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April 1, 1969

MEMORANDUM FOR DR. KISSINGER

FROM: Harold H. Saunders

SUBJECT: Your Talk with the Shah--7:00 p.m. Tonight

The attached report of a long talk between Ambassador Meyer and the Shah will give you the flavor of his current thinking.

Point to Stress

The Shah's main desire is to reassure himself that he continues to have a close personal working relationship with the US President and those around him. He has an interest in his feeling so because there are times when the Shah is on the brink of doing something rash and when only a word from the President can make him think twice. Obviously, this is more an impression you convey than something you say.

Points to Avoid

1. CENIO--no point in raising this subject until we have some better ideas of our own. Our policy now is not to kill it but to keep it alive until we can think of something for it to evolve into.
2. Oil and Military Sales. These are things the Shah may raise (see below), but apart from hearing him politely, you will probably find it more interesting to get onto other subjects.

Talking Points

1. What does the Shah think is needed to break the Arab-Israeli impasse? What does he think the US-USSR or US, UK, USSR, France can accomplish? Where does he feel Iran's interests lie? [Iran has a clandestine and a semi-official relationship with Israel. For instance Iran has contracted to sell the oil for Israel's Eilat Ashdod pipeline by-passing the Suez Canal, and Iran and Israel clandestinely support Iraq's Kurds.] Does he see any special role for Iran (mediation, resettling Palestinian refugees)?

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2. How does he see the Soviet threat today? [He used to worry about cross-border invasion but now thinks in terms of Soviet-supported radical Arabs in the Persian Gulf.] What is Iran's best response? What role do his arms purchases play against the threat of subversion in the Gulf? What specific threat?

3. How does the Shah see political evolution in the Persian Gulf as the British prepare to pull out? [The Shah and Faisal are moving closer, but the Shah probably sees Iran--not Iran and Saudi Arabia--as the keeper of the peace in the Gulf. Bahrain is a critical issue: The Shah claims it, would like to drop the claim because it's Arab but needs a face-saving way out.]

4. How does he see the new situation in Pakistan? [He was close to Ayub and has had some contact with the new governing group.]

Points the Shah May Raise

1. Two oil problems:

a. The Shah is highly irritated at the consortium of oil companies who lift and market most of his oil. He has asked them for \$1 billion in revenues next year, and they have offered only \$900 million. He insists that Iran is a crucial country, the revenues are essential for his development budget and that the US Government should force the American companies to meet the Shah's revenue requirements. The companies argue that they are doing the best they can given their need--and the Shah's--to limit the flow of oil to maintain its world price. We in the Government have said that we can not force the companies to do something that they do not see in their interest. I think your best answer is to say that we are in frequent touch with the companies and they understand our view of the national interest in a strong Iran; but in our system, government just can not properly dictate to private companies.

b. In his persistent drive to increase oil exports, the Shah has proposed that we revise our oil import policy so as to permit him to barter some of his oil for imports of American equipment. He argues that we would gain from developing an Iranian export market while he would gain from acquiring essential equipment for industrial development without having to spend new foreign exchange.

Last year President Johnson told him that this would not be feasible until the current oil import policies were changed and we could not change them. Now, your answer is easier because you can say that President Nixon has ordered a complete review of oil import policy.

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2. Military Sales. The Shah may stress his desire to buy his third and fourth squadrons of Phantom aircraft this year. This is part of a \$600 million program of military purchases, contracted in 1968 and reaching out over five more years. This is largely a technical problem of how you fund \$130 million worth of airplanes in one year when you want to keep annual purchases at the \$100 million level. Your best response is to listen non-committally and say that you will watch this as it works its way through the Pentagon. [We are having an IG meeting shortly on this subject.]

London 2481 3/30/69

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