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1. AS GENERAL PROPOSITION AND AGAINST BACKGROUND OF SHAH'S CONCERNS OVER MAJOR SOVIET GAINS IN MIDDLE EAST AREA AND STEPPED-UP SOVIET EFFORTS TO REDUCE AMERICAN INFLUENCE AND PRESENCE IN THIS AREA, AND ESPECIALLY GULF--AS DESCRIBED IN PREVIOUS MESSAGES IN THIS SERIES--WE ANTICIPATE SHAH'S PRIMARY AND OVERALL INTEREST WILL BE TO ATTEMPT TO CLARIFY USG'S ASSESSMENT OF SOVIET ACTIVITIES IN MIDDLE EAST AND EXTENT OF USG'S INTEREST, WILL AND DETERMINATION TO REMAIN IN THIS PART OF THE WORLD.

2. TO THIS END SHAH WILL BE INTERESTED IN HEARING FROM PRESIDENT HIGHLIGHTS AND PRINCIPAL CONCLUSIONS OF HIS MEETINGS AND DISCUSSIONS IN USSR INCLUDING PROSPECTS FOR DETENTE IN EUROPE RESULTING FROM POSSIBLE AGREEMENTS IN SALT TALKS, EAST/WEST SECURITY CONFERENCE, ETC. THIS IS ON SHAH'S MIND BECAUSE, WHILE HE OF COURSE FAVORS DETENTE, HE IS CONCERNED THAT DETENTE IN EUROPE WILL RELEASE SOVIET ENERGIES AND STRENGTH TO STEP UP SOVIET CAMPAIGN TO

NOT TO BE REPRODUCED WITHOUT THE AUTHORIZATION OF THE EXECUTIVE SECRETARY
PENETRATE MIDDLE EAST AND EXTEND THEIR INFLUENCE HERE. SHAH WILL ALSO LOOK FORWARD TO ASSESSMENT FROM PRESIDENT ON HOW US VIEWS SOVIET ACTIVITIES IN MIDDLE EAST AIMED AT SECURING DOMINANT POSITION IN GULF AND INDIAN OCEAN AREA. HE UNDOUBTEDLY HOPES US IS PREPARED PUBLICLY AS WELL AS PRIVATELY TO TAKE FIRM POSITION WITH SOVIETS THAT US WILL STAND-FIRM AGAINST SOVIET EFFORT EXTEND ITS INFLUENCE IN MIDDLE EAST, PERSIAN GULF AND INDIAN OCEAN AREA, AND HE WILL PROBABLY TELL PRESIDENT THAT IF WE ARE STEADFAST IN MIDDLE EAST US CAN COUNT ON IRAN TO COOPERATE FULLY WITH US.

3. AS IRAN IS PAYING ITS OWN WAY TO MEET ITS ECONOMIC DEVELOPMENT AND MILITARY NEEDS, SHAH WILL LIKELY POINT OUT THAT IRAN-US COOPERATION WILL NOT PLACE ANY DEMANDS ON USG RESOURCES. HE HOPES COOPERATION WILL CONTINUE ALONG LINES ALREADY WELL ESTABLISHED, WITH US CONTINUING TO BE RESPONSIVE TO SHAH'S REQUEST FOR INFORMATION, TECHNOLOGY AND MODERN EQUIPMENT THAT HE FEELS IRAN NEEDS AND IS PREPARED TO PAY FOR SPECIFICALLY HE WILL LOOK TO US TO CONTINUE TO:

(A) MAKE AVAILABLE AND SELL MODERN MILITARY EQUIPMENT AND WEAPONS IRAN NEEDS;

(B) MAKE CREDIT AVAILABLE FOR PURCHASE OF US EQUIPMENT TO MAXIMUM EXTENT POSSIBLE WHICH IRAN WILL REPAY ON SCHEDULE;

(C) CONTINUE TO TRAIN IRAN'S PILOTS (AT IRAN'S EXPENSE) FOR NEXT SEVERAL YEARS;

(D) PROVIDE EXPERIENCED TECHNICAL AND MILITARY PERSONNEL ON ARMISM/MAAG STAFF TO CONTINUE TO HELP TRAIN AND ORGANIZE IRAN'S RESOURCES;

(E) MAKE AVAILABLE AT LEAST THREE SQUADRONS OF F-15'S (WITH POSSIBLY TWO TO FOUR F-14'S EQUIPPED WITH PHOENIX MISSILE PER SQUADRON) WHENEVER F-15 HAS BEEN ADEQUATELY TESTED AND REACHES PRODUCTION LINE. SHAH CAN BE EXPECTED TO PRESS HARD ON F-15 MATTER WHICH CURRENTLY IS MOST IMPORTANT AND HIGHEST PRIORITY MILITARY ACQUISITION ITEM FROM HIS POINT OF VIEW. HE UNDERSTANDS WE CANNOT PROVIDE TECHNOLOGY TO BE REPRODUCED WITHOUT THE AUTHORIZATION OF THE EXECUTIVE SECRETARY.
ABOUT THIS WEAPONS SYSTEM OR MAKE COMMITMENTS ABOUT COSTS, DELIVERY SCHEDULES, ETC., BUT HE WILL SEEK FROM PRESIDENT USG COMMITMENT TO MAKE THIS AIRCRAFT AVAILABLE TO IRAN AS SOON AS USAF NEEDS ARE MET AND FOREIGN COUNTRIES CAN GET THEIR SHARE OF PRODUCTION LINE. DURING THIS DISCUSSION SHAH MAY MAKE POINT THAT AS MOST RELIABLE AND DEPENDABLE FRIEND OF US IN THIS PART OF ASIA, IRAN IS ENTITLED TO SAME MEASURE
OF MILITARY COOPERATION IN WEAPONS SYSTEMS AND PRODUCTION AS OUR NATO ALLIES.

4. SHAH CAN ALSO BE EXPECTED TO DISCUSS SOVIET ACTIVITIES IN GULF AND THREAT TO GULF PEACE AND STABILITY FROM SUBVERSIVE ELEMENTS CAPITALIZING ON WEAKNESS AND FRAGILE POLITICAL STATUS OF STATES ON SOUTHERN SIDE OF GULF. HE WILL EXPLAIN PLANS HE HAS TO STRENGTHEN IRAN’S FORCES AND GRADUALLY BUILD UP NAVY AND RECONNAISSANCE RESOURCES TO PLAY ROLE FIRST IN GULF AND THEN GRADUALLY MOVING OUT INTO ARABIAN SEA AND INDIAN OCEAN. IN THIS CONNECTION HE WILL BE INTERESTED IN OUR PLANS FOR MIDEASTFOR (TEHRAN 2576) AND HE WILL OUTLINE TO PRESIDENT HIS PLANS FOR MAJOR NAVAL AND AIR FACILITY AT CHAH BAHAR WHICH US TEAM CURRENTLY STUDYING.

5. AS MANY OF SHAH’S JUDGMENTS AND DECISIONS REGARDING MILITARY ACQUISITIONS AND BUILDUP OF IRAN’S FORCES ARE INFLUENCED BY INTELLIGENCE REPORTS HE HAS ABOUT SOVIET ACTIVITIES IN AREA AND DELIVERY OF MILITARY EQUIPMENT TO RADICAL ARAB STATES, WE RECOMMEND PRESIDENT HAVE OUR LATEST ASSESSMENTS ON:

(A) REPORTED SOVIET/IRAQ SECRET AGREEMENT TO PROVIDE SOVIETS WITH NAVAL BASE AT UMM AL-QASR IN GULF.
81 REPORTS THAT SOVIETS ARE BEGINNING TO MAKE AVAILABLE TO
RADICAL ARAB STATES, INCLUDING IRAQ, MORE SPHISTICATED
WEAPONS INCLUDING MIG-23'S AND SA-3 MISSIELS:

IC) COMBAT EFFECTIVENESS OF MIG-23'S ESPECIALLY AGAINST F-4'S.
FYI BASIS OF SHAH'S CURRENT INTEREST IN F-15 IS HIS
CONVICTION THAT F-4'S ARE NO MATCH FOR MIG-23'S WHICH
SOVIETS ARE INTRODUCING INTO AREA AND WHICH THEREFORE MAKES
IT NECESSARY FOR IRAN TO ACQUIRE NEXT GENERATION AIRCRAFT
THAT CAN MATCH MIG-23 PERFORMANCE.

6. PRESIDENT'S VISIT WILL TAKE PLACE SHORTLY AFTER
THIRD ROUND OF CONFIDENTIAL TALKS SHAH IS HAVING WITH
CONSORTIUM LEADING TO NEW LONG-RANGE ARRANGEMENTS ON
PARTICIPATION. SINCE NEXT MEETING SCHEDULED MAY 17 IT NOT
NOW POSSIBLE BE CERTAIN WHAT STATUS MAY BE WHEN PRESIDENT AND
SHAH MEET; HOWEVER, IF PRESENT SITUATION PERSISTS, NEGOTIATIONS
WILL CONSIST OF CONTINUING HARD BARGAINING ON CERTAIN SPECIFIC
ISSUES (SUCH AS CONSORTIUM SUPPLY OIL AT PREMIUM PRICE TO NIIC
FOR MARKETING ANYWHERE IN WORLD) CONDUCTED IN ATMOSPHERE OF
FRIENDLY CONSTRUCTIVE EXCHANGE BETWEEN TWO PARTIES WHOSE
MUTUAL UNDERSTANDING IS GOOD AND WHOSE RELATIONS ARE BASICALLY
ON FIRM FOUNDATION. PRESIDENT MAY WISH EMPHASIZE TO SHAH
USG CONTINUING STRONG INTEREST IN ACHIEVING SETTLEMENT THIS
ISSUE WHICH WILL PRESERVE FRAMEWORK OF TEHRAN AGREEMENT AND
PROVIDE FOR STEADY AND SECURE SUPPLY OF OIL TO AMERICAN ALLIES
IN EUROPE AND ASIA.

7. SHAH WILL ALMOST CERTAINLY RAISE HARDSY PERENNIAL QUESTION
OF INCREASED OIL EXPORTS FROM IRAN TO US. SHAH, WHOSE
ADVISERS ARE KEEN OBSERVERS OF CURRENT US CONTROVERSY ON
OIL IMPORT QUOTA PROGRAM, WILL PRESS EITHER FOR NEW
SYSTEM ALLOWING MUCH LARGER IMPORTS TO US FROM IRAN OR
FOR EXCEPTION OR WAIVER UNDER PRESENT SYSTEM. HE WILL
SUPPORT REQUEST WITH LONGSTANDING ARGUMENT THAT EXTENSIVE
IRANIAN ARMS PURCHASES IN US JUSTIFY SPECIAL CONSIDERATION
FOR IRANIAN OIL EXPORTS PARTICULARLY SINCE SHAH AND GOI
WILL PLEDGE SPEND ALL PROFITS FROM SUCH EXPORTS WITHIN US.
SHAH VERY LIKELY MAKE SAME COMMENTS ON BASIS HIS FIRM UNDER-
STANDING THAT US ITSELF WILL HAVE TO START LOOKING TO MIDDLE
EAST (INCLUDING GULF) AS SOURCE OF OIL IMPORTS WITHIN NEAR
FUTURE. PARTICULAR CAUTION IS NECESSARY ON THIS SUBJECT SINCE, AS DEPARTMENT WILL RECALL, PRESIDENT'S EXPRESSION OF INTEREST IN IRAN'S POSITION ON THIS ISSUE WAS MISREAD BY SHAH IN LAST CONVERSATION WITH PRESIDENT AS AMOUNTING TO COMMITMENT TO GRANT EXCEPTION TO QUOTA MAKING SUCH EXPORTS POSSIBLE.

8. NARCOTICS. WE DO NOT ANTICIPATE SHAH WILL RAISE SUBJECT OF NARCOTICS. HOWEVER, GIVEN OUR CURRENT CONCERNS ON THIS SUBJECT WE BELIEVE IT WOULD BE APPROPRIATE AND USEFUL FOR PRESIDENT TO (A) POINT OUT IDENTITY OF US AND IRANIAN POSITIONS AS VICTIM COUNTRIES, WITH NEITHER CONTRIBUTING TO ILLICIT INTERNATIONAL MARKET AND BOTH STRUGGLING TO IMPROVE ENFORCEMENT AND REHABILITATION PROGRAMS. (FYI IRAN'S ENFORCEMENT MEASURES ARE AMONG MOST EFFECTIVE IN WORLD. END FYI.) AND (B) EXPRESS HOPE THAT IRAN WILL CONTINUE TO WORK WITH US REGIONALLY AND IN INTERNATIONAL FORUMS TO BRING NARCOTICS PRODUCTION UNDER CONTROL AND IN MEANTIME STEP UP ENFORCEMENT MEASURES AGAINST ILLICIT TRAFFIC.

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