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THE SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

REFER TO CIA

CIA REVIEWED 09-Mar-2011: NO OBJECTION TO DECLASSIFICATION

MEMORANDUM FOR THE PRESIDENT

SUBJECT: DoD Activities and Interests in Iran

OSD REVIEWED 08-Mar-2011: NO OBJECTION TO DECLASSIFICATION

This memorandum outlines certain problems concerning US-Iran relationships with emphasis on the growing DoD involvement in and support for the Iranian defense program. Although it is in US interest to see Iran remain a strong military power in the region, there is some doubt as to whether our current policy of supporting an apparently open-ended Iranian military buildup will continue to serve our long-term interests. We have particular doubts concerning the ability of Iran to absorb and therefore operate all the sophisticated US arms it is buying without growing and possibly unhealthy reliance upon US skilled manpower. The memorandum points up some DoD concerns regarding this involvement which merits your attention.

Early US-Iran Relationships and US Policy

Our close security relationship with Iran dates from World War II when we needed to maintain a supply route through that country to the Soviet Union. We established two military missions in Iran in 1942, and we had as many as 28,000 men there during the war. In the early post-war years the US played a significant role in persuading the USSR to withdraw its forces from the northwestern part of Iran and since that time we have continued to view Iran as a bulwark against direct and indirect Soviet encroachment in the key Persian Gulf area. Since 1947, the US has had a series of agreements providing for military advisors and assistance to Iran. Congress authorized the first military credits to Iran in 1948 and Iran was included in the first Mutual Defense Assistance program, requested by President Truman in 1949.

In addition, US support for the Shah in connection with the Mosadeq coup attempt in 1953 served to establish a strong tie at that time between the Shah and the US, and was the basis for some of the relationships which continue today. Since 1953 the Shah has sought and received increased US arms aid, first to assure that the communist Tudah party would be controlled; then in return for Iran's joining the Baghdad Pact; and in 1956 as a reaction to the Kassim-led radical takeover in Iraq.

By 1959-60, Iran's forces had grown from their 1950-53 level of about 125,000 to some 209,000, with plans for further expansion. The Shah's emphasis on Iran's military buildup dominated US-Iranian relations in the early 1960's, with the US seeking to limit military expenditures and the

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growth of Iran's armed forces, and to press the Shah into taking steps to meet Iran's economic and social needs. In 1962 agreement was reached providing for reduction of the armed forces to 160,000 and outlining, in return, a five year plan for the introduction of better US weapons, improved mobility and better training.

Recent US Arms Policy Toward Iran

In the early and mid-1960's, the US provided military assistance to Iran under agreements which specified that assistance would be based on US surveys of Iranian needs. However, two events were to change this relationship, the first was the British withdrawal from the Gulf. The second was the rise of oil prices.

In 1968 the British announced their intention to end their protective role in the Persian Gulf area beginning in 1971. At that time we undertook a review of our policy and determined that we should not try to replace the British in the area but should rely upon friendly local powers to maintain the stability of the region. In practice this meant continued support for Iranian and Saudi Arabian military programs. President Nixon's guidelines were set out in NSDM 92, "US Policy Toward Persian Gulf."

At that time Iran had made good economic progress and though we expected the phase-out of military grant aid in 1969 we also believed that the substitution of credit sales would impose financial constraints on Iranian military spending. However these constraints were reduced by OPEC's success in 1970 in raising oil prices by 20 percent.

From the standpoint of US policy, another key milestone in US military assistance for Iran was President Nixon's visit to Tehran in May 1972, following his trip to Moscow. That visit resulted in agreement in principle to sell the F-15 and/or F-14 aircraft as the Shah might choose, laser-guided bombs, plus the services of US uniformed technicians to work with the Iranian military. In addition, under policy guidelines emerging from that visit, decisions on future acquisitions of military equipment in general were to be left primarily to the Government of Iran.

That 1972 policy, coupled with the unanticipated upsurge in Iran's oil revenues since late 1973, has permitted the Shah to place huge arms orders with the US over the past two years.

Iranian Defense Programs and Trends

The Iranian Armed Forces, including the Gendarmerie, have more than doubled in size since 1967 (from 207,000 to 436,000). Present plans call for a further expansion of about 50,000, to a total of 486,000 by the end of 1978 (the three military services would total 380,000). The Iranians probably will fall short of the 1978 goals, but they nevertheless plan some further growth beyond that goal.

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The modernization and expansion of Iranian military forces has propelled defense spending at a rate well in excess of any other major sector, rising fifteen-fold over the past eight years to some \$9.4 billion in 1975 -- about one and one-fifth times the amount spent on economic development. In the 1967-1975 period, defense spending has represented 37 percent of the budget; currently it accounts for about 41 percent. In terms of GNP, defense expenditures have grown from 6.8 percent in 1967 to 15.2 percent in 1975.

Inflation (20-25 percent this past year), heavy increases in defense operations and maintenance costs, and competing demands from the non-military sectors could reasonably be expected to force the Shah to adjust his military investment programs in the next few years. On the contrary, he seems determined to buy more rather than less.

US Security Assistance for Iran

In modernizing the Iranian Armed Forces, the Government of Iran has turned primarily to the United States for military equipment, as well as US military support and training, secondarily to the UK, USSR, Italy and France. The GOI has contracted to purchase approximately \$10 billion in US weapons, equipment and support and training services through the Foreign Military Sales (FMS) Program (\$9.1 billion since 1972). In value terms, roughly \$8 billion of that \$10 billion is yet to be delivered, raising the specter of severe management problems downstream.

Iranian military purchases are expected to remain at high levels over the next few years as the GOI becomes more deeply involved in several long term projects for improved air defense, expanded national telecommunications, training programs, logistics systems, and additional aircraft and ships. Training costs will increase substantially and follow-on support related to operations and maintenance of equipment already acquired are likely to push DoD involvement higher.

Concerns for the Future and Now

-- Iranian Absorptive Capacity Iranian capacity to absorb defense systems now being acquired is limited by two major obstacles, namely, the lack of training or even trainable Iranian manpower (and the competition from the civilian sector for such talent), plus delays in the huge construction programs required to provide supporting facilities for the weapons and equipment being obtained from abroad. (The armed forces construction program for 1973-78 totals in excess of \$5 billion; the total number of sites where military construction is underway exceeds 300). Frankly, the US itself would find it extremely difficult to handle expansion programs of this size and speed; the Iranians cannot do it. The military supply system is a shambles. There is no delegation of authority, military pay and housing lags behind the civil sector, incompetence and corruption are endemic, and there is no prospect that the Iranian forces will be in respectable fighting shape for years to come (this may not be important against other Gulf nations). There are some good and dedicated men, but the expansion is too great for them to cope with.

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Clearly, the GOI looks to the Department of Defense to assure the success of its military programs, even for programs being carried out by US civilian contractors. The extensive acquisition of military materiel, based on a limited absorptive capacity, may lead to failure and ultimate recriminations against the US, deserved or not.

-- The DOD Presence In-Country. Since the GOI has turned to the US primarily for technical assistance and training support for its military programs, the numbers of DOD personnel, as well as civilian contractor personnel in Iran on defense-related projects, have grown dramatically in recent years. In FY 73 DOD personnel in Iran numbered about 760; in FY 76 they will number 1,708. The increase is attributable almost entirely to security assistance activities. DOD personnel including dependents will reach roughly 4,000 in FY 1976. (These figures do not include any of the numerous TDY assignments in-country of less than 180 days duration.)

In FY 1975, US contractor personnel associated with defense-related activities numbered a little over 2,900 with about 5,400 dependents. Roughly one-third of the contractor personnel are retired US military. ARMISH-MAAG states that retired military personnel are arriving at a rate of about 50 per month. The Mission further estimates that about 4,500 contractor personnel with about 8,300 dependents will be in Iran in FY 1976. With the DOD community, this would reach a total of 17,000, up from about 12,000 in FY 75.

The prospects are that the need for large numbers of skilled uniformed technicians will stretch out well into the 1980's and become a significant drain on the manpower resources of our own Services. In addition, the growing DOD community in-country presents significant social and economic problems for US personnel (skyrocketing rentals; shortages of adequate medical and commissary facilities; serious security problems from terrorist groups, especially in the Tehran area).

I should also add that this is only part of a wider diffusion of American personnel which is occurring throughout the Gulf. A recent DOD-sponsored study concludes that the number of US citizens in the eight Gulf countries is likely to increase by 135 percent by 1980, from about 63,000 to about 150,000, including 70,000 in Saudi Arabia and nearly 76,000 in Iran.

The Shah and his principal advisors have been told repeatedly that they should not plan on a further substantial growth in the number of DOD military advisory/training (MAAG-TAFT) personnel. The Shah is aware of American public sensitivities on this issue, and may refrain from further requests -- but given a tightening budget, the scope of his problems and the potential difficulties with US civilians (cost, inability to get good men if terrorists should target civilians, and labor relations as evidenced by the recent Bell Helicopter instructor's strike), he has only three alternatives. He can look for German, British or even Pakistani and Korean personnel (and accept less expertise); he can use fewer foreigners and simply accept a substantial reduction in capabilities for the indefinite future; or he can seek an increase in US military personnel.

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Other Problems

Aside from our concerns about DOD personnel, we believe that there are other potentially serious issues we should be aware of:

-- Gulf Arab Perceptions. The Shah has long announced his intention of preserving and protecting access by sea to the Persian Gulf oil reserves. There are doubts, however, among Iran's Arab neighbors concerning Iranian intentions, despite the recent GOI-Iraqi settlement and current discussions of some form of Persian Gulf security grouping. These doubts and suspicions probably are deeper and more widespread than appears on the surface, as the flow of US arms continues.

-- Third Country Arms Transfers. Iran has shown an inclination to transfer some of its older US equipment acquired under MAP and the FMS to third countries without obtaining US consent in advance. The transfer question could become a greater problem for US-GOI relations in the years ahead. The Shah has already shown a propensity to support selected friends and allies in the area with equipment and supplies from his own inventories and pressures are likely to increase for such transfers, especially as some of his equipment is replaced by newer items. This, of course, would impact on our arms supply policies, in both the Middle East and South Asia. (As a matter of current interest, the GOI has just requested US views concerning a large scale transfer of US-supplied weapons and equipment to Pakistan.)

-- Congressional/Public Attitudes. Criticism is increasing in Congress and the public that the USG is fueling a destabilizing arms race in the Gulf. This criticism stems in part from concern that there are considerable prospects for instability within the area, that we don't know what kind of governments we can count on for the future or whether they will be well disposed toward the US.

-- Differing Perceptions Between the US and Iran. Despite the basic foundation of good relationships, there are prospects that US-Iranian relations will become more difficult in the years ahead for a variety of reasons as reflected in NIE 24-7-75 of 9 May 1975 -- pressures for various arms the US may not wish to release, the Shah's interest in the removal of both the US and Soviet military presence from the Persian Gulf and Indian Ocean areas, Gulf Arab doubts concerning Tehran's ultimate intentions plus possible overt rivalries which would pose difficult choices for the US, and the Shah's role in OPEC, among others. The issue of oil prices obviously is one in which US interests and the Shah's perceptions of his interests could easily collide, and soon. The question of nuclear safeguards for the reactors he seeks is also likely to be troublesome.

US Policy Options

Given the apparent divergence of US policies and Iranian behavior, we need to consider what actions, if any, we should take to lessen possible adverse consequences to ourselves. We have essentially three options: (a) to continue

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the present policy; (b) to seek to restore an overall balance in US-Iranian relations; or (c) to follow a damage-limiting strategy aimed not so much at restoring the past balance as at limiting the extent of future damage by limiting our involvement and restricting somewhat our new commitments to Iran.

Conclusion

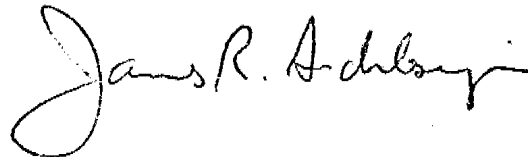
From a DOD standpoint, at least, the prospect of future difficulties with and uncertainties in the Persian Gulf area suggests the need for an early review of US defense and security interests in Iran and the Persian Gulf area.

As a related matter, US policy concerning the supply of arms and related goods and services to Iran should be reevaluated to determine whether basic changes in orientation and implementation are desirable. It would appear important that we consider whether and to what extent the changes in our relationship with Iran are irreversible and what future policies we should follow -- especially in the area of military sales and support, which is central to our relationship.

Recommendation

That you direct the National Security mechanism to initiate such a review covering two time periods -- the next five years and the next ten years.

I would be glad to discuss with matter with you personally.



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