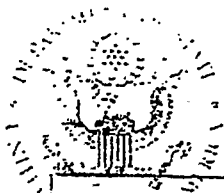


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THE FUTURE OF IRAN:
 IMPLICATIONS FOR THE US

DEPARTMENT OF STATE
 OFFICE OF THE DIRECTOR

BUREAU OF
 INTELLIGENCE
 AND RESEARCH

Summary

Iran is likely to remain stable under the Shah's leadership over the next several years, and committed to its relationship with the US as long as the Shah rules. The prospects are good that Iran will have relatively clear sailing until at least the mid-1980s, when oil production will probably slow and when the Shah says he will step aside in favor of the Crown Prince.

- Iran's patterns of leadership and decision-making, its policies on key issues, and its tactics in pursuing its objectives probably will continue in the familiar mold.
- The Shah, who has become increasingly self-confident over the past decade, will become less amenable to advice from the US or from his domestic counselors.
- Economically, Iran's development program is getting back on track after the slump in oil liftings that began a year ago, but port congestion, transportation inadequacies, low agricultural production, shortages of skilled manpower, etc., will continue to hamper economic development.

Certain Iranian policies and various aspects of the development process may pose problems for US policymakers:

- Those who are worried about human rights may propose making a change in Iranian practices an issue in the US-Iran relationship.
- Those who are concerned about arms sales may point to the amounts Iran is spending

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on arms and to the deficiencies in Tehran's management of its economic development. They can be expected to argue that the US should restrict its arms sales in order to prevent a diversion of funds from economic development in a way that would cause economic, social, and political instability.

--Those who are anxious about stability in the Middle East may argue that Iran's power could be destabilizing in the long run.

These concerns give rise to the following questions:

--Against the possibility of a deterioration in the US-Iran relationship, what range of foreign policy options does Iran have?

--How susceptible to US influence will Iran be in coming years?

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The Stability of the Regime

The undercurrent of terrorist violence notwithstanding, the Shah rules Iran free from serious domestic threat. At age 57, in fine health, and protected by an elaborate security apparatus, the Shah has an excellent chance to rule for a dozen or more years, at which time he has indicated that the Crown Prince would assume the throne. His military establishment and internal security apparatus (SAVAK) continue to operate effectively under his close personal supervision. Neither seems likely to challenge him, although the Shah's intimates, who have held key positions in these organizations for 30 years, are likely to depart for reasons of health, age, and fatigue by the early 1980s.

Military Support. The Shah personally selects and rewards the higher-ranking officers, giving the armed forces privileges designed to keep them content and to maintain their loyalty.

- Military salaries since 1975 have been 20 percent higher than comparable civil service rates.
- Top military officers continue to profit from their official positions, and only the most extreme cases of corruption are singled out for punishment.
- All service grades enjoy perquisites (housing, clubs, discount stores) that cushion them against the inflationary pinch.

In addition, the Shah keeps the military content by ensuring that they have large quantities of late-model equipment.

Furthermore, the military establishment is subjected to political indoctrination and close attention from the security organizations. As a result, the officer corps is only minimally involved in politics and has little sympathy with subversive groups.

Despite these measures, the loyalty of the armed forces may become questionable if discontent among the

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elite should rise because of economic setbacks and political frustrations. Military attitudes are not immune to pressures generated in the civilian world. Moreover, in recent years, the military has attracted recruits from the middle and lower middle classes, which tend to be conservative and dubious about the effects on traditional values of the Shah's drive toward modernization. In addition, most junior officers are nationalistic and prone to resent the privileged position of foreign advisers. Iranian officers are also the victims of a slow promotion system, because of inflation in the senior ranks and the Shah's need to see how officers perform over an extended period before he promotes them. As a result, it often takes 20 years to become a major.

On balance, however, there is little chance of a military move as long as the Shah remains at the helm. The senior commanders are in close control of their less predictable juniors, and the risks of plotting are very high. In no small measure, the reluctance of officers to step out of line reflects the effectiveness of the security apparatus, but it also reflects the enormous stake of the senior commanders in the present system from which their perquisites derive.

The Ears and Eyes of the Shah. SAVAK has very broad powers and monitors all elements of Persian society, including the military and the royal family. Its present leader, General Nasiri, is a highly effective manager, loyal to the Shah. Reliable sources indicate that Nasiri's desire to retire is growing, but the Shah has persuaded him to stay on for the present.

Should Nasiri depart, royal control over SAVAK may be less certain. Even under Nasiri, SAVAK's relations with the Shah have reflected occasional strains.

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Opponents of the Regime. SAVAK has driven political opposition underground. The urban terrorist movement remains more an irritant than a serious challenge to the Shah; its organizers purportedly believe that only a holding action is possible, given the passivity of the masses and the loyalty of senior officials to the Shah. SAVAK reports that some guerrillas have decided to relocate to Europe because it is too costly for them to operate at home.

Nonetheless, some small extremist groups in Iran are likely to continue their attacks on the Shah's regime. To this end, they will persist in assassination efforts against Americans (who were described as the Shah's "masters" in one document discovered in the aftermath of the assassination of the three Rockwell Company employees last August). The killing of American civilians and their dependents could have a major impact on Iran's economic and military development if it convinces many US technicians to leave and others not to come to Iran.

Despite SAVAK's successes against them in recent months, the two principal terrorist groups remain tightly knit, determined and capable of isolated strikes upon individuals or small groups. The Iranian security forces, however, are improving with time, and it is not likely that the terrorists will be able to mount operations that seriously threaten the regime.

Beyond the terrorist fringe, there is other opposition as well. Among the intelligentsia, the professional middle class, and the religious conservatives, dissatisfaction is felt over the Shah's arms purchases and over the effects of a "top-down" program of modernization on traditional values and on what many think are Iran's most pressing needs. A substantial proportion tacitly withholds ultimate allegiance to the regime, following the age-old Shi'a doctrine of dissimulation in the face of superior force. In this tradition, Iranians as a whole feel that violence should be used only as a last resort and that it is better to tolerate unsatisfactory conditions in the belief that "this too will pass." Thus, opposition to the regime is more a state of mind than a readiness to act.

Human Rights and Internal Security. The Shah's regime frequently is accused abroad of violating human

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rights. There is some evidence that these criticisms are valid, but the Shah, who considers the subject nobody's business but his, admits only those "practices common to Western nations" and justifies his attitude by asking:

"Do the people getting killed by terrorists have no rights? Are we not protecting human rights by preventing innocent people from getting killed?"

Moreover, Persians have experienced authoritarian rule for millennia, and the Shah's tactics have not exceeded traditional bounds. Faced with the choice of introducing an alien and potentially unstable democratic system or of holding the line against political liberalization, the Shah has been convinced for a decade that a strong monarchy is the only guarantee of stability and of rapid economic development. Of course, the Shah's future dilemma is that as living standards improve and as increasing numbers of Iranians go abroad for work or study, more pressure will be generated on the regime to share power with the newly educated and recently affluent.

Since the Shah's firm approach has worked thus far to stabilize the monarchy, it would be difficult to persuade him to change his practices. In fact, the Shah would regard US pressure to ease up on the opposition as a thinly veiled attack on his throne. Inasmuch as the Shah has an abiding belief in the efficacy of his security techniques and worries considerably about his ability to guarantee the succession of his 16-year-old son, he is not likely to be amenable to suggestions that he restrain his security services.

A Successor Regime

Because Iran's political structure is, in effect, the projection of one man, the provision for a smooth transfer of power is Iran's crucial long-range problem. In the past year, the Shah has tackled the succession question by:

- hastening the grooming of the Crown Prince (he was sent on well-publicized visits to Egypt and the USSR);
- expressing publicly on several occasions his confidence in the intelligence of the Crown Prince;

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--continuing steps to bequeath to his son a nationwide political organization and a network of stable, smoothly functioning institutions with a strong chain of command that could survive the transfer of power; and

--having the Queen, who would be Regent until the Crown Prince is 20, undertake an active role in public affairs.

Several years ago the Shah spoke of "fixing things so that at least the Crown Prince will do no harm," and, in February 1975, he replaced the existing political parties with the Rastakhiz, a national party which probably will serve as a mechanism to communicate policy guidance from the central government to the public and to mobilize the populace in support of the regime. This effort, however, is viewed somewhat cynically by Iranians, who doubt that the Shah intends to give the new party any significant authority and who see it largely as a means for the politically ambitious to come to the Shah's attention.

There is a widespread belief in Iran that the Shah's autocratic style cannot survive his death or abdication. His personality probably will not allow him to transfer any real authority to his son while he is still on the scene. Thus, it will be difficult for the Crown Prince to gain the stature and experience necessary to maintain the present system of rule.



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This pessimism reflects their judgment that pressure for political modernization can be expected to mount as the Shah prepares to relinquish power. In their view, when he departs, prosperity may not compensate for the absence of institutions that would permit the participation of larger numbers of the elite in the decisionmaking process. This erosion of the authority of the regime, according to the Old Guard, would constitute a serious degradation of their privileged position and usher in a period of increasing instability.

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Prosperity Holds the Key

The Shah is dependent on oil revenues to modernize and industrialize Iran's traditional economy. Economic development and a rising standard of living are his principal means of assuring continued stability and, ultimately, the regime's survival. Since 1973-74, Iran has had at its disposal \$20-22 billion yearly in oil income--sufficient, with proper management, for the Shah's ambitious programs for economic development and military modernization. Revenues of at least this magnitude in real terms are likely to continue until the late 1980's before declining with the drawing down of Iran's oil reserves, unless there are increases in oil prices sufficient to offset future drops in production. Estimates of Iran's oil wealth, however, admittedly are shaky since Iranian oil reserves are among the world's most structurally complex and the per-barrel price of oil in coming years has yet to be determined. In any case, extensive seismic work has uncovered no new fields or promising structures since the mid-1960's.

Iran's economy is developing impressively. Even before the 1973 oil-price hike, the GNP was growing at an average rate of 11 percent. Oil has been the mainstay of this growth. But oil aside, the outlook is favorable, though not good enough to meet the expectations generated by current levels of revenue. Iran has:

- considerable agricultural potential;
- good prospects for developing copper and other mineral resources;
- immense reserves of natural gas; and
- a base for heavy industry that has the potential for rapid expansion (notwithstanding the shortage of skilled labor).

In the past two years, however, the rate of growth of Iran's economy has slowed significantly because of the rapid expansion of imports, the failure of oil revenues to keep pace with the cost of imported goods,

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and infrastructure bottlenecks (port congestion, shortages of skilled labor). Last year, the non-oil sector grew at a rate of 13 percent, slightly above the level of the previous two years. On the other hand, the oil sector in 1975 (still about 60 percent of GNP) experienced a negative rate of growth--down 11 percent over the level of the previous year. As a result, the overall rise in real GNP was only about 3 percent, a drastic decline from the 42-percent increase recorded in 1974.

Shortfalls in anticipated oil revenues are creating budgetary difficulties for the Iranian Government. The budget for the current fiscal year (March 1976-77) calls for \$45 billion in expenditures. As revenues for the year are falling considerably under this figure, borrowing on the order of at least \$2 billion will be required to keep programs on schedule. The government has already had to scale down its plans somewhat in order to keep the level of debt manageable. Prime Minister Hoveyda has rationalized this process by describing the economy as entering a "cruising speed" era, phasing down from its previous uncontrolled acceleration.

In disciplining the economy, the regime has introduced measures which, if actually carried out, suggest better control over long-term spending. It has:

- approved a budget that relies on higher tax rates and more rigorous collection (tax revenues in 1975 were only 9 percent of the budget);
- continued the campaign against inflation, profiteering, and corruption;
- strung out payments under previous contracts and cut back its aid programs to other countries.

On the other hand, the slowing of the rate of economic growth--blamed by Iranians on Western oil companies--has also encouraged Iran's proclivity to make Western nations the scapegoats for its failures. The Iranian Government has:

- become more sensitive to exploitation by foreign suppliers, saying that it "is through being hustled by economic carpetbaggers";

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- stepped up its demands on France, the USSR, and other trade partners to accept greater amounts of non-oil exports from Iran; and
- agreed to co-sponsor Pakistan's proposal for a Third World summit on economic cooperation, as a way of indicating its disenchantment with the industrialized world.

The US, in particular, has been singled out by the regime for having ignored the lessons of the energy crisis and for blocking progress at the Paris conference on the New International Economic Order.

Economic Problems

Despite its rapid rate of growth and vast oil revenues, Iran faces potentially serious economic problems:

- a widening disparity in urban and rural incomes, with farmers earning, on the average, less than \$200 in annual per capita income (little more than one-tenth of the average income of city dwellers);
- lagging agricultural production, with the gap between the demand for food and its production widening at the rate of 6 percent annually;
- floundering educational programs, with the illiteracy rate about 66 percent and a critical shortage of teachers (Iran trains only about 1,000 teachers per year, far short of the number needed for a population of 34,000,000, which already has a massive shortage of skilled manpower); and
- rampant corruption and profiteering. The recent anti-corruption campaign has left most of the new rich untouched but has driven several billions of capital out of the country and reduced the already low propensity of the wealthy to invest in Iran; the new prosperity, furthermore, has resulted in

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conspicuous consumption by the wealthier classes, thereby increasing the gap between the urban rich and the 2 million poor who live in slums on the south side of Tehran.

The present regime does not seem capable of effective planning. The highly centralized decisionmaking process works well in implementing programs of action in fast-moving situations, but it performs less well when dealing with complex programs which make conflicting demands on increasingly limited resources or which necessitate long-range planning. The weakness in the planning process is illustrated by the government's failure to anticipate that enormously increased imports would lead to port congestion. As a result, goods pile up and deteriorate or are lost in transit; surcharges and cargo demurrage cost Iran an estimated \$1 billion in 1975.

There seems scant likelihood that planning will improve since:

- Iranian officials avoid taking initiatives in the expectation that the Shah will provide all policy guidance.
- The concentration of authority and responsibility at the top means that the bureaucracy takes action only when royal attention is focussed on a particular subject. The "spotlight effect" results in frantic efforts on matters which are important to the Shah at the moment, while yesterday's priority languishes.
- The Shah operates with a very small group of trusted decisionmakers, such as Finance Minister Ansary and Rastakhiz Party head Amouzegar, who are overburdened and forced to make decisions on many economic matters without adequate study.
- Very few officials consistently can give the Shah bad news and maintain their influence. As a result, shortcomings tend to be concealed.

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Another problem is the general absence of a sense of dedication or a work ethic among the Iranian elite. Easy oil money has created the impression that "progress is inevitable." Lack of government self-discipline is a corollary. The regime tends to use its money for the sorts of development projects that promise a quick return rather than building the institutions that, over the longer term, would increase the sense of participation and thus permit a lessening of the cynicism bred by centuries of autocratic rule. While the Shah is aware of these problems and often addresses them in his speeches, his exhortations seem to have fallen on deaf ears.

Implications for the Political Process

Despite its undeniable benefits, economic development will over time create political problems for the regime. The regime cannot afford an appreciable slowing of the rate at which the standard of living is rising. Yet the gap between promise and fulfillment already is widening. And it will be almost impossible for the regime to meet the rising expectations of the political elite.

Competition for scarce resources between two favored groups--the military establishment and the technocrats, both of whom have been favored by the regime and whose loyalty is reinforced by costly privileges--will become more acute. Military hardware prices are rising faster than Iran's oil income. The security forces, as well, have an interest in the allocation of resources and are not likely to remain outside this competition.

The growing numbers of educated Iranians produced by development programs will add to pressures within the system for a broader sharing of political power. Student unrest is endemic--and growing. Unlike the reformers of the Mossadeq era, who were satisfied merely to participate in the process of economic development, the newer generation of aspiring elite is not likely to accept permanent exclusion from the decisionmaking process.

As a master political strategist, the Shah will seek new ways to head off these dangers. Indeed, as long as he is in charge, his regime is likely to stay ahead of demands

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for political participation. His successors, however, undoubtedly will be harder pressed to meet the mounting pressures within the system. Prosperity will not necessarily guarantee a smooth transition to new rulers.

Foreign Affairs

Iranian foreign policy is the Shah's special preserve; in this field, he makes every major and many minor decisions, generally on his own. This means that the royal prestige is on the line in every important issue and that the Shah's personality traits have maximum scope for expression.

Despite his increasing self-assurance, the Shah worries about threats to the sovereignty of his nation, which he regards as an extension of himself. He also is concerned about the will and resolve of the US, his major foreign supporter. He is frustrated by Iran's continuing dependence on outside support for his programs and by criticism in the US of his regime. Simultaneously, he stresses the need for greater self-reliance and self-discipline. Thus, on August 11, 1976, Tehran's controlled newspapers carried both these headlines: "US Arms Cut Won't Hurt Iran" and "Free World Cannot Afford To Lose Iran."

Regional Aspirations. The Shah, over the past several years and especially since the British withdrawal from the Gulf, has been trying to use his growing military power to assert Iran's interests in the region. He is boldly seeking to establish Iran as a dynamic force willing to arbitrate disputes and guarantee regional borders. In the last two years, the Shah has:

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--settled his major problems with Iraq--the Kurds and the Shatt al-Arab dispute--in March 1975 and maintained a conciliatory stance and correct relations thereafter despite continuing ideological differences;

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--labored behind the scenes to reduce Pakistan/
Afghanistan friction; and

--pursued initiatives for a Gulf Security Pact against
the footdragging of the Arab Gulf states.

On regional matters, the Shah has demonstrated a tolerance for setbacks and frustrations, while persisting in his basic aim of assuring regional stability through Iranian military strength and workable relations with his neighbors, including the USSR.

Despite Iran's intention to play a leadership role in the Gulf and secure the oil lanes, it confronts many restraints on its ability to apply power in the Gulf. These include, for example:

- the Arab nature of the southern shores of the Gulf, which means that Iranian military action there in pursuit of Iran's own objectives would incur the enmity of the entire Arab world and invite violent opposition from Iraq and conceivably from Saudi Arabia as well;
- Iranian vulnerability to a USSR response following a unilateral Iranian move against one of its Gulf neighbors;
- recognition that seizing oil wells and storage complexes is not an easy task and that Iran's own petroleum industry would be highly vulnerable to counterattack;
- the stability of the Gulf states; and
- uncertainty about the battle-worthiness of its untested army.

Global Decisions. Mindful of history, the Shah sees the Soviet Union as his principal enemy. But he regards it as presenting a danger only in the context of a general East-West confrontation or of a general US retrenchment overseas. To sharpen his understanding of the US commitment and to learn the extent to which the Soviets will tolerate his arms buildup and his regional anti-Communist

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leadership, the Shah employs a strategy of constantly testing both the US and the USSR.

After a series of probes of US steadfastness in 1975, the Shah has become more confident about the US, although his concern about the US Congress has risen sharply. In interviews in 1976, the Shah expressed the conviction that "substantial military support would be forthcoming from the US if Iran were invaded."

In 1976, the focus of the Shah's testing appears to have shifted to the USSR:

- He strongly rejected Soviet complaints about Iran's arms buildup and the presence of so many Americans in Iran, saying that a sovereign power has every right to arm and defend itself.
- He broke relations with Cuba to signal his displeasure with Communist support of insurgencies in Africa and Oman.
- He ordered a propaganda campaign condemning Communist designs in the Gulf and Soviet support of terrorism.

Nonetheless, we anticipate that the Shah's concern is likely to center increasingly on his relations with the US in coming years, rather than on those with the Soviet Union, because the US is so heavily involved in his military and economic programs.

US-Iranian Relations: A Look Ahead

Heretofore, a mutual concern over Communism and instability in the Middle East has fostered an extended period of close relations between the US and Iran. On his own, the Shah is not likely soon to make a fundamental or drastic alteration in the relationship, given our personal relationship with him, his measured regional behavior, and his willingness to "buy American."

Over the longer run, however, some facets of the relationship may prove troublesome:

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--The US is closely identified with the Shah and with SAVAK, which is his main instrument of control. At best, it will take time to establish a similar relationship with a royal successor and, at worst, it may not be possible at all if the nature of the regime changes. Hence, when the Shah leaves the scene--many years from now in the normal course of events or earlier if he should meet assassination--the US may lose access to the Iranian governing elite.

--If Iran's actions involve intervention in Arab Gulf states and if such action were to embroil Iran in a quarrel with Saudi Arabia, the US could be left stretched between allies.

--Purchases of "next generation" arms would require enormous sums and would jeopardize Iran's development program. Yet the failure of this program to meet national expectations would undercut a basic pillar of the regime and lead to political unrest, increase the threat of subversion, and call into question the loyalty of the security forces and ultimately the value of Iran as an ally.

--The Shah may become irritated at the questioning in the US of his motives and back away from cooperation in various fields--e.g., intelligence cooperation, regional security arrangements, CENTO exercises, support in international forums for US positions, etc.--as a means of "bringing the US to its senses."

A continuing source of difficulty is the Shah's conviction that he is the best judge of Iranian interests and that Iran must not be prevented from playing its rightful role on the larger world stage. Stemming from this attitude is his increasing resistance to guidance from his friends, including the US. His concern that Iran eventually may have to "go it alone" makes him even less responsive to outside influence.

In these circumstances, the question of oil pricing will remain a perennial cause of friction. The Shah can be expected to continue to press for higher oil prices

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despite US responsiveness to his security requirements and representations that price increases are damaging to the US and the non-Communist world. The Shah is fully aware of the value the US places on his "embargo proof" oil and on his willingness to assume regional security responsibilities. As a result, he can be expected to drive a hard bargain, especially as his oil reserves decline. The Shah's willingness to push his arguments to the hilt, his personal diplomatic skill, and the advantages of a centralized monarchy in pursuing a foreign policy of "brinkmanship" combine to give him leverage in the oil question, though he will still have to take a back seat to Saudi Arabia.

Nevertheless, despite his public claims that he can shop elsewhere, the Shah is most anxious to have continued access to US military equipment because only the US can supply what he wants in the quantities he needs and because US arms:

- are competitive in price, quality, and durability;
- pose the least problems for his technically short-handed armed forces;
- involve the US more directly in the future security of Iran, particularly in the sense that US technicians will probably be needed to ensure their proper operation.

The Shah's military modernization program is itself a potential source of friction in the US-Iranian relationship, particularly since the program may run into increasing difficulties in coming years as a result of shortages of skilled manpower and rapidly increasing costs. Indeed, the expenses of acquiring the next generation of military equipment are likely to face the Shah with serious problems of allocating resources:

- Iran will have to contend with pressure in the US-- already considerable--to limit arms sales to Iran.
- The Shah's desire for regional hegemony, especially if it arouses the suspicions of Saudi Arabia, could bring him into conflict with the US.

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The Shah's increasing impatience with the pace of the development program will make him less able to deal effectively with these various sets of problems as time passes. He is, for example, by no means convinced that the key question is the need for more rational allocation of resources between the military and developmental sectors, and he would resent US advice on this score.

Regardless of the strong US-Iranian relationship, the Shah intends to fulfill Iran's national goals on his own terms. Thus, it is unlikely that a reduction of arms sales by the US would give Iran more money to spend on internal development. Instead, the Shah would seek to buy arms elsewhere. One of the by-products of this process would be a lessening of US ties to the Iranian military.

If the Shah felt that the US was imposing unjustified restrictions on the flow of arms to Iran, he might:

- demand higher oil prices in an effort to fund more expensive arms systems from France and elsewhere;
- taking his cue from Spain and Turkey, ask for reimbursement for facilities in Iran which the US now can use free;
- sound the alarm about Soviet pressure on Iran;
- threaten to turn neutralist.

In sum, coming years will probably see a somewhat cooled relationship between Iran and the US. But the Shah recognizes that the USSR is his only long-term external threat, and he is aware that the West European powers cannot guarantee his state and his oil lanes. Therefore, a fundamental shift by Iran away from the US is not anticipated, but dealings with Tehran will probably become difficult.

Internally, the Shah is likely to have to scale down some of his more ambitious development plans in the face of entrepreneurial failures. Attacks on the regime by political dissidents will persist. Nonetheless, Iran's people will be better off economically and the country will

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continue to make steady progress toward industrialization, though it will not soon reach the level of even the poorest Western state.

Externally, Iran should be able to achieve a more self-reliant position vis-a-vis its neighbors, including the USSR. But the Shah's own sense of mission and inflexibility on many issues are certain to grow and to contribute to periodic friction with a number of countries, especially among the Gulf states.

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