

DEPARTMENT OF STATE

Washington, D.C. 20520

~~CONFIDENTIAL~~
With ~~SECRET~~ AttachmentFile Iran
July 13, 1981Senior Interdepartmental Group Memorandum No. 2.

To: See List Below

Subject: Senior Interdepartmental Group Meeting on Iran

A Senior Interdepartmental Group Meeting on Iran will be convened on Tuesday, July 21 at 11:00 a.m. in the Department of State, Room 7516. It will be chaired by Under Secretary Stoessel. SIGM No. 2, an Executive Summary, and a draft National Security Decision Directive (NSDD) are attached.

Participation in the SIG is limited to principal agency representative plus one. Your cooperation is requested. Please confirm the names of your representatives to Sheila Lopez, 632-5804.


L. Paul Bremer, III
Executive Secretary

Distribution:

OVP - Ms. Nancy Bearg Dyke
DOD - Mr. Jay Rixse
CIA - Mr. Thomas Cormack
JCS - LTG John Pustay
NSC - Mr. Allen Lenz

Attachments:
As stated.

DECLASSIFIED
Department of State Security, July 21, 1997
By LOT NARA, Date 4/17/07

~~CONFIDENTIAL~~ - GDS 7/13/87
With ~~SECRET~~ Attachment

2570

~~SECRET~~

POLICY TOWARD IRAN
EXECUTIVE SUMMARY

The Interdepartmental Group (IG), after assessing U.S. interests and objectives in Iran, has reached agreement on recommending the following policies toward the present unstable and hostile Iranian regime.

1. Initiate an information dialogue with the present Iranian authorities through the Swiss to make certain that they fully understand U.S. positions on such issues of mutual interest as the war with Iraq, arms supply, implementation of the hostage agreements and disposition of U.S. properties in Iran.

2. At the same time take appropriate measures to thwart the anti-American policies of the Iranian regime and to discredit those Iranian officials, such as the former hostage holders, who particularly threaten U.S. interests.

3. Send signals to the USSR that the U.S. will not tolerate Soviet interference in Iran.

4. Enhance the U.S. military presence in the region.

5. Implement the hostage release agreements as efficiently as possible.

6. Encourage a negotiated settlement of the Iran/Iraq war which would maintain the territorial integrity and sovereignty of both countries.

7. Confirm to American businessmen that it is in the U.S. interest to take advantage of commercial opportunities in Iran, though pointing out the business risks and the conditions which make it unsafe for Americans to visit Iran.

8. Continue to screen rigorously students and other Iranian visa applicants.

9. Maintain informational contacts with key Iranian exile groups, but not offer support unless some coalition develops with sufficient unity and strength to be a serious contender for power in Iran.

The IG failed to reach a full consensus on arms supply policy toward Iran while the war with Iraq continues. All participants agreed that direct and indirect transfers of U.S. origin arms to both Iran and Iraq should be banned for the

~~SECRET~~

RDS-2 7/10/01

DECLASSIFIED

NLRR F07-039#35333

BY LOI NARA DATE 7/15/08

~~SECRET~~

- 2 -

duration of the war. However, State felt that transfers of non-U.S. origin arms to Iran by third countries should not be opposed, noting that such transfers would minimize opportunities for new Soviet involvement in Iran through arms aid offers. However, other agency representatives at the IG--DOD and CIA-- felt that the supply of any arms to Iran would encourage Iran to resist efforts to bring an end to the war and that all arms transfers to Iran should be actively discouraged. A SIG DECISION ON THIS ISSUE IS REQUIRED.

The IG recognized that current instability in Iran might take a turn for the worse toward total anarchy or some form of civil war. Such a "worst case" scenario would maximize opportunities for the extreme left, and could invite increased Soviet interference through covert means or possibly proxy forces. The IG, therefore, recommends that appropriate civilian and defense agencies examine the scenario of a disintegrating Iran and formulate contingency plans as outlined in Annex A.

~~SECRET~~

35334

~~SECRET~~

SENIOR INTERDEPARTMENTAL GROUP MEMORANDUM (SIGM) -- IRAN

I. INTRODUCTION

There is inter-agency agreement that Iran's potential for interrupting oil exports from the Gulf and its strategic location make it a country of vital importance to the West, and a prime target of Soviet ambitions. An additional U.S. interest is the reduction of the Iranian potential for subversion of friendly governments in the region. While our relations with Iran today are at the nadir, both Washington and Tehran share a basic long-term interest in thwarting Soviet ambitions in the Gulf area, and in maintaining Iran's territorial integrity and sovereignty. Over time if Iran develops a more stable, institutional governmental structure, and passions cool, this shared basic interest should open the way for a more normal relationship. The nature of our relations with Iran will also have a direct impact on our relations with friendly countries in the region.

This memorandum contains policy recommendations for responding to two political scenarios: a continuation of the present Iranian regime and the eventual emergence of a more stable regime interested in more normal relations with the U.S. Policy responses to two "worst case" scenarios -- such as civil war or Soviet military intervention -- will be addressed in separate studies.

II. STRATEGIC OVERVIEW

Iran lies geographically at the heart of the strategic area defined as Southwest Asia and, as such, has long been a target for Soviet regional ambitions. Iran's strategic importance derives from its large, skilled population (over 35 million, including talented technocrats and a large, well-trained military); enormous oil and gas resources (fourth largest reserves in the world); a long Gulf coast giving it the geographic potential to dominate the Gulf and the Strait of Hormuz; and a shared border with the USSR and Soviet-dominated Afghanistan.

The fall of the Shah and the advent of a virulently anti-American revolutionary regime, combined with the Soviet invasion of Afghanistan, introduced a structural

~~SECRET~~

RDS-3 7/10/01

DECLASSIFIED

NLRR F07-039#35334

BY WJ NARA DATE 7/15/08

change in the strategic environment of the region threatening broad U.S. interests in the Gulf area, Pakistan, and the Middle East as a whole. The Iran-Iraq war has some potential for further destabilizing the region, particularly if Iraq were to attempt to occupy Iranian territory indefinitely or to create a puppet Khuzestan, or if Iran were to widen the war. However, these dangers appear to have abated as both sides have become bogged down in a conflict in which decisive military action has become increasingly difficult.

The Soviet presence in Afghanistan and the large number of Soviet military forces located along Iran's northern border give Moscow clear advantages should the Soviets choose at some point to intervene militarily in Iran. Moscow's immediate objectives are to keep the U.S. out of Iran and to develop opportunities for expanded Soviet influence there. Given the current anti-American climate in Iran, the USSR finds a fertile field for its propaganda broadcasts and activities designed to sustain Iranian hostility towards the U.S. At the same time the Soviets are organizing and funding pro-Soviet elements (Tudeh) and dissident ethnic groups (particularly Kurds and Baluchis) in anticipation of coming political opportunities.

According to a recent INR analysis, probable Soviet responses to a variety of situations that might develop in Iran are as follows:

"Moscow would react quickly if the authority of the central government in Iran disintegrated and local entities were seizing control in various regions. Under those circumstances the Soviets could be expected, at a minimum, to provide aid to leftist elements making a bid for power in Azerbaijan, Baluchistan, Kurdistan and Khuzestan. They would also issue sharp warnings against Western intervention and put diplomatic pressure on Tehran to prevent it from asking for Western assistance in restoring central authority.

"Direct Soviet military intervention would be most likely if Moscow perceived that actively anti-Soviet regimes had been or were about to be installed in any of the provinces bordering the USSR. In such an event, the Soviets could be expected to try to justify their action by funding, and supporting, leftist groups which publicly called for Soviet military aid against imperialist oppression.

~~SECRET~~

-3-

"A conviction that the U.S. was about to install a pro-Western regime in Tehran or move militarily into oil-rich Khuzestan might also trigger a Soviet move into northern Iran. In this instance, Moscow might consider occupation of the northern provinces as a potential bargaining chip to force an eventual U.S. withdrawal and help establish at least a neutral regime in Tehran.

"The Soviets would move cautiously before committing themselves to overt military involvement in Iran, both because of the risks of confrontation with the West and the prospect of severely damaging their relations with nonaligned and Muslim states. Moscow would have to calculate that its active intervention might leave it in possession of the relatively unimportant northern part of the country, while the Western powers gained control of the economically and strategically significant oil fields and coastline. For these reasons the Soviets would not initiate actions leading to a dismemberment of Iran unless they interpreted developments in Iran as seriously jeopardizing the long-term security interests of the USSR. It is unlikely, for example, that Moscow would take such drastic action primarily to help solve a strategic problem elsewhere (e.g., Poland).

"It cannot be assumed that a Soviet decision to intervene in Iran would or could be limited to the northern part of the country. A massive and sudden intervention in virtually the whole country may be seen in Moscow as the only effective way to prevent the establishment of a long-term strategic threat to the USSR, particularly in light of the risks of confrontation involved. In the last analysis, therefore, the scope and timing of any Soviet intervention in Iran would depend on the USSR's assessment of Western intentions and capabilities."

III. THE IRANIAN SITUATION

Iran itself is an embattled state from within and without. The unifying impetus provided first by the seizure of the hostages and subsequently by the early weeks of the war with Iraq gave way in March 1981 to renewed and accelerated factional fighting. The major opposing forces were the dominant Islamic

~~SECRET~~

~~SECRET~~

- 4 -

Republican Party (IRP) led by the late Ayatollah Beheshti, Prime Minister Rajai and Majlis (Parliament) leader, Rafsanjani on one side, and a combination of more moderate Islamicists and secular supporters of President Bani-Sadr. Khomeini's three-man mediation commission established in mid-March to ease the political rifts between the two sides ended in failure by early June, triggering a power grab by the IRP. Khomeini was persuaded first to remove Bani-Sadr as Commander-in-Chief of the armed forces on June 10 and finally to dismiss him from the Presidency itself on June 21. Throughout this power struggle, the Iranian armed forces, essentially leaderless and apolitical, remained neutral. Meanwhile, the IRP used its control of the Majlis and the Government's administrative machinery to undermine Bani-Sadr. Abandoned by Khomeini; his links to the Iranian military effectively severed; and faced with almost certain arrest, Bani-Sadr went into hiding.

Pro-Bani-Sadr demonstrations mounted by Mojahedin-e-Khalq, and other militants were ruthlessly suppressed in Tehran and other cities as the IRP authorities--with the apparent full backing of Khomeini--resorted to arrests and executions by firing squads reminiscent of actions taken against high officials of the late Shah's regime in 1979. The response from the militant opposition was swift and deadly. A series of terrorist bombings and assassination attempts reached a crescendo when a massive explosion at the IRP headquarters building in Tehran on June 28 killed IRP leader Beheshti (considered the second most powerful man in Iran after Khomeini) and a large number of high Iranian Government officials and parliamentarians. The loss of Beheshti and other IRP cadres was a severe blow to Khomeini and his followers who had come to depend upon the party as the political vehicle for realizing the goals of the Islamic revolution.

Stunned by this loss, Khomeini is trying to refurbish his relations with other leading Ayatollahs while at the same time becoming more actively involved in day-to-day politics. Under his guidance the remaining IRP leaders have moved swiftly to regroup and limit the damage to the IRP's prestige and authority. A new party leader was named to replace Beheshti temporarily, and the holding of elections for a new president this summer remains on schedule. Meanwhile, in accordance with the Constitution, presidential powers are in the hands of a three-man council whose membership is solidly with the IRP. Most other top positions in the government and the Majlis left vacant by the bombing have been quickly filled. At the moment Khomeini still draws support from Iran's masses largely because of his ability to shape his pronouncements and actions in accordance with perceived popular opinion and his astuteness thus far in avoiding unpopular decisions.

~~SECRET~~

~~SECRET~~

- 5 -

The situation in Iran is fluid at this point. Khomeini and the IRP are faced with the greatest challenge to their authority since they took over as they use all means to destroy militant, leftist opposition groups. While the IRP appears to have the upper hand, much will depend upon Khomeini's continued hold over the masses; the continued neutrality if not loyalty to Khomeini and the revolution of the Iranian armed forces; and the IRP's ability (without Beheshti's organizational and leadership skills) to maintain control of the streets by crushing the left, and remain sufficiently unified to run the country.

The recent terrorist bombings have heightened the possibility that Iran might move toward total anarchy or some form of civil war. Such a "worst case" scenario, if it occurs, would maximize opportunities for the extreme left which enjoys the backing of the USSR. Observing current developments, Iranian exile groups are tempted to use their links with disaffected tribal groups and disgruntled elements in the Iranian military to make a comeback. However, the political attitude of Iran's current military officer corps, preoccupied with the Iran/Iraq war, remains an enigma at this time. It is clear that Khomeini and the IRP are fully aware of the potential threat from the armed forces and that a combination of political cadres loyal to the Islamic revolution and dedicated Revolutionary Guards (Pasdaran) are keeping a close watch on key military units. As long as Khomeini is alive and popular with the masses, we expect the Iranian armed forces to remain neutral if not loyal to the regime.

Most of Iran's prominent exiles, particularly Shahpour Bakhtiar and General Oveisi who are badly tainted by their connections with Iraq, stand little chance of having much impact on Iran's internal developments at the present time. There are some, however, critical of clerical leadership, whose anti-Shah credentials and continued loyalty to the revolution are recognized. It is conceivable that Khomeini's death or a partial coup (leaving the Ayatollah in place) could open the way for such people to return to Iran; however, this is considered to be only a very remote possibility.

The exiles are strongly anti-Soviet, modern and secular in outlook and pro-Western in orientation. Those closely identified with the Shah's regime would seek to return Iran to a posture of close collaboration with the U.S. in regional and strategic policies. Other exiles, particularly those who opposed the Shah's absolute rule and supported the revolution in its early stages (Admiral Madani, Rahmatollah Mogaddam-Maraghei) would prefer a foreign policy course more independent of the U.S., but still sensitive to Iran's strategic need for friendship with the West.

~~SECRET~~

~~SECRET~~

- 6 -

Iran's future political development will largely depend on the IRP's fate. While there is no reason to believe that the forces making up the Islamic Republican Party have ever been monolithic, the current challenge to the party's authority has forced the new IRP leadership on the surface at least to pull closer together. Nevertheless, the sudden vacuum in the IRP leadership left by the bombing will undoubtedly set off a spate of more radical policies and attitudes as the competing factions vie for power and influence. It is difficult at this point to predict how long this stage might last. Over time, however, (and particularly after Khomeini's death) personal ambition and ideological rifts could result in a fundamental split in the IRP. This would further prolong the revolutionary turmoil and lack of effective government but, on the brighter side, could also open the way for the formation of alternative political groupings. More optimistically, today's hard-line clerics, faced with political realities over the next few years could reverse their current radical tendencies and respond by cooperating with moderate elements that are culturally and otherwise more attuned to the more modern world and have the administrative skills to manage a relatively sophisticated and pluralistic nation. Success, however, will depend on the ability of such future political groups to capture and lead the two most significant forces in today's Iran--nationalism and Islam.

A clearer view of internal political developments is hampered at this time by inadequate information. A stepped up broad effort to improve our intelligence will be needed. While it is difficult to predict with any precision the IRP's fate and the political outcome of the competing political forces, the consensus of inter-agency opinion is that there is no viable alternative in the near future to the present Islamic revolutionary regime in Iran.

Some American interests can be served under an Islamic revolutionary regime, e.g., a nationalistic determination to remain independent; maintenance of anti-Soviet policies; varying degrees of political and material support for Afghan efforts to oust the Soviets; a relatively weak military posture which prevents Iran from dominating the Gulf region; and increased exports of oil to international markets. Other U.S. interests are damaged by continuation of Islamic revolutionary regimes, e.g., opposition to most of our security goals in the area; potential revolutionary threats to the stability of regimes in the Gulf and in Pakistan; support for Third World, and by extension--Soviet, opposition to a U.S. military presence.

~~SECRET~~

Despite the difficulties of dealing with such a regime, a U.S. policy must be developed which would seek to minimize damage to our regional interests. Key objectives of such a policy are set forth in the following section.

IV. U.S. OBJECTIVES

The territorial integrity and sovereignty of an independent, albeit Islamic revolutionary Iran, is essential to our South-west Asia security strategy which in turn will be bolstered by a strong U.S. global posture towards the Soviet Union. While our current relations with Iran are not conducive to cooperative arrangements in the region, an independent Iran over the long-term will share a mutual interest in restricting Soviet activity. Iran, therefore, should be potentially amenable to reaching tacit understandings with the U.S. on counteracting Soviet moves. Iran would, however, publicly condemn an enhanced U.S. military presence in the region, although it would do nothing to prevent it. Our policy toward an independent Iran will be directed toward achieving the following objectives:

- ensure uninterrupted flow of Persian Gulf oil to world markets;
- prevent Soviet dominance of Iran;
- seek a stable balance of Arab and Iranian influence in the Gulf region and prevent a dominant role for either;
- discourage the export of the Iranian revolution or Iranian terrorism to other states in the area;
- promote active Iranian cooperation with Pakistan to resist the Soviet presence in Afghanistan;
- mitigate the extreme anti-westernism of the Iranian revolution;
- encourage, to the limited extent feasible, forces in Iran favoring a more moderate government which would be less injurious to U.S. interests in the region;
- step up U.S. intelligence capabilities in Iran to develop a deeper understanding of the political dynamics of the country with an eye toward improving the U.S. ability to anticipate developments adversely affecting our interests;
- support the interests of U.S. claimants against Iran in a manner consistent with the foregoing objectives;

-- allow for the eventual normalization of U.S.-Iranian relations in the future.

V. U.S. POLICY RECOMMENDATIONS

Our ability to achieve the foregoing objectives will improve if the current revolutionary turmoil abates and a more stable political situation develops, particularly if a moderate government which is less virulently anti-American comes to power. However, even if the unified leadership which emerges is dominated by hardline clerics, it should be possible to realize these policy objectives to some degree. The scope of the present paper is limited to proposed policy responses to what we believe to be the two more likely Iranian political scenarios: (1) a continuation of the present unstable regime amidst revolutionary turmoil, and (2) an eventual emergence of a more stable regime which, out of self-interest, would seek a more normal relationship with the U.S. In implementing the policies described in this section, consideration should always be given to their possible impact on the various factions struggling for power in Iran.

Other political scenarios are, of course, possible. While a civil war situation might enable more moderate factions from within and even outside of Iran to gain power, it could also offer opportunities to leftist groups supported by the Soviet Union to gain power. Under certain circumstances, as noted previously in this paper, the Soviet Union might be induced to intervene militarily in Iran. Possible military responses by the U.S. to the latter situation are being considered in a separate study. In addition, we recommend that possible covert action or other policy responses to prevent a civil war from benefiting the Soviets or those they support be examined in a separate study by appropriate agencies as soon as possible. (See Annex A.)

1. Policies to Cope with the Present Unstable and Hostile Iranian Regime

-- Initiate as soon as possible an informal dialogue with key Iranian leaders through the Swiss or Algerians, as appropriate, setting forth our views on specific issues of bilateral interest. While such a dialogue might be ostensibly unproductive, past experience in dealing with Iran's revolutionary leaders indicates that the content of our messages is absorbed. Discussions of this nature could be made more attractive to Iranian leaders by also conveying U.S. intelligence assessments on subjects of

particular interest to the Iranians, e.g., Afghanistan, Soviet activities in the Transcaucasus and the Soviet threat to Poland. The following policy themes would be the substance of such a dialogue:

- the U.S. favors an early end to the war with Iraq;
- the U.S. fully supports maintenance of the territorial integrity of Iran as well as of Iraq;
- U.S. neutrality with respect to the war has prevented U.S. arms from going to either side;
- when the war ends the U.S. will consider releasing the unsold items of Iranian military equipment in the pipeline if the Iranians so desire;
- the U.S. intends to implement fully the hostage release agreements (See Annex B.) and believes that this mutually beneficial mechanism will resolve many problems affecting our bilateral relations;
- the U.S. does not seek at this time to normalize relations. Appropriate disposition of official U.S. properties in Iran would be an indication of Iranian interest in clearing away the obstacles to the eventual normalization of relations when this becomes mutually desirable.

-- Accompany the "open door" dialogue described above with selected measures designed to thwart anti-American Iranian policies and to undercut government officials who threaten U.S. interests. In particular, we should:

- use the resources at our command with the media, including Voice of America, to blunt anti-U.S. propaganda emanating from Iran;
- use overt and covert means (i.e., black propaganda) to discredit those Iranian officials who are particularly harmful to U.S. interests including the former hostage holders who were recently appointed to high positions in the Iranian Foreign Ministry. The latter should be denied visas to the U.S. even to attend UN meetings as representatives of Iran. The intent of these measures would be to bring home to the regime that it cannot with impunity appoint to high governmental positions those who have so flagrantly violated international law.

-- send clear signals to the USSR, both publicly and privately, that the U.S. will not tolerate direct or indirect Soviet interference in Iranian affairs. We would use every opportunity to undercut the validity of the 1921 USSR/Iran treaty on which Moscow periodically asserts a right to intervene in Iran;

-- enhance the U.S. military presence and strengthen Washington's political and economic ties with friendly countries in the region. While Iran, under present circumstances, will react negatively, the policy can also be used positively (particularly if we have Pakistan's cooperation) to harmonize with Iran's own fears of Soviet aggression;

-- be responsive as possible on implementation of the hostage agreements. While Iran's efforts to recover the Shah's assets and the claims settlements procedures will involve us in contentious disputes with Iran, our contacts with the Iranian side should be conducted with an eye toward improving the atmosphere for an eventual normalization of relations;

-- encourage a negotiated settlement of the Iran-Iraq war which secures the territorial integrity and sovereignty of both countries;

-- confirm to American businessmen that we now impose no specific controls on non-military trade with Iran and begin pointing out that we believe that it is in the U.S. interest for them to respond to commercial opportunities offered by Iran. We should note in so doing, however, that continuing political instability poses substantial business risk and makes it unsafe for Americans to visit Iran. (See Annex C for press guidance.) Our objective would be to:

- remind Iranians of continuing useful American links to make less credible revolutionary and Soviet propaganda that the U.S. is the enemy of the Iranian people;
- continue to permit Iran to buy key spare parts for its industry, agriculture and communications, as well as needed food and medicine, thus preventing shortages that could exacerbate political instability and factional conflict;

- continue to permit Iran access to oil industry spare parts and materials that will support at least present levels of production and domestic refinery throughput and foreign exchange earnings;

-- continue to screen rigorously students* and other Iranian visa applicants;

-- Appropriate U.S. governmental representatives should continue to maintain informational contact with key Iranian exile groups, but should not offer support or be perceived by the exiles to be actively encouraging them under either of the two scenarios addressed in this memorandum. Rather the exiles should be urged to seek an Iranian solution to Iran's problems with the help of those still in Iran. Should any of the exile groups develop sufficient unity and strength (including support in Iran) to be able to challenge the present regime, this policy of keeping our distance should be reviewed.

All agencies support a continued ban on direct and indirect transfers of U.S. arms to Iran as long as the war with Iraq continues. At the same time, our European allies and other countries such as China, Turkey, Pakistan and Israel may for their own reasons wish to be more receptive to Iran's request for arms supplies. There is a difference of opinion, however, on the possible transfer to Iran by third countries of non-U.S. origin arms.

The State Department believes that, while making it clear to other countries that the U.S. will continue to ban the sale of U.S. origin arms to either belligerent, we would not oppose the transfer to Iran by such arms suppliers of moderate quantities of non-U.S. origin arms. There is a growing imbalance in the Iran-Iraq arms supply equation in Baghdad's favor, and State believes that arms supplies by third countries to Iran would minimize opportunities for new Soviet involvement in Iran through arms aid offers.

*The Iranian Government has been threatening to cut off student foreign exchange allocations, possibly with a view to encouraging the 65,000 Iranian students in the U.S. to return to Iran or take up their studies in some other country. We have no evidence to date that Iranian students in the U.S. will be responsive to such a call. Nevertheless, we anticipate that those who do leave will seek reentry to the U.S. once they have tasted life in Islamic Iran. In addition, others may leave the U.S. for personal reasons to visit families in Western Europe and other places outside of Iran. Since virtually all Iranian students are here with visas which are no longer valid, our consular officers in Europe could face an increased burden this fall by Iranian students seeking to return to their studies in the U.S. In addition, to the extent that the Iranian regime blocks the flow of money, we anticipate an increase in the number of Iranian students seeking permission to work in order to earn enough money to continue their studies in the U.S.

Other agency representatives at the IG--DOD and CIA-- expressed the view that arms supplies to Iran, regardless of origin, could encourage Iran to resist efforts to mediate an end to the war and that all arms transfers to Iran should therefore, be actively discouraged. A SIG determination on this issue as opposed to the State view noted above is required.

2. Revised Commercial and Arms Policies Appropriate to the Emergence of a More Stable Government Indicating Interests in Normalization of Relations with the U.S.

-- actively encourage U.S. firms to do business with Iran pointing to the improved political climate, and move as early as possible to amend or remove our travel advisory in order to:

- encourage an increased flow of U.S. goods, services and technical assistance to Iran's industry, agriculture and the oil sector, thus strengthening the ability of the central government to deal with extremists or anti-government minorities who threaten the process of consolidating political stability and rebuilding the economy;
- reduce incentives for trade and other economic ties with the Soviet Union;
- extend the market share of U.S. business in Iran;
- signal that a demonstrated pattern of behavior showing respect for international law can provide direct and tangible benefits.

-- offer to resume direct, overt arms supply to Iran and encourage parallel allied and friendly country support as political stability materially improves in Iran and as an end to the fighting between Iran and Iraq is achieved, in order to:

- improve the longer-term strategic balance in the Persian Gulf by strengthening Iran's ability to resist future external threats and contain domestic subversion and reduce opportunities for Soviet involvement in Iran as an alternative arms supplier;

- pave the way for full normalization of U.S. relations with Iran when this becomes mutually desirable -- provided direct resupply of the Iranian military takes place only after an end to the present Iran-Iraq war, any negative Iraqi or Arab reactions should be manageable. (Care would have to be taken to explain to the U.S. public how U.S. interests would be served by a decision to support what will be seen as the Iranian regime that violated international law by seizing and holding our diplomats.)

Annex A - Proposed Separate Policy Study in Response to a Disintegrating Iran

Annex B - Implementation of Hostage Release Agreements

Annex C - Press Guidance on Trade Policy

June 12, 1981

3335

~~SECRET~~

Annex A

Proposed USG Study of Policy Towards a Disintegrating Iran

Our basic long-term interest is in maintaining the independence and territorial integrity of Iran. Should events in Iran, triggered perhaps by the death of Khomeini, take a turn for the worse in terms of increased factional conflict, anarchy, or civil war, the U.S. will want to encourage and support those forces in and outside Iran that share this interest.

Obviously, better insights into Iranian internal developments and clearer understanding of Iran's competing political, economic and military forces will be needed if U.S. efforts in support of friendly forces are to be effective. We will need to know more precisely, for example, the objectives and political orientation of the clerical and secular leaders in the dominant IRP and among the IRP's opponents. Perhaps equally important is a solid evaluation of Soviet or other outside influences over the various political factions and ethnic minorities, and within Iran's military and para-military forces. While Iranian exiles in some ways represent a microcosm of some opposition elements in Iran, they are for the most part out of touch with events actually taking place. Many are also tarnished either because of unpopular deeds under the Shah or by their activities in exile. Nevertheless, their potential for a positive role in a disintegrating Iran must not be overlooked, and we will want to factor them into our policy deliberations.

We must try to identify those forces in Iran--even including elements of the present regime--as well as forces outside who might be willing to receive support to enable them to oppose effectively Soviet supported groups in a civil war type situation. We would need to develop channels of communication (not necessarily covert) to these forces. We must evaluate what assistance might be given to such forces which would enable them to gain the upper hand over their enemies without provoking overt military intervention by the Soviet Union. Among the contingencies which should be considered in such a study are the possible introduction into Iran of proxy forces by the Soviet Union and how we might respond to such a challenge.

We would therefore recommend that appropriate civilian and defense agencies examine the scenario of a disintegrating Iran and formulate contingency plans for contacting and supporting those in and outside Iran who share the U.S. interest in maintaining Iran's independence and territorial integrity.

~~SECRET~~

DECLASSIFIED

NLRR E07-039# 33335

BY MJ NABAR DATE 7/15/08

DECLASSIFIED

35336

NLRB F07-039#35336

BY LOI NARA DATE 7/15/08

~~SECRET~~

Annex B

HOSTAGE RELEASE AGREEMENTS

Following an in-depth Administration review of the hostage agreements, the President ordered that we "implement them, consistent with Iranian and Algerian understandings of principle, in a way that maximizes the advantages of U.S. claimants and narrowly construes U.S. obligations in Iran."

This decision reflects the fact that the agreements, on balance, represent only a restoration of the status quo ante and do not offset the costs imposed on Iran for its terrorist actions through economic sanctions and isolation from the world community. It also reflects a conclusion that our vital interests in the oil resources of the Persian Gulf, and the serious threat the Soviets presently pose to that crucial region, dictate that we begin to prepare for eventually establishing more normal relations with Iran.

The other countries of the Persian Gulf--and investors elsewhere--have argued for compliance with the agreements. They are seriously concerned that abrogation by the U.S. would have serious consequences for the international financial structure on which they depend so heavily.

Abrogation of the agreements and the retention of Iran's assets would create a serious obstacle to normal relations with any future government of Iran. And, while such action might contribute to the fall of the Rajai government, any successor government is likely to be even more hostile to U.S. interests.

The Administration's decision to implement the agreements also rested on the need to preserve their benefits for U.S. claimants. U.S. claims exceed Iranian assets remaining in this country by a considerable amount; the claims settlement procedures provided by the agreements offer the best and perhaps the only means for U.S. claimants to be made whole. The Supreme Court's July 2 decision has cleared away any legal impediments to carrying out the transfer.

We believe the recent assassination of Iranian leaders do not warrant a reexamination of the decision to transfer the Iranian funds. Iran has taken steps to ensure continuity in its government, and it has given no evidence of intent to breach its own obligations under the agreement. The Iranians have worked constructively with us--even after the death of Beheshti--to set up the Claims Tribunal and to establish the Security Account

~~SECRET~~

Annex C

PRESS GUIDANCE

- Q. Now that the Administration's review of Iran policy has been completed, what is your position on trade with Iran?
- A. As you know we impose no specific controls on non-military trade with Iran. We are pointing out to businessmen that we believe it is in the U.S. interest for them to take advantage of commercial opportunities offered by Iran. However, we are also noting that the continuing political instability in Iran increases the risk in doing business with that country and makes it unsafe for Americans to visit there.

~~SECRET~~

D R A F T
NATIONAL SECURITY DECISION
DIRECTIVE

DECLASSIFIED

NLFR F07-039#35337

BY NET NARA DATE 7/15/08

POLICY TOWARD IRAN

The territorial integrity and sovereignty of an independent, albeit Islamic revolutionary Iran, is essential to our South-west Asia security strategy which in turn will be bolstered by a strong U.S. global posture towards the Soviet Union. Our policy toward an independent Iran will be directed toward achieving the following objectives:

-- ensure uninterrupted flow of Persian Gulf oil to world markets;

-- prevent Soviet dominance of Iran;

-- seek a stable balance of Arab and Iranian influence in the Gulf region and prevent a dominant role for either;

-- discourage the export of the Iranian revolution or Iranian terrorism to other states in the area;

-- promote active Iranian cooperation with Pakistan to resist the Soviet presence in Afghanistan;

-- mitigate the extreme anti-westernism of the Iranian revolution;

-- encourage, to the limited extent feasible, forces in Iran favoring a more moderate government which would be less injurious to U.S. interests in the region;

-- step up U.S. intelligence capabilities in Iran to develop a deeper understanding of the political dynamics of the country with an eye toward improving the U.S. ability to anticipate developments adversely affecting our interests;

-- support the interests of U.S. claimants against Iran in a manner consistent with the foregoing objectives;

-- allow for the eventual normalization of U.S.-Iranian relations in the future.

Since the current instability in Iran could turn to total anarchy or some form of civil war maximizing opportunities for the extreme left or heightened Soviet interference through covert means or possibly proxy forces, appropriate U.S. civilian and defense agencies should immediately begin formulating contingency plans for contacting and supporting those in and outside Iran who share the U.S. interest in maintaining Iran's independence and territorial integrity.

~~SECRET~~

RDS-3 7/10/01

~~SECRET~~

- 2 -

U.S. policy toward the present unstable and hostile Iranian regime will be to:

-- initiate as soon as possible an informal dialogue with key Iranian leaders through the Swiss or Algerians, as appropriate, setting forth our views on specific issues of bilateral interest. Discussions of this nature could be made more attractive to Iranian leaders by also conveying U.S. intelligence assessments on subjects of particular interest to the Iranians, e.g., Afghanistan, Soviet activities in the Transcaucasus and the Soviet threat to Poland. The following policy themes would be the substance of such a dialogue:

- the U.S. favors an early end to the war with Iraq;
- the U.S. fully supports maintenance of the territorial integrity of Iran as well as of Iraq;
- U.S. neutrality with respect to the war has prevented U.S. arms from going to either side;
- when the war ends the U.S. will consider releasing the unsold items of Iranian military equipment in the pipeline if the Iranians so desire;
- the U.S. intends to implement fully the hostage release agreements and believes that this mutually beneficial mechanism will resolve many problems affecting our bilateral relations;
- the U.S. does not seek at this time to normalize relations. Appropriate disposition of official U.S. properties in Iran would be an indication of Iranian interest in clearing away the obstacles to the eventual normalization of relations when this becomes mutually desirable.

-- Accompany the "open door" dialogue described above with selected measures designed to thwart anti-American Iranian policies and to undercut government officials who threaten U.S. interests. In particular, we will:

- use the resources at our command with the media, including Voice of America, to blunt anti-U.S. propaganda emanating from Iran;

~~SECRET~~

~~SECRET~~

- 3 -

- use overt and covert means (i.e., black propaganda) to discredit those Iranian officials who are particularly harmful to U.S. interests including the former hostage holders who were recently appointed to high positions in the Iranian Foreign Ministry. The latter should be denied visas to the U.S. even to attend UN meetings as representatives of Iran. The intent of these measures would be to bring home to the regime that it cannot with impunity appoint to high governmental positions those who have so flagrantly violated international law.

-- send clear signals to the USSR, both publicly and privately, that the U.S. will not tolerate direct or indirect Soviet interference in Iranian affairs. We would use every opportunity to undercut the validity of the 1921 USSR/Iran treaty on which Moscow periodically asserts a right to intervene in Iran;

-- enhance the U.S. military presence and strengthen Washington's political and economic ties with friendly countries in the region.

-- be responsive as possible on implementation of the hostage agreements. While Iran's efforts to recover the Shah's assets and the claims settlements procedures will involve us in contentious disputes with Iran, our contacts with the Iranian side should be conducted with an eye toward improving the atmosphere for an eventual normalization of relations;

-- encourage a negotiated settlement of the Iran-Iraq war which secures the territorial integrity and sovereignty of both countries;

-- confirm to American businessmen that we now impose no specific controls on non-military trade with Iran and begin pointing out that we believe that it is in the U.S. interest for them to respond to commercial opportunities offered by Iran. We should note in so doing, however, that continuing political instability poses substantial business risk and makes it unsafe for Americans to visit Iran. Our objective will be to:

- remind Iranians of continuing useful American links to make less credible revolutionary and Soviet propaganda that the U.S. is the enemy of the Iranian people;
- continue to permit Iran to buy key spare parts for its industry, agriculture and communications, as well as needed food and medicine, thus preventing shortages that could exacerbate political instability and factional conflict;

~~SECRET~~

~~SECRET~~

- 4 -

- continue to permit Iran access to oil industry spare parts and materials that will support at least present levels of production and domestic refinery throughput and foreign exchange earnings;

-- continue to screen rigorously students and other Iranian visa applicants;

-- permit U.S. governmental representatives to maintain informational contact with key Iranian exile groups. The exiles should be urged to seek an Iranian solution to Iran's problems with the help of those still in Iran. Should any of the exile groups develop sufficient unity and strength (including support in Iran) to be able to challenge the present regime, this policy of keeping our distance will be reviewed.

-- continue to ban the direct and indirect transfers of U.S. origin arms to both Iran and Iraq for the duration of the war. The U.S. will not oppose transfers of non-U.S. origin arms to Iran by our European allies and other countries such as China, Turkey, Pakistan and Israel since such transfers would minimize opportunities for new Soviet involvement in Iran through arms aid offers.*

Should over time a more stable Iranian government emerge indicating interest in normalizing relations with the U.S., our commercial and arms policies will be to:

-- actively encourage U.S. firms to do business with Iran pointing to the improved political climate, and move as early as possible to amend or remove our travel advisory in order to:

- encourage an increased flow of U.S. goods, services and technical assistance to Iran's industry, agriculture and the oil sector, thus strengthening the ability of the central government to deal with extremists or anti-government minorities who threaten the process of consolidating political stability and rebuilding the economy;
- reduce incentives for trade and other economic ties with the Soviet Union;

*DOD and CIA believe that any arms supplies would encourage Iran to resist efforts to bring an end to the war and that all arms transfers to Iran should, therefore, be actively discouraged.

~~SECRET~~

~~SECRET~~

- 5 -

- extend the market share of U.S. business in Iran;
- signal that a demonstrated pattern of behavior showing respect for international law can provide direct and tangible benefits.

-- offer to resume direct, overt arms supply to Iran and encourage parallel allied and friendly country support as political stability materially improves in Iran and as an end to the fighting between Iran and Iraq is achieved, in order to:

- improve the longer-term strategic balance in the Persian Gulf by strengthening Iran's ability to resist future external threats and contain domestic subversion and reduce opportunities for Soviet involvement in Iran as an alternative arms supplier;
- pave the way for full normalization of U.S. relations with Iran when this becomes mutually desirable--provided direct resupply of the Iranian military takes place only after an end to the present Iran-Iraq war, any negative Iraqi or Arab reactions should be manageable. (Care would have to be taken to explain to the U.S. public how U.S. interests would be served by a decision to support what will be seen as the Iranian regime that violated international law by seizing and holding our diplomats.)

~~SECRET~~