

MR, NSC,
 BOX 755
 Pres' l Correspondence

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Authority NND 970042
 By EW/NARA Date 5-14-02

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

ACTION 8536
 April 13, 1970 8762

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MEMORANDUM FOR THE PRESIDENT

FROM: Henry A. Kissinger *HK*
 SUBJECT: Letter to You from the Shah of Iran

The Shah has written you another letter (Tab B) in which he makes the following two points:

1. No substantial progress has been made on the question of Iran's desire to sell oil to the United States. The Shah reaffirms his intention to use the proceeds from such sales to finance purchases of arms and other equipment in the U.S., a situation which he believes would help our balance of payments.
2. The terms of our FY 1970 military credit sales program --under which [the Shah is informed] Iran would get 50% direct U.S. government credits and 50% government guaranteed private credits--are too stiff. He does not feel that he can come up with 50% of the credits from the private sector without bearing unusually high interest rates.

The Shah repeats the familiar rationale in asking for your special consideration on both of these points--that Iran is bearing its own defense burdens while pursuing an unusually high rate of social and economic development. He does not want to compromise on either front.

Oil. As you know, there have been essentially two routes to pursue in helping to increase Iran's oil revenues:

1. Urging the Western consortium to lift more oil. Mr. Flanigan has pressed this forcefully with the companies. The consortium's negotiations with Iran are now going on, and a possible loan is being discussed as an alternative to increased lifting of oil.

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2. Increasing U.S. imports. Under the present import system this has not been possible since the government is not in a position to import in quantity for its own purposes and Iran does not qualify for a quota as long as it has no association with an importer with refining facilities.

It is the latter question that the Shah alludes to briefly in his letter. While pressure on the companies will be maintained, it is not possible to hold out much hope on the point the Shah raises unless we were to get back into the issue of altering import policy.

Military credit sales program. The situation here is that, under a five-year memo of understanding dating from 1968, we have budgeted to make available to Iran \$100 million in foreign military sales credit for FY 1970 as soon as the legislation is enacted and signed. It was estimated that this credit would be provided in the following proportions: 50% U.S. Government credit and 50% Government-guaranteed private credit and it is this information which the Shah had in mind when he wrote you about the difficulty of his obtaining credits from the private sector. However, State and Defense have arranged to make the total credits package available in a range of 50-50 to 75-25, with the final proportion to be determined by negotiation. The Shah is not aware of this flexibility and it is therefore possible for you to be forthcoming in your response to him on this point. The interest rate overall would be 7-1/2%, well below commercial rates.

You should be aware that Ambassador MacArthur has suggested a longer range response to the Shah's general concerns over credit availability--amending the 1968 memorandum of understanding to reach out another three or four years, 1973-76. He feels that the Shah might be more relaxed if he could see a way to fit his present military plans into foreseeable credits. A recommendation on this question will be put to you later this month. It is not an issue which you need address in your present letter.

Everyone agrees that the U.S. relationship with Iran is important for reasons ranging from our intelligence facilities there to its potential contribution to stability in that part of the world. Iran has received military sales credit at a steady rate of at least \$100 million yearly. The Shah, however, is a man understandably in a hurry--as you know--

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and has persistently pressed our resources and his to their limits. This creates a continuing tension. That tension need not be destructive but does mean that we will constantly have to deal with these pressures from the Shah.

For the moment, the attached letter deals with the subject the Shah has raised. Mr. Richardson will be seeing him on April 20 in Tehran and may be in a better position to discuss longer range military credit then.

Recommendation: That you sign the letter at Tab A to the Shah. [Mr. Keogh has cleared the text.]

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