

8 November 1978

MEMORANDUM FOR: Director of Central Intelligence  
VIA : Director, National Foreign Assessment  
Center  
FROM : Maurice C. Ernst  
SUBJECT : The 9 November 1978 PRC Meeting

1. Action Requested: None. For your information.

2. Background: The purpose of this PRC meeting is to brief Secretary Blumenthal prior to his visit to the Middle East (Iran, Saudi Arabia, Kuwait, and the UAE) from 16 to 22 November. The general agenda includes:

- a. A brief rundown on the situation in the four countries  25X1A
- b. A discussion of current oil price and supply policy problems, including probably a brief report by Under Secretary Cooper on his recent trip to Iran, Kuwait, and the UAE.
- c. A report on the current status of the Egyptian-Israeli negotiations  25X1A

3. The general agenda has not been changed by events in Iran, but an update on the Iranian situation since the Monday PRC meeting probably will be needed. Moreover, Iran's political instability and the current loss of most Iranian oil obviously add important new policy questions to those Secretary Blumenthal intends to discuss during his trip.

4. State prepared a brief paper on questions Secretary Blumenthal may address during his visit (paper attached). Although it is slightly out of date as a result of the changing Iranian situation and we have other minor problems with it (see our attached comments), on the whole, we believe

DIA and DOS review(s) completed.

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it is an excellent paper. Its main recommendation is that Secretary Blumenthal should make a case, in a low key, for minimizing the next OPEC price increase.

5. The question of how to compensate for the loss of Iranian oil is not covered in the paper. As we have indicated in your draft briefing for the President, it looks as if:

- o Saudi Arabia has agreed to let Aramco produce at capacity.
- o Kuwait and the UAE have turned down company requests to increase liftings.

6. The PRC may want to consider whether Secretary Blumenthal should approach Kuwait and the UAE on this subject, and, if so, how. One concern is the possible link between the next OPEC price increase and Kuwaiti and UAE oil production policy.

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[redacted] the question is how the December price increase might affect future oil production decisions and whether any tradeoffs exist.

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[redacted]  
Maurice C. Ernst

Attachments:  
As stated

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8 November 1978

MEMORANDUM:

Comments on State Discussion Paper  
for PRC Meeting on Secretary Blumenthal's  
Trip to the Middle East

1. In general we have no serious difficulties with the State report for the PRC Meeting. One difficulty, however, is the need to update events in the light of Iran's political turmoil. It should be pointed out that, while the Shah no doubt welcomes US concern and support, much of the rioting had an anti-US tone. We suspect that the Saudis may want to spend more time on a US assessment of the Iranian situation than is supported in the discussion paper. Certainly, Riyadh views recent events with a good deal of alarm.

2. Reporting on the Saudi price position has indicated that the country would favor an increase for crude oil in the range of 2-7 percent in January 1979, with a possible add-on by mid-year. It had been assumed that Iran would back the Saudis position; the combination of these two countries probably would have been sufficient to secure a very moderate price outcome. The sharp drop in Iranian production since late October, if anything, has altered this position toward the prospect of a higher price increase. From Iran's standpoint, the immediate revenue loss from reduced oil sales and the greatly increased budgetary outlays which are anticipated, could well cause Iran to shift its position at the December OPEC price deliberations. With the market very tight, and most other OPEC countries favoring a price increase, there will be a vigorous push for high prices of 10 percent or more. (Some OPEC members will keep an eye to the international crude spot markets which, although representing only marginal sales volumes, are virtually closed down and are encountering spot sales prices in excess of 15 percent above official government selling prices.)

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3. As for the Saudis, we suspect that the State position is too optimistic over chances of Saudi success in holding down OPEC oil price increases. The Saudis are under tremendous pressure from OPEC members for a large price hike, [redacted] 25X1 ✓

25X1 [redacted] strongly suggest that they will acquiesce in at least a 10 percent hike. Because of the current cash flow problem, and loss of real purchasing power due to the decline of the dollar, the Saudis also have domestic political opposition calling for oil price increases. Moreover, even oil-price moderates such as Saudi Oil Minister Yamani appear to favor small periodic price rises at least sufficient to cover the loss of purchasing power from inflation. On balance, the Saudis appear less inclined than at any time in recent years to fight the battle of price moderates. 25X1

4. Kuwait has been very impatient with requests that the country temporarily increase oil output to make up for the loss of Iranian production. Rather, they prefer that the West live off of oil stocks at the present time. What the government really wants is an oil price increase. Given their own security concerns, the Kuwaitis may yet be susceptible to an early demarche by the US and/or Saudi Arabia to increase oil output. The same is true for the UAE, even though their reluctance to increase oil output is based on technical grounds. These two countries, distrustful of company motives in the marketplace, might be more willing to accede to requests from governments to raise oil production.

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MEMORANDUM

Briefing Support for Secretary Blumenthal's  
Trip to the Near East

1. Secretary Blumenthal is scheduled to depart on 16 November 1978 for a tour of moderate Arab states in the Near East. The trip includes visits to Saudi Arabia, the United Arab Emirates, Kuwait, and Iran. His mission is designed to focus on economic issues where the US and moderate Arab states can cooperate to bring about desired order in the world economy in areas such as oil-pricing policy, support for the US dollar, and coordinated aid programs. It is recognized that the Secretary inevitably will have occasion to discuss the dynamics of political change in the region, including Arab reaction to the peace process, political problems in Iran, and concern of the countries over a perceived Soviet encirclement.

2. Events of the past few weeks may have radically altered the agenda of the original mission. In at least two important areas -- political turmoil in Iran and President Carter's program to defend the US dollar -- a new focus will have to be given in the approach of the coming discussions. Iran as well as the other Gulf states will be looking for renewed assurances of support for the Shah's regime. Moreover, defense of the dollar should give Saudi Arabia additional leverage to damp demands for OPEC oil price increases.

3. In support of the Secretary's trip, OER prepared a set of briefing papers, which are attached,\* in response to specific queries from Foster Collins at Treasury. These papers cover various aspects of Saudi economic developments and foreign aid programs of Persian Gulf countries; background papers on oil pricing and production are also presented. Since

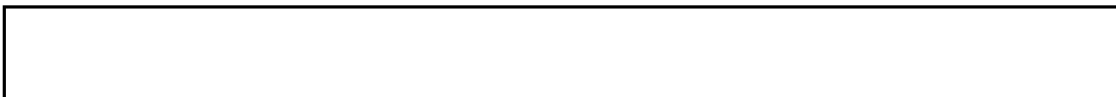
\*Papers available from NIO/NESA; listed on next page.

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OER Papers Supplied to Treasury:

- 1 - Iran: Economy in Upheaval
- 2 - Saudi Arabia: Fiscal 1979 Budget
- 3 - Saudi Arabian Development Plans
- 4 - Saudi Arabia: Act Two of the Third Development Plan
- 5 - Saudi Arabia: Petrochemical Plans
- 6 - North Africa and Near East: Expansion of Petrochemical Industry
- 7 - Recent Trends in Iranian Foreign Assistance
- 8 - Official Development Assistance Commitments to LDCs
- 9 - Recent Trends in Kuwaiti Foreign Assistance
- 10 - Recent Trends in UAE Foreign Assistance
- 11 - OPEC: Outlook for Productive Capacity
- 12 - The Oil Market Through 1985
- 13 - The Status of Saudi Arabian Oilfields
- 14 - OPEC: Production Falls in First Half
- 15 - OPEC Prices: State of Play

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7 November 1978

### Iran: Economy in Upheaval

The Iranian economy, which managed real growth of less than three percent last year, is reeling from the several months of intermittent private and public sector strikes, culminating in the recent oil walkout. Oil workers ignored the government ultimatum that they return to work by 4 November or be fired and face possible legal action. Elsewhere in the economy, additional groups of workers staged walkouts while some who had returned to work following resolution of earlier strikes resumed their walkouts. The ability of the new military government to convince strikers to return to work will provide a major test of the leadership's effectiveness.

The effect of the turmoil will clearly be felt for years to come. While a reordering of development priorities and a cleanup of government corruption would have considerable beneficial effects, further economic difficulties seem inevitable over the intermediate term.

#### Current Account Into the Red

The slowdown in oil exports from 5.5 million b/d to 1-1 1/2 million b/d at present has already cost Tehran \$600 to \$700 million in forfeited oil revenues; the losses now are running at roughly at \$50 to \$60 million a day. Even before the losses, Iran's current account was headed for a substantial (\$1.5 billion) deficit in 1979 in the absence of an oil price increase. These and any further losses will have their greatest impact during calendar year 1979 due to the normal 45-75 day credit terms extended oil buyers. Moreover, when the workers settle down, the sizable wage gains granted in recent months will sharply increase the demand for imported consumer items.

The value of Iran's imports was already picking up substantially earlier this year due to both volume increases and price inflation. For the year, payments for foreign goods are expected to total about \$18 billion, 17 percent above last year's total, even though strikes and civil

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disorders have curtailed imports in recent months, The current account surplus should fall from \$4.6 billion in 1977 to \$1.0 billion in 1978. A ten percent oil price hike next January would just about balance Iran's current account for 1979, provided oil exports return to normal.

Iran is also losing capital and access to capital. Capital flight -- which cannot be accurately measured -- has been variously estimated at \$3 billion to \$5 billion since the start of the year, with a reported \$500 million leaving the country in one week in September. On 5 November the central bank advised commercial banks that limits of \$20,000 per transaction and \$40,000 per year should be placed on non-commercial transfers. Up until the 5th, Iran had practically no exchange controls. Transfers abroad for education, medical care, and tourism (which already is limited by the government) and for normal commercial transactions will not be affected. In addition, the new limits may be exceeded with permission of the Central Bank. The exemption for educational purposes is a potentially large loophole since many families have relatives studying abroad.

The political strife has at least temporarily impaired Iran's strong external credit rating. Foreign bankers have warned that new international issues might prove embarrassingly unmarketable at this time and that Iran should no longer expect to get prime rates. At the moment, only Japanese and several continental European banks appear willing to extend funds to Iran, because their current exposure is much lower than that of US and UK banks.

So far, neither the outflow of capital nor the damage to Tehran's credit rating has hurt Iran's ability to pay for imports. The recent outflow of capital appears to have come mainly from liquid assets built up over many years and from Iran's "gray market" of noncommercial foreign exchange dealers. International reserves, a healthy \$11.6 billion at the end of September, remain a bright spot in the external account picture. Iran also has an additional \$6 billion in non-reserve assets, mostly non-liquid private placements abroad and large blocks of foreign corporate stocks, which could be liquidated only with a substantial loss.

#### Domestic Implications

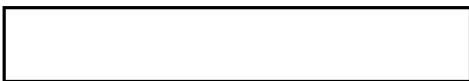
On the domestic front, once a measure of political stability is established, the government will find that its problems have been made more complex and immediate by recent events. The Shah recently stated his willingness to reassess economic priorities with a view to cutting back on high-posture industrial, military, and nuclear power projects in favor of agriculture and rural development. The financing

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of any new development projects, however, will have to take a back seat to covering costs generated by pay hikes and increased fringe benefits.

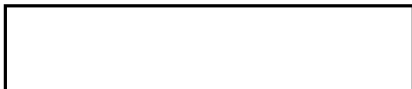
The diversion of resources from investment to consumption will refuel inflation in the short run and cut into real economic growth in the long run. Holding down the cost of living has been the one successful economic policy of the past year. The living cost increased at an annual rate of less than 10 percent during the first eight months of 1978, compared with a 24-percent increase in 1977. We anticipate a near term jump to at least 25 to 30 percent because of pay hikes and output disruptions. Even if additional imports help meet this demand, time lags and distribution problems will blunt their effect.

In order to remain afloat, Iranian industry, already suffering from high capital costs and low labor productivity, will need a relaxation of price controls to pass on to consumers the costs of extravagant wage settlements. Moreover, domestic producers almost certainly will petition the government for special tax treatment and protection against imports so that they can retain their share of domestic markets. Hopes of achieving competitiveness in world markets have been further dashed. Private investment, which declined last year, will continue to fall.

Within the Iranian labor force, those least well off and unorganized -- i.e., agricultural and construction workers -- will experience a further worsening of their relative incomes. Moreover, the leverage of the construction sector has declined with the substantial cooling of construction activity during the next 12 months. Widening in income differentials and worsening inflation could breed future unrest among the unskilled, underemployed laborers who have not participated in recent wage gains.

Iran's nascent labor movement, previously consisting of weak, unaffiliated, company unions can be expected to evolve rapidly based on its recent experiences. Having seen the benefits of direct confrontations with the government, workers will presumably be more willing to defy the authorities for economic gains. The workers' actions, of course, will be tempered by the severity of any military crackdown.

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## IMPACT OF IRANIAN OIL STRIKES

as of: COB 7 Nov

Current Situation

A. Striking oil workers apparently failed to return to work on 4 November despite the government's ultimatum.

1. As of 6 November, Iran's crude oil production was running at about 1.3-1.4 million b/d; prestrike output was more than 6 million b/d.

25X1 a. [redacted] output will remain at about 1.4-1.8 million b/d until the strikes are settled.

b. The most severe labor problems are in the oilfields, particularly the four largest fields that normally account for two-thirds of Iran's oil output.

c. Gas shipments from these fields to the Soviet Union have ceased.

2. As of 6 November, crude oil exports were running at about 1.0 million b/d, compared with the prestrike level of about 5.5 million b/d.

a. During the early days of the strike a principal bottleneck was the Kharg Island loading facilities, which normally handle 4 to 5 million b/d. By 4 November, additional walkouts occurred at the offshore joint ventures.

b. A large backlog of tankers is now waiting to load, and lifters of Iranian crude have curtailed deliveries.

B. Domestically, household supplies of petroleum products were threatened by a resumption of the strike by employees of the distribution system in Tehran. Moreover, throughput at the major Abadan refinery was only 200,000 b/d as of 4 November, about one-third of capacity, endangering supplies to the industrial sector.

C. Government efforts to end the oil strikes continue.

1. The previous government's response to strikers throughout the economy had been conciliatory. But wage and benefit

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hikes as high as 50 to 100 percent given to some groups have led additional workers to go out.

2. Hushang Ansary, Chairman of the National Iranian Oil Company, claims he has satisfied the economic demands of most striking oil personnel and that only a small minority, insisting on political concessions, is preventing full resolution.

3. The government was trying to isolate the resisting workers from their more amenable colleagues. A back-to-work order was delivered on a unit-by-unit basis. Workers who fail to report were threatened with dismissal. We have no evidence that this tactic had met with any significant measure of success.

D. Iran's current productive capacity declined sharply since the strike began.

1. Oil company reservoir engineers officially estimate the decline at 900,000 b/d. A wide difference of opinion exists among consortium specialists and the reduction in capacity may be far more severe.

2. The decline is attributable to reservoir conditions.

a. In the types of reservoirs typical of Iran, when oil wells are shut-in and then production is resumed, water saturation increases.

b. This has the effect of reducing the portion of oil column that is water free. It increases the salt and water content in the total fluid flow and, hence, reduces the proportion of oil produced.

c. In many cases, it may force the shutdown of oil wells where surface facilities (desalting equipment) are not available to handle higher volumes of water production.

d. This condition tends to affect heavy crude fields because the higher viscosity of oil is relatively less mobile than light crude in comparison to water.

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3. The quickest remedy is an acceleration of the drilling and well workover programs above previously planned levels. These activities have been at a standstill since the workers went out on strike. However, a resumption of work probably will not result in a rapid restoration of pre-strike-level capacity.

## II. OPEC Supply Availability

A. Unused OPEC capacity outside of Iran stood at about 5 million b/d at the end of September. One of the tables that has been passed out shows our production and capacity estimates.

1. About half of this unused capacity would have been needed in any event to meet fourth-quarter demand. Purchases normally increase in the winter. Moreover, demand was already increasing in anticipation of an end-of-year OPEC price increase.

2. Some of the remaining unused capacity -- located in Kuwait and Abu Dhabi -- probably is not readily available as a substitute for Iranian oil. For a variety of technical, economic, and political reasons, both have imposed below-capacity ceilings on output.

3. Even if they were to lift restraints on production, at least two months would be required to bring a large share of additional capacity on line.

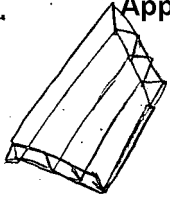
B. Sustainable oil production in Saudi Arabia, excluding the Neutral Zone, is estimated   10.4 million b/d. 25X1  
  the assumption that production rules that would limit fourth-quarter production to about 9 million b/d if they remain in force have been lifted.

25X1 1.   October production averaged 9.5 million b/d and that output reached 10 million b/d in early November.   forecast fourth-quarter output of almost 9 million b/d before the Iranian strike. Hence, an increase of about 1 million b/d is possible in November and December.

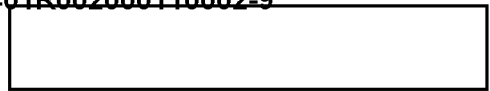
25X1 2.   however, consider the 10 million b/d level too optimistic.   believes that anticipated normal weather conditions in the Persian Gulf will probably limit exports to less than 9 million b/d in the last two months of 1978. If accurate, little actual improvement would occur beyond production levels planned earlier.

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3. The Saudis apparently were going along with higher fourth-quarter levels of about 9 million b/d even before the Iranian strikes.

a. They may have been trying to keep the market slack to hold down the OPEC price hike.

b. They may also have wanted to demonstrate -- in the face of the US Congressional investigation -- that there are no technical impediments to expansion.

C. Kuwait and Abu Dhabi have already been asked by oil companies to expand output during the Iranian strike.

1. Kuwait, with about 1 million b/d of unused capacity, responded that it would not increase output before OPEC revealed its decision on a price increase. (Kuwait is a leader of the price hawks.)

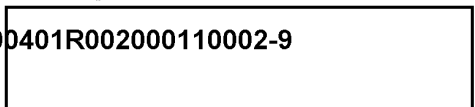
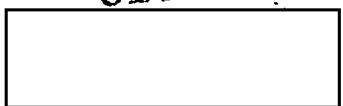
2. The response from Abu Dhabi, with another half million b/d of unused capacity, was also negative.

3. Either might be more receptive to an approach at the political level.

D. The other nine OPEC countries -- Venezuela, Iraq, Libya, Indonesia, Nigeria, Algeria, Qatar, Gabon, and Ecuador -- would be producing close to capacity in the fourth quarter in any case. Spare capacity is small.

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Other Supplies

- A. Outside OPEC, not more than 500,000 b/d excess capacity is believed to be available.
- B. The US and Japan together are importing about 500,000 b/d for strategic stockpiles that could be diverted to cover current demand.

IV. Stocks

- A. Free World oil stockpiles at the end of September were about 3.8 billion barrels, 74 days of normal consumption.
  - 1. One-half of these stocks could be drawn down in an emergency. The remainder (as well as oil in transit) is needed to keep the distribution system running smoothly.
  - B. While the amount that could be drawn down is equal to nearly a year of Iranian production, consumers have shown strong reluctance to draw down inventories during an emergency.

Impact on World Market

- A. Thus, we expect the loss of Iranian oil exports to further tighten the short-term oil market.
  - 1. Spot market prices spurted and supplies dried up when news of the Iranian cutbacks broke out.
  - 2. But the inventory situation means that market activity in the near term will reflect speculative buying more than real shortages.
- B. Even if the strike lasts only a few more days, the impact will spill over at least into early 1979. Buyers will have a harder time purchasing the amount of oil they want in late 1978. After the shock of recent events in Iran, companies will want to keep inventories high next year as a hedge against further trouble.
- C. If the strike is sustained and other OPEC suppliers are unwilling or unable to make up the gap, the market impact will be severe. Companies will have to turn to prorating. A cold winter would compound the economic and political consequences.

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D. On the other hand, even if other OPEC deliveries are not increased, a complete shutoff of oil exports from Iran would have to continue unabated for more than six months to produce the same total loss of oil to world markets as during the 1973/74 embargo.

E. In some respects, oil-consuming countries are better able to withstand a supply interruption similar to the embargo.

1. Stocks are higher.
2. The International Energy Agency has a standby oil-sharing scheme.
3. Companies are experienced in spreading supplies.

F. But the ability of the major consuming countries to easily reduce oil consumption is probably less; the quick savings have already been realized.

G. As shown on the second table, South Africa and Israel have the heaviest import dependence on Iranian oil. But both -- especially South Africa -- have sizable oil stockpiles. Spain, The Netherlands, Japan, Italy, and the United Kingdom also rely to a significant degree on Iranian oil. These nations will be looking hard to find alternative supplies.

#### VI. Influence on OPEC Price Deliberations

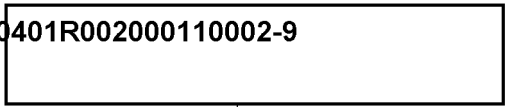
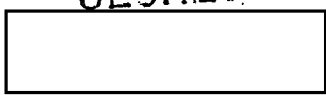
A. The tightening of the oil market should strengthen OPEC price hawks. A majority of OPEC nations have been arguing for a price increase of at least 10 percent for January 1979. Only Saudi Arabia, Iran, and the UAE had indicated a willingness to support a lower price increase.

B. In Iran, high wage settlements and lost oil revenues are new reasons to support the larger increases.

1. The Iranians still do not want to split with the Saudis but indicate they are now willing to go for up to 10 percent.

2. Politically, the Shah may benefit from taking a stand -- i.e., a substantial price increase -- that appears to demonstrate independence of the United States.

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C. The Saudis have made no final decision on a price increase. In the face of recent events, however, they may be more willing than before to agree to 10 percent.

VII. The Iranian Economy

A. The Iranian economy, which was virtually stagnant throughout 1977, has been sent reeling by the month-long series of strikes. Even if they are settled soon, it will be many months before the effects work their way through the economy.

1. The current account surplus will fall from \$4.6 million in 1977 to about \$1.6 million for 1978. It almost certainly will go into substantial deficit in 1979 (when payments for today's lost oil revenues normally would be received) unless the OPEC price increase is more than 10 percent.

2. Increased wages and benefits for oil workers and other public-sector employees will add several billion dollars to the Iranian budget this year and next. Deficit spending and increased paychecks will refuel inflation, which had been slowed during the first half of 1978.

3. Industrial production has already been curtailed by the strikes. The wage settlements will add to already high costs, and Iranian industry will need further government assistance even to retain domestic markets.

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OPEC: Crude Oil<sup>1</sup> Production and Capacity

	Maximum Sustainable Capacity	September 1978		4th Quarter 1978
		Production	Underutilized Productive Capacity	Estimated Available Capacity.
Total .....	36,905	31,620	5,285	27,090-28,090 <sup>2</sup>
Iran .....	6,500	6,060	440	?
Saudi Arabia .....	10,400	8,050	2,350	8,700-9,000
Kuwait .....	3,000	2,150	850	2,200-2,600
United Arab Emirates .....	2,375	1,830	545	1,860
(Abu Dhabi) .....	(1,965)	(1,450)	(515)	(1,460)
Iraq .....	3,000	3,000	0	2,700-3,000
Venezuela .....	2,600	2,270	330	2,600
Libya .....	2,300	2,100	200	2,300
Nigeria .....	2,300	2,120	180	2,300
Indonesia .....	1,700	1,590	110	1,700
Other, including Neutral Zone .....	2,730	2,450	280	2,730

<sup>1</sup> Excluding an estimated 675,000 b/d of natural gas liquids production in OPEC, 45,000 b/d of which is from Iran.  
<sup>2</sup> Total estimated available capacity, excluding Iran.

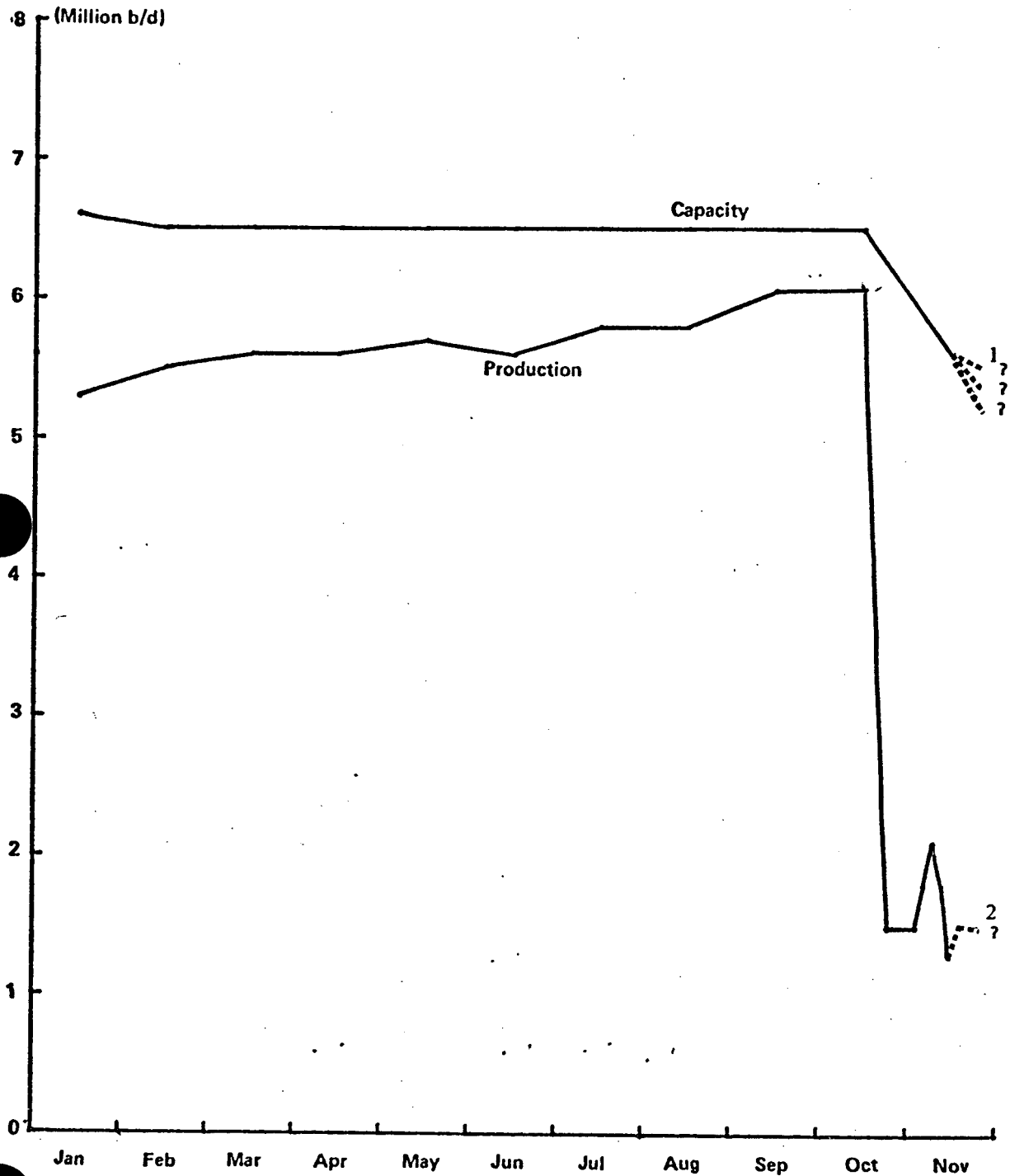
Major Importers of Iranian Oil, 1977

	Thousand b/d		Imports as a Percent of Consumption
	Consumption <sup>1</sup>	Imports from Iran	
South Africa .....	300 <sup>2</sup>	240	80
Israel .....	135	100	74
Netherlands <sup>3</sup> .....	745	270	36
Spain .....	943	220	23
Japan .....	5,401	870	16
Italy .....	1,893	293	15
United Kingdom .....	1,809	259	14
France .....	2,286	189	8
United States .....	18,418	786	4

<sup>1</sup> Including bunkers.  
<sup>2</sup> Estimated.  
<sup>3</sup> The Netherlands is a large oil export refining center. Imports from Iran as a share of total supply amounted to about 20 percent in 1977.

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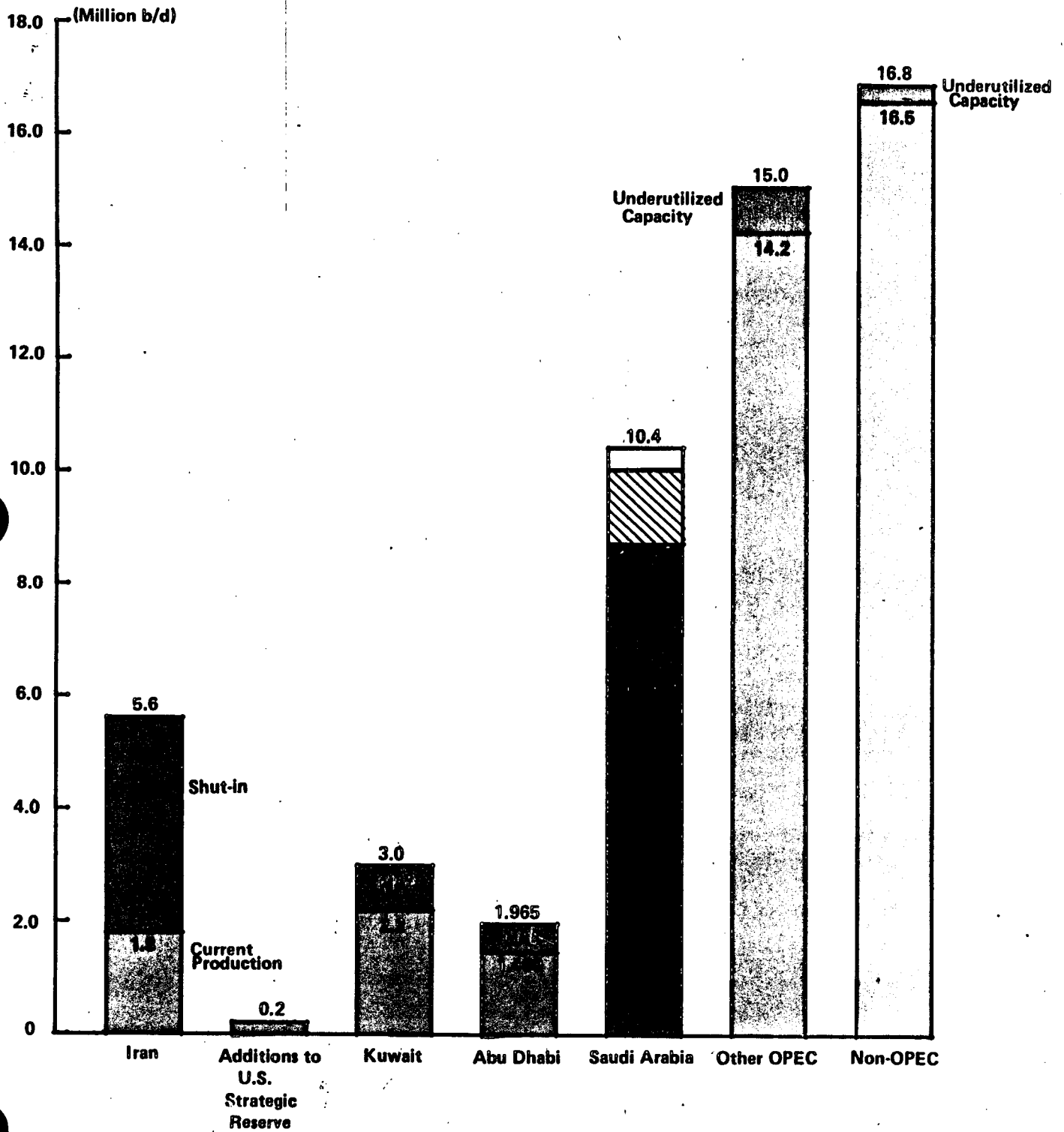
# Iran: Crude Oil Production and Current Capacity



This sharp decline in capacity is attributable to anticipated reservoir performance at the heavy crude fields as production is brought back on line. Capacity will stabilize at a new lower level.

2. Company projections of sustainable production given a continuation of the Iranian oil strikes.

# Indicators of Oil Availability Fourth Quarter 1978

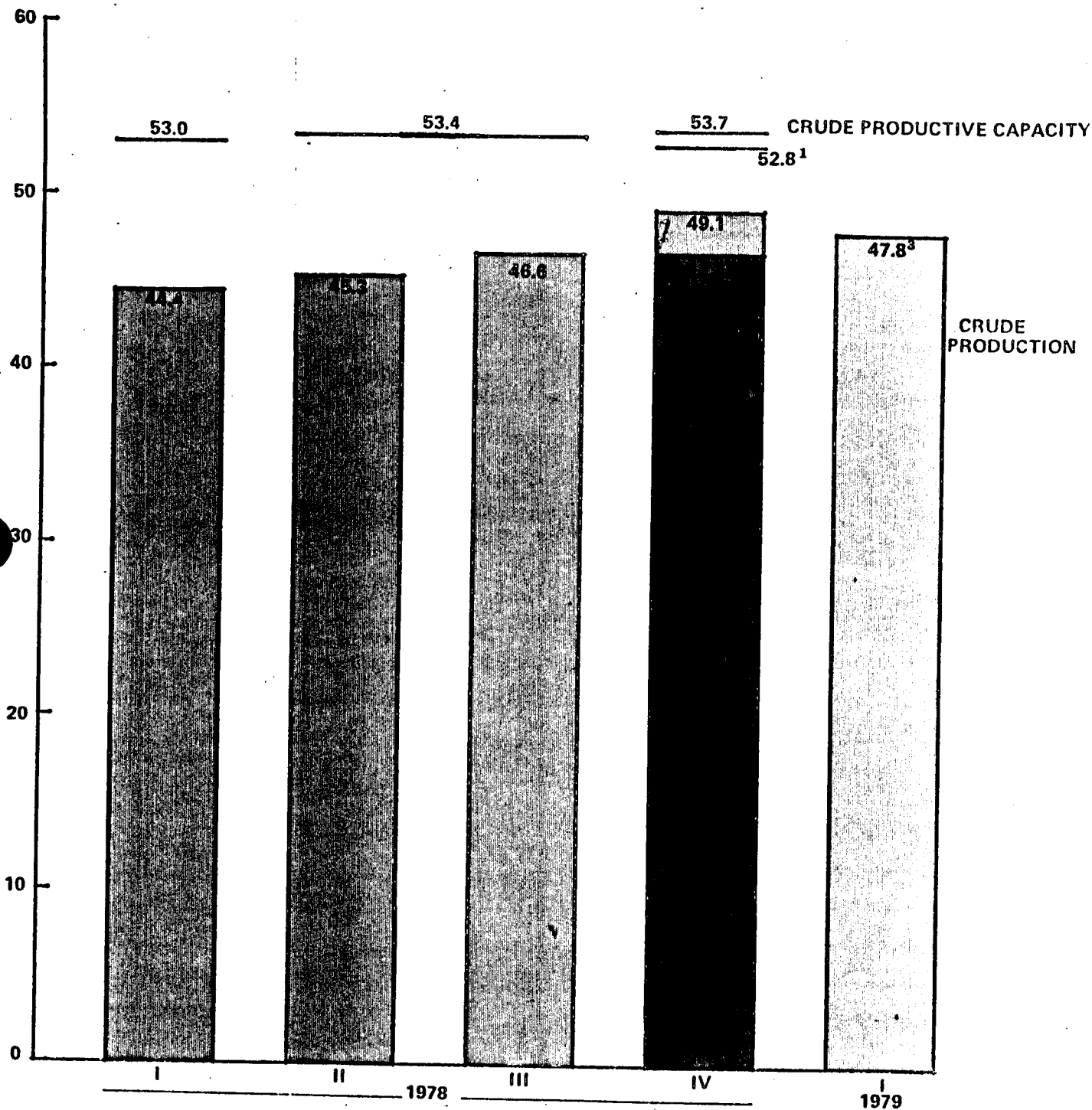


\* Not currently available.

1. Fourth quarter output projected prior to the Iranian strikes.

# Estimated Free World Crude Oil Production

(Million B/D)



1. Fourth quarter capacity has been adjusted to reflect the decline in Iranian capacity attributable to the strike - from 6.5 million b/d to 5.6 million b/d.

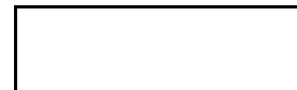
2. Prior to the Iranian strike, Free World crude oil production was projected to average 49.1 million b/d in the fourth quarter. Should the Iranian strike continue for the remainder of the year, with total output remaining at 1.8 million b/d, and Saudi production expand to a fourth quarter average of 9.5 million b/d, Free World output would average 46.6 million b/d.

3. Forecast before the strike in Iran. If capacity is available, actual first quarter production will increase as the system replenishes its stocks.

SUBJECT: Sharif-Emami's Claim to Ambassador Sullivan that SAVAK was Behind the Recent Oil Field Strikes in Iran

There is no evidence to the effect that SAVAK was behind the strikes. For reasons best known to him, Sharif-Emami has made a number of statements about SAVAK's hand being behind recent events in Iran.

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8 November 1978

A BRIEF ASSESSMENT OF  
THE IRANIAN MILITARY

The senior military officers are believed to be loyal to the Shah and will support his decisions as long as they perceive that he is acting decisively. Senior officers were pressing the Shah for firm action against demonstrations and disorder for two weeks before he formed the military government. As long as they think the Shah is in control, they probably will acquiesce to replacement of the military government by a civilian one at a later point if civil order can be restored.

There is virtually no reporting on the loyalty of other levels of the armed forces. At one point some unhappiness was reported from middle grade officers but it was caused, apparently, by professional gripes, lack of promotions and poor pay as compared to civilian counterparts.

Noncommissioned officers and other ranks are an unknown quantity and no reporting has ever been received on their attitudes or morale. Most of them are two-year conscripts, serving reluctantly and with no loyalty

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to the Shah or the military as an institution. Under normal circumstances there seems to have been no exceptional problem with military discipline among the conscripts.

The security of Tehran under martial law has been assigned to elite Ground Forces units, the Imperial Guard and Special Forces. Regular army units are assigned to martial law duties in other cities. The Imperial Guard is said to contain many orphans who have been deliberately recruited and provided with a career and who owe allegiance only to the Shah.

The military will probably be able to maintain order in the country as long as they do not have to engage in prolonged and bloody operations against civilians. Some commanders have already complained that their units have been on alert for many weeks and that their efficiency is being impaired. Regular Army troops do not receive riot control training, a deficiency that has resulted in substantial casualties among demonstrators in clashes this year.

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THE IRANIAN MILITARY GOVERNMENT:

ITS CAPACITY TO GOVERN AND ITS EXPECTED POLICIES

I. (S/NOFORN) PURPOSE. On 6 November, after months of increasingly violent religious, student and labor unrest, the Shah of Iran appointed a military government with the Chief of the Supreme Commander's Staff, General Gholam Reza Azhari, as Prime Minister. The Shah took this step reluctantly, after failing to persuade the disparate elements of his religious and political opposition to cooperate with him in forming a civilian coalition government. The purpose of this paper is to provide a preliminary assessment of the capacity of Iran's new military government to restore law and order and carry out its civil functions. It also provides an assessment of the political, economic and foreign policies that it can be expected to undertake. This assessment is solely a Defense Intelligence Agency product and has not been coordinated with other agencies within the Intelligence Community.

II. (S/NOFORN) FORM AND STYLE OF NEW IRANIAN MILITARY GOVERNMENT.

A. Character and Style. In supporting the constitutional monarchy, the military will initially strictly enforce the martial law which was imposed 8 September. It will use the force it judges necessary to control demonstrators and intimidate the protestors. Any opposition will be dealt with firmly -- even harshly.

The Shah will attempt to reassert himself as a strong leader and will endeavor to convince the people that military rule is necessary for the restoration of peace and order. On the other hand the military will likely attempt to establish a substantial degree of independence from the Shah in the belief that too close an identification will hinder their mission of restoring stability. The Shah and the government will attempt to persuade the moderates and uncommitted within Iran's population that military rule is a temporary but necessary measure until a suitable atmosphere for free elections can be established. The military can be expected to remain in control for at least 90 days. Beyond this, the longevity of the military government will depend primarily upon its success in restoring order, promoting reconciliation and leading the nation to elections. There is no evidence the military is planning to remain in power indefinitely or beyond the time that stability is established and elections become possible.

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SCHEDULE OF EXECUTIVE ORDER 11652  
EXEMPTION CATEGORY 1&2  
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SCHEDULE OF  
EXECUTIVE ORDER  
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CATEGORY  
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B. Positions Within the New Government.

1. Prime Minister. General Gholam Reza Azhari, age 69, is a very experienced army administrator totally loyal to the Shah. He has the respect of the three service chiefs and should be capable of ensuring the loyalty and cooperation of the other military leaders recently named to cabinet posts.

2. Cabinet Posts (see Annexes 1 and 2). Most of the cabinet posts have been assigned to senior military officers, who will undertake these new responsibilities in addition to their regular military tasks. Only the Ministries of Posts, Telegraph, and Telephone; Industries and Mines; and Foreign Affairs remain under civilian leadership. While the military officers are to serve in a supervisory function, the incumbent undersecretaries are charged with the day-to-day operation of the various ministries.

3. Provinces and Towns. The senior military officer resident in a province has traditionally played an important role in the governmental affairs of the region. Therefore, the military should experience little difficulty in administering the local government and the provincial bureaucracy will probably give its cooperation. In most towns with populations under 5,000, the Gendarmerie chiefs will be the senior government authorities, but, if necessary, will be able to draw on military support from nearby garrisons. The other security forces, including SAVAK, will be required to support the police and military in identifying and arresting opposition leaders and imposing censorship.

III. (S/NOFORN) POLITICAL POLICIES AND PRIORITIES

A. Law and Order. The military authorities will act very firmly in quelling disturbances and cannot be expected to exercise the restraint displayed earlier this year. They will not hesitate to disperse public gatherings and to enforce martial law throughout the country. The security services will identify and arrest opposition leaders and other subversive activists. Close control of personnel movements and departures from Iran can be expected.

B. Censorship. Most newspapers will be shutdown and those allowed to be printed will be tightly censored by SAVAK or military representatives located in the editorial offices. Those responsible for writing of printing articles not approved by the government will be arrested. After an initial period, "responsible" free speech will probably be encouraged; however, any "antinationa" or "antigovernment" speeches will not be permitted.

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C. Elections. Iran's constitution requires that new elections must be held within 90 days after the naming of a new government. Though nominally committed to upholding the constitution the new military government will be hard pressed to do this. The Shah had been planning for elections in June 1979, but the military government may try to hold them sooner if it is successful in establishing stability and promoting a conciliatory attitude on the part of the opposition. The elections, when held, will provide the basis for returning the country to civilian rule under a coalition government. To this point, there is no evidence of plans to delay the elections unnecessarily.

D. Corruption. Both the Shah and the military leaders have acknowledged the existence of widespread corruption within the government and strong efforts will be made to curtail it; the prosecution of offenders will be accorded wide publicity. No doubt some former ministers will be arrested for corrupt practices; however, unless the military similarly cleans its own house, public support for the anticorruption campaign will quickly turn to cynicism.

E. Minorities. Some members of minority groups, particularly Jews, Armenians and Zoroastrians, have been leaving Iran fearing that an overthrow of the Pahlavis would lead to bigotry and Shi'ite persecution. The military will attempt to dispel fears within these groups and will encourage them to support the government.

F. Islam. While refusing to even consider the Islamic republic desired by some Muslim leaders, the military government will attempt to appease and coopt the more moderate Muslim spokesmen. They will reaffirm Islamic principles and traditions and probably increase both the status and role of the Ministry for Islamic Endowments. However, they will try to muzzle inflammatory political declarations by the mullahs and try to establish some measure of control over their activities.

G. Parliament. The Majlis has been dissolved and will not reconvene until elections are held and a new government named. In the interim, former members of the Majlis will be permitted only limited expression of their political views.

H. Justice. Civil courts will still have jurisdiction over ordinary crimes, but military tribunals will be instituted to handle cases involving antiregime activities and violations of martial law.

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IV. (S/NOFORN) DOMESTIC ACCEPTABILITY.

A. Religious Conservatives. For the time being, key religious leaders, particularly Ayatollahs Shariat-Madari and the exiled Khomeini, will continue to express publicly their opposition to the military government or any government appointed by or beholden to the Shah. They will stress publicly that there can be no compromise with any such government; such obstinacy is necessary if the mullahs are to retain their credibility with their followers. Shariat-Madari and more moderate mullahs have requested that Khomeini modify his demands for governmental reforms, but he has refused to compromise his demand for an end to the Pahlavi Dynasty. Because of Khomeini's strong following, Shariat-Madari has been forced to publicly support him. Nevertheless, it is almost certain the military government will work very hard to gain the support of this small but powerful and influential group.

B. Professionals (lawyers, doctors, businessmen). Though mixed reactions have been noted within this group, there is general approval for the Shah's action. While many would rather have seen a political settlement, their concern for national survival and personal property and position will likely lead them to support the firm measures necessary to control widespread public disorder. Support for the military takeover will be short-lived, however, unless the new government takes positive and visible steps to deal with long-standing grievances such as corruption, bureaucratic ineptitude and economic mismanagement.

C. Military. The senior military leaders had for several months expressed their impatience with the government's lack of forceful action against opposition groups. The vast majority of the officer corps will support the military government. Out of discipline and fear, the two-year conscripts -- who make up three-fourths of the enlisted force -- will obey their superiors in the enforcement of government orders. If, in the initial stages, the military is successful in restoring order, the confidence and self-esteem of the conscript group will be greatly enhanced and will contribute to long-term cohesiveness, morale and esprit. If called upon repeatedly to fire upon their fellow countrymen, however, disaffection and desertion in the lower ranks will almost certainly rise. These trends would be accelerated if troop casualties are incurred in the suppression of disturbances (see Annex 3).

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D. Intellectuals, Students and Teachers. These, as a group, are highly vocal in their discontent and almost certainly view the military government only as a continuation of the autocratic rule of the Shah. Left and right wing agitators can be expected to continue to play upon the sentiments of this disaffected segment of the society which will criticize and, when possible, demonstrate against the military government. With the closing of universities and secondary schools, organized student opposition will be fragmented, but conversely, idle students can be expected to be in the forefront of any mob whether directed against university administrators, the government or foreign interests. Any resulting student casualties will elicit an emotional response from the population at large.

E. Workers and Farmers. This group is largely influenced by local religious leaders, yet will probably acquiesce in military rule, especially if agricultural and labor reforms are pledged. If the religious leaders are muzzled in voicing their opposition, the easily influenced working class can be expected to respond to the visible power of the military at least in the short run.

F. Bureaucracy. Although strikes by government workers have contributed to the current crisis, most government workers will be retained in their present positions. The majority will probably support any action that alleviates the chaos that has prevailed in 1978. They now likely consider the military takeover as a necessary step to avert a complete breakdown of law and order and to avert a wholesale government reorganization that would affect them personally.

V. (S/NOFORN) ECONOMIC POLICIES AND PRIORITIES.

A. General. Iran's economy has been seriously disrupted by the recent domestic turmoil. Even before the disturbances there were clear signs that the Shah's priorities had been misplaced. Inflation has been a serious problem and will almost certainly, in the wake of the recent high wage increases and because of shortages caused by the political disturbances, increase rapidly. The private sector, particularly agriculture has been neglected. Self-sufficient in food before 1970, Iran now provides only 75 per cent of its needs. Iran's current account may go into deficit in a year or two even if full oil production is restored.

These and other problems have had a serious effect on economic confidence. Many Iranians are moving their capital out of the country. International bankers and foreign nations are becoming more concerned about future economic prospects.

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The military government is unlikely to attempt to make major changes in Iran's economic structure and programs, at least in the short run. They may, however, institute some stop-gap measures which will probably include restrictions on capital outflows and imports of luxury or nonessential items; wage controls (eschewing rollbacks); price controls particularly on essential commodities such as foods and medicines; and perhaps some public service projects to soak up the urban unemployed. They may also want to change some banking practices. They will likely direct attention to the agricultural sector and will try to restore normal commodity distribution patterns as soon as possible.

The military will rely heavily on the bureaucracy, particularly in the short run, since their immediate concerns will lie elsewhere. But even if they should remain in office for a lengthy period, it seems unlikely that they will attempt to change the basic free enterprise nature of the Iranian economic system. Basically conservative, they are likely to move slowly in instituting fundamental changes and will probably be cautious in adopting even minor reforms. Over the long term, if they remain in power, they will have to give serious consideration to meeting the rising tide of economic expectations set off by the oil boom.

B. Oil Production and Pricing. The military government is likely to favor a more hawkish approach to oil pricing policy, believing somewhat simplistically that higher oil prices mean higher revenues. Nevertheless, it seems likely that they will be willing to listen to the advice of knowledgeable civilian experts in the various ministries particularly in the short run. Not only will they be reluctant to assert themselves in a critical area in which they recognize the limitations of their own expertise, but they will be preoccupied with more important considerations, i.e., restoring law and order and essential services. In sum, if the military government continues to rely on the oil professionals, as expected, they will support an OPEC price increase of approximately 10 per cent in December, but will not vigorously push for more. On the other hand, they will not be as active in promoting restraint on other OPEC members. They will make a maximum effort to restore oil production reduced by recent strikes as soon as possible.

C. Arms Purchase Policies. Military modernization programs will likely be continued. The Shah has ordered a drastic cutback in his arms purchases (as well as in nuclear power and transportation programs), but those contracts already signed assure that military imports will remain at a high level for some time. They will also seek to obtain additional equipment more suitable to the mission of restoring law and order. The military government will likely

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be sensitive, at least in the short term, to charges of advancing its own military interests at the expense of the rest of Iranian society. Iran has shown flexibility in modifying its budget in the past. Thus, if the national income picks up in 1979, some military programs that have been postponed could be resumed, although cutbacks in construction and peripheral projects are likely. Co-production projects might very well be jeopardized because of their initial high cost and visibility and because of the reluctance of many Western technicians to remain in Iran. Because of the security and political problems connected with a highly visible presence, the new government may carefully reevaluate its requirements for foreign advisers and technicians.

VI. (S/NOFORN) FOREIGN POLICY. The military government is not likely to change the basic character of Iranian foreign policy, although some modifications are probable.

A. Toward the US. A military government under the Shah will not change its policy toward the US. Iran will be dependent upon US technicians, both military and industrial, for the next few years at least while absorbing new technology although the new government may wish to reduce the numbers. However, Iran will likely retain a special interest in US investment opportunities and new generations of advanced technology. The US will continue to enjoy the largest investment in and sales to Iran and opportunities to expand commerce will continue.

The US, however, is identified closely with the Shah and is thus perceived as sharing responsibility for many of Iran's current problems. In view of US involvement in returning the Shah to power in 1953, US actions and high level visits will likely be closely watched by the opposition. In general, Iranians will be less willing in the future to accept the US relationship uncritically.

The military government has the ability to curtail US opportunities in Iran and to manipulate the pricing and supply of oil in the longer term. However, any US attempt to exert influence through a manipulation of arms, project assistance, or trade would likely result in counter pressures. These might include restrictions on US citizens resident in Iran, limitations on repatriation of US funds in Iran, and perhaps reduction of the numbers of Iranian students in the US. In the short term, it is unlikely that the new government would seek

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B. Toward the USSR. Despite better relations with the Soviet Union and the series of aid, trade, and development agreements since 1962, the Shah remains deeply suspicious of Soviet intentions towards Iran and the Middle East. Undoubtedly this view will be shared by the new military government. Worried about increasing Soviet activity in Africa, the military fears that the USSR will now turn with increased vigor to expanding its influence in the Gulf through closer ties with Iraq and Afghanistan and through support of leftist attempts to topple conservative governments in the littoral states.

Though there is no real evidence to support the thesis of Soviet involvement in the current crisis, the military government likely perceives a Soviet hand behind the activities of the extremists. With a record of two major Soviet espionage cases over the past two years, one involving an Iranian General, the military government will likely crackdown on Soviet activities within the country. However, in spite of current strains and widely divergent interests, a military government will continue to believe that it is essential to maintain satisfactory relations with the USSR.

The Soviet Union is heavily involved in Iran primarily through its huge Isfahan steel mill project, gas pipelines into the USSR and deliveries of unsophisticated military equipment. Apparently, as an alternative to closer relations directly with the USSR, Iran has made a number of overtures to Eastern Europe, having entered into several financial and economic agreements, primarily with Poland, Rumania and Yugoslavia. If the military regime remains in power over the long term, Iran's relationship with these countries would likely improve at the expense of the Soviet Union, but would not become close.

C. Toward the Bordering States. The military government's approach to neighboring countries will likely be conservative and restrained. The military government, if it remains in power over an extended period, might be inclined to act more rashly toward Afghanistan and possibly toward Iraq if problems arose with those two countries. The "communist" overthrow in Afghanistan has deeply concerned Iranian military leaders. They see it as a danger to Iran through possible subversion in Iranian Baluchistan and in neighboring Pakistan. In time, they may become more venturesome -- perhaps by trying to exploit the antigovernment feelings of Afghanistan's conservative muslim population.

The military government will view Iraq with deep suspicion, but will continue to act with restraint. Iraq, for its part, apparently values the current detente with Iran. Though rapprochement has been primarily a result of the Shah's personal efforts -- both governments will attempt to preserve it. Iraq appears

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to be genuinely concerned over events in Iran. Occurring so shortly after the coup in Afghanistan, the Iraqi government is apprehensive over the possible dangers of a spread of similar activity to Iraq. Iraq has been cooperative in the Khomeini affair and is likely to continue to be receptive to Iranian overtures, at least in the short term. In turn, Iran's new government is unlikely to renew support to Kurdish dissidents in Iraq.

Iran's relations with Pakistan will likely remain unchanged, though the Iranian military government will not share the Shah's concern over former Prime Minister Bhutto's status. Iran's policy toward Turkey will not change.

With regard to the Persian Gulf and Saudi Arabia, the military government may undertake subtle changes in policy, although in the short run the preoccupation with internal concerns will mitigate against any significant policy alterations. In the longer term, however, the military government will probably not push as strongly for cooperative mutual security arrangements in the Gulf, as did the Shah, and will be more likely to follow a less activist policy toward its Arab neighbors in the Gulf.

D. Toward CENTO. Iranian policy toward CENTO is not likely to change. The military leadership in Iran sees little military usefulness in CENTO and will continue to seek better assurance against external dangers. They nevertheless value the alliance for the political support it provides and as a vehicle for cooperation. The military also values the training opportunities provided by CENTO in major exercises. Thus, the military government will retain its CENTO ties and also the pragmatic commercial bonds existing in the economic counterpart organization, the Regional Cooperation for Development (RCD).

E. Toward Israel. The military has supported the Shah's policy of maintaining cordial relations with Israel. They view the Jewish state as a strong pro-Western and anti-Communist counterbalance to Arab nationalism in the Middle East. Though continuing to admire Israeli achievements, the military government will likely look at the relationship with Israel as a conspicuous embarrassment. The rejection of the Israeli connection by radical left wing elements and the Shi'ite clergy has already forced a reevaluation of relations with Israel. However, the future adjustment of relations with Israel by the military government is not likely to go as far as a total turnabout in the relationship or a cessation of Iranian oil shipments.

#### VII. (S/NOFORN) IMPACT ON IRANIAN STABILITY.

A. Short Run. The military government, will use its available force to stabilize the country, enforce law and order, prosecute corrupt officials and neutralize the opposition. By positive and determined responses to any opposition activity, the military can at least temporarily control demonstrations. To achieve this objective, however, harsh measures will likely have to be taken initially against demonstrators and strikers; thus raising the prospect of numerous arrests and even much bloodshed. During the initial stages, the terrorists and the more violent radical elements will retrench and begin clandestine planning for renewed activity against the regime. Therefore in the somewhat longer term outbreaks of terrorism directed against both the security forces and resident foreigners can be anticipated. Further repressive measures will cause support for the military to erode rapidly after the first few months of rule unless political compromises are achieved.

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B. Long Run. Unless the military lays the foundation for a coalition government that will include supporters of the Shah, the religious community, and opposition political groups, the situation is likely to deteriorate after a few months. The military, perhaps faced with mounting popular opposition and growing insubordination within its own ranks, will likely lose public acceptance of its mandate and opposition leaders gain in influence. Polarization between the opposing elements will increase and hopes for a moderating long-term political settlement will diminish. Bloodshed and political/economical turmoil may again become commonplace. Even without opposition, the military cannot be expected to operate vital facilities, particularly those in the oil industry, and manage the national economy successfully for any protracted period of time. Failure will jeopardize economic stability, enhance the appeal of the opposition, and weaken the credibility of the military government.

VIII. (S/NOFORN) FUTURE POLITICAL ADJUSTMENTS. The Iranian military government has been in power only 72 hours at this writing. There is much that we do not know about how they intend to go about the tasks entrusted to them or how successful they will be. Nevertheless, we have developed three scenarios which reflect our opinion on how the situation may develop in Iran in the months ahead.

- The military government is successful in restoring law and order, and has reasonable success in restoring economic confidence. Several former advisers to the Shah are prosecuted for corrupt practices and convicted. Universities reopen, helping to defuse student discontent. Censorship is relaxed. Accommodations are worked out with the religious opposition, elections are held in June 1979 and a new Majlis is selected. The military government steps down, the Shah continues to reign but with greatly reduced powers as a genuine constitutional monarch.
- The military government has difficulty in controlling disturbances, blood flows and the lower ranks in the armed forces become reluctant to take action. Censorship continues and many harsh measures are undertaken to restore order. The religious leaders and students remain unreconciled. Economic conditions deteriorate and many foreigners leave. Disputes over policy occur among the military leaders and one of them assumes dictatorial powers and asks the Shah to abdicate. The resulting regime is even more repressive in violating the human rights of most Iranians. It rules by fiat and in character is not unlike one of the repressive Latin military regimes.

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- The religious elements and students remain unreconciled. Repressive measures are taken. The economy becomes chaotic. Religious and opposition leaders press for removal of the Shah. The military government accedes and requests or forces the Shah to abdicate. In order to gain an aura of legitimacy, the military institutes a regency under the Shahbanou, and Crown Prince Reza assumes the Peacock Throne. The military carefully and discreetly manages the regency from behind the scene. A period of relative tranquility is inaugurated as the country tries to get back on its feet.

The first scenario approximates the one the Shah is apparently hoping to pursue; it is clearly in his best interest. We believe that this scenario has the greatest likelihood of being realized, and would involve minimal changes in US-Iranian relations. If, on the other hand, the current crisis is not defused by the imposition of a military government, it seems likely that the regency arrangement noted in the third scenario would be the next most likely outcome. Since the military would continue to shape the country's affairs, the tenor of relations with the US would not be appreciably changed. Finally, we envision the second scenario as a more remote and unfortunate possibility which would necessitate substantial changes in our relationship with Iran. Scenarios two or three, if one or another came to pass, may well be played out well past next summer. However, we believe that at some point, under the conditions described, the military would take action to greatly reduce the role of the Shah or even, in the extreme, to arrange his abdication.

Obviously, developments are unlikely to take place exactly as we have described above, but they are illustrative of the direction Iran is likely to take in the months ahead. The exact course of events will be largely determined by the relative success which the military government achieves in carrying out its new responsibilities.

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ANNEX 1

NEW IRANIAN CABINET

Prime Minister:	Gen Gholam Reza Azhari
Foreign Minister:	Amir Afshar Qasemlu
Minister of War:	Gen Reza Azimi
Post, Telephone and Telegraph:	Mr. Karim Motamedi
Industry/Mines:	Mr. Mohammed Reza Amin
Interior:	
Economic and Finance: )	Gen Abbas Karim Gharabaghi
Minister of Labor/Social Affairs:	Gen Gholam Ali Oveisi
Minister of Information/Tourism:	Lt Gen Abdol Hassan Sa'adatmand
Minister of Housing/Urban Development:	Lt Gen Amir Hossein Rabii
Minister of Energy:	Lt Gen Iraj Moghadam
Minister of Culture/Arts: )	
Minister of Education/Training: )	Adm Kamal-ed-Din Mir-Habibollahi
Minister of Science: )	

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ANNEX 2

BIOGRAPHICS OF THE CABINET

(MILITARY MEMBERS ONLY)

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IRAN  
Gen Gholam Reza AZHARI  
February 1978

BIOGRAPHIC SKETCH

(U) NAME: Gen Gholam Reza Azhari.  
(az-hah-REE), Army (Infantry).  
Variants: Qolam; Ezhari.

(U) POSITION: Chief, Supreme  
Commander's Staff (SCS), since  
20 July 1971. \*

(C/NOFORN) SIGNIFICANCE: Respected  
for his professional competence,  
honesty and moral courage, the  
General has held the senior position  
in the armed forces for the past  
seven years. Azhari is in no way  
however, all powerful, for the SCS is  
designed to assist the Supreme Commander, Shah Mohammad  
Reza Pahlavi (ruler since 1941), who directly oversees  
the military establishment. There are recurring reports  
of Azhari's impending retirement (he will be 69 years old  
in 1978).



(FOUO) 1974

(C/NOFORN) POLITICS: Strong supporter of the Shah; first  
and foremost an Iranian nationalist. Friendly toward the  
West and cooperative with American military advisors. In  
1964, U.S. advisors commended him for his excellent per-  
formance as Supreme Commander for "Exercise Delawar", a  
combined Iranian-U.S. military exercise held under the  
auspices of the Central Treaty Organization (CENTO).

(C/NOFORN) CAREER: Obtained early schooling in Shiraz  
and earned his commission from the Iranian Military Academy  
in Tehran, 1935. Served in junior officer infantry  
assignments, 1935 until 1945 when he was assigned to the  
Military Police. Appointed Chief of Staff, Military Police  
Bde, Tehran, 1948; student, U.S. Army Military Police  
School, Fort Gordon, Georgia 1950; graduate, U.S. Army  
Command and General Staff College, Fort Leavenworth, Kansas,  
1954; attached to the staff of the War University, Tehran,  
1955. Deputy Commander for Administration, 1956. Later



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IRAN

Gen Gholam Reza AZHARI

February 1978

key positions include: Commander, 11th Inf Div, 1958-59; Commandant, War University, 1960; Chief of Staff, IIGF, 1960-64; Commander, First Army, including serving as Supreme Commander, "Exercise Delawar", CENTO, Apr 1964-67. Azhari represented his country as the Permanent Military Deputy for Iran and Chairman, Permanent Military Deputies Group, CENTO, Ankara, Turkey, 1967-70. Served as Deputy Chief, SCS, becoming Chief of the SCS, Jul 1971. Promoted in orderly sequence; he became a Brig Gen, 1956; Maj Gen, 1959; Lt Gen, 1963; Gen, 1971.

(C/NOFORN) PERSONAL DATA: Born 1909 in Shiraz, Iran. Presents a fine military bearing. Stocky build; gray hair, black eyes (wears tinted glasses because of photophobia). Competent, dynamic officer; congenial and warm; lives austerely. Smokes and drinks moderately. Enjoys fishing. Divorced in 1951, presently married to Efat. Three daughters: Golnar, who lives in Richmond, Virginia; Rana and Lila. Speaks native Persian; fluent English; good French.

PREPARED BY: Muriel C. Riddick, DB-3C2

\*CURRENT UPDATE:

Appointed Prime Minister (continues in military position),  
6 November 1978.

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BIOGRAPHICAL DATA BY IMMEDIATELY FORWARDING  
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IRAN

Gen Abbas Karim Gharabaghi

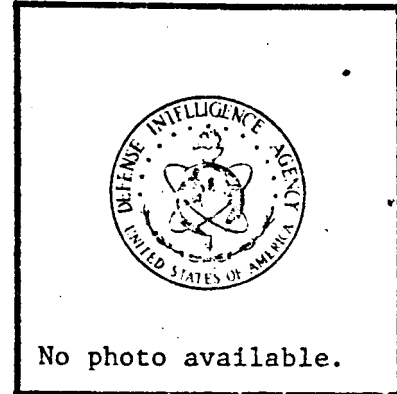
May 1978

**BIOGRAPHIC SKETCH**

(U) NAME: Gen Abbas Karim Gharabaghi,  
Army (Infantry).

(U) POSITION: Commander, Imperial Iranian  
Gendarmerie (IIG) since 22 April 1974.\*

(C/NOFORN) SIGNIFICANCE: The General is an  
exacting commander and a dedicated officer  
with long and faithful service to the Shah.  
As the IIG, Commander, Gharabaghi is  
responsible for national security and  
law enforcement in rural areas of Iran.  
He is directly subordinate to the Minister  
of Interior.



(C/NOFORN) POLITICS: Western oriented; pro-U.S.--  
very cooperative with U.S. advisors. A classmate of the Shah in  
the 1938 class of the Imperial Iranian Military College, Gharabaghi as  
Commander, 1st Guard Div, IIGF, 1965-69, was responsible for the  
personal protection of the Shah. He enjoys the trust and respect  
of the Shah. He has visited the U.S. on official missions.

(C/NOFORN) CAREER: Gen Gharabaghi graduated in 1938 from the Military  
College (now the Imperial Iranian Military Academy) and has served in  
a variety of command and staff positions. His first command position  
was the Independent Antiaircraft Battery, 1st Division about 1939.  
He was CofS, Imperial Iranian Ground Forces (IIGF) from May 1972  
becoming Commander, I Corps, IIGF until it was deactivated on 22 Apr  
1974. He has a strong educational background including a Doctor of  
Laws (LLD) degree from the University of Paris; also a graduate of  
the Superior War College, Paris, France.

(C) PERSONAL DATA: Born 1918 in Tabriz, Iran. Presents a fine  
military bearing; capable, sincere and honest. Married; has children.  
Speaks native Persian; fluent French, fair English.

PREPARED BY: Muriel C. Riddick, DB-3C2

\*CURRENT UPDATE:

Appointed Minister of Interior, August 1978; Minister of Economic and  
Finance, 6 November 1978.



**SECRET**

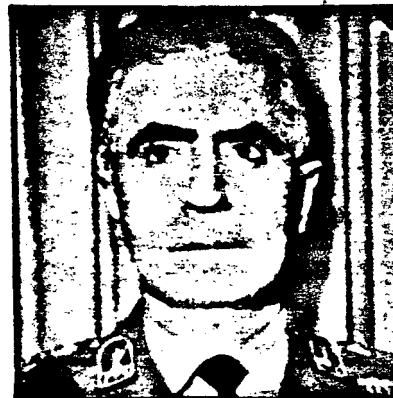
IRAN  
Gen Gholam Ali OVEISI  
March 1978

**BIOGRAPHIC SKETCH**

(U) NAME: Gen Gholam Ali Oveisi  
(oh VAY see), Army (Infantry).  
Variant: Qolam Ali Oveiisi.

(U) POSITION: Commanding General,  
Imperial Iranian Ground Forces (IIGF),  
since 16 November 1972.\*

(S/NOFORN) SIGNIFICANCE: During Oveisi's six years as the Commanding General of the Imperial Iranian Ground Forces, he has been a team player, without any apparent desire for personal publicity or political influence. A strict disciplinarian, he is well-informed on the problems and objectives of the Imperial Iranian Armed Forces, and understands modern command techniques. While in command of the Gendarmerie, he showed an appreciation for the importance of field training in which he carried out a number of major improvements (1965-Nov 1972). A strong leader highly respected; U.S. military officials regard Oveisi as one of the most outstanding of the general officers in the Iranian Armed Forces.



(U) 1975

(S/NOFORN) POLITICS: Anti-communist; Western oriented; friendly toward the U.S. He works closely with U.S. advisers, readily accepts advice and quick to take action when required. Sensitive to any implied criticism of Iran. Complete loyalty to the Shah, who holds Oveisi in high regard.

(C/NOFORN) CAREER: Graduate, Military High School, Tehran, 1936; and the Iranian Military College, Tehran (a classmate of the Shah) in 1938. During his early career he served in various command infantry assignments, 1938-44, becoming Commandant, 2d Division Noncommissioned Officer School, 1944-50. Following graduation from the Command and General Staff College, Tehran, 1952, he served primarily as a regimental commander until his appointment as Chief of Staff

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IRAN  
Gen Gholam Ali OVEISI  
March 1978

of the Imperial Guard, 1955-58. Graduate, U.S. Army Command and General Staff College, Fort Leavenworth, Kansas, 1960; assigned Commanding General (CG), Imperial Guard, 1960-65; concurrently appointed Honorary Adjutant to the Shah, 1961. Oveisi advanced to CG, Imperial Iranian Gendarmerie, 1965-72; CG, IIGF, since Nov 1972. Promoted to Brig Gen, 1950; Maj Gen, 1962; Lt Gen, 1965; Gen, 1969.

(C/NOFORN) PERSONAL DATA: Born 1918 in Qom, Iran. Slight build (5'7", 140 lbs); excellent physical condition. Conservative, quiet disposition; informal with those close to him. Intelligent, diligent and firm in his dealings with associates. A Muslim; adheres to his religious proscriptions. Oveisi neither smokes nor drinks (will occasionally accept a ceremonial glass of wine). An accomplished horseman; an avid hunter. He holds numerous awards and decorations, including Iran's highest decoration, the Taj (Crown). He has two sons and a daughter by his first wife (deceased); one son by his present wife, Sharareh. She is the daughter of Maj Gen Sarmad (former Gendarmerie). An intelligent, attractive young woman; studied at the National University of Iran majoring in English, 1975. The General speaks native Persian, fluent French and excellent English.

PREPARED BY: Muriel C. Riddick, DB-3C2

\*CURRENT UPDATE:

Appointed Minister of Labor and Social Affairs (in addition to military position), 6 November 1978.

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A biography on Lt. Gen Abdol Hassan Sa'adatmand is not available. He is the Minister of Information and Tourism. He has been the Information Officer on the Supreme Commander's Staff for a number of years.

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EXEMPTION CATEGORY 2  
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CONFIDENTIAL

IRAN  
Lt Gen Amir Hossein RABII  
August 1978

BIOGRAPHIC SKETCH

(U) NAME: Lt Gen Amir Hossein Rabii  
Air Force.

(U) POSITION: Commander, Imperial  
Iranian Air Force (IIAF), since  
8 February 1977.\*

(C/NOFORN) SIGNIFICANCE: Gen Rabii,  
a highly effective, charismatic leader  
was appointed Commander, IIAF, follow-  
ing the accidental death of the Iranian  
Air Force Chief, Gen Tadayon on 7 Feb  
1977. An excellent pilot with strong  
command experience, Rabii provides the  
positive leadership necessary for the  
fast-growing air force. He has received extensive military  
training in the United States and has been cooperative with  
US officials in Iran.



(U) 1976

(C/NOFORN) POLITICS: Loyal to the Shah and has expressed  
pride in the two decorations he has received from His Imperial  
Majesty. Pro-US, particularly toward members of the USAF.

(C/NOFORN) CAREER: Rabii obtained his secondary schooling  
locally and began his military career as a cadet, Imperial  
Iranian Air Force Academy, 1950; commissioned 2d Lt, 1953.  
Attended US pilot training at Reese AFB, Texas 1953, and  
Williams AFB, Arizona, 1960; graduate USAF Instructor Pilot  
Course, Furstenfeldbruck AFB, Germany. He returned to the  
United States for additional training, Squadron Officer School,  
Maxwell AFB, Alabama, 1964; Instructor Pilot course (F-5),  
Williams AFB, 1964; Air Command and Staff College course,  
Maxwell AFB, 1966. Rabii's early career includes: fighter  
pilot, 1st Fighter Wing, Tehran; assistant jet instructor for  
the USAF at Furstenfeldbruck AFB, Germany; Squadron Commander,  
2d Fighter Wing; Director of Operations, 1st Fighter Wing,  
Tehran; leader of the Golden Crown (IIAF Aero-team) and Squadron  
Commander serving with the United Nations forces in the Congo  
during the 1960s. The General has made many trips to the US,  
including a four month visit to the Tactical Air Command bases

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IRAN  
Lt Gen Amir Hossein RABII  
August 1978

throughout the country. During 1974, Rabii attended the Senior Officers International Management Course, Monterey, California. Progression in rank: Maj, 1963; Lt Col, 1965; Col, 1967; Brig Gen, 1971; Maj Gen, 1973 and Lt Gen, Mar 1976. Served as Commander, 1st Tactical Fighter Base, Tehran, 1973-Dec 74. Commander, Tactical Air Command, IIAF, Jan 1975-Feb 77; appointed Commander, IIAF, 8 Feb 1977.

(C/NOFORN) PERSONAL DATA: Born 1932 in Kermanshah, Iran. Medium build, handsome, well groomed officer. He is married to Gerda, whom he met while stationed in Germany in 1957; they have two sons. A Muslim; his children are being instructed in the Christian Religion. Does not drink and believes in physical fitness as a matter of pride. A loyal Kurd tribesman whose grandfather was a Tribal Chief, he speaks of this relationship with pride. Has some degree of wealth but does not make a show of money. Active in all sports, water skiing, swimming, volley-ball. In addition to his native Persian, he speaks fluent English and German.

PREPARED BY: Muriel C. Riddick, DB-3C2

\*CURRENT UPDATE:

Appointed Minister of Housing and Urban Development (continues in military position), 6 November 1978.



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**CONFIDENTIAL**

IRAN  
Lt Gen Iraj MOGHADAM  
November 1978

BIOGRAPHIC SKETCH

NAME: Lt Gen Iraj Moghadam

POSITION: Minister of Energy.

(C/NOFORN) Lt Gen Moghadam is a longtime Vice Deputy for Administration, Military Industries Organization. A corporate type officer, widely experienced in managerial matters, considered by Americans who deal with him as astute, congenial and competent. Can be expected to perpetuate Shah's policies.

SOURCE: US Embassy Tehran

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EXEMPTION CATEGORY... 2  
CLASSIFY ON 31 DECEMBER

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CONFIDENTIAL

IRAN

Adm Kamal-ed-Din Mir-HABIBOLLAHI  
August 1978

BIOGRAPHIC SKETCH

(U) NAME: Adm Kamal-ed-Din Mir-Habibollahi, Navy. Variants: Kamel Mir Habibelahi, Addressed as Adm Habibollahi.

(U) POSITION: Commander in Chief, Imperial Iranian Navy (IIN), since 7 January 1976.\*



(U) 1977

(C/NOFORN) SIGNIFICANCE: Habibollahi's January 1978 promotion to Admiral is a reflection of the Shah's confidence in his leadership. An effective career officer, the Admiral commands the major naval force in the Persian Gulf. He assumed the top IIN naval position following the Shah's dismissal of the previous CINC VAdm Attaie and his deputy as a result of a major corruption scandal. Habibollahi is highly respected by his superiors and colleagues.

(C/NOFORN) POLITICS: Western oriented; anti-Communist. Friendly toward the US and favors US presence in the India Ocean. He has received military training in the US. Has traveled extensively in Europe, the US, Indian and various Middle Eastern countries.

(C/NOFORN) CAREER: Obtained early schooling locally and entered the Navy in 1949. Graduated from the Royal Naval Academy, UK, 1949-51 and earned his commission upon completion of additional training at the Imperial Iranian Military Academy, Tehran, Sep 1952. Advanced naval training includes: graduate, US Naval Postgraduate School, Monterey, California, Mar-Dec 1961, and the US Naval War College, Newport, Rhode Island, Sep 1967-Jul 68. An excellent shiphandler, he has commanded the IIS Yabakbar, IIS Larak, IIS Palang, IIS Babr and the IIS Naghid, 1954-65. From 1965 until 1966, he served as Commander, Escort Div; Operations Assistant to Commander, Southern Naval District and the Persian Gulf Fleet, 1966-67. Assigned Division Commander of the Vosper Frigates (purchased from the UK) and was stationed in England during outfittings and trials, Aug 1968-Sep 69. Promoted to Cdr,

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IRAN  
Adm Kamal-ed-Din Mir-HABIBOLLAHI  
August 1978

Sep 1969 and in Nov 1969 he was recalled to Iran to serve as Chief of Staff, IIN with promotion to RAdm. Later career includes: Deputy Commander, Operations, Information and Projects, 1970-74; and Commander, Persian Gulf Fleet, (promoted to VAdm, Nov 1974), Sep 1974-Jan 76. Appointed CINC, IIN, by the Shah, 7 Jan 1976. Promoted to Adm, Jan 1978.

(C/NOFORN) PERSONAL DATA: A Muslim, born 1 Feb 1930 in Astara, Iran. Of slight build; presents a fine military bearing. Competent and disciplined. He is personable, somewhat sensitive and an articulate speaker. Married to Landan, who speaks fluent English. They have a son, Kaveh. The Admiral is a social drinker (Scotch) and a nonsmoker. He enjoys tennis and swimming. Speaks native Persian; excellent English and Turkish; good French; fair Italian.

PREPARED BY: Muriel C. Riddick, DB-3C2

\*CURRENT UPDATE:

Appointed Minister of Culture and Arts; Minister of Education and Training; Minister of Science, (continues in military position), 6 November 1978.

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**SECRET** NOT RELEASABLE TO FOREIGN NATIONALSANNEX 3FACT SHEET ON IRANIAN MILITARY PERSONNEL1. (S/NOFORN) Strength

	<u>Ground Forces</u>	<u>Navy</u>	<u>Air Force</u>	<u>Imperial Household</u>
Officers	18,600	2,900	8,750	2,000
NCO's	88,850	10,600	36,120	7,000
EM	146,050	13,900	37,730	11,000
Civilians	10,000	4,600	7,430	-
Revolutionary Corps*	14,500	-	-	-
Niroozfar**	2,000	-	-	-
Homa Far***	-	-	10,680	-
Students	-	-	11,810	-
<b>TOTAL</b>	<b>280,000</b>	<b>32,000</b>	<b>112,520</b>	<b>20,000</b>

\*The Revolutionary Corps is a civic action group.

\*\*Niroozfars are high school graduates who are given technical training before commencing an 11-year commitment.

\*\*\*Homa Far are Air Force technicians who hold no military rank, but are paid at the officer scale. They are neither officers nor NCO's.

2. (C) Command Structure. Theoretically, the Chief of the Supreme Commander's Staff (CSCS), General Gholam Reza Azhari, has exercised control of the three branches of Imperial Iranian Armed Forces. In actuality, the Shah has by-passed the CSCS and has dealt directly with individual service commanders. This has resulted in highly centralized command and control with intense rivalry and minimal cooperation between the services. Therefore the SCS has served primarily in an advisory role.

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3. (S/NOFORN) Armed Forces Position in the Society. Many of the upper class, religious leaders, academicians and dissidents consider the armed forces excessively large and wasteful. In the past, however, Iranians either advocated a strong defense posture or regarded military matters as a special concern of the Shah not for public discussion. Traditionally, the Armed Forces have unconditionally supported the monarch. Fully indoctrinated in the Iranian system of self-preservation and advancement, the officer corps has not questioned the Shah's decisions and has echoed his political sentiments. In general the Armed Forces can be characterized as a stabilizing influence, pro-Western, anticommunist, disciplined and responsive to the Shah.

4. (C) Military Budget. For the fiscal year ending 20 March 1978 the budget was \$11,612 million which is 20 per cent of the total budget and 9.5 per cent of estimated GNP. However, the real level of defense outlays cannot be judged by published figures. Some spending for the military is incorporated under other budget headings and payment for some Western European armaments has been arranged by the barter of oil.

5. (C/NOFORN) Personnel Procurement. Every Iranian male is subject to conscription at about age 19. He spends two years on active duty and remains in the reserve lists until age 45. The annual levy of physically and mentally qualified conscripts is about 65-70,000. There are few volunteers for the five, seven or ten year enlistment periods. Ninety per cent of the officers and 81 per cent of the NCO's are regulars while virtually all privates are conscripts. Females are theoretically eligible for conscription, but only a few are called and they tend to serve in the Revolutionary Corps (civic action) as teachers and nurses. A recent change to the compulsory service law exempts graduates of foreign universities (except doctors) from military service. The percentage of regular officers and NCO's in the Air Force and Navy are higher than those in the Army. For example, 95 per cent of Air Force officers are volunteers and 98 per cent of the NCO's are volunteers.

6. (S/NOFORN) Personnel Weaknesses. Most ground force units are understrength in officer and NCO personnel -- some by as much as 40 per cent. Because of the two year service commitment there is a rapid turnover in the enlisted ranks. While physical standards in all the Armed Forces are high, the average Iranian conscript is poorly motivated, and lacks the technical interest and background necessary to function adequately in a complex and highly technical military establishment. In addition, many of those trained for specific duties are lost within the inefficient personnel system and never serve in the primary skill for which they are qualified.

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25X1

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8 November 1978

ST

MEMORANDUM

SUBJECT: French Communist Involvement in Iranian Unrest

25X1

25X1 1. We have no information to support the suggestion -- [redacted] that the French Communist Party is playing some role with the Iranian opposition. [redacted]

25X1

25X1 [redacted] We do not anticipate receiving hard evidence to confirm this report, although we presume there is some contact between French and Iranian radical students in France.

2. With regard to the French stake in Iran, Iranian crude oil usually accounts for 9-10 percent of French imports. This year the figure is about 8.5 percent of overall French oil imports of some 117 million tons. The government-controlled French oil company (CFP) has notified its major clients that it may be forced to reduce supplies of Iranian crude oil if current strikes and unrest in Iran continue. CFP, a member of the Iranian consortium, draws some 10 million tons annually of Iranian crude, 2 million of which are shipped to France.

25X1

[redacted]

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SECRET

SUBJECT: Allegations of French Communist Party  
Involvement in Support of Opposition  
Elements in Iran

NFAC has no current information to support the allegation of Communist Party of France (PCF) involvement in recent Iranian anti-government activities. The Communist (Tudeh) Party of Iran for years has had good relations with the French Communists.

25X1A [redacted] estimate of the possibility of PCF involvement in Iranian internal dissidence 8 November. He assesses that the PCF is maintaining a low profile as far as the Iranian situation is concerned and, as a matter of policy, is not involved in supporting the opposition movement. He believes any support within France for the Iranian opposition is coming from leftist Iranian dissidents and/or Iranian leftists from other countries who have come to France since the arrival of Khomeini.

25X1A [redacted] the Government of France has maintained a very low-profile, discreet position regarding the Iranian situation and thinks it would not be in the best interests of French Communists to get out of line with the government on this issue. To the extent that Moscow retains significant influence on the French CP leadership and given the USSR's cautious position on the Iran crisis, it follows that the PCF is following the same line. Paris notes that the PCF official organ, "L'Humanite," has limited itself to straight news coverage of Iranian events.

25X1A [redacted]

25X1A

25X1

[redacted]



25X1

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8 November 1978



MEMORANDUM

SUBJECT: Soviet Actions and Views

1. We still have no evidence that the USSR or any other foreign power is fomenting or encouraging the current disturbances. Although Iranian security officials insist and probably believe that foreign influence is at work, they offer no tangible support for their view. Soviet interests to date have been best served by avoiding direct involvement in anti-Shah activities. Antagonizing the Shah might threaten their considerable economic interests in Iran as well as their workable, though strained, political relationship.

2. However, for several reasons, the Soviets may at some point be willing to provide limited assistance to dissident elements in Iran. Moscow would like to weaken Iran's ability to thwart Soviet objectives in the Persian Gulf region. Should they consider the Shah in real danger of being overthrown, the Soviets would prefer that he were replaced by a leftist rather than a rightist regime. They have historic links to the Tudeh Communist Party in Iran, which may be playing a growing role in the dissident movement in that country. The demise of the Shah, moreover, would contribute to Israel's political isolation in the Middle East, and to a possible weakening of Oman's position in any renewal of hostilities with South Yemen. Thus, while there is no evidence that they have done so to date, the Soviets at some point may well consider taking an active position in support of the anti-Shah movement.

3. Soviet commentary has continued to avoid any personal criticism of the Shah, but during the past few days the Soviets have been somewhat more sympathetic toward the demonstrators. The Soviets are now acknowledging that the Shah's position has become precarious and are repeating foreign commentary that justifies the protests against the economic and political conditions in Iran. They continue to be careful, however, in their handling of statements by Iran's outlawed communist Tudeh party. On balance, Moscow's public line suggests that it has made a reassessment of the Shah's staying power and as a result his chances of survival have been downgraded.

25X1

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Next 13 Page(s) In Document Exempt

S E C R E T

SUBJECT: Status of General Nassiri

According to the press of 8 November, General Nassiri has been arrested by the new military government on corruption charges. He was returned to Tehran from Islamabad aboard a private government aircraft 17 October 1978 and was under arrest after being charged similarly by the previous government.

25X1