture of the ramifications of our various relationships and their implications for US policy in Iran and elsewhere.

Recommendation to Department

2. That NEA explore the question of ensuring adequate high level monitoring and coordination of US involvement in Iran. As one possibility it might wish to consider the feasibility of the Assistant Secretary's convening the NEA Interdepartmental Group to handle the task.

The Use of Resources to Accomplish Objectives

The Ambassador and the Deputy Chief of Mission provide vigorous and effective overall direction to the management of the Mission's resources. They also encourage a close and cooperative working relationship between the Embassy and the Consulates in Tabriz and Khorramshahr. The latter receive good support and guidance from the Embassy, and Embassy officers recognize that frequent visits to the constituent posts are desirable.

Political reporting is generally of high quality and timely. There are, however, gaps in the Embassy's coverage of certain key elements that are particularly difficult

of access in Iran such as the military, religious leaders and political opponents of the regime. As noted below, senior management is assisting the Political Section in seeking ways to resolve the problem. There is also a recognized need for more analytical reporting, and in recent months the Political Section has undertaken the preparation of a series of reports designed to remedy that situation. Both the political and Economic/Commercial Sections suffer from the very high incidence of official and private visitors who take up the time of their staffs.

The Economic/Commercial Section performs with a very high degree of effectiveness in meeting the dramatically increased demands for economic reporting, commercial services and business counseling of visitors as well as in handling policy questions involving petroleum and related matters. The Section--and indeed the Mission as a whole--is well alerted to the importance of opportunities for US exports, turnkey projects and technical assistance.

Consular activities are capably managed. The Consular Section is looking for ways to make the present visa operations less labor-intensive. Also the workload on its hard-pressed staff could be eased by moving the obtention of Iranian exit visas to the Administrative Section. General Services work has been marred by relaxed supervision and by insufficient controls over the activities of both local and American subordinate personnel. Budget and Fiscal activities are effectively planned and executed, although a long-standing, American complement position vacancy has left the B&F Section short-handed. Personnel management is competent, and the personnel unit is aware of the need for improved welcoming activities and house-hunting assistance in order to bring newcomers rapidly into productive activity. Shared administrative support services are fairly apportioned and widely appreciated. Security operations, including the activities of the Marine Security Guard, are in good order. The Communications and Records Section is effectively accomplishing its mission. Suffering extremely cramped quarters, the post is generally making the best use possible of the space available while waiting for urgently needed new office construction. Some measures which might improve this space utilization are recommended in the Memorandum on Consular Operations. A capable Iranian staff gives good support to the post's management.

Senior management at the post is seeking ways of applying resources to the best advantage in several problem areas in the political and intelligence fields. Iranian society is essentially closed, and it resists penetration beyond a certain point by outsiders. The Ambassador and his principal advisors are keenly aware of gaps in the political information collection effort and of how comparatively little is known about what goes on below the surface. Foreign contact with dissidents is not only discouraged but can, if pursued, bring adverse reaction from SAVAK, the omnipresent Iranian Security Service.

One focus of continuing concern relates to information about the political orientation and activities of the Iranian military, a very sensitive area. Although there is extensive contact with the Iranian armed forces through our ARMISH/MAAG and Technical Assistance Field Teams (TAFT), information of the quality and quantity desired has yet to be obtained. This is obviously a matter that has to be handled with the utmost circumspection and discretion. At the direction of the Ambassador and, with the cooperation of the Chief of ARMISH/MAAG, a more systematic end-of-tour briefing program of selected MAAG and TAFT officers has been initiated. It is too soon to know how effective this will prove, but meanwhile the Embassy is actively searching for other approaches to the problem.

Another important area that deserves scrutiny for ways to apply post resources more effectively is that of youth. What public dissidence there is comes from youth, and the post has recognized that its contacts with youth leave something to be desired. The Embassy's Youth Committee proposed early this year the institution of a "youth think tank" composed of junior officers to brainstorm the problem of what should be done to get closer to Iranian youth. More pressing matters prevented the group from meeting in March, and it has not yet assembled. There would appear to be considerable merit in this idea which should not be allowed to drop without a trial.

The prospect of thousands of American employees of private contractors and their families arriving in Iran over the next few years has prompted the Country Directorate and the Embassy to give thought to ways of softening the impact and lessening the inter-community frictions that are likely to result and that, if ignored, could generate anti-American sentiment. Many of the newcomers will never have been abroad before and will face difficult problems of adjustment and cross cultural communication. Opening of Consulates in Isfahan and Shiraz is intended to help ease this situation, but the problem is one that the companies themselves should be addressing in the U.S. before their employees are sent to Iran. A few companies are consulting the Country Directorate or the Embassy about employee orientation and are receiving advice and assistance. However, the matter is potentially serious enough to warrant a more comprehensive and systematic approach.

In the programs of two US Government agencies there may be room for improvement in the way resources are being used. Some USIS activities may not be in phase with the changing realities in Iran and the opportunities they present. At a time when the Shah is emphasizing decentralization and provincial development, USIS is continuing to devote its attention and resources almost exclusively to the capital. There is reason to believe some of its activities in Iran have reached the point of diminishing returns as regards their relevance and usefulness. On the other hand new possibilities for effective action, such

as the establishment of a Bi-National Center in Tabriz, appear to be arising elsewhere. A careful reappraisal of the USIS program in Iran would seem to be desirable.

The Peace Corps program in Iran could also benefit from a similar review. Some of its activities seem to be marginal and some of its volunteers underemployed. A study of the adequacy of local support arrangements in the light of the GOI's vastly increased financial resources would also appear to be indicated.

Recommendation to Post

3. That the post convoke the proposed "think tank" of junior officers to examine the problem of what could be done to establish more effective contact with Iranian youth and to make recommendations on the future course of the Embassy Youth Committee.

Recommendations to Department

4. That the Country Directorate study the question of ensuring that American employees of private contractors in Iran and their families receive adequate and timely orientation on the problems of living in Iran. The Country Directorate should seek to devise arrangements for alerting company executives to the desirability of such an orientation program and for providing to the extent possible appropriate Departmental advice and assistance. One avenue to explore might be the possibility of using FSI resources, perhaps on a reimbursable basis.

5. That NEA urge USIA to undertake a reappraisal of the USIS program in Iran with a view to determining whether its resources are being utilized to the best effect and, if not, what changes could usefully be made.

6. That NEA urge the Peace Corps to undertake (a) a review and reappraisal of its programs in Iran with a view to determining what changes may be desirable to make the programs more responsive to Iranian needs and more effective in meeting Peace Corps objectives and (b) a review of the level of support given by the GOI to the Peace Corps programs to ascertain whether, in the light of the GOI's vastly increased financial resources and its support arrangements for UN volunteers, an approach should be made to the GOI on the question of substantially increasing its contribution to the programs.

APPENDIX I
RESOURCES TABLE

August 6, 1974

U.S. Government Resources, Iran

	Current Authorized Complement		Appropriated Funds (Current Thousands)			
	American	Local	Actual FY-73	Actual FY-74	Estimate FY-75*	Estimate FY-76*
STATE						
Program	81	22	1,269	1,656	1,692	1,990
Shared	30	134	1,732	2,149	2,636	3,276
Representation	-	-	22	25	28	32
FBO (excludes construction of Embassy additions)	-	-	129	182	180	218 (2)
FSI	-	-	9	11	13	16
Total State	69	156	3,161	3,823	4,559	5,532
MARINE GUARDS	14	-	90	95	100	101
USIS						
General Operations	14	88	1,222	1,279	1,440	1,673 (1)
Personal Contributions	1	-	1	2	1	1 (1)
IBS	2	1	5	6	7	2 (1)
Total USIS	16	89	1,228	1,287	1,448	1,676 (1)
COMMERCE	1	4	122	105		
PEACE CORPS						
Staff	4	10	942	961	1,216	1,100 (1)
PCV's	83	-	-	-	-	-
PCT's	87	-	-	-	-	-
TOTAL PEACE CORPS	174	10	942	961	1,216	1,100 (1)
AGRICULTURE						
Attache	1	2	47	52	116 (4)	135
ERS (Reimb. by GOI)	7	-	198	237	186 (3)	197
Total Agriculture	8	2	245	289	302	332

RESOURCES TABLE

U.S. Government Resources, Iran

	Current Authorized Complement American	Current Authorized Complement Local	Appropriated Funds (Nearest Thousand) Actual FY-73	Appropriated Funds (Nearest Thousand) Actual FY-74	Estimate FY-75*	Estimate FY-76*
FAA	3	-	92	83	97	107
EFA	3	-	72	79	84	91
AID	-	1	6	14	17	21
DEPARTMENT OF DEFENSE						
DIA	7	5	170	101	105 (4)	210
Army/MAAG	212	38	7,200	8,106	6,200	-0- (3)(1)
Stratcom	87	2	1,382	1,400	1,118	1,[illegible]
Navy	16	11	656	700	717	7[illegible]
DARPA	3	-	97	100	54	-
Total DOD	325	56	9,505	10,[illegible]	8,[illegible]	2,[illegible]
TOTAL US GOVERNMENT RESOURCES	611	311	15,463	17,416	16,477	11,520

* a) American salary components included in these figures are projected for FY-75 and FY-76 at 5.5% over the total cost of the preceding year, unless otherwise footnoted.

b) Costs of operating, excluding American salaries, are projected for FY-75 and FY-76 at the same rate of increase as was experienced between FY-73 and FY-74, unless otherwise footnoted.

(1) Best Estimate as submitted by the listed organization.

(2) Includes FBO special Minor Improvement Project funds total $1,000 in FY-73 and $62,000 in FY-74. $30,000 was included in both FY-75 and FY-76 for such projects. F.O Repair and Replacement and Maintenance and Repair funds for FY-75 and FY-76

RESOURCES TABLE

U.S. Government Resources, Iran

(3) Team reduced by two members in July 1974 - Five members left - American Salaries adjusted accordingly.

(4) Includes FY-75 Budget as submitted. FY-76 is projected at the same rate as the FY-74/75 increases.

(5) Total GOI reimbursement for this activity being negotiated by Dept. of State. Estimated FY-76 cost could be anything between 0 and $10M. Assume negotiations will be successful.

(6) DAPA's complete phase-out appears likely during FY-75.

APPENDIX II

Resource Implications of Inspectors' Recommendations

POST	DELETE	ADD	RELOCATE [illegible]
Tehran		- Construct two annexes to chancery in FY 1976.	- Reprogram [illegible] Position No. 5[illegible] Consular Section to Admin Section
		- Construct new Commercial Trade Pavilion in FY 1976	
		- Construct replacement buildings for staff apartments and Marine House in FY 1978	
		- 1 FSD/R Market Research officer	
		- 1 DOD-Funded FSD/R Assistant Personnel Officer	
Khorramshahr		- Open New Consulate in Isfahan	- Relocate Consulate in Shiraz
		- 1 FSO Position for Isfahan	- Transfer two Officer Positions to Shiraz
		- 1 FSO Position for Shiraz	- Transfer one officer position to Isfahan
Tabriz	- Sell "Point-Four" Compound	- Construct Residence quarters for Vice Consul in South Wing of Consulate building.	

SOUTH AND SOUTHWEST ASIA: NEW POLICY PERSPECTIVES

Summary

The context for U.S. policy in South Asia and the Persian Gulf has changed in important ways since 1971, when events altered local and world power balances. India and Iran have emerged as the predominant political/military actors within their respective sub-regions; the oil-producing states of the Persian Gulf have acquired economic and financial power disproportionate to their size and state of development; the U.S. need for Persian Gulf oil has grown; Gulf politics has become linked to the Arab-Israeli situation; South Asia and the Persian Gulf are interacting more intensely than at any time since decolonization; and there are faint signs of regionalism. The great power context has changed since the U.S. rapprochement with China and the British withdrawal from the Gulf. U.S. relations with India deteriorated, but our military relationship with the Gulf states has intensified; the USSR has treaty relations with India and Iraq, and the superpowers are increasing their military involvement in the Indian Ocean. Since the 1973 Arab-Israeli war, new alignments within the Arab world and U.S. disengagement diplomacy have weakened the Soviet position in the Middle East. A limited community of interests has developed among China, Iran, and the U.S. in this region.

Trends in the area suggest that these new geopolitical patterns will continue for some years into the future, with potential friction between Iran and Arab states in the Gulf and between India and Iran, in addition to the longer-standing frictions within South Asia and the Arabian Peninsula, and between Iran and Iraq. Political instability in both subregions could attract intervention by the larger regional states and by great powers. Iran, India, and possibly Pakistan may achieve a modest but

important arms production capability, and arms transfers within the area may become more significant. The future policy environment will bear some resemblance to a two-pillar system, with each pillar in geopolitical alignment with a different superpower. However, there are complicating factors: the economic power of Arab oil producers, our need for Saudi Arabian oil, and the effect of our involvement in the Arab-Israeli dispute. Except for oil prices and production levels, trends in the area seem to be more favorable to our geopolitical interests than Soviet interests.

Our basic interests in the area are stability, limiting Soviet influence while avoiding a confrontation with the USSR, and access to Persian Gulf oil and gas. In addition, we want access to air and sea routes and ports, and to investment and trade opportunities, and we want to encourage the oil producers to use their excess revenues responsibly. In South Asia, we desire that no outside power have disproportionate influence. We accept Indian primacy and are prepared to live with the present degree of Soviet influence in India, and we maintain a ban on the transfer of lethal defense equipment to India and Pakistan. In the Persian Gulf, we want to check Soviet and radical Arab influence while protecting our access to the region and its oil. We encourage regional cooperation for security, led by Iran and Saudi Arabia, and sell large amounts of defense equipment and services to friendly states. In the Indian Ocean, we maintain a small naval force at Bahrain and make periodic visits with forces from our Pacific Fleet, and we are expanding the facility at Diego Garcia to support more sustained operations. Toward South and Southwest Asia as a whole, our policy is one of avoiding direct military involvement, though we have security treaties with Pakistan and Iran which could be activated by a Soviet threat.

The most serious threat to our interests is political instability, which could lead to local conflict, the fall of friendly regimes, and great power confrontation. Related to this is the threat to traditional regimes from Iraq and South Yemen. The escalation of local conflict is a danger even where governments are stable. Our interests could

also be threatened by a failure to resolve the Arab-Israeli conflict, by resource diplomacy, and by the hostile use of new financial power. The Soviet threat to our interests is indirect, except in local situations which might invite Soviet intervention in support of friendly political forces.

After considering alternate strategies, we conclude that we need seek no involvement with South Asia beyond economic and technical assistance to contribute to internal stability and promote commercial access. We should avoid doing anything that would place us in confrontation with India, such as the resumption of lethal weapons transfers to Pakistan. Pakistan can not match India even with our help, and our support for Pakistan would simply drive India closer to the USSR and give it additional motivation to develop an effective nuclear weapons capability. For similar reasons, we should look benignly on any improvement in India-China relations. China's greater stake in Pakistan will make it the primary non-regional geopolitical actor there; our interests do not require a matching level of political-military activity in Pakistan. In the Persian Gulf, our support for Iran as the dominant power must be tempered by our need for good relations with Saudi Arabia. Since Iran is capable of defending itself against any regional threat, we should limit our future military sales and assistance to Iran to systems which do not add a significant new military capability to the Gulf, and should make this clear to the Saudis and the Soviets. We should continue offering expanded economic/technological relations to the oil producers, and should encourage their support of moderate Arab states. We should give diplomatic support to the settlement of regional disputes, and should continue working for an Arab-Israeli peace.

In the region as a whole, we should avoid more active military involvement and further political/military commitments. As long as geopolitical trends in the area continue in their presently favorable direction, we should stand back from regional diplomatic maneuverings, while encouraging oil producers to assist less fortunate states, especially in South

Asia and the Arab world. We should give our blessings to regional economic integration, while recognizing that it is not likely to lead to political or military integration. We should not make sharp changes in our naval presence in the Indian Ocean except in direct response to overt Soviet moves. In the longer term, we should do what we can to minimize Iran-India frictions, since a conflict between the two would endanger the stability of the whole area and invite U.S.-Soviet confrontation.

SECRET

IRAN REACHES FOR POWER: IMPLICATIONS FOR U.S. POLICY

SUMMARY

The Shah and his nation regained their long-lost self confidence in the 1960's. This coincided with an increase in the resources for national power within Iran, and changes in the external environment which offered opportunities for the expansion of Iranian influence. Between 1965 and 1971, Iran moved decisively to make itself the dominant political-military actor in the Persian Gulf, to replace the British, and to deter the incursion of other outsiders. Since 1971, Iran has expanded its foreign policy horizons, using its oil and financial bargaining power and its preeminent position in the Gulf to become a diplomatic force in the Arab world and South Asia. Iran's leading role in the oil price increase of December 1973 was intended not only to support its regional ambitions, but to make Iran a factor in world politics and economics, a leader of the Fourth World, and a state whose views must be taken seriously by the great powers.

For the United States, the new Iranian role creates both immediate and potential problems in oil pricing and production levels, possible interventionism, an arms race in the Persian Gulf, and Saudi resentment. At the same time, many of Iran's recent moves have been supportive of our diplomacy in the Near East and South Asia, and Iran has generally supported moderate forces in the region. In the broader geopolitical sense, there is a limited but important community of interests among China, Iran, and the United States in South and Southwest Asia, where all three desire to limit Soviet influence. Iran is the keystone in this arch of "containment". Given present trends in the area, prospects are good for the continuation of this arch, but it could be endangered by Iranian adventurism. The task for U.S. policy is to restrain Iran's reach to those goals which are both achievable without U.S. military involvement and consonant with U.S. interests in other area states.

SECRET
GDS--DECLAS. Dec. 31, 1982

THE EVOLUTION OF IRANIAN POWER

A History of Humiliation

After the Safavid Revival and the Conqueror Nadir Shah, Iran entered a period of decline from which it did not emerge completely until a decade ago. Foreign troops marched across its landscape, foreign officials determined government decisions; large parts of Iran's territory were lost, ethnic groups were manipulated by outsiders, and the country was divided into spheres of influence. After the failure of the constitutionalists to gain decisive control of Iran, Reza Khan brought a new dictatorship from the throne, reasserted central government control over the tribes and the provinces, and started the economic and military modernization that could free Iran from external interference. But he was removed from the throne by the British and Russians in 1941, and Iran again became a zone rather than a country, its armed forces defeated within hours, its territory occupied and used as a transit route to Russia. Only U.S. and U.N. pressure and wily Iranian diplomacy removed foreign troops from Iran in 1946.

The reaction to these humiliations was inevitable. The nationalist movement gained strength, and seized on the privileged position of the Anglo-Iranian Oil Company as the symbol of foreign exploitation of Iran. The National Front, heavily influenced by Communists, challenged the Shah's control of the Government and Iran's military forces, and nearly won. Put back on the throne with American assistance, the Shah began at last to assert his political authority, breaking the left with his U.S. trained military and security forces. But the memories were bitter; western control of the world oil industry had nearly bankrupted Iran after the 1951 nationalization, the Shah's survival depended on foreign support, and Iran's integrity depended on the presence of U.S. personnel and security agreements. Accepting the temporary need for U.S. military and economic assistance to build a self-sufficient Iran, the Shah sought to concentrate power, and looked for ways to free Iran of its dependence on foreigners.

The turning point came in the early 1960's. Having broken the left, the Shah challenged the right with land reform and social modernization, and won in a bloody confrontation in 1963. A growing world economy increased the demand for Iranian oil, and the 1954 consortium agreement increased Iran's return on its oil exports, giving Iran the means to finance both economic development and military modernization. The stage was set for a more decisive Iranian external policy.

Changes in Iran's External Environment

The Shah had feared radical Arab nationalism at least since the Iraqi coup of 1958, and was disturbed by Egyptian intervention in the Yemeni civil war after the 1962 revolution. The failure of the U.S. to support Pakistan in its 1965 war with India convinced the Shah that he could not rely on U.S. military support in a regional conflict. These events gave him more than adequate motivation to build up his military forces, diversify his sources of supply, and defuse threats where possible. In 1966 the U.S. agreed to sell F-4s to Iran, introducing a new level of weaponry into the Persian Gulf, and giving Iran a dominant military position after deliveries began in 1968. The 1967 Arab-Israeli war further demonstrated the need for a superior military force in a potentially hostile Arab environment.

The most important changes involved the great powers who had long inhibited Iranian foreign policy. Iran's 1962 declaration that it would not allow foreign missile bases in Iran was enough to allow a normalization of relations with the USSR, freeing Iranian forces from the Soviet border. The Shah anticipated the British withdrawal from the Gulf and redirected his diplomatic and military activity to establish a pre-eminent position there, giving up Iran's claim to Bahrain as unfeasible, but negotiating for the acquisition of Abu Musa and the Tunbs. The growth of Iran's vital oil revenues and an attack on an oil tanker in the Bab-al-Mandeb further convinced the Shah that he must protect his oil lifeline out of the Gulf.

The Nixon Doctrine, first revealed in 1969, reinforced the Shah's belief in military self-reliance, and the detente that came later appeared to him to release Soviet energies for interference in the Middle East. All signs pointed to a continuing need for a military force superior to any other in the area, and the conviction that Iran could not count on external support. At the same time, Iran worked to defuse the Soviet threat through barter deals, exchanging Iranian gas for Soviet military and economic aid, encouraging a stable Iran-USSR relationship.

1971 and After

Major changes since 1971 have increased Iran's potential power and opened new diplomatic options. As the British withdrew from the Persian Gulf, Iran occupied three islands and made clear its view that non-Gulf states should stay out. By propounding the doctrine that the littoral states were responsible for Gulf security, Iran reinforced its own dominant position. While Iran's proposal for a Persian Gulf security pact has made little progress, its position on Gulf security has been endorsed by the U.S., and Iranian forces are now operating in Oman as the first concrete example of Gulf security cooperation.

The Indo-Pakistan war of 1971 broke Pakistan as a serious rival to India and forced Iran to turn its military and diplomatic attention eastward, first by extending an umbrella over Pakistan, planning military installations in the southeast, and declaring an Indian Ocean role for itself, and later by a rapprochement with India. The death of Nasser, the new diplomacy of Sadat, the expulsion of Soviet advisors from Egypt, and the new alignments within the Arab world that preceded the October war attracted Iranian interest and greater support for the Arab cause. The war itself showed the vulnerability of Israel and the new effectiveness of the Arabs, and Iran moved quickly to adjust to the new alignment.

Iran also reacted promptly to great power realignments, normalizing relations with China and other Communist states. Soviet treaties with Egypt, India, and Iraq, and the Afghan Coup, caused a renewal of Iranian fears of encirclement, but subsequent events in Egypt reduced Iranian concerns in that direction, and Iranian concerns about Soviet influence in India and Afghanistan have declined. President Nixon's visit to Iran in May 1972 gave Iran a psychological boost, reminding the USSR of U.S. support for Iran, and leading to a less restrictive U.S. arms sales policy. The massive arms deals which followed signaled to all the Iranian intention to maintain military superiority in any situation, and a scorched-earth speech by the Shah suggested that Iran would not hesitate to defend itself vigorously against a Soviet attack.

Oil Power

Iran had not forgotten its resentment of foreign interference and western control over the world oil industry. Taking advantage of its greatly improved bargaining position, based on its political stability, economic success, and regional importance, Iran in 1973 achieved the final step in its seizure of complete control over its oil industry, reducing the consortium to a purchaser. New horizons opened up as a result of oil demand and price trends, the Arab oil embargo, and the increased unity of OPEC. The oil price increase of December 1973, in which Iran played a leading role, was not only an attempt to become rich and escape the poverty syndrome forever, it was also a challenge to the developed world's monopoly of economic and political power. Iran, which had already achieved an important regional role, saw a chance to become a factor in world politics, a leader of the emerging Fourth World, and a state whose views must be taken into account by the great powers.

With this new wealth and power has come an unprecedented opportunity for Iran to influence its external environment. Using its oil and money, Iran has entered into major economic agreements with India, Pakistan, Egypt, and Syria, and lesser ones with

Morocco, Jordan, Sudan, and other states. Through these deals Iran has supported Arab moderates like Sadat, Hussain, and Hassan, encouraged a split between Syria and Iraq, helped defuse Indian concerns about Iranian support for Pakistan, and reminded Pakistan that it must be careful in seeking options to Iran, while gaining access to needed raw materials, consumer goods, and skilled manpower. Iran is also giving military assistance, not only to Oman, but to Jordan and Yemen. Iran has become, for the first time since the ancient empires, an important political factor in both the Near East and South Asia. The most threatening of Iran's potential enemies - Iraq and South Yemen - have been isolated, and Iranian rivalry with India has been put on ice. At the same time, Iran has given Egypt, Syria, and India options to dependence on the USSR, and has contributed to a weakening of the Soviet position in the region.

IMPLICATIONS FOR THE U.S.

Some aspects of Iran's new confidence and assertiveness create immediate and potential problems for the U.S., most obviously the oil price issue. The Iranians will fight hard to preserve the increase in income and bargaining power that new oil prices have given them; more than any other oil exporter, they have both domestic and foreign uses for the money. Iran might well reduce production rather than accept a decline in oil prices, and a large reduction could be damaging to the United States. Iran's military superiority in the Persian Gulf, its concern about radical Arab forces, and the political fragility of some Arabian Peninsula states has created an Iranian propensity to intervene which could result in a confrontation damaging to our relations with the Arabs. The arms race in the Gulf, sparked as much by Iranian acquisitions as by any other factor, could lead to the rapid escalation of local conflicts, increased great power involvement in the Gulf, and new generations of weaponry in the Arab-Israeli complex. Iran's military power - and its superior attitudes - may cause growing Saudi resentment, and Saudi pressure on us to restrain Iran.

At the same time, many of Iran's recent moves have been supportive of our diplomacy in the Near East and South Asia. Iranian assistance to Egypt, Jordan, and Syria helps shore up their positions against radical Arabs and separate Syria from Iraq. Iranian assistance to India gives it an option to the USSR - one we can provide only to a limited extent - and Iran's assistance to Pakistan helps one of our allies. Generally, Iran has used its money and oil to support moderate forces in the region, and has contributed to the isolation of radicals.

In the broader geopolitical sense, there has developed since 1971 a limited but important community of interests among China, Iran, and the United States, with Pakistan a link in the chain. There has been talk of a Peking-Islamabad-Tehran axis, and Soviet criticism of Chinese support for CENTO, along with the usual Soviet criticism of U.S. and British use of Iran as their pawn in the area. While the "axis" is hardly formal or without frictions, China, Iran, and the U.S. clearly share interests in limiting Soviet influence in the region, and in the survival of Pakistan. It is also clear that Iran is the keystone in this arch of "containment"; without it, the U.S., Pakistani, and even Chinese positions would be weakened.

Given present trends in the region, the prospects are good for the continued existence of this alignment, to the advantage of the U.S. and the disadvantage of the USSR. However, the arch could be endangered by Iranian adventurism, which could lead to a destructive local conflict with the Arabs or with India, drawing in the Soviets on the other side and thereby strengthening the Soviet position. The task for U.S. policy toward Iran is to restrain Iranian proclivities toward intervention, particularly in situations which could draw in the U.S. and the USSR, and to establish more firmly a practice of Iran-U.S. consultation before such moves. Trends in the region are going in our direction, and Iran is an important factor in this; we should not endanger this situation by giving Iran a blank check.

NEA/IRN:MAGMichaud:ml
6/24/74 ext.20639

Chief Inspector Herbert F. Propps May 27, 1976

Ambassador Helms

Post Memorandum for Inspectors

Part I - General Conduct of Relations with Iran

Despite a few soft spots discussed below, relations between the United States and Iran remain excellent. For more than two decades we have enjoyed a special relationship based on our shared attitude toward communism and the USSR, a mutual aversion to instability in the Middle East, and the recognition that close and cooperative ties serve the interests of both countries. The Shah regards the United States as a strong and relatively disinterested power which provides Iran with strategic protection from the Soviet Union, with highly sophisticated weapons and the expertise to use and maintain them, and with the economic, technical and professional skills needed in the development of his country. Our interests in Iran include its continuance as a stable and friendly country which plays a responsible role in the region, allows us overflight rights and essential intelligence and military facilities on its territory, and gives us continuing access to its markets and its oil and mineral resources.

The Mission's efforts are directed toward ensuring that this mutually advantageous relationship is maintained and enhanced. The substantial growth in our trade relationship, our greatly increased participation in Iran's internal development and military modernization, and the dramatic rise in the number of Americans living in this country have required an expansion of the Embassy and related elements into what is now the largest and most complex Mission in NEA. In addition to the traditional diplomatic and consular structure, we have a major military presence in the form of our Department of Defense representative, MAAG and Technical Assistance Field Teams (TAFT), a Peace Corps contingent (which will be phased out this summer), a large and active Iran-America Society, representatives from the Departments of Agriculture and Commerce, Drug

Enforcement Agency and Internal Revenue Service, and some 20 other separate units associated primarily with our intelligence and military activities in Iran.

Organizationally, we have no important problems. The authority and responsibility of the Ambassador for all official American activities in Iran are understood and accepted by every subordinate element. His control over the diverse military units operating in Iran was strengthened last year by the creation of the position of Senior Defense Representative who has coordinating authority over the entire military establishment. The Defense Representative reports directly to and takes policy guidance from the Ambassador, as do all other agency representatives. The Ambassador meets daily with section chiefs, weekly with the country team, and whenever required with all other U.S. agencies and representatives in the Mission in order to maintain essential communications and coordination.

The work of the constituent posts, including the new consulates at Isfahan and Shiraz, is guided and supervised by a consular coordinator working closely with the DCM. Officers of the consulates are periodically brought to Tehran for consultations and conferences, and Embassy officers from various sections pay visits to provincial posts to advise and assist them. Good telephone connections with all consulates make it possible to maintain a constant two-way flow of information between them and the Embassy.

Relations between the Embassy and the Government of Iran reflect the excellent relationship between our two countries. I have a close and friendly relationship with the Shah and senior GOI officials, and the Shah is accessible as well to certain other designated members of the Mission. Other officers of the Mission have good access to Iranian government officials and to important leaders in the private sector. These contacts, however, are not always as useful as we would like because Iranian government and society are highly structured and authoritarian and all major decisions are made at the top. Often even relatively senior officials are not well informed about policies and plans and have little influence on them. We also have difficulty developing sources of information about dissidence and even about attitudes among the military because of Iranian sensitivities and the GOI's disapproval of foreign contacts with these groups.

Part II - Issues and Problems

In addition to the obvious differences between the U.S. and Iran over the price of oil and the quantity taken by the U.S., several other problems and potential problems have arisen which must be carefully handled to prevent their cumulative effect from damaging the essentially sound relationship between our countries and the atmosphere in which we conduct these relations. In the political/military sphere, Congressional restrictions on the transfer to third countries of military equipment supplied or licensed by the U.S. is an increasing problem in our relations, as Iran's evolving regional role subjects it to pressure from its friends to transfer surplus military equipment to them as a form of aid. Iranians see our rules on transfers as a limitation on their ability to play the regional role to which they feel entitled by virtue of the country's wealth, power and level of development. While these regulations are designed to ensure that U.S. arms are not used contrary to U.S. interests and must be enforced, there is considerable room for improvement in the manner and speed with which we respond to Iranian requests.

Iran's cash-flow problems have led to a much harder look by the GOI at the cost of defense equipment and services purchased from us. As prices continue to escalate far beyond contract levels, the Shah and the GOI begin to lose confidence in our veracity and our reliability as the principal source of military supply.

The rapid expansion in the size and geographic spread of the American community in Iran (now estimated at 25,000 and expected to more than double by 1980) at a time of rising Iranian pride and self-assertiveness poses a potential threat of increased inter-cultural friction and incidents. An informal poll of Iranian attitudes toward the increasing foreign presence was conducted by the Embassy recently to try to gain some insights which would help in minimizing potential difficulties.

There are several nagging problems in the economic and commercial area which Mr. Brewin and his staff are prepared to discuss. The first is the inability to reach agreement with the GOI on repayment of Iran's lend-lease debt of $35 million, despite high-level intervention by the Embassy going back several years. Congressional criticism of Iran

for not paying this debt can be expected to increase, and we understand that future Ex-Im Bank activity in Iran may be linked to this debt.

Activities of the U.S.-Iranian Joint Commission have not progressed as fast or as smoothly as we had hoped because of (a) the slowdown in Iranian financial commitments for approved joint projects; (b) U.S. unwillingness to pay part of the cost of many projects and the total cost of some others; and (c) questions about the status of the highway advisory team now in Iran and of future U.S. technical assistance teams operating under USIRJC auspices.

A third problem concerns the status of our Trade Center and its director. The Ministry of Foreign Affairs continues to adhere to the view that the Center should not be an integral part of the Embassy and that its director should not have diplomatic status, and we and the Ministry of Economic Affairs and Finance have been unable thus far to get the MFA to back down. Unless we can obtain a continuation of the Trade Center's current status or something closely resembling it, there will be serious repercussions on U.S.-Iranian commercial relations.

Mr. Provencher wishes to discuss several administrative problems with you and your team but I would like to highlight one here which has plagued the Embassy for almost 20 years. As the Mission has grown, the Chancery building has become totally inadequate to meet our office needs. Plans for expansion of the Chancery have been approved for a number of years but no real action has been taken. In July 1975 the FBO advised us that construction would begin during FY-1977, but that seems unlikely in view of the current freeze on construction of new buildings. Meanwhile, the efficiency and security of a number of Mission elements are hampered by their having to occupy inconvenient and make-shift quarters.

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TO: USCINCEUR VAIHINGEN GE//ECJ4/7//

INFO: SECDEF WASH DC//ASD:ISA(SA)/DSAA(NESA)//

JCS WASH DC//J-5//

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WORKING PAPERS

SUBJECT: MILITARY SECURITY ASSISTANCE

PROJECTION (MSAP) FY 79-83

A. MASM, PART I, CHAPTER D (CHG 9, 1 APR 76) (U)

B. DASD/DSAA/ISA LTR, 19 DEC 75, SUBJ: MASM, PART I, CHAPTER D (U)

C. USCINCEUR 311325Z AUG 76 (U)

D. HQ USAF 212100Z SEP 76 (C)

E. SECDEF 210100Z OCT 76 (C)

F. SECDEF 160140Z NOV 76 (U)

G. USCINCEUR 181027Z NOV 76 (U)

1. (S) STRATEGIC IMPORTANCE. IRAN'S PRIMARY IMPORTANCE LIES IN ITS KEY LOCATION BORDERING THE SOVIET UNION, ITS EMERGING ROLE OF LEADERSHIP IN THE AREA OF THE PERSIAN GULF AND INDIAN OCEAN LITTORAL, AND ITS POSITION AS ONE OF THE MAJOR WORLD OIL PRODUCERS AND PURCHASER OF US PRODUCTION.

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JOHN SPENCER, MAJ, USAF
ARPPP, 840079, 28 NOV 76

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MESSAGE HANDLING INSTRUCTIONS

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TO:

STABLE AND WESTERN ORIENTED, IRAN EXTENDS RIGHTS, AUTHORIZATIONS, AND FACILITY ARRANGEMENTS TO THE US BILATERALLY AND THROUGH COOPERATION WITHIN THE CENTO FRAMEWORK. IRANIAN OIL WILL BE OF INCREASING IMPORTANCE TO THE FREE WORLD.

2. (S) US SECURITY ASSISTANCE OBJECTIVES.

A. HELP IRAN MAINTAIN AN ADEQUATE AND RESPONSIVE MOBILIZATION BASE.

B. ENCOURAGE ACTIVE PARTICIPATION IN PRO-WESTERN COLLECTIVE SECURITY ARRANGEMENTS.

C. ASSIST IN OBTAINING NECESSARY RIGHTS, AUTHORIZATIONS, AND FACILITY ARRANGEMENTS FOR US AND ALLIES AND DENY THEM TO OPPOSING US INTERESTS.

D. HELP IRAN ESTABLISH AND MAINTAIN COMBAT AND LOGISTIC SUPPORT FORCES CAPABLE OF MEETING ANTICIPATED DEFENSE TASKS.

E. ENCOURAGE CLOSER REGIONAL COOPERATION AND RESIST COMMUNIST INFLUENCE.

F. ENHANCE US ACCESS TO MAJOR SOURCES OF PETROLEUM.

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TO:

3. (S) THREAT. THE THREAT TO THE SECURITY OF IRAN IS VIEWED AS TWOFOLD: EXTERNAL - PRIMARILY IRAQ AND TO A LESSER DEGREE THE SOVIET UNION AND AFGHANISTAN; AND INTERNAL - POSSIBLE DISORDER CREATED BY TERRORIST ELEMENTS AND/OR TRIBAL UPRISINGS. THREAT IS AS PERCEIVED BY THE HOST COUNTRY.

4. (S) CAPABILITIES AND LIMITATIONS. APPLIES TO ALL THREE SERVICES. THE IMPERIAL IRANIAN ARMED FORCES HAVE BEEN ABLE TO MAINTAIN INTERNAL SECURITY AND COULD DO SO UNDER MOST CONDITIONS SHORT OF NATIONWIDE DISORDERS. THEY COULD NOT HALT SIMULTANEOUS EXTERNAL ATTACKS FROM TWO DIRECTIONS OR SIGNIFICANTLY DELAY AN ATTACK BY A MAJOR POWER. IRAN IS CAPABLE OF HALTING AN ATTACK FROM IRAQ, BUT FACES POSSIBLE LOSS OF PART OR ALL OF THE ALLUVIAL BORDER AREAS BETWEEN IRAQ AND IRAN. IRANIAN MILITARY FORCES WERE RECENTLY BATTLE TESTED IN DHOFAR, BUT THEY STILL LACK THE DEGREE OF PROFESSIONAL MIDDLE LEADERSHIP AVAILABLE IN MOST WESTERN FORCES. THEY ARE PRESENTLY EMBARKED ON AN AMBITIOUS EXPANSION AND REORGANIZATION PROGRAM IN AN EFFORT TO INCREASE THEIR CAPABILITIES.

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) RECOMMENDED SECURITY ASSISTANCE PROGRAM

GOI REQUESTED SECURITY ASSISTANCE IS WHAT IRAN CONSIDERS
ARY TO MEET ITS PERCEIVED THREAT. IRAN IS FACED BY SEVERAL
IES THAT ARE SUPPORTED BY THE SOVIET UNION AND ARE EQUIPPED
OPHISTICATED SOVIET ARMS. IRAN BELIEVES IT MUST HAVE A STRONG
DERN ARMED FORCE CAPABLE OF DEFENDING ITS STRATEGIC OIL INDUSTRY
ER TO MAINTAIN POLITICAL AND ECONOMIC STABILITY. THE POSSIBLE
TION OF IRAN'S OIL INDUSTRY AND ITS EFFECT ON THE UNITED STATES
S ALLIES IS A PRIMARY RISK THAT THE US MUST FACE IF IRAN IS NOT
ED WITH THE MEANS TO MEET THE PERCEIVED THREAT.

THE IMPERIAL IRANIAN AIR FORCE (IIAF) MUST BE CAPABLE OF
G THE THREAT POSED BY HIGH PERFORMANCE AIRCRAFT. IN ORDER TO
E A MEANINGFUL DEFENSE OF THE HIGHLY VULNERABLE OIL FACILITES,
AF MUST BE EQUIPPED WITH SOPHISTICATED AIRCRAFT AND AIR DEFENSE
RY. FURTHER, THE IIAF MUST BE CAPABLE OF SUPPORTING THE IMPERIAL
N NAVY AND THE IMPERIAL IRANIAN GROUND FORCES. BECAUSE IIAF
HAVE ONLY EIGHT MAIN BASES AND HIGH DENSITY OIL PRODUCING

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TO:

AND SHIPPING FACILITIES ARE CONCENTRATED IN THE SOUTH, REFINEMENT OF IRAN'S AIR DEFENSE CAPABILITY IS VITAL FOR ITS NATIONAL SECURITY AND ECONOMY. THEREFORE, A RADAR NETWORK WITH AN UPGRADED COMMAND AND CONTROL SYSTEM FOR EARLY WARNING AND CONTROL OF ALL AIR DEFENSE AND TACTICAL AIRCRAFT IS PLANNED. F-16 AND F-18 AIRCRAFT ARE NEEDED TO ENHANCE COUNTERAIR, INTERDICTION, CLOSE AIR SUPPORT AND NAVAL AIR COVER. AWACS (E-3A) AIRCRAFT ARE NEEDED TO ENHANCE COMMAND AND CONTROL CAPABILITY AND ASSIST IN ATTAINING/MAINTAINING AIR SUPERIORITY. AMSTS ARE REQUIRED TO IMPROVE THE FLEXIBILITY AND RESPONSE TIME FOR LOGISTIC AND AIRLIFT SUPPORT. P-3 AIRCRAFT WILL BE USED FOR AIRBORNE SEA SURVEILLANCE, PATROL AND ANTI SUBMARINE OPERATIONS IN THE PERSIAN GULF, THE ARABIAN SEA, AND THE INDIAN OCEAN.

C. BECAUSE OF THE RUGGED TERRAIN IN IRAN AND THE INADEQUATE TRANSPORTATION NETWORK, PROJECTIONS FOR IMPERIAL IRANIAN GROUND FORCE (IIGF) EQUIPMENT REFLECTS THE NEED FOR ADDITIONAL HELICOPTERS, AS WELL AS ADDITIONAL AND IMPROVED GROUND MOBILE EQUIPMENT AND ASSOCIATED WEAPONS. THE IIGF MUST MAINTAIN THE CAPABILITY TO DEFEND THE

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TO:

COUNTRY'S BORDERS AND THE STRATEGIC OIL FACILITIES ON TERRAIN NEXT TO THE IRAQI BORDER AGAINST THE THREAT POSED BY LARGE NUMBERS OF SOVIET BUILT TANKS AND ARTILLERY. ARMY AVIATION MUST CONDUCT AERIAL RECONNAISSANCE, FIRE SUPPORT, ANTITANK WARFARE, LOGISTICS RESUPPLY, MEDICAL EVACUATION, COMMAND AND CONTROL, TROOP AIRLIFT, AND SUPPORT ARTILLERY IN COMBAT.

D. ALL OF IRAN'S OIL IS EXPORTED THROUGH THE PERSIAN GULF, AND MOST OF THE COUNTRY'S IMPORTS ARRIVE THROUGH THE PERSIAN GULF, THEREFORE, IRAN'S ECONOMIC AND POLITICAL VIABILITY REQUIRES SECURE ACCESS TO AND FROM THE PERSIAN GULF. THE DEVELOPMENT OF A MODERN DEEP WATER NAVY IS OF KEY IMPORTANCE TO IRAN TO PROVIDE SECURITY FOR FREE COMMERCE IN THE PERSIAN GULF AREA. THE HELICOPTER SUPPORT SHIP, ASW HELICOPTERS, AND DIESEL ATTACK SUBMARINES WILL PROVIDE IRAN WITH AN ANTISURFACE AND AN ASW CAPABILITY FOR PROTECTION OF THE SEA LANES IN THE PERSIAN GULF, THE GULF OF OMAN, AND THE ARABIAN SEA, LOGISTICS SHIPS WILL GIVE THE IIN AN UNDERWAY LOGISTICS CAPABILITY FOR MORE DISTANT AND HIGHER ENDURANCE OPERATIONS. LSTS WILL FACILITATE RESUPPLY OF COASTAL SITES AND

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FROM:

TO: WORKING PAPERS

OFFSHORE ISLANDS.

E. THOUGH IRANIAN ARMS SALES ARE SCRUTINIZED BY THE DEPARTMENT OF STATE AND DEFENSE, AS WELL AS CONGRESS IN SOME CASES, THE US HAS GENERALLY PROMISED TO MAKE AVAILABLE TO IRAN A WIDE SPECTRUM OF CONVENTIONAL MILITARY EQUIPMENT. CURRENT PROGRAMS i.e., I-HAWK, F-4, F-5, AND F-14, TAX THE AVAILABLE TRAINED MANPOWER RESOURCES OF THE IIA, AND THEREFORE, IRAN'S ABSORPTION CAPABILITY. FURTHER ACQUISITION OF COMPLEX EQUIPMENT, i.e., F-16, F-18, AWACS, SUBMARINES, ETC., COULD POSE MANNING PROBLEMS. AN ADDITIONAL FACTOR AFFECTING THE ABSORPTION CAPABILITIES OF THE IIA IS THE CULTURAL DIFFERENCE BETWEEN IRAN AND THE US ATTITUDES TOWARD COMMAND AND CONTROL, JOINT OPERATIONS, LONG-RANGE PLANNING, INTERNAL COORDINATION, PRIORITIES, AND OTHER FACTORS THAT APPEAR ESSENTIAL IN WESTERN THINKING HAVE NOT YET BEEN FULLY ADOPTED BY THE IRANIANS. SOME OF THE PROBLEMS ENCOUNTERED IN THE IIA'S MODERNIZATION PROGRAMS STEM FROM THESE DIFFERENCES. ALTHOUGH THE PRESENT GOI BUDGET INDICATES A DEFICIT, IRAN APPEARS TO HAVE THE FINANCIAL RESOURCES TO MAKE PROMPT PAYMENTS FOR WHAT IT ORDERS.

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FROM:

TO:

PROGRESS TOWARD SELF-RELIANCE IS INDICATED BY PHASE-OUT OF SOME TAFT POSITIONS, AS WELL AS BY AN OVERALL PROJECTED DECREASE IN TAFT PERSONNEL. NO SIGNIFICANT REDUCTION IN O&M SUPPORT IS PROJECTED BECAUSE OF THE ADVANCED EQUIPMENT PROPOSED FOR THE IIA DEFENSE STRUCTURE. A COMPETENT DEFENSE ESTABLISHMENT SHOULD RESULT FROM THE PROJECTED PURCHASES AND SHOULD SUPPORT US OBJECTIVES STATED IN PARA 2. AT THE PRESENT TIME, AIR DEFENSE RELATED ITEMS OF EQUIPMENT APPEAR TO HAVE THE HIGHEST RELATIVE PRIORITY; HOWEVER, DEVELOPMENT OF AN OVERALL DEFENSE ESTABLISHMENT IS THE PRIME OBJECTIVE OF THE GOI AND EQUIPMENT WILL BE INCORPORATED AS IT BECOMES AVAILABLE.

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IRAN

I. Significance of Iran to United States Global Policy and Regional Objectives.

A broad bipartisan United States consensus that Iran is of special importance to us in the protection and furtherance of key United States national interests has existed for nearly 30 years. Our relationship at first was narrowly based on geopolitical factors, but now encompasses most areas of inter-governmental and private sector concerns. There are currently before us a number of issues which could cause serious friction, but the following national interests remain unchanged.

-- Deterrence of Soviet ambitions: A mutual interest in deterring the expansion of Soviet power and influence, particularly in the Middle East, has been and remains the bedrock of the relationship. Iran's propinquity to the Soviet Union, historical experience of Soviet expansion and strong anti-communist leadership has led to views which dovetail with our global policies first anunciated by President Truman.

We have both gained great benefits in connection with this shared interest. The United States was, and is, the only western country capable of providing an ultimately meaningful deterrent to protect Iran. In the first two decades of the postwar era, Iran was essentially a recipient of United States assistance and advice and, except for its membership in CENTO and the provision of various intelligence and military facilities to us, played a clearly backseat role. This situation has changed. Today, as a growing regional power, Iran has the financial strength and is rapidly developing its military capabilities and influence to do much more itself. It can play an important independent role in the Middle East, South Asia and the Indian Ocean to advance regional stability and to counter activities and policies of the USSR or regional radical forces.

-- Access to Iran's unique geopolitical position: We have no fully satisfactory alternative to two of the uses we make of Iranian territory. United States intelligence monitoring operations there provide crucial information on Soviet military operations, particularly missile development, and Soviet adherence to SALT. United States overflight rights provide us with the most direct and satisfactory air link between Europe and countries to the east of Iran. In addition landing rights have been important for our air surveillance of the Indian Ocean and the Soviet border areas.

-- Provision of petroleum for the United States and its allies: Even though Iran has been a prime mover for higher oil prices and has ignored our representations on this matter, it provides an important amount of petroleum for the United States and crucial supplies for our allies: over eight percent of United States petroleum imports; over 16 percent of those for western Europe; almost 24 percent for Japan; and almost 70 percent for Israel. Despite the inherent tension in this buyer-seller relationship, Iran has been a dependable and secure source of petroleum. Iran did not join the 1973-74 Arab embargo of petroluem sales and continued to permit shipments to Israel. Iranian leaders have frequently reiterated that Iran will not join politically motivated embargoes.

-- Furtherance of regional stability and development: United States policy for the last several years has been to assist and encourage Iran to become a regional power which would assume limited security responsibilities and play a generally more active role supportive of our mutual interests. Iran has accepted this role--for it was consistent with the Shah's view of Iran's key position in the area--and has used its military power (in Oman), its financial strength (loans to India, Pakistan, Afghanistan, Egypt, Jordan and Syria) and its general influence to help resolve regional disputes (resumption of India-Pakistan relations and resumption of Afghan-Pakistan dialogue.)

Iran is the only regional power which has been able to develop close and confidential relations both with the Arab confrontation states and with Israel. Iranian leadership has remained in close touch with United States negotiators, has counseled moderation, has encouraged Sadat

and Asad to take steps toward peace, and at a key point of the Sinai II negotiations (under which Israel gave up oil fields in occupied Egyptian territory) reiterated Iran's policy of remaining a reliable oil supplier to Israel.

Finally, as the strongest power in the Persian Gulf, Iran is seeking a collective security arrangement with other Gulf countries, although traditional suspicions are likely to prevent its realization in the near future. While we recognize some potentially negative features for our interests, on balance Iranian-Gulf Arab security arrangements would probably be a plus for us.

-- Maintenance of beneficial economic, commercial and cultural relations: In 1975 the United States edged out Germany as the largest supplier of civilian goods and services to Iran's burgeoning market. United States non-military sales to Iran in the 1975-1980 period should total over $20 billion, which would result in a balance-of-payments surplus for the United States of $8-10 billion. (Military sales will approximately double this surplus.) United States firms continue to move into various joint undertakings in Iran and investment totals roughly $500,000,000. The Ex-Im Bank exposure (loans and guarantees) in Iran is about $1 billion. The United States - Iranian Joint Economic Commission has opened potentially useful cooperative links in such diverse areas as nuclear and other forms of energy, agriculture, housing, manpower training, transportation and science.

Cultural ties are extensive, including some 20,000 Iranian students studying in this country and over 50 United States universities with ties to Iranian institutions.

II. Iranian Political and Economic Situation

Political: Two related facts dominate the political scene: the unquestioned pre-eminence of the Shah, who makes all major and many minor decisions, and Iran's political stability. All indications point toward a continuation of both of these for at least the years immediately ahead.

The Shah, who has 35 years of experience on the throne, has the loyalty of the broad mass of the populace, particularly in the rural areas, and the full cooperation of the armed forces and the intelligence/security apparatus, as well as the support of an extremely able group of civilian technocrats. Undoubtedly a number of Iranian intellectuals and technocrats are apolitical, having opted out of the political system, or are passively resistant to the Shah's authoritarian rule. Many religious leaders and their followers also do not accept the present monarchy or its reform policies. However, organized open opposition to the Shah's leadership and policies is restricted to small terrorist organizations. The active terrorists, who come from the extreme right and left, probably number under one thousand and have the intermittent support of another one-two thousand. The terrorists carry out clandestine propaganda and assassinations (the latter including six Americans in the past three years). The terrorists do not appear to have attracted much support for their political goals, which include the overthrow of the monarchy.

Government activities concentrate on wide-ranging economic and social development programs; the strengthening of Iran's armed forces; and a reform program known as the Shah-People Revolution. The latter, which has been underway since 1962, started with a large scale land reform program. Newer activities have to do with areas such as illiteracy, health, government corruption, local courts and public participation in the ownership of private industry. A potentially important decentralization of administrative power from Tehran is also now underway.

An assessment of Iran's longer-term (5-10 years) political stability is by its very nature more difficult. For thirty years, especially in the last fifteen, a very traditional society has been going through as massive a social and economic change as in any country in the world. The results of these changes--an exponential increase in the number of educated Iranians, including thousands educated in the United States and western Europe; large-scale urbanization; a modern

economic infrastructure side by side with a more traditional backward agricultural sector; and rising expectations in all sectors of national life -- will become apparent and potentially more disruptive and destabilizing. During this period, much of course depends on the Shah's longevity.

The dissolution of existing parties and the formation in 1975 of a single political party--more accurately, a broad political movement--are a recognition by the Shah that a degree of political participation is necessary and some decentralization of decision making will be required. The massive economic and social development projects also represent an effort to meet rising demands of the people.

Economic

Although important strides have been taken in the last decade to broaden the economic base, the Iranian economy remains overwhelmingly dependent upon petroleum and natural gas production. Together, they contribute 85% of the Iranian Government's revenues and 98-99% of foreign exchange earnings.

The general outlook for the economy is good. Foreign exchange reserves at fiscal year's end will be roughly $7 billion and import earnings will remain at the $20-22 billion level in 1975 dollars. World capital markets are open to borrowings by public and private Iranian entities; at the moment, however, Iran invests in and lends to foreign states more than it borrows abroad.

Iran's sixth development plan will cover the years 1978-1983. The Government intends that by the end of that period Iran will have laid the industrial basis for sustained and diversified economic development in the face of declining oil export revenues (the result of a desire to conserve limited oil reserves and increase the domestic use of petroleum in the manufacture of fertilizers, petrochemicals, and other oil-derived products).

Iran's ability to achieve its goals will continue to be hampered by a serious shortage of trained manpower at all levels, but particularly in the skilled and semi-skilled worker and middle-to-lower management levels. The current development plan (1973-1978) is likely to be only some 60% realized when it terminates; a sizeable portion of the shortfall is probably traceable to manpower shortages and transportation bottlenecks.

Iranian leaders are in a race to establish a strong diversified economy responsive to peoples' needs and a new political base before the country's oil reserves are seriously depleted in the early 1990's. It is no easy task and success cannot be taken for granted.

III. Current State of United States Relations and Policy

United States - Iranian relations are excellent. They rest on thirty years of close cooperation and the broad overlapping of our national interests in most areas of mutual concern, reflected inter alia in the 1959 United States-Iranian Agreement of Cooperation and Iran's membership in the Central Treaty Organization created under our aegis.

A noteworthy shift, however, has occurred in the balance of the relationship during the past decade. Initially there was a very one-sided reliance of Iran on the United States; a tutelary relationship existed throughout the 1950s and most of the 1960s. As Iran's economy boomed, political stability grew, military strength expanded and petroleum income doubled and tripled, that balance has been changing. Iran is increasingly independent, assertive and insistent that its viewpoint be considered by the United States and others. With the exception of oil prices, this shifting balance has not caused serious disagreements, but it has introduced some malaise into the relationship on both sides.

The centerpiece of Iranian foreign policy under the Shah or any likely successor will continue to be fear of Soviet expansion at Iran's expense. The Shah knows he cannot replace the United States as the ultimate deterrent against this threat.

Nevertheless, as a new Administration assumes power, the Shah will carefully assess our actions on our bilateral relations, but also in the larger context of whether they signal significant shifts in United States regional policies and in our determination to counter--as he sees it--continuing expansion of Soviet influence and power in the area and the world. He has expressed strong concerns over the last year or two as to whether the United States will remain a reliable ally and has long-term staying ability. These concerns have been compounded by growing public and Congressional criticism of Iranian arms purchases and of alleged Iranian practices in the field of human rights, which the Shah considers unjustified. The Shah will be sensitive to the style and manner in which we handle the various issues between us and to attempts to bend Iran in our direction on these differences. If he concludes, rightly or wrongly, that his concerns presage shifts in the United States-Iranian relationship in areas he perceives as important to Iranian interests, he is capable of making adjustments in his policies which could be detrimental to our interests, however self-defeating this might appear.

IV. Major Issues

-- Sales of military equipment: Using oil income to develop a large military force equipped with the most modern arms is a high priority Iranian goal and one particularly close to the Shah's heart. For him, continued access to United States military equipment, technology, and services is of paramount importance. Although Iran buys some equipment from other countries, a very large percentage of its purchases comes from the United States (over $10 billion since 1970). Iran prefers United States sources and is accustomed to favorable United States responses to most - though not all - of its requests. In recent years, that normally favorable United States response has been based on the United States policy that, "in general, decisions on the acquisition of military equipment should be left to the government of Iran."

There are currently three large Iranian requests under study by State and Defense and awaiting Executive Branch decision: 140 F-16's (a purchase of 160 has already been approved); 7 E-3 AWACS's; and 250 F-18L's. If the requests are approved, they must next be submitted to Congress.

Iran seems to understand that no decision will be [illegible] coming on these until after January 20.

The Shah's ambitious military development plans, his traditional access to the equipment he wants from United States sources, and our policy of not attempting for the most part to gainsay Iran's military needs have made our military relationship with Iran a leading target of arms control advocates in Congress. A significant change in this policy of forthcomingness would, however, entail a definite risk that the Shah would counter with actions against our military and intelligence assets in Iran and very probably on our economic and commercial interests as well. Moreover, a policy of containment of military sales would in some specific cases cast an invidious comparison between what we were doing for Iran and what the Soviets were doing for their client Iraq. The question would also arise as to whether a policy of greater military sales restraint does not pose inherent contradictions in our long-standing policy of building up Iran as a bulwark against easy Soviet expansion into the area.

-- Petroleum Prices: For the past three years, Iran has been a leading advocate of higher oil prices. Even though prices have just been increased by 5-10 percent at the Doha OPEC meeting, we can expect Iran to seek further increases. Iran has regularly replied negatively and often sharply to United States appeals for no increases, arguing inter alia that higher prices are necessary to create economic incentives for the industrial countries to begin to develop alternative sources of energy as world oil reserves decline. We have taken this up frequently with the Shah but in the face of determined opposition to our point of view, we have not sought to use what leverage we have -- such as denying or delaying arms sales -- judging that such actions would fail to achieve the intended outcome and would be counterproductive in other areas. This is one issue on which the Shah will single-mindedly follow his own interests, which he sees as maximization of current income while that is possible. In that connection, it is noteworthy that Iran's off-take will begin dropping significantly in the late 1980's.

-- Human Rights: The human rights situation in Iran is very broadly perceived in the United States, even among individuals and groups friendly to Iran, as unsatisfactory. This consensus, taken together with legislative provisions, could reduce our flexibility in dealing with Iran and create frictions in the relationship. Another more recent aspect of the problem is the allegation that SAVAK, Iran's security organization, is exercising surveillance over Iranian students in the United States and carrying out a variety of illegal activities. Iranian [illegible] in the first instance that this matter is essentially a domestic affair, but also that the great strides made in social and economic rights in Iran are insufficiently appreciated abroad and that the treatment of the political opposition is grossly exaggerated and misunderstood in the United States.

Longer Term Issues

In the longer term, Iran's assertive independence and imperial, authoritarian system could lead to increasing divergencies in our respective policies and so raise other issues. Among the questions which will have to be monitored carefully are: (1) will Iran's increasing Arab ties bring about a weakening of the Iran-Israeli relationship; (2) will Iran's increasing military power tempt it to intervene unilaterally in the affairs of other Persian Gulf states; (3) will Iranian arms acquisition in fact prompt an arms race in the area; and (4) will Iran take an increasingly strident position in DC-LDC, North-South issues.

V. Human Rights Considerations

Iran is an authoritarian state and also one which follows special legal procedures in connection with crimes involving state security. Both facts have led to international criticisms, but it is on the Iranian handling of those charged with state security crimes that most criticisms are concentrated. There have been reports on human rights in Iran from Amnesty International and from two observers from the International Commission of Jurists.

Allegations related to the legal system have generally covered the following subjects: the authority of SAVAK officials to function as military magistrates with regard to certain crimes; the number of people picked up following alleged state security incidents; the claim that some of those charged with state security crimes are held several months without formal charges having been made or access to counsel provided; the detention of an unknown number of "political prisoners"; the alleged use of torture or other harsh treatment against such people; the fact that all such cases are tried in military courts, usually in camera and sometimes without adequate counsel, and the fact that the right of appeal from SAVAK and military court decisions is limited.

The Government of Iran has disputed many of these charges and defended its use of special procedures in security cases. The general line followed has been that crimes against national security are sufficiently serious and their perpetrators sufficiently ruthless to warrant special procedures. Noted as relevant in this have been Iran's traditionally highly centralized state authority, its historic concern with communism and other opposition movements, and current terrorist activities. The Government of Iran has also noted favorable outside comments about its regular court and penal systems, but has added that, when it is the regime itself that is threatened, it does not believe its normal civil and criminal courts should be used.

VI. Congressional Attitudes toward Iran

We believe that bipartisan consensus on the importance of Iran to our national interests continues on the Hill, particularly in the Senate. But increasing concern has been expressed over the last year or more over Iran's role in higher oil prices, the extent of Iran's military purchases, possible irresponsible military action in the future--especially post-Shah--, and Iran's observance of human rights. This concern could grow as opposition to specific arms sales proposals from the liberal side of both Houses. It is most likely to produce real debate over the F-18L request, if and when it is submitted to Congress.

TRANSITION

IRAN

Drafted: NEA/IRN:CWNaas/MLGreene/RWBeales:mrc

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Clearances: NEA - Mr. Atherton
PM - Mr. Keene
H - Mr. Flaten
D/HA - Mr. Hill
NEA/RA - Mr. Holly

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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

Intelligence Community Staff

26 January 1977

Jack C. Miklos, Esquire
Chargé d'Affaires, a.i.
American Embassy
Tehran, Iran

Dear Mr. Miklos:

Ambassador Little, in his letter of August 9, 1976, informed Ambassador Helms of the conduct of FOCUS Iran, describing its nature and scope and inviting participation of the Mission. I am pleased to advise you that FOCUS Iran is now completed, and I include the original copy of the final report for your information and use.

The FOCUS Iran report is a comprehensive one. We noted during the conduct of the review that, and this is reflected in the report, Washington interest in Embassy Tehran was exceptionally high. Since the interests of policymakers and analysts are so vast and varied, we believe that a limited prioritized list of items of national intelligence interest could be helpful to you. Ambassador Little will provide you such a list in the near future.

You will note criticism of the reluctance of the MAAG to provide available information to Intelligence Community representatives in Tehran so that this information can get into national intelligence channels. I am told that the situation is now much improved; however, we do plan to discuss this with appropriate officials in the Department of Defense. This situation varies from one mission to another, but this is the fourth occasion in which the problem has surfaced in FOCUS reviews.

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Since its beginning two years ago, we continue to find FOCUS helpful to those of us here in Washington concerned with reporting from abroad. We hope to extend the value of these efforts to overseas missions which have such a key role in the overall national intelligence process. FOCUS Iran has been helpful to us; we hope it can be helpful to you and your country team. I invite your comments on this FOCUS report either now or after you receive the follow-on package from Ambassador Little.

If you see any way in which we can strengthen our support of your Embassy, please let us know.

Sincerely,

E. H. Knoche
Acting Director

Enclosure:
FOCUS Iran

Human Resources Committee

ASSESSMENTS SUBCOMMITTEE

FOCUS Iran

An Intelligence Community Review of [illegible] Iran

Attached are the findings of an interagency review of reporting by the various elements of the Intelligence Community and other departments and agencies on Iran. [illegible] reviews of reporting from overseas missions are conducted by the Human Resources Committee with a view to enhancing the effective management, coordination, and [illegible] of reporting programs in both the field and Washington level.

The FOCUS review is in two parts. Part I assesses the substance of reporting, i.e., its adequacy, appropriateness and timeliness, and its responsiveness to the information needs of Washington policy officers and the Intelligence Community. The Reporting Assessment is written by the National Intelligence Officer concerned on the basis of an interagency seminar in which intelligence analysts and policy officers participate. For those aspects [illegible] consensus is not reached, provision is made for dissenting views to be recorded.

Part II, the Action Review, (1) examines reporting problems and opportunities identified by or arising out of the Reporting Assessment and (2) develops agreed or recommended follow up action. Its objectives in so doing are to suggest ways of improving coordination at the Washington level and provide information and findings designed to assist Ambassadors in the overall supervision of field reporting programs and resources. The Action Review is based upon an Assessments Subcommittee discussion of written comments provided by Washington reporting managers, and an examination of the Reporting Assessment against the

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background of past activities of field reporting elements, the reporting environment involved, the adequacy of reporting guidelines, and related matters affecting the utilization, management, and coordination of field reporting programs.

The Human Resources Committee would welcome comments or suggestions regarding the FOCUS program.

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

National Intelligence Officers

4 November 1976

MEMORANDUM FOR: Ambassador Edward S. Little, Chairman
Human Resources Committee

FROM : David H. Blee
National Intelligence Officer for
the Middle East

SUBJECT : Part I. Reporting Assessment -- FOCUS Iran

1. Introduction. An interagency seminar was convened on 14 October 1976 under my chairmanship to consider the substance of reporting from our Mission in Iran -- its adequacy, appropriateness, timeliness, and responsiveness to the information needs of Washington policy officers and the Intelligence Community. Over forty persons participated, representing several bureaus in State, the NSC Staff, USIA, DOD/ISA, various offices of CIA and DIA, the military services, NSA, Treasury, and the Intelligence Community Staff. A list of participating offices is at Tab A. The seminar discussion, which forms a principal basis for this report, lasted some three hours and followed fairly closely the extensive agenda found at Tab B. Ambassador Helms has been invited to participate in the FOCUS exercise, and Lt. Colonel Patrick, my assistant, will discuss FOCUS further with the Mission in Tehran in the near future. Ambassador Helms' comments and suggestions will be considered most carefully, especially in the next phase of the FOCUS Review.

2. General Comments. No attempt has been made to summarize the discussion of all the agenda and other topics; instead, I have chosen to highlight selected issues, particularly some that suggest a need for followup activity either in the Mission or here in Washington. In discussing information topics and current and prospective reporting, we have tried to consider in at least a general way the priority of the information concerns and their impact on the US and its programs.

3. Generally speaking, reporting from the Mission on most topics is very satisfactory. Many of the information and analysis problems which do exist stem from the nature of the Iranian power structure. Since the Shah is close to being an absolute monarch, it is important to ascertain what he really thinks, as distinct from what he states for the benefit of particular audiences. Reports of discussions that Ambassador Helms and other high-ranking American officials have with the Shah are helpful in this regard, particularly when they include subjective comments by the reporter.

4. Regional Concerns. Reporting on Iran's relations with most of its neighbors has been good, not only from Mission Tehran, but also from the U.S. Missions in the other countries. For example, reporting on Saudi-Iranian relations has been excellent, although expanded coverage of Mission [illegible] discussions about economic concerns and mutual security arrangements would be useful. There has been extensive reporting on Iranian relations with Oman, and quite adequate coverage of relations with the countries of South Asia. As a longer range issue, on-going Mission assessment and analysis on this subject of Iranian concerns in the Indian Ocean area would be welcome.

5. Two special concerns are Israel and Iraq. The consensus of seminar participants is that Mission reporting from Tehran provides an adequate view of Israeli-Iranian relations. This relationship will continue to be an important subject and one on which information is most readily obtained from the Iranian side.

6. Our problems in assessing Iranian-Iraqi relations are complicated by the absence of an Embassy in Baghdad; this necessitates relying very heavily upon reporting from the Mission in Iran. There was excellent coverage during the period of the Iraqi-Kurdish fighting, but current reporting is sparse even regarding the Iranian side of the equation. It was suggested that we could compensate for our existing technical collection limitations and our heavy reliance in the human resource area on information provided by SAVAK by increased Mission analyses of Iraqi-Iranian relationships.

7. A more basic concern, voiced by a number of reporting users, was that Washington does not have a clear perception of the Shah's long-range objectives. For example, why is he acquiring such a vast array of sophisticated military hardware? The Shah states that adequate defenses against Communist-equipped Iraq are merely precautionary, yet the placement of new bases suggests other interests. In 1985 when oil revenues from Iranian production have peaked and his oil rich neighbors are just across the Gulf, what does the Shah intend to do with his accumulated weaponry? Will he still claim and demonstrate concern for the stability of the area? Or will he have destabilizing objectives? Expanded country-team efforts to assess the Shah's long-range

objectives and to identify long-term trends in the Persian Gulf region are needed as well as a parallel stress on analysis among the Washington community.

8. Other Foreign Relations. The Mission has given high priority to watching the development of relationships with the Soviets and has done a fine job in reporting on this subject. On Iranian foreign relations reporting in general, six positions voiced by participants included: (1) a need for Washington users to agree to a common regularly updated priority listing of Mission reporting requirements; (2) the value of reporting on reactions from a diversity of sources -- including middle-level governmental employees -- [illegible] relying [illegible] entirely on discussions with the most senior diplomatic and intelligence liaison channels; and (3) the requirement for fuller Mission reporting of Iranian economic, scientific and defense relationships with France, the UK, and all the EEC countries. State and other agencies following international narcotics matters also urged increased reporting on narcotics trafficking by all appropriate elements of the Embassy.

9. Bilateral Relations with the U.S. Considerable discussions ensued about the tremendous volume of official and unofficial bilateral arrangements between the United States and Iran and the problems and possibilities that these present for U.S. policymakers and for intelligence specialists. On the one hand, as stressed by the NSC Staff participant, thousands of U.S. contractors conduct business with the Iranian Government, independent of established channels before the U.S. Government has the chance to review its policy implications. This constitutes a serious policy problem for the USG. On the other hand, there are thousands of established, non-official Americans in Iran, who represent a significant reporting potential, but the Mission lacks personnel to undertake a systematic effort to exploit these assets.

10. Domestic Situation. Not only do we need further reflections on what is behind the Shah's words and actions, but also additional information and field analysis is needed as to how decisions are formed and who is influential in implementing them. In this regard, it is particularly important to know what subjects are withheld from the Shah and the degree to which reports to him are doctored by his subordinates. To what extent do such practices warp his perspective, isolate him, and imperil his regime? It should be noted that several recent Embassy airgrams -- on decision making, the 15 top people around the Shah, and the top military officials -- represent the kind of reporting that is particularly helpful. However, State analysts were among those who stated that they do not have adequate information and field analysis regarding succession to the throne. What are the mechanics? Who will be the leading actors? How will the Shah's pet projects -- including the economic development programs -- be affected by his departure?

11. The biographic reporting program needs to be re-emphasized. What is particularly needed is not just biographic data, but biographic analysis and intelligence. Such reporting should concentrate on potentially important leaders, including senior military officers and the key members of the royal family. Some better way to tap the experience of U.S. Security Assistance Officials and to acquire existing reporting containing information on and impressions of Iranian military officials is one suggestion for alleviating this weakness. Additionally, an effort must be made in Washington to share and disseminate within the Intelligence Community available biographic analyses.

12. Reporting on terrorism has been good, although we remain dependent on information provided by SAVAK. There is a continuing need for more first hand information about opposition elements. While it is a politically difficult and sensitive matter for Embassy officials to meet with identified opponents of the Shah, the Mission should have the widest possible range of contacts.

13. A better understanding is needed of how ordinary Iranians perceive their situations. For example, when the anti-corruption and anti-inflation campaigns began, the Mission provided good reporting of the effects of these drives on Iranian businessmen. Such reporting has diminished; periodic updates are needed. Similarly, we need more first hand information on the grass-roots impact of the economic development plans. Have there been tangible economic gains at the village level?

14. Other matters discussed include the need to obtain a better understanding of SAVAK, its internal functioning, political reliability, and influence on the Shah. Related to information about SAVAK are questions concerning its methods and the human rights situation in Iran. Reporting from the Mission has been quite good, but even better coverage is needed in view of continuing Congressional interest.

15. Economic Concerns. There is, of course, a wide array of economic reporting from the Mission, much of it very helpful. The obvious bottlenecks to economic development are being covered well (e.g., needs for skilled manpower, ports, etc.). More in depth reporting on the industry-wide development of key industrial sectors (e.g., steel, petrochemicals, copper) would be appreciated. The competition between the military and the civilian sectors for scarce skilled manpower and the impact of such competition on both military preparedness and the civilian economy requires special reporting emphasis. Qualitative aspects of manpower and the efficacy of training efforts also require expanded investigation.

16. The Iranians share information with us regarding future alternatives to oil as an energy source. Regarding oil pricing strategies, CIA/DDO reporting is especially useful, as it provides data going beyond the comments

of Iranian officials. A Treasury representative advised that more information from the National Iranian Oil Company planners and technicians would be useful, particularly on plans and strategies for the oil industry. Similarly, data is needed on the development of natural gas reserves and on prospects for further exports. There has been good reporting regarding the bartering of oil to the U.S. for goods, but bartering arrangements with the U.K. (and others) have not been so adequately reported. Oil sales and transshipment data involving Israel has been less adequately reported since the 1973 war but it is still needed in Washington.

17. Military and S&T. Considerable concern was expressed during the seminar discussions by military analysts about the lack of reliable information within the Intelligence Community about the capabilities of the Iranian armed forces. Basic OB and TO&E data is simply not available. Moreover, appraisals of the military threat and prevailing regional balance of forces are also lacking despite the substantial US military presence in Iran. There has been some good Defense Attache Office reporting on military training, and additional data from U.S. companies training Iranians on equipment provided (e.g., on helicopters) has been instructive. Better data is needed on Iranian construction of ports and bases. Unfortunately, Security Assistance Organization training reports, trip reports regarding visits to Iranian bases, and similar data are not now routinely reaching the intelligence analysts in Washington.

18. Excellent reports have been received about Iran's nuclear development plans. Any indications that the Iranians are proceeding with the development of nuclear weapons would of course be particularly important.

19. Most information now available about military coproduction or possible third-country transfers of hardware is that provided by the companies themselves or filed with the Munitions Control Board. We have inadequate information to allow independent judgments on such matters. It is particularly difficult to assess the possible transfer of sophisticated U.S. technology licensed to Iran. The Mission should continue to monitor reporting on military production to be sure it does not fall between the military and economic reporting sections.

20. Consideratons for the Future. A number of suggestions for increasing reporting coverage were raised by seminar participants. I recommend that they be considered further by the NRC Staff, in consultation with appropriate Washington collection managers.

-- An additional Embassy officer (possibly a political/military officer) would be helpful in assuring a more systematic Mission effort to keep track of significant dealings with the Iranian Government by U.S. contractors and other businessmen. This

officer also might take the lead in the drafting of periodic country-team assessments of the significance of the full range of U.S. activities in Iran and their impact on the Government of Iran, on the Iranian citizenry, and on U.S. foreign policy objectives.

-- The potential of the Security Assistance Organization needs to be more fully utilized. Reports of contacts with Iranians, training reports, trip reports, and the like should routinely be made available to the DAO and through that Office to the Washington community.

-- Exchange students, teachers, missionaries, etc. who live for a time in Iran should be debriefed periodically on a selected basis for information acquired via their normal activities. Perhaps the political/military officer mentioned above might do that in Tehran; CIA/DCD could follow up in the United States.

-- A full list of U.S. businessmen known to be doing substantial business in Iran should be made available both to the Mission and to interested analysts in Washington. Analysts could then be encouraged to use such a regularly revised list as a key to the preparation of tailored requirements for CIA/DCD collection activity in the United States. The list also would facilitate efforts by the Mission to keep track of U.S. businessmen in Iran.

21. Prioritized Information Needs. I will be available to work with your Human Resources Committee to develop a list of specific prioritized information needs requiring Mission attention in the mid-term future.

David H. Blee

David H. Blee
National Intelligence Officer
for the Middle East

PARTICIPANTS IN SEMINAR

NSC Staff

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M

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DEFENSE INTELLIGENCE AGENCY

Defense Intelligence Officer
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TREASURY

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DDI/OSWR
DDI/FBIS
DDS&T/NED
DDO/NE
DDO/Plans

INTELLIGENCE COMMUNITY STAFF

FOCUS IRAN - AGENDA

I. Evaluation of the substance of reporting on the following significant issues:

A. REGIONAL CONCERNS

1. Progress toward achievement of an Iranian-sponsored mutual security pact of the Persian Gulf littoral states. Will such a pact ultimately exclude the US from the region or imperil the uninterrupted flow of oil from the Gulf?

2. Status of Iranian relations with Saudi Arabia. Does Iran expect subversion and/or overthrow of the governments of Saudi Arabia or Kuwait within the foreseeable future? If threatened, would the Arab regimes heed the Shah's admonitions or accept Iranian aid?

3. Efforts by the Government of Iran to pressure Bahrain into altering its position on voting MIDEASTFOR in 1977.

4. Indications that the Shah intends to alter the Iranian presence in Oman -- either withdrawing his forces or moving to make their presence permanent. What is the extent and nature of Iran's bilateral security ties with Oman; do they include policing the Strait of Hormuz and future joint military cooperation? Is there a common policy concerning "innocent passage" for vessels entering and leaving the Gulf? Does Iran seek to establish a permanent operational base in Oman in order to project its power into either the Indian Ocean or Red Sea?

5. Maintenance of the Iran-Iraq accord of March 1975. Are there any indications that Tehran is reviving the Kurdish war or permitting guerrilla operations in Iraqi Kurdistan to be staged from Iran? Is Talabani's Kurdish National Union having any success in recruiting either Iraqi Kurdish refugees or Iranian Kurds?

6. Status of Iraqi-backed subversionary efforts in Iran. Is Baghdad providing support for terrorist operations by fedayeen elements operating inside Iran? What is the nature and extent of Iraqi support being provided to Iranian terrorist groups? Is Baghdad promoting dissidence among the Baluch tribesmen or Arab inhabitants of Khuzistan?

7. Status of Iranian relations with Pakistan and India. Is Iran still committed to the maintenance of the present state of Pakistan? Has Tehran altered its policy of abstaining from any direct involvement in Pakistan's Baluchistan problem? Has Baluchi unrest seeped into southeastern Iran?

8. Status of Iranian participation in CENTO, the RCD and other regional cooperation efforts.

9. Extent and nature of bilateral irritants between Iran and Afghanistan. Have there been any significant changes in Iran's aid program for Kabul? Has such aid had any success in either moderating Afghani policies toward Pakistan or diluting Soviet influence in Afghanistan?

10. Progress toward implementation of the envisioned Iran-South Africa-Australia defense triangle in the Indian Ocean. Are contracts being implemented to effect the concept? Has Iran taken additional steps to gain access to the ex-British base on Gan Island?

B. ARAB-ISRAELI CONFRONTATION

1. Changes in Iran's policy of maintaining discreet but good relations with Israel in political, economic and military matters. Is Iran maintaining its liaison with Israel relative to technical and military intelligence? What is the current level and price of oil shipments to Israel? Is Iranian oil continuing to be transshipped through the Israeli pipeline?

2. Status of Iran's relationships both with Arab moderates and more radical elements -- including the PLO. Have there been significant changes in Tehran's associations with the Arab world, and what would be the likely regional effects of such changes? Do Iranian-Arab aid and trade patterns and joint ventures presage an increase in economic interdependence within the region?

3. Expansion of Irano-Egyptian ties and their impact on Tehran's relations with Saudi Arabia, Syria, Israel and the US. What is the status of Iranian military training programs for Egyptian personnel? What is Iran receiving in return for such training?

C. SUPERPOWER RELATIONSHIPS

1. Status of Iranian relations with the USSR. Has there been any noticeable increase in Soviet influence? Have the amounts or terms of communist economic and military assistance changed? Are there outstanding border disagreements? Are overflight rights for the USSR being continued? Are the terms of the natural gas exchange agreement being observed by both parties?

2. Status of relations with the US. Have there been any changes in the pattern of Iranian investments of surplus oil revenues in the US and other Western nations? Has Tehran undertaken any actions to restrict its domestic market for US goods and services?

3. Status of US nationals in Iran. Has the growing number of US military and contractor personnel impacted adversely on Iranian attitudes toward the US? Are there any indications that the Government of Iran intends to take any actions that might alter the existing MAAG agreement or jeopardize US communications, AEDS or covert facilities? Does Iran contemplate withdrawing its extension of rights to the US for temporary deployment of US Navy P-3s to Bandar Abbas?

4. Moves toward the development of a more independent foreign policy. What sentiment is there for assuming a neutral posture in world affairs? Are there plans for reducing Iranian dependency upon the US or for curtailing US influence in Iran?

D. DOMESTIC CONCERNS

1. Level of internal dissidence. Are the terrorists having any success in attracting adherents? Do the government's press policies impact on the terrorists' public image? How successful is SAVAK's anti-terrorism campaign; does the Shah appear satisfied with SAVAK's efforts? Has the murder of US nationals given rise to any manifestations of anti-Americanism among the general populace?

2. Suppression of infiltration efforts by communist and other radical groups. What are the major anti-regime elements and from whom do they receive backing -- Iraq, Libya, USSR, Cuba, PLO?

3. Status of the Shah's anti-corruption and anti-inflation campaigns. Have new regulations been effected to implement the Shah's policies? Are they enforceable and likely to stop existing corruption and profiteering?

4. Indications of improved (or worsened) income distribution in Iran. Have there been tangible economic gains at the village level? What is the political impact of growing economic awareness among the populace?

E. ECONOMIC CONSIDERATIONS

1. Status of the current development plan, including both industrial and agricultural efforts. What is the impact of labor, port and other infrastructural problems on development efforts? Are the government's remedial actions having any effect? Are cutbacks in investment goals for developmental projects likely?

2. Lack of a trained/trainable manpower base. Can Iran sustain a high rate of economic growth with its limited technological base? Are the Iranian people accepting the influx of foreigners needed to implement development plans?

3. Development of cost effective alternatives to oil as an energy source. What is the status of plans for the development of a national petrochemical industry as an alternative to oil production? Is the planned installation of atomic energy reactors proceeding on schedule? What are Iran's plans for stockpiling and for carrying out cooperative nuclear programs with other countries?

4. Oil pricing strategies. What are Iran's plans for protecting its oil income from the effects of world inflation and rising commodity costs? Are there any indications that the government may radically alter its agreement with the consortium?

5. Changes in current foreign investment strategies. Who are the key financial experts and what is their influence on government policies? Have there been any significant changes in the relationship between the Central Bank and the Ministry of Finance?

6. New directions being considered relative to military coproduction and third-country transfers. What are Iran's plans for participating in the development of regional arms industries in conjunction either with Arab states, Turkey or Pakistan? Have there been changes to Iran's indigenous R&D technological development strategies?

F. INTERNAL POWER STRUCTURE

1. The Shah's ability to strengthen his power base. Have there been any changes in the personality patterns of the Shah; what are their implications for his political behavior? What is the nature of the Iranian elite and what is its impact on the regime?

2. Identification of top military officers that would most likely play key roles in any transferrence of power if the Shah were to be killed. What are their political views and what government and royal family members are they close to?

3. Shah's relationship with and plans for the Rastakhiz party. Is the party able to exercise discipline over its members? Are changes in the party leadership forthcoming? Will changes in the leadership impact on either the party's policies or influence?

4. Current strength and disposition of the Tudeh party. Who are the key Tudeh leaders and from where do they operate? What are the principal sources of aid for the party? Are there links between the Tudeh and active terrorist groups operating within Iran? To what extent are Tudeh recruitment efforts successful among Iranian students abroad?

G. MILITARY AFFAIRS

1. Expansion and modernization of existing military forces. What steps are being taken to maintain and strengthen Iran's forces vis-a-vis Iraq? Have change in the mobilization base impacting on the armed forces' adequacy and responsiveness occurred? Have combat deficiencies noted during the Dhofar campaign led to any reappraisal of military needs and objectives?

2. Changes in top level military leadership ranks. Have any changes affecting Iran's basic western orientation occurred? Is there evidence of collus between top military leaders and foreign contractors?

3. Indications of an Iranian decision to undertake nuclear weapons development. Are there any signs that Iran plans to violate the provisions of the Nucle Non-Proliferation Treaty?

4. Expansion of port facilities and military installations in the Gulf of Oman and the Indian Ocean. What military steps are being taken to exercise contr over the entrance to the Persian Gulf? Are any changes in attitude anticipated relative to Iran's occupation of Abu Musa and the two Tumb islands?

II. Identification of current reporting strengths and deficiencies:

A. Within the Mission.

B. External to the Mission.

III. Mission assessment of the support provided it by the Intelligence Community.

IV. Conclusions and recommendations for future reporting.

DIRECTOR OF CENTRAL INTELLIGENCE
Human Resources Committee

ASSESSMENTS SUBCOMMITTEE

27 December 1976

FOCUS Iran

Part II: Action Review

I. INTRODUCTION:

The Assessments Subcommittee reviewed the Reporting Assessment (Part I) in its meeting on 30 November 1976. Represented were the National Intelligence Officer (NIO) for the Middle East, the Department of State, CIA, DIA, the Army, Navy, and Air Force, and the Intelligence Community Staff. Part II summarizes the general conclusions, observations and recommendations of the Assessments Subcommittee and includes agency comments about issues which emerged during the course of the Review. The Subcommittee was advised that comments from Embassy Tehran on possible areas of interest to the Mission had not been received and are therefore not reflected in the Review. The Assistant National Intelligence Officer for the Middle East visited the Embassy, however, and discussed a draft of the Reporting Assessment informally with Mission Officers. No outstanding reporting problems or issues were identified at that time.

II. CONCLUSIONS, OBSERVATIONS AND FOLLOW-UP ACTION:

A. Concurrence in Reporting Assessment. The Subcommittee concurs in the Reporting Assessment's judgment that reporting from Embassy Tehran on most topics is satisfactory and that many of the information and analysis problems which do exist stem from the nature of the Iranian power structure.

B. The Shah as a Source of Information. In discussing key information from Iran, Department of State analysts observe: "The Shah has ruled for 35 years. In view of our long-standing close ties, his consistency (beneath all the stagecraft) and his candor (within the Persian context), we know quite a bit about his aims and tactics. He is likely to see it in his interest to keep us *au courant* in the future. Given the nature of his state, we will remain largely dependent on his soliloquies and on the ability of our Ambassador and others to pose penetrating questions. Realistically, we should not expect to get significantly more information from him than we are receiving now."

The CIA suggests that: "It would be useful to have alternate sources of information about the Shah. Of only slightly lesser importance are similar comments on the individuals close to the throne--those who advise the Shah, execute his will on vital matters, protect his life, bring him information, etc."

C. "Memcon" Reporting. Department of State representatives suggest that "The Embassy should be encouraged to continue the flow of memoranda of conversation (memcons) and informal ambiance reportage". The Subcommittee underscores the value of such less formally structured reporting to Washington policy officers. It notes, however, that experience in this and other FOCUS Reviews demonstrates that Foreign Service memcons are normally not made available to interested analysts outside of the Department of State. The State member agreed to raise this issue with responsible officials in the Department of State and request their assistance in seeking a resolution of this difficulty.

D. Information from Nonofficial Americans in Iran. Paragraph 20 of the Reporting Assessment urges increased efforts on the part of the Mission to obtain information about Iranian developments from the many American exchange students, teachers, missionaries and businessmen in Iran. The Department of State member observes that the Mission already maintains contact with nonofficial Americans in Iran. Other Subcommittee members who note that there are special restrictions on (operational) intelligence contacts with missionaries and certain categories of exchange students. They believe that concerns about overt and social and normal Embassy interactions with American citizens, especially businessmen, can be overdrawn. The Subcommittee believes that the Ambassador is in the best position to weigh the opportunities and potential risks involved in collection efforts in this normally difficult and sensitive area.

E. Identities of American Businessmen. The Subcommittee agrees that a list of U.S. businessmen known to be doing substantial business in Iran might be useful to the Mission and certainly would be useful in Washington. Analysts could use such a list as a guide in preparing more precisely stated requirements for the efforts of CIA's Domestic Collection Division (DCD) in the United States. The Department of State member notes in this respect that "Section 36 (A) (7) of the Arms Export Control Act (AECA) requires the President to include in his quarterly reports to Congress, an estimate of the number of U.S. citizens present in each foreign country at the end of each quarter for assignment in implementation of sales under the Foreign Military Sales Program and commercial exports license or approved by the Office of Munitions Control".

F. Military Reporting. The Subcommittee believes that the Reporting Assessment overstates the need for additional order of battle information. CIA notes that "basic OB and TO&E data are not available for certain units, such as the Imperial Guards Division." DIA points out that during the past 18 months some 150 reports had been received on military order of battle (10.8 percent of all DIA intelligence reports from DAO Iran). CIA analysts, however, have asked for additional information on overall capabilities of armed forces and military contingency planning as well as force development planning in the 1973-1978 time frame. The NIO, who attended the Part II discussions, agreed that it is not that basic data are not available but that there are important gaps, a point that is concurred in by DIA and CIA.

DIA holdings support the need for more data on Iranian military bases but reflect inadequately stated requirements for information on these installations. In responding to requests for improved biographic reporting, DIA states: "Biographic reporting received on Iran amounted to 6 percent of total reporting (vs. about 12 percent for overall DIA biographic report receipts). It should be recognized that our analytical resources are limited and that biographics remain a relatively low priority for DoD, other targets considered. There is, however, close and continuing coordination between DIA biographic analysts and the CIA Office of Central Reference (OCR), which has authority to task the Defense Attache System through DIA. We appreciate the need for improvement in analysis by the field collectors with respect to biographic reporting. We will, therefore, highlight this need in our 15 December 1975 DIAgram to collectors in which we will ask for the reason why a particular biographic report is being prepared, and request judgmental information on the sphere of influence and authority exercised by the key military leaders reported on."

G. Security Assistance Organization Information. The Subcommittee believes that this major official U.S. organization in Iran is in possession of extensive information about the Iranian armed forces, military bases and personalities--acquired during the normal course of its business--which has not been readily available to intelligence analysts in Washington who could use it. DIA states that it has addressed this continuing information problem with both the Office of the Secretary of Defense and the Defense Attache Office in Tehran and notable improvements in the working relationship between the MAAG and the DAO in Tehran have occurred in recent months. This is the fourth FOCUS Review, however, in which the Subcommittee has called attention to this issue. It recommends that the Intelligence Community Staff pursue the matter on a priority basis with the appropriate authorities in the Defense Intelligence Agency and the Department of Defense.

H. Additional Staffing. The Reporting Assessment suggests the need for the assignment of an additional reporting officer to Embassy Tehran. Department of State officials do not share the justification as stated in the Assessment. Treasury notes that the economic section is competent and fully utilized, but overextended. The Subcommittee does not concur in the suggestion. It believes that Washington collection managers and the Chiefs of Mission concerned are best qualified to determine the extent to which judgments and findings contained in this or other FOCUS reviews provide useful contributions to management decisions with regard to staffing for which they are responsible.

I. Follow-on Guidance. The Subcommittee recommends that the Human Resources Committee working closely with the National Intelligence Officer and Washington policy officers draw up a prioritized list of national information needs for transmittal to the Mission.

David J. Carpenter (RLG)
David J. Carpenter
(Department of State)
Chairman, Assessments Subcommittee

SECRET

DIRECTOR OF CENTRAL INTELLIGENCE
Human Resources Committee

Office of the Chairman

HRC-C-77-043
17 MAY 1977

The Honorable William H. Sullivan
American Ambassador
Tehran

Bill

Dear Mr. ~~Ambassador~~:

In transmitting the FOCUS Iran Review to Charge d'Affaires Jack Miklos in January, the Acting Director of Central Intelligence indicated that a limited prioritized list of items of national intelligence interest would be provided to the Embassy. Attached is the promised list developed by the Human Resources Committee with the advice of the National Intelligence Officer for the Near East and South Asia. Since the list is concise, no order of prioritization is indicated.

This guidance is being provided to you separately from the FOCUS Review, and it may appear rather skeletal in form. We hope, however, it will be of some use to you as a coordinated interagency expression of the most important Washington information needs. More detailed guidance is provided on a regular basis through departmental channels.

As we gain experience in the FOCUS Program, we are hopeful that these assessments of human source reporting and the reporting guidance which flows from them will simplify and facilitate the work of the overseas missions. I would welcome any comments that you may have on any of these matters.

Sincerely,

Ambassador Edward S. Little

Attachment:
Guidance Package

SECRET

Classified by 664986
Exempt from general declassification schedule of E.O. 11652 exemption category 5B(1), (3)
Automatically declassified on Date Impossible to Determine

153

GUIDANCE: IRAN

The following is a list of general topics of interest to the intelligence and foreign affairs communities.

I. Political

A. Internal

1. Long-range objectives and policies of the Shah and his key advisors, both civilian and military.

2. How and by whom major political, national security and economic decisions are made.

3. The role SAVAK plays in the government.

4. The Government of Iran's involvement in human rights violations.

B. External

1. Sources of foreign military threat to Iran.

2. The balance of forces in the region as it affects Iran.

3. Relations with the Soviet Union and the Gulf countries, particularly Saudi Arabia and Iraq.

II. Economic

A. Economic development programs, especially the National Iranian Oil Company strategy and sales policies.

B. Plans being formulated for nuclear development.

III. Military capabilities of the Royal Iranian Armed Forces.

TELEGRAM

INDICATE COLLECT / CHARGE TO

2030 R 081015Z APR 77

FROM: AMEMBASSY TEHRAN | CLASSIFICATION: SECRET

E.O. 11652:
TAGS:
SUBJECT:

ACTION:

POL-3
AMB
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ECON-2
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OR-2
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ACTION: SECSTATE WASHDC

INFO: AMEMBASSY ABU DHABI
AMMAN
ANKARA
USINT BAGHDAD (by pouch)
CAIRO
DAMASCUS
DOHA
ISLAMABAD
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E.O. 11652: GDS
TAGS: ANGT, PFOR, IR
SUBJECT: Annual Policy and Resource Assessment for Iran-Part One

REF: (a) State 38356 (DTG 190052Z Feb 77)
(b) State 38338 (DTG 190017Z Feb 77)
(c) State 49794 (DTG 071620Z Mar 77)

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ECON:RCBrewin (draft) POL:JDStempel (draft) OR:(draft)

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CLASSIFICATION

FORM FS-413(H)

Part I - Policy Assessments

A. US Interests in Iran

1. The United States and Iran were drawn together at the end of World War II through a mutual interest in containing Soviet expansionist policies. (Northwestern Iran was occupied by the Soviet Union at that time.) US-Iran relations have been animated by this shared interest ever since, and a number of cooperative arrangements were made to promote the achievement and maintenance of this common goal. At a time when we were in a position to do so we placed a security shield around Iran through a bilateral commitment to come to Iran's defense if it were attacked by the USSR or its communist allies. We also associated ourselves with the Baghdad Pact (later CENTO) in part for the same purpose. Concurrently, we undertook an extensive program of economic, technical and military assistance to enable Iran to defend its own interests and develop its resources in an environment of internal stability and economic and social reform. Many of these programs achieved their purpose and were terminated. The only arrangement of major significance still continuing is in the military assistance field, with the US providing arms and technical support now paid for fully by Iran. On its part, strategically-placed Iran provides us the sites for valuable and not easily replaceable intelligence and

communications facilities, as well as assured overflight rights through our only safe and available East-West air corridor in this part of the world.

2. In the meantime the quality and nature of the relationship has evolved, although its underlying purpose remains essentially the same. As Iran developed, began to prosper, and to gain confidence in its own capabilities, the US expected and asked Iran to play a more active role in the regional and international arenas. In large measure Iran has been responsive within the framework of what the Shah, Iran's principal policymaker, sees as a "special relationship" comparable in some respects and for much the same reasons to the US relationship with NATO and Israel. At our request Iran participated in the four-power commission in Vietnam and provided our South Vietnamese ally with military equipment. More recently it sent a military contingent for truce supervision duties on the Golan Heights. At our behest it has provided financial assistance to Egypt and a number of other needy countries in which we have a shared interest. Iran has been a major contributor to IFAD and was responsible for providing the final increment which met US conditions for participating. Iran has also played a moderating supportive role in regional affairs, conciliating local disputes and helping Oman put down a communist-supported insurgency in Oman's

southern region. In sum, commensurate with its ability and influence, it has played a constructive and helpful role in matters of direct US concern. Over the foreseeable future principal US interests in Iran are as follows:

(a) Maintaining a stable, independent non-communist and cooperative Iran which has the strength and will to resist potential Soviet aggressiveness, whether direct or indirect, and to continue its role for stability in the Persian Gulf, Middle East, and South Asia;

(b) Safeguarding a reliable source of petroleum to the West, Japan, and Israel at as low a price as possible (a priority consideration for NEA area-wide policy), bearing in mind the limited leverage we possess on Iranian price positions;

(c) Fostering greater Iranian support for the Carter Administration's emphasis on improved human rights, nuclear non-proliferation, and restraint with respect to conventional arms transfers;

(d) Maintaining US access to the Iranian portion of the vital Turkish-Iranian air corridor (and access to Iranian ports for US vessels) in support of our shared security interests;

(e) Maintaining use of Iranian territory for special intelligence and communications facilities which could not be relocated elsewhere without a significant

loss of effectiveness;

(f) Maintaining access on favorable terms for American goods and services to the rapidly growing Iranian market, as well as continuing US-Iranian financial cooperation;

(g) Maintaining an effective and cooperative dialogue with Iran on a host of multilateral economic and political questions such as North-South economic cooperation, Arab-Israel relations, arms control, Indian Ocean and Persian Gulf issues, and Law of the Sea;

(h) Encouraging greater Iranian cooperation in our worldwide anti-narcotics efforts.

B. Overview

1. Two of Iran's basic policies most directly shaped by its proximity to the Soviet Union and its assessment of Soviet intentions are its military modernization program and repression of internal communist activity. These are also two policies most likely to be brought into question by the new Administration's emphasis on limiting transfer of conventional arms and on human rights. Lack of agreement in either area is certain to influence adversely the measure of success we have in furthering our other interests in Iran and, to some degree, in the region.

2. Our aging security commitment to Iran is no longer credible. With US encouragement Iran has seen its only

viable alternative as military self-sufficiency--although it has no illusions that it would ever be in a position singlehandedly to deter direct Soviet aggression. Thus it has embarked on a large-scale and expensive military modernization program and the acquisition of highly sophisticated weapons systems, principally from the United States. It measures its need against its assessment of potential threat from its neighbors, particularly the USSR and Iraq, and the kind of military establishment it requires to defend its borders and their approaches from any direction.

3. The question of what may moderate Iran's military build-up is key. The Shah has already indicated that if the US cuts off arms supplies he will turn elsewhere. Recent significant purchases from other countries, including the Soviet Union, lend substance to his determination. Full success in curtailing Iran's arms acquisition program, therefore, can only be achieved by a general moratorium of arms transfers to the area by all arms suppliers. In our judgment unilateral efforts will not achieve such a purpose.

4. Between the extremes of a total cut-off and unlimited supply, however, we believe there is room for maneuver. The outcome will be influenced by how effectively and persuasively we can move toward reaching

[illegible] agreement with Iran on the [illegible] of the present and future threats and on what is required to [illegible] them. In many respects this consultation process would be akin to the US-Israeli model. It would involve not only [illegible] examination of the regional political-military environment but also a methodical examination of Iran's financial and human resources, its infrastructure and its absorptive capacity. Such a course of action would require dedication of technically [illegible] personnel not presently committed at either the Washington or Tehran ends. It would also [illegible] a capability and willingness on the Iranian side not yet tested fully. However, in the absence of such an effort, unilateral USG decisions to cut back supply to Iran would be interpreted [illegible] lowering [illegible] Iran, [illegible] the atte[illegible]

5. [illegible] concern[illegible] a gap [illegible] and Ira[illegible] the [illegible] the Iran[illegible] [illegible] 2,5[illegible] years of [illegible] tively b[illegible] to Western liberal values. The conc[illegible] process are essentially alien to

the tradition although it has been in the vanguard of certain human rights, such as religious freedom, cherished in the West. Land reform, mass education, women's rights, and other social and economic reforms have only recently (in the 1960's and 1970's) been introduced against extensive conservative opposition. There seems little doubt that even these limited advances would not have been achieved in the absence of the strong and determined leadership of the Shah and his father before him. Within these same few decades the Shah has been challenged by both the communist-supported Left and the land-owning, conservative Moslem Right, and on several occasions brought to the verge of collapse which would have probably entailed a reversal of Iran's pro-Western orientation.

6. Most recently, Iran has had to contend with small but dedicated and loosely-knit congeries of Marxist-Moslem oppositionists who have resorted to terrorism and violence in attempts to overthrow the present order. There is evidence of outside support for these efforts. The regime has responded vigorously, although not always efficiently. Its successes have been mainly at the popular political and economic level by pre-empting the programs and policies any conceivable opposition might advocate and co-opting many potential oppositionists into legitimate activity. What remains is an opposition

with few policy aims beyond a generalized desire to supplant the present leadership in power--a posture that does not evoke any wide popular support in Iran. The regime's attitude toward this opposition, which it considers to be mainly communist-oriented and/or inspired, is harsh and regulated by laws akin to those that were being advocated in the United States in the 1950's. Further, its civil court system is clogged and subject to much criticism for its inefficiencies. This situation, married to a mish-mash of Napoleonic and Islamic codes, results in the design of a judicial procedure to deal with security issues alien to Western (at least Anglo-Saxon) concepts of due process. There are probably about 3,500 "political prisoners" in Iran although Amnesty International and similar groups have claimed that there are up to 200,000. Among these the large majority have engaged in or conspired in acts of violence. What we confront, therefore, in advocating the adoption of human rights policies more attuned with our own concepts, is a fundamental difference in legal and attitudinal postures not unique to the present regime and deeply imbedded in the Iranian tradition. The present government is not indifferent to our concerns or unalterably opposed to change. We have seen a modicum of improvement in this area, and we believe we can expect more if we proceed

quietly with persistence and patience in a non-confrontational manner.

7. Another area of difference concerns oil prices. Iran has consistently argued that (a) oil price rises have not contributed as much to the West's (or even LDC) economic woes as Western commentators say; (b) oil is a resource to be conserved and higher prices encourage development of alternative energy sources; while (c) Iran is justified in raising the price of its main export in view of rising prices for Western goods, both military and non-military. This is a position which Western arguments have not succeeded in eroding. Developments over the next few years (such as the present two-tier quarrel in OPEC) could conceivably lead to some chipping away of Iranian resolve. However, the Shah has taken the position that oil policy is an economic matter, not to be affected by political considerations. (He therefore refused to join in the 1973 Arab embargo and continues to be the major supplier of oil to Israel.) We can, and should, continue to present our viewpoint on oil prices (and supplies) on a regular basis, seeking a continuing consultative dialogue with the Iranians so that over time we might erode those of their arguments for which we have effective counter-arguments. We should continue to study the whole question of oil [illegible], since it is not

at all [illegible] be in time nine-tenths unilateral OPEC price [illegible], or those that would otherwise occur on the open market. But on this issue as on others we have little to gain and much to lose by direct confrontation. It will be more effective to argue in friendly terms.

8. Our evidence indicates the Shah is sincerely convinced of the case for nuclear non-proliferation in Iran's case. At the same time, he is committed to a heavy investment in peaceful nuclear energy development and concerned to assure adequate nuclear fuel in the future. Iran has already been casting about in South Africa, Zaire, and elsewhere for diversified sources of [illegible]. It [illegible] to continue to be interested in US enrichment plants and similar technology, gauging the [illegible] of its [illegible] with the USG on worldwide nuclear [illegible] by the degree of US cooperation it gets on its own concern for assured supplies of fuel.

9. The US is (marginally) the largest exporter to Iran of non-military (as well as mil[illegible]) goods and services. The dip in 1976 to approximately $2.8 billion of non-military US exports to Iran is expected to rise through the coming year to approximate its 1975 plateau of about $3.2 billion. We would expect it to remain around $3 billion over the next few years.

10. In multilateral economic and political questions Iran will probably continue to be torn between (a) caution to avoid collision with LDC interests on the one hand and (b) sensitivity to maintaining good relations with the major developed countries. In North-South forums Iran is likely to support the LDC point of view, but its enthusiasm will vary from issue to issue. IFAD is another instrument which will be important to Iranian policy (particularly if IFAD headquarters end up in Tehran) while its role in older international bodies or groupings such as UNCTAD, GATT, and even the G-77 will continue more passive.

11. Iranian students in the US remain probably the largest contingent from any foreign country and can be expected to rise in number beyond the estimated 30,000 now there. This will not change the Iranian Government's jaundiced view of radical Iranian opposition activities in the US and Western Europe, but the issue should remain reasonably contained as long as both Iran and we keep it in the larger perspective of our overall relationship.

12. There are some additional policy aims of the USG in Iran such as winning Iranian cooperation for an effective program against opium production in neighboring countries, getting Iranian votes in UN bodies for a variety of USG positions, etc. However, these, along with the more major interests already mentioned, are

mutually interdependent and derive from an overall climate of friendship and cooperation as it continues to be perceived by the Shah.

C. Objectives, Courses of Action, and Issues

1. Our objectives are those outlined in Part A as US interests. Principal courses of action in support of these interests or objectives are as follows:

(a) Continue the sale of conventional arms to Iran, attempting through closer technical consultation between the US and Iranian defense establishments to convince Iranian policymakers of their own interest in being more selective and drawing out the pace of arms modernization for more effective absorption. Emphasize our mutual interest in a strong, secure Iran through close consultations between the two governments, including adequate exposure of the Shah to the President and the Secretary of State, as well as frequent contacts at several levels involving high officials in Washington as well as the Ambassador and his staff in Tehran. Note at the same time the USG's basic commitment to a lower level of armaments throughout the world to which we hope and expect Iran will make its contribution. The chances of our achieving such a reduction of armaments will be enhanced to the extent that we can: (1) convince Iran of our continuing reliability as a supplier of needed arms

and technical [illegible] [illegible] international support (including the [illegible] USSR) for lowering the level of arms transfers, and (3) help improve the security situation in the region and [illegible] Iran, through such possible developments as a lower rate of Iraqi armament (associated perhaps with an Arab-Israeli settlement) or a more meaningful Indian-Pakistani rapprochement. (Note in this connection that withdrawal of US and Soviet forces from the Indian Ocean would not in itself lower Iranian concern about the far [illegible] internal [illegible] forces such as India or Iraq.) The ARMISH/MAAG [illegible], even if pared down in numbers, should continue to provide leadership to the large numbers of USG and private technical personnel assisting Iran's military modernization through programs paid for entirely by the Iranians. An increase in the personnel of the Embassy's POL/MIL Section should help give direction to this effort.

(b) Evince continuing US concern for human rights in Iran both in terms of Iran's image as a de facto ally of the US and for Iran's own future stability in which the US is interested. Avoid ex cathedra denunciations, or excessive USG support for critics of Iran's human rights situation, but work persistently with Iranian policymakers and the bureaucracy to identify areas in which liberalization of Iranian law or practice will not

[illegible] long run.

(c) [illegible] and [illegible] a dialogue with Iran on the price of oil, particularly [illegible] it [illegible] the prices of it [illegible] from the US (as [illegible] that is fond of [illegible] with us). Try to demonstrate, insofar as that is possible, that Iranians [illegible] the degree of inflation [illegible] they buy from us (including rises in costs for military equipment and services [illegible] more rapid prices of non-military imports). We should recognize, however, that there are limits to [illegible] such as Iraq as (1) Iran continues to show no political discrimination in whom it supplies (e.g., no embargo on Israel or the Hajj), and (2) Iranian price is not significantly out of line with that elsewhere in the world.

(d) Continue our dialogue with Iran to maintain GOI commitment to and assistance on non-proliferation matters. It should be in our interest to help assure Iran of a reliable supply of fuel for its growing peaceful nuclear energy program. In return we should be able to call on Iran for assistance in dissuading others from pursuing nuclear proliferation, as Iran has been useful in the past (e.g., with Pakistan).

(e) Continue our intelligence cooperation with

Iran so as to provide a continually improved joint product and demonstrate our continuing interest in Iran's security at a time when we shall be urging smaller, more selective purchases of arms.

(f) Continue our strong support of private, non-military US commercial exports to Iran through our Embassy commercial officers, the US Trade Center, and special trade fairs or exhibits in support of our world-wide commercial programs. Continue a steady level of economic and financial reporting to keep up with changing trends in Iranian economic behavior or perceptions (e.g., US companies interested in possible barter agreements utilizing oil). Maintain our interest in Iranian agricultural production through Department of Agriculture representatives here, noting that continuing improvement in Iranian agricultural production assists the process of social as well as economic development, and thus political stability.

(g) Continue an effective USIS cultural and information program as another means of assisting Iran's development, demonstrating undiminished US interest in Iran's future, and continuing to build ties with Iran's opinion leaders in education, information, and related fields which in the long run should markedly assist Iran's transition to a more democratic environment.

(h) Also support greater people-to-people contacts through the stream of Iranian visitors to the US and the large number of Iranian students studying there. Adequate manning of the Embassy's visa services is required.

(i) By the same token, adequate manning of American services and protection of US citizens are necessary to support the large American presence in Iran and avoid unnecessary strain in people-to-people relations.

(j) Through more frequent exchanges with Iranian officials in a variety of ministries and organizations, as well as the MFA, seek to win increasing Iranian support in international fora on both economic and political issues of continuing concern to the USG. A greater degree of Embassy officer time than in the past has been and will continue to be allocated to this task.

(k) Maintain an adequate anti-narcotics program in Iran, through the agency of resident and visiting DEA agents, so as to continue gaining Iranian cooperation in limiting the production of opium in neighboring countries and the transit of drugs to the US, as well as minimizing drug problems among the American community.

2. Issues.

(a) The most critical issue in our bilateral relationship is an early Washington decision as to the

[illegible] to [illegible]. [illegible] the key pin of the [illegible] close [illegible]. [illegible] of the issue be resolved along the [illegible] by discussion of the [illegible].

(b) A related [illegible] will be the extent to which [illegible] the [illegible] of the Iranian human rights situation as opposed to taking a more gradualist approach to [illegible] reform in this field. We believe the GOI will put up with, and even cooperate in, USG efforts to improve both Iran's [illegible] and its performance, but USG efforts in this line must always be perceived as those of a concerned friend, [illegible] ideas on common aims, and bear no rpt no resemblance to Iranian memories of capitulatory and colonial [illegible] on Iran by Western governments in the past.

(c) Early Washington attention to the question of assuring adequate, reliable nuclear fuel supply for countries like Iran which are embarking on ambitious nuclear energy development programs is a worthwhile goal in itself and should have the valuable side effect of ensuring active Iranian support for our worldwide nuclear non-proliferation efforts.

(d) Finally, a relatively minor issue is

[illegible] World War II [illegible] [illegible], which has taken (through [illegible] of [illegible]) [illegible] to some 935 million [illegible]. [illegible] recommend [illegible] [illegible] of a [illegible], which the Israelis also [illegible], [illegible] involved to save face all around.

EXHIBIT

Chron

DEPT ASS

CONFIDENTIAL

MESSAGE REFERENCE NO. A-124

TO: SECSTATE WASHDC

INFO: AMEMBASSY JIDDA
" ISLAMABAD
" ANKARA
" LONDON

FROM: AMEMBASSY TEHRAN

DATE: July 25, 1977

E.O. 11652: E.O. 11652: GDS

TAGS: PINT, IGOV, IR

SUBJECT: STRAWS IN THE WIND: INTELLECTUAL AND RELIGIOUS OPPOSITION IN IRAN

REF: A) TEHRAN'S A-23 of 22 FEB 1977 (NOTAL), B) TEHRAN'S A-116 of 11 JULY 1977 (NOTAL), C) TEHRAN 5337 AND 5513 (NOTAL), D) TEHRAN 1564 (NOTAL), E) TEHRAN 5223 (NOTAL)

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DISTRIBUTION:		

Stirrings of Dissent

Summary. Criticism of the regime in foreign newspapers and magazines which circulate freely here has long been tolerated although hardly welcome. This has not been true with respect to criticism from internal sources. In the past two years, however, official attitudes appear to have become increasingly relaxed on this score. Indeed much of the impetus has come from the Shah himself and government sponsored groups and commissions have been formed to examine and criticize government policy and performance. Lately criticism has also come from groups not associated with terrorist organizations and outside officially sponsored channels. While fairly carefully phrased they call for the Shah to reign and not rule and for a revival of intellectual freedom of expression. Whether more is to come and what the government will do about it remains to be seen. But the door of liberalization seems to be ajar. While welcome and consonnate with our renewed emphasis on human rights, we believe that we should avoid any pronouncements which could be construed as endorsing the substance of the criticism. End Summary.

Attachments:
1. Letter to Shah
2. Letter to Prime Minister
3. FSI [illegible]

CONFIDENTIAL

CLASSIFICATION

DRAFTED BY	DRAFT DATE	PHONE NO.	CONTENTS AND CLASSIFICATION APPROVED BY
POL:JDSlemal	7-25-77		DCM:JCMiklos

CLEARANCES: Contributors:DCM.JCMiklos:POL.JWKennedy:SHIR

Background. Twice in this century attempts to emulate Western forms of representative government, multi-political parties, freedom of speech, and the right to dissent have been tried and failed in Iran. These are concepts that are essentially alien in this ancient monarchy. Loyalties and interests are traditionally in order of priority to family, tribe and only distantly to the monarch and the nation. Cooperation, group efforts, and working within institutions are not part of the Persian heritage and their absence accounts in substantial measure for past failures of Western political values to take root and grow. Dissent and opposition have been seen generally as attempts to overthrow the established regime and to frustrate its objectives. Nevertheless the notion is gaining strength that Iran is not an island unto itself and that it must accommodate to outside ideas and influences. One response has been to invite "constructive criticism" but keep it within manageable boundaries.

Some intellectuals and conservatives had not found this a sufficiently adequate or satisfying outlet however. A kernel of the old fanatical religious groups have continued in being and the Shah's regime has constantly felt itself under challenge from those who still believe that the 17th century Sáfavid dynasty reached the apogee of social organization and development. Religious opposition to the government has continued and even grown as the pace of modernization has increased since 1963 at the time of White Revolution. Terrorist groups, probably under the aegis of Mujahidin-e-Khalq (People's Strugglers), began recruiting impressionable youths from deeply religious Muslim backgrounds. Most of these younger people began by being aghast at the Shah's reform program, particularly land reform (peasant habits changed slowly) and giving women the vote. The GOI has kept a close eye on the leading radical imams, moving to discredit some, simply watching others.

In the same period, 1963-1975, left-leaning members of the National Front, many of whom had been Tudeh (communist) Party members discarded an active interest in politics. Some became coopted, impressed by the Shah's revolutionary reform efforts. At least two became ministers. Most, however, simply dropped out of politics and became apolitical. Several remained university teachers, some went into business (and became well off as Iran's wealth grew rapidly in the late 60's and 70's). Many remained privately critical of the Shah, cynical about government, and unwilling to participate in regime-sponsored activities such as the Resurgence Party. Not a few came to accept the country's development, but centered their criticism on the lack of

[illegible]

[illegible] in [illegible] particularly those who [illegible]

[illegible]

[illegible] Up the Political System

Concurrent with Iran's growing interest in its human rights [illegible], which began [illegible] case the realization that people remained critical of the government's ability to respond [illegible] challenges. Moreover, it was becoming obvious [illegible] to coordinate and control [illegible] more than tacit cooperation of the [illegible] numbers of Iran's new middle class was going to be required. In short, the Shah and the government, [illegible] 1977 at the latest, began to look for ways to [illegible] the active support of the new elite. Criticism within the Resurgence Party, provincial and city councils and the [illegible] was tolerated--to the point where [illegible] who participate [illegible] are now wondering what good it has done. Is anybody listening? To make this process more creditable, the GOI resurrected and spot-lighted the activities of [illegible] bodies created to examine the government: the Imperial Commission, the Imperial Inspectorate Organization (IIO) and the Study Group of Iranian Problems. Each group has been given a separate and sometimes overlapping mandate. The Imperial Commission to focus on correcting economic development, eradicating waste and eliminating corruption; the IIO to monitor the progress of the Administrative Revolution and since June 7 to conduct unannounced spot inspections of all GOI ministries and offices; and the Study Group to debate and evaluate GOI problems and policies and to forward their criticism and reports to the Shah. (Ref. B describes the evolution of these groups.)

To inaugurate the new campaign in June and July, the Imperial Commission meetings were televised nationally. Committee reports and ministerial testimony revealing "deficiencies and shortcomings" in the national economic development plan received extensive comment and coverage. Comment was primarily directed at the power, textbook, cement, labor and hospital shortages and ceased little short of a sensation--ministers were being attacked and forced to defend their policies or to promise change. At a similar meeting of the [illegible] in June, the Prime Minister and other top officials were closely questioned about GOI mismanagement and [illegible]. According to a summary prepared by a Study

Group member who is also a USIS local employee, many of the members expressed a profound distrust or antipathy toward the GOI. Several times during an off-the-record question-and-answer session with the Prime Minister, the integrity of the government was directly impugned and its performance ridiculed. For the past two months, the IIC has been recast as the GOI's "watchdog" agency to adjudicate citizen complaints, to conduct independent investigations and to prepare reports for the Shah. It is the most powerful and effective of the three groups--and has the full confidence and support of the Shah. The only question remaining is whether the Shah and the Prime Minister will live up to their promises and be able to convince a skeptical public that they mean business.

Sources close to the Prime Minister assert that this carefully orchestrated campaign to open up and permit more criticism of the government was initiated with the Shah's blessing and the Prime Minister's recent actions lend credence to those reports. Speaking to the press on July 5 and to the I.C. on July 12, Hoveyda said every Iranian has the right to criticize and differ in all national affairs except where "the essence of Iran's nationhood is concerned" (i.e., the Shah, the Constitution, and the Shah-People Revolution). He stated what has become the government's position: "There is no reason why a country that has, thanks to the Shah's leadership, reached a position of strength from one of weakness should be afraid of criticism." How this will eventually work out in practice is not yet certain--following a Kayhan editorial of June 7 criticising censorship as bad for Iran, the Prime Minister is reported to have telephoned Kayhan's editors and stormily accused them of going too far too fast when they echoed his own criticism of present censorship arrangements. Nevertheless, it seems clear that the GOI is adopting a more tolerant basic position regarding opposition to government policies than it has in some time. There has even been stray talk of allowing a second political party, but so far it remains just that--stray talk.

Stirring of Opposition

Other signals emanating from the GOI--the Military Court Reform Bill (see Ref C), and counterattacks against international charges of torture in Iran (Ref D) have led some formerly apathetic individuals and groups to return ever so tentatively to the political arena. This has been reinforced by their belief that the danger of repression is less because Iran wants to open up a bit, and the new U.S. human rights policy has pressured countries in general and Iran in particular to exercise police controls with more restraint on dissidence.

The most visible evidence of this "reawakening" are two letters which have been circulating privately, one addressed to the Shah, the other to Prime Minister Hoveyda. The Embassy has obtained copies in Farsi and has translated them informally (attachments one and two). The letter to the Shah is probably as articulate a statement of the liberal aspirations of the ex-oppositionists as is available. It was written by twelve individuals, three of whom signed the letter. All three were senior National Fronters, one an ex-minister of justice. Several individuals close to this circle say there are others who are considering ways to break their silence. One prominent ex-Fronter, the grandson of Prime Minister Mossadeq, has indicated privately to friends that many of the "old circle" remain, and if there were a "true" liberalization, there would be more such activity. Most of those involved with the letter to the Shah have been in opposition to the government, either tacitly or openly, since Mossadeq's time. This led Resurgence Party Deputy Secretary General Darius Homayoun to refer publicly to "political fossils" who criticize outside the accepted channels with the same old shopworn ideas.

The second letter, addressed to the Prime Minister, was signed by 40 intellectuals who form the Writer's Guild of Iran. According to F.Y.I., a local political review (see attachment three) it was actually part of a series begun some months ago. According to two sources in Tehran, it represents a line of thought that has been prevalent in oppositionist circles for several years, one that has even been played by the clandestine radio Peike Iran off and on in the past.

According to one of the signers of the letter, all 40 signed "because the government wouldn't dare jail all of us in the present climate on human rights." The list of signers is a reasonable Who's Who of older intellectual dissidents, many of whom have been or are connected with the arts or teaching. Dr. Gholam Hossein Saedi the subject of U.S. human rights inquiries was a prominent author who spent time in jail. Ali Asghar Haj-seyd-Javadi is a prominent anti-communist intellectual who was very annoyed when clandestine radio Peike Iran picked up one of his articles two years ago and rebroadcast it. Several others on the list have backgrounds ranging from near-Tudeh to National Front.

To date, the GOI has not reacted openly except to denigrate such offerings without mentioning names or otherwise giving them publicity. Those who wrote the letters and otherwise identified themselves with the sentiments contained in them are waiting to see what the government will eventually do. Their hope is to stimulate more criticism, perhaps heading even closer to the edge of directly criticising the "untouchables"--Constitution, Shah, and Shah-People Revolution.

Religious Unrest

Activities of religious groups over the past six months have shown a distinct stirring, though less is known in detail about them. Right wing muslims have tried to interest foreign human rights groups in the fate of those charged with killing Ayatollah Shamsabadi (Ref E) on the grounds they were religious martyrs. This does not appear to have been successful, except in a modest way in Great Britain, but there are hints that despite their right-wing fanaticism, some of the more pragmatic conservative Islamic imams and ayatollahs are willing to ride the human rights horse into alliance with those on the left where mutual interests can be made to coincide.

Signs of challenge to the regime from this quarter are mainly secondary and low key--increased use of the chadour among college-educated women as a sign of opposition to government, resistance to women's rights legislation (almost amounting to pressure group lobbying) and the spread of unflattering jokes about the Shah.

Religious restiveness has been reinforced by the revival of Islamic political fortunes in neighboring political arenas--Pakistan, where the religious opposition to Bhutto led to a military takeover; Turkey, where religious factions appear to hold at least some balance of power in the new, divided parliament; and Saudi Arabia, where the Shah perceives the fanatical Islamic right as one of the serious problems for any reigning Saudi monarch.

The Shah and the government have taken discreet steps to keep this type of potential opposition under control. In addition to normal surveillance of religious factions, the Shah finally paid a visit to Imam Reza's shrine at Mashad in May to meet with religious leaders and urge, in his public speech, that faithful muslims not be misled into terrorism by subversive groups. In their trips to various provinces, the Prime Minister and Empress Farah have devoted time and public utterance to placating the faithful and trying to draw them (and their religion) into a supportive relationship to the government. A perceptive younger member of the Empress' Special Bureau claims the royal family watches the religious situation very carefully, and that many rural development efforts are geared to drawing more of the religious fundamentalistsinto the modern sector through greater participation in secular projects.

What Will the Government Do?

Both the GOI and the Resurgence Party are assimilating this upsurge of criticism and limited "opposition" which has been

brought on by a combination of the GOI's own policies and circumstances. Over the short term, there appear to be three options, or a combination of approaches: 1) The government may, by inducement and pressure, try to bring these oppositionist actions under the Resurgence Party umbrella. By calling for critics to become active in the Party or present their criticism to Party units, the GOI could attempt to encompass the nascent opposition entirely within the present political system. This will not be wholly possible, since there are other organizations--the Imperial Commission, the Group for the Study of Iran's Problems, and the Imperial Inspectorate, for example--which play roles in this area. Having identified some critics through letter signatures, these individuals may get the call to play the Party Game. Some may heed, most probably will not--this could eventually bring them into conflict with the system itself as they try to justify their refusal to participate by attacking the system and the Shah personally.

2) Both government and Shah may simply continue to relax and allow more criticism as the price of opening up the political system. This could only be done if it is perceived that this type of opposition is safely manageable in security terms, and that the system is stable enough to afford what the Shah calls the "luxury of dissent". Any hint of foreign support for or even public sympathy with opposition groups from any quarter would probably bring a sharp, if perhaps sophisticated, crackdown.

3) The government may simply repress such criticism or limit it a priori on grounds of state security. This seems an unlikely choice--it would defeat the purpose of opening up the political system. Undoubtedly, however, the Shah would take this course if criticism got out of hand--or exceeded the permissible and attacked on a regular and sustained basis, the Shah as an institution, the Constitution, or the Shah-People Reforms. Hoveyda's current posture suggests that criticism which calls these fundamentals into question will not be allowed, or subject the critics to the force of harassment and limitation.

In practice, the GOI will probably use all three--tolerance to bring criticism out, attempts to direct it toward the Party, and some form of limiting control to keep it from destabilizing the developing Iranian political system. The degree to which repression may be applied will depend upon the content of the critic's message. If oppositionist criticism remains focused rather narrowly, as it has for 7-10 years, on a critique of present facts of life, it may be supportable at a fairly high level of vituperation. If,

however, it moves over on the forbidden zone--Shah, Shah-People Revolution, or Constitution--then the regime will feel more constrained to pull it back. In some sense, of course, [illegible] will have to deal with one of the three "forbidden", and to this degree, tenor of the criticism will be important. The Shah himself might not, at least privately, find too much difficulty acquiescing in criticism of the balance between Monarch and Constitution if it were done in a constructive spirit. Out and out muckraking over his own personal role, or radical leftist suggestions of a "people's republic" for Iran, a la Tudeh times are likely to get as short a shift as one would expect in a modernizing monarchy which is nonetheless still a real monarchy.

U.S. Attitudes

The U.S. is not directly involved in this process of increased criticism, nor should it be. Critics of the COI may use symbols with which many Americans might sympathize. The U.S. may also come under fire from those caustic of our traditionally close ties with Iran under the Pahlavi Dynasty. In both cases, we should treat the process of criticism as a purely internal Iranian matter. At discreet moments and in the right place privately, it will do no harm and some positive good to express our approval of the opening up process and reinforce the thinking that has led to it. On the other hand, the U.S. should avoid the temptation to make public pronouncements on the subject which might be misinterpreted by either critics or supporters of the present regime, or both. Given the differences in culture and political perception between elites and ordinary individuals in both countries, as well as the long history in Iran of connection between foreign intrigue and dissidence, the lower the U.S. profile, the better.

SULLIVAN