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Authority *NND 967016*  
By *JW* NARA Date *4-7-02*

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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 USG 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 ARMISH/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

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8) 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;

(C) 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 NIOC 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 HARDY 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 UNDERSTANDING THAT US ITSELF WILL HAVE TO START LOOKING TO MIDDLE EAST (INCLUDING GULF) AS SOURCE OF OIL IMPORTS WITHIN NEAR

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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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