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EMBASSY OF THE
UNITED STATES OF AMERICA
Tehran, Iran

File:
DEF 19.16

March 22, 1969

Theodore L. Eliot, Jr.
Country Director for Iran, NEA/IRN
Department of State
Washington, D. C.

Dear Ted,

As old Persian hands, it was not surprising that you and I jumped to similar conclusions (your letter of March 13) re the choosing of two months for the consortium moratorium. Dropping the note of warning re the impact on F-4's of a blow-up re oil undoubtedly had an effect. Unfortunately, not exactly the one we might have had in mind, i.e. an early resolution of the current crisis on mutually satisfactory terms.

In support of our surmises, I note that Mehdi conjectured with Bob re the program for nailing down the next tranche, e.g. my final review with HIM prior to his mid-April visit to Tunisia, and Mehdi's plans to come to Washington for credit negotiations the first week of May (before May 10!)

When I returned from Khuzistan, there was waiting a call from Alam. He wished to have tea. Denis had also been summoned. In both cases, it turned out that oil was only subject #2. For Denis, the primary cause was Bahrein (separate letter re this). For me, it was Seventh Tranche, and Alam spoke from notes taken in a discussion with HIM.

The Shah, Alam said, had certain indications there might be a delay re the F-4's. I outlined where we are on the annual review, etc. I also described my own feelings about haste making waste..... in the F-4 program as in the petrochemical industry which I had just visited. Alam's notes included reference to the increased millions it would cost if the fourth F-4 squadron were deferred a year. I agreed this was a formidable factor, and then went on to explain the problem of crowding two squadrons into one \$100 million tranche and still having something left over for other needs. In discussing this matter, I made clear that the actual delineation of the tranche must in any case await the USG decision whether the next \$100 million of credit would be available. In this connection, I did acknowledge our hope that as of the present the indicators were still good.

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(signed) Armin
Armin H. Meyer
American Ambassador

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When discussing the military subject, I did not again this time make direct linkage with the oil talks. However, later on when we were discussing oil, I again emphasized to Alam what a calamity it will be, including specifically in the creditworthiness field, if the oil problem is not resolved.

Incidentally, re F-4's, I noted the general consensus that it would be preferable if Iran did not have to shell out extra millions and, therefore, the desirability of placing the orders this year. I did, however, make clear my own rpt my own serious doubts whether the delivery of the fourth squadron need take place before December 31, 1971. I referred to the technician problem, and what a calamity it would be if in such hastiness one or more \$3 million F-4's were piled up. Alam, as usual, was fully sympathetic, but unfortunately I find him increasingly out of tune with his impetuous boss.

In any event, the fact that the Shah commissioned Alam to raise the military subject is significant. I suspect the fact that I have not asked for an audience may also have contributed to the Shah's uneasiness. This may be healthy.

But it does pose for you and for me a problem. Do we or do we not place orders for the third and fourth F-4 squadrons before May 10? The answer may lie beyond your capability and mine, for I suspect there may be quite a body of opinion around Washington which will wish to delay until the May 10 crunch is over. On the other hand, if it is obvious that we are dragging our feet, it can propel our friend at Niavarand into undesirable directions. Frankly, I do not know the answer. But I would like to think that we can carry on business as usual, dropping in such notes of warning as we have in the past month, leaving any dramatic suspension of the F-4 program until after a breakdown in the consortium-GOI relationship if that unhappy event should in fact take place.

My own belief is that, although both sides are dug in more deeply this time than in previous years, a way out is still possible. The Shah's "compromise" proposal isn't much, but at least it shows that he wants to find a way out. As you may have noted, I really bore down hard on Alam to the effect that virtually no compromise resolution this year is possible if the consortium must expect even worse ordeals in each of the next three years.

Which leads me to one line of thought with which I have been toying. Do you suppose we could get both the consortium and the Shah to agree to the Shah's compromise proposal (which the consortium reps amazingly did not reject out of hand in their farewell talk with me) provided

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that we can also get HIM's agreement that in the next three years of the plan he will rely on the consortium's good faith to lift oil in sufficient quantities to keep Iran at a level no less than that of the Middle East generally? It strikes me this would have some appeal to the consortium chaps. It might even have some appeal to HIM, for, as Alam has disclosed, HIM himself is getting a bit uncomfortable about having these crunches every year.

In this connection, my own belief is that stretching out the Fourth Plan may indeed be a distinct possibility (your letter of March 7). Mehdi certainly has had thoughts along that line. I may even drop the idea into the hopper at a suitable (non-oil) occasion. But it is our strong conviction here that if the consortium boys were so much as to hint at such a stretch-out, it would be the kiss of death.

Anyhow, these are my current thoughts. Some of them may be showing up in the traffic in the days ahead. In the meantime, if you have any suggestions, let me know.

Sincerely,



Armin H. Meyer
American Ambassador

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