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Authority **NND 969 000**
By **MB** Date **04/09/02**

Department of State

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US LATER.

(FOREGOING ARRANGEMENTS BEAR OUT OUR PREDICTION (PARA 7C REFTEL B) THAT IRAN WOULD ACQUIRE ARTILLERY FROM SOVIETS.)

2. IN CONVEYING FOREGOING, TOUFANIAN DID NOT MENTION PRICE OR CREDIT TERMS ALTHOUGH SHAH TOLD AMBASSADOR RECENTLY TERMS OFFERED BY SOVIETS VERY GOOD, INVOLVING 2 1/2 PER CENT INTEREST OVER LONG TERM (REF B). TOUFANIAN ALSO REVIEWED WITH DATT DEEP CONCERN OF GOI RE DIFFICULTIES OF FINANCING IRAN'S MILITARY PROCUREMENT IN US AND FACT GOI MILITARY SHOPPING LIST FOR NEXT FIVE YEARS MORE THAN DOUBLE AMOUNT OF ANTICIPATED FMS CREDIT (REF B AND C). HE ALSO MADE STRONG PITCH FOR LARGER FMS CREDIT AT REASONABLE INTEREST RATES AND/OR SPECIAL ARRANGEMENT FOR IRANIAN OIL WHICH WOULD TAKE CARE OF FINANCING. LIKE SHAH (PARA 9, REF B) HE POINTED OUT BOTH BRITISH AND FRENCH OFFERING MUCH BETTER CREDIT TERMS THAN US. AS INDICATION OF HOW COSTLY GOI'S RELIANCE ON US EQUIPMENT CAN BE TOUFANIAN OBSERVED

THAT IRAN CAN OBTAIN ALL MIG 21S IT WANTS FROM SOVIETS AT ABOUT \$750,000 EACH, FRENCH HAVE INDICATED IRAN CAN GET MIRAGE IIIS ON LONG-TERM LOW INTEREST (TOUFANIAN MENTIONED FRENCH OFFERING GREEKS 2 1/2 PERCENT INTEREST LOAN) AND FRENCH WILLING CONSTRUCT FACTORY IN IRAN TO MANUFACTURE MIRAGE SPARE PARTS, WHICH COULD ALSO SUPPLY OTHER MIDDLE EAST COUNTRIES; HE NOTED COST OF RETRO-FITTED M-47S UNDER CONTRACT WITH BMY (WHICH HE EXPECTED WOULD BE SIGNED IN NEXT TWO WEEKS) COMES TO \$108,000 PER TANK (\$10,000 TO \$15,000 MORE IF UP-GUNNING INCLUDED)

WHEREAS BRAND NEW SOVIET T-55 TANK COULD BE PURCHASED BY GOI IMMEDIATELY FOR ABOUT \$110,000 PER TANK. HE CONCLUDED BY POINTING OUT AGAIN THAT WHILE SHAH STRONGLY DESIRES TO PROCURE MAJOR ITEMS OF EQUIPMENT FROM US, HE MUST GET IT ELSEWHERE IF WE CANNOT FIND WAYS TO ENABLE HIM TO DO SO.

3. COMMENT:

(A) I HAVE HEARD FROM SHAH, PRIMIN, PLAN ORG

BE REPRODUCED WITHOUT THE AUTHORIZATION OF THE EXECUTIVE SECRETARY

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DIRECTOR SAMII, GENERAL TOUFANIAN AND OTHERS THAT OVER PAST TWO OR THREE MONTHS SOVIETS HAVE BEEN PRESSING IRAN TO ACCEPT SOVIET MILITARY EQUIPMENT ON VERY LIBERAL (A) PRICE AND (B) CREDIT TERMS. MOTIVE BEHIND THIS SOVIET PRESSURE AND CONTINUING OFFERS OF MILITARY EQUIPMENT ON INCREASINGLY ATTRACTIVE TERMS IS, OF COURSE, CLEAR. IT IS TO PROMOTE BASIC SOVIET OBJECTIVE OF SUBSTANTIALLY DIMINISHING US INFLUENCE IN MIDDLE EAST, PARTICULARLY MEDITERRANEAN AND PERSIAN GULF. SOVIETS DOUBTLESS BELIEVE AND WITH GOOD REASON, THAT IF THEY CAN UNDERMINE SPECIAL MILITARY COOPERATION ARRANGEMENTS BETWEEN US AND IRAN--ARRANGEMENTS WHICH SINCE END OF US GRANT AID REPRESENT SINGLE MOST IMPORTANT ELEMENT IN OUR CLOSE TIES WITH IRAN--OVERALL US INFLUENCE IN THIS VITALLY IMPORTANT KEYSTONE COUNTRY CAN BE SUBSTANTIALLY DIMINISHED.

(B) SHAH REITERATED TO JCS CHAIRMAN, GEN WHEELER YESTERDAY HIS STRONG DESIRE TO RELY ON US AS SOURCE FOR MAJOR ITEMS OF MILITARY EQUIPMENT BUT AT SAME TIME HE STATED FLATLY THAT IF THIS IMPOSSIBLE BECAUSE WE UNABLE COOPERATE ON FINANCING OF EQUIPMENT ESSENTIAL FOR IRAN'S SECURITY AND SURVIVAL, THEN IRAN WILL DEFINITELY HAVE TO GET IT ELSEWHERE. WHILE STILL REASONABLY CONFIDENT HE WILL NOT TURN ELSEWHERE FOR AIRCRAFT (UNLESS WE MAKE IT IMPOSSIBLE FOR HIM TO PURCHASE AMERICAN AIRCRAFT BY FAILING PROVIDE FMS CREDIT ON REASONABLY COMPETITIVE TERMS), I AM NOT CONFIDENT HE WILL NOT TURN ELSEWHERE FOR OTHER HARDWARE IF SOME NEW ARRANGEMENT FOR CREDIT WITH US IS NOT WORKED OUT. WHILE I CONTINUE DOUBT IRAN WOULD, IN FINAL ANALYSIS, TURN TO SOVIETS FOR MAJOR SOPHISTICATED EQUIPMENT (ALTHOUGH I CANNOT ABSOLUTELY EXCLUDE TANKS), FACT REMAINS SOVIET PURPOSE OF ERODING BASIS OF CLOSE US-IRAN RELATIONS WOULD BE PARTIALLY SERVED EVEN IF IRANIANS WERE TO TURN VERY SUBSTANTIALLY AWAY FROM US TOWARD OTHER FREE-WORLD SOURCES.

(C) FOREGOING IS OF COURSE RELEVANT TO OUR RECOMMENDATION (REFTEL C) THAT WE TRY AT ONCE TO BREAK OUT OF IMPASSE WITH SHAH BY OFFERING TO EXTEND 1968 AGREEMENT FOR THREE OR FOUR YEARS SO THAT HE CAN FIT MAJOR

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REQUIREMENTS OF HIS FIVE-YEAR PLAN INTO STRETCH-OUT PROGRAM OF SEVEN TO EIGHT YEARS. AT PRESENT SHAH IS DETERMINED TO IMPLEMENT HIS FIVE-YEAR PROGRAM AND WE DO NOT KNOW WHETHER HE COULD BE PERSUADED TO ACCEPT STRETCH-OUT OF THAT PROGRAM. NOR DOES STRETCH-OUT WE HAVE BEEN TALKING ABOUT TAKE INTO ACCOUNT PROBLEM WHICH WILL ARISE LATER RE FOLLOW-ON AIRCRAFT FOR F-5'S. LATTER PROBLEM, HOWEVER, CAN ONLY BE FITTED IN TO LONGER-TERM PICTURE WHEN DOD HAS DECIDED ON CHOICE FOR UPCOMING FREEDOM FIGHTER AND THIS CHOICE (PARTICULARLY IF IT WERE F-4-EF AIRCRAFT) COULD AFFECT (PERHAPS HELPFULLY FROM OUR VIEWPOINT) SHAH'S DESIRE TO OBTAIN FOUR ADDITIONAL SQDNS OF F-4S IN 1973-77. WHETHER OR NOT STRETCH-OUT PROPOSAL WILL PROVE ACCEPTABLE TO SHAH, WE CONTINUE TO RECOMMEND STRONGLY THAT UNDER SECRETARY RICHARDSON BE IN POSITION WHEN HE VISITS TEHRAN APRIL 20-21 TO EXPLORE THIS POSSIBILITY WITH SHAH IF AT THAT TIME IT SEEMS BEST LINE OF APPROACH. AT BEST IT MIGHT RESULT IN PREVENTING CRISIS IN OUR RELATIONS WITH SHAH WHICH IN ABSENCE OF SOME NEW UNDERSTANDING WE WILL INEVITABLY FACE. AT WORST--IF UNACCEPTABLE TO SHAH--IT WOULD INDICATED WE ARE DOING OUR BEST TO HELP HIM WITHIN OUR OWN VERY DEFINITE LIMITATIONS.

(D) STRONGLY RECOMMEND THAT UNDER SECRETARY SEE GENERAL WHEELER (WHO SPENT HOUR AND THREE QUARTERS YESTERDAY WITH SHAH) FOLLOWING GEN WHEELER'S RETURN APRIL 9. GP-3. MACARTHUR

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