



United States Department of State

Washington, D. C. 20520

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"Bud McFarlane
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INFORMATION MEMORANDUM

S/S RK 7/27

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TO: The Secretary

FROM: NEA - Richard W. Murphy

SUBJECT: Signals from Iran - Less Than Meets the Eye

Several recent developments have been taken as possible signs of moderation and/or as signals that Iran seeks closer ties with the west and with the U.S.: Iranian overtures to Saudi Arabia; FRG Foreign Minister Genscher's report of his visit to Tehran; a press conference held by Majlis speaker Rafsanjani following Genscher's visit; a proposal passed through Professor Richard Falk for a global settlement at the Iran/U.S. Claims Tribunal at The Hague; and a recent article in the London "Observer" reporting high level Iranian contacts with Admiral Madani (one of the Iranian exile leaders).

We are skeptical since we believe that some of these developments represent a variation in tactics employed by Iran, but do not represent a change in Iran's basic policy with regard to the war or the U.S.; others represent a continuation of a trend begun some time ago; and the rest are misinformation.

Iran's Opening to Saudi Arabia:

-- Iran's overtures to Jidda can be explained by factors other than a basic policy change. Iran is well aware that further escalation in the Gulf will harm Iran more than any other Gulf country. Most of Iran's oil exports are lifted from Kharg Island, and virtually all Iran's export earnings come from crude exports. Although Iran has some foreign currency reserves, these reserves are not sufficient to sustain Iran through a prolonged period of no, or seriously reduced, oil exports. Should escalation threaten ports further south in the Gulf, Iran's ability to import could also be threatened. It is, therefore, in Iran's interest to assure safe passage of shipping in the Gulf.

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-- Since Iraq survives on financial support coming mainly from Saudi Arabia (and from other Gulf states under probable pressure from Saudi Arabia), Iran has been seeking to drive a wedge between Saudi Arabia (and her Gulf neighbors) and Iraq by playing on their divergent interests in the Gulf (freedom of navigation vs. interdiction of Kharg bound shipping). Iranian reaction against Iraqi attacks on shipping has been targeted primarily at ships carrying Saudi or Kuwaiti crude, or those owned by Saudi Arabia or Kuwait. The shootdown of Iran's F-4's by Saudi Arabia's F-15's jolted Tehran. We believe the Iranians did not anticipate an aggressive defense on the part of the Saudis, and that the Iranians thought they would perform better militarily against the Saudis. Tehran seems to have concluded that its policy of threats and other provocative behavior will not work, and that diplomacy might be more effective.

-- Iran may have been concerned too that escalation of tension with Saudi Arabia might have led to Saudi restrictions on Iranian pilgrimage to Mecca when the annual Hajj begins next month. Iran sees participation in the Hajj as an opportunity to spread the message of its revolution among the Muslims of other lands also in attendance.

-- Iran's basic policy toward Iraq, however, remains unchanged. To quote Rafsanjani (22 July) on prospects for a mediated settlement, "If the object is peace with Saddam Hussein, then we must say there is no hope at all."

Closer Ties with the West:

This is not a new trend in Iranian policy. For the last two years or more Iran has sought to strengthen ties with western countries which were not viewed as "imperialists". In his welcoming statement to Genscher, Velayati stressed Germany's lack of a record of domination in Iran as an important factor in relations between the two countries. Iran looks in the same way on Italy, Japan, Spain, Austria, Australia, New Zealand and Brazil. Germany has been one of the top two or three sources of imports for Iran for at least the last ten years, and the Iranians value this. It is natural to expect that they would avoid remarks to Genscher that would mar his visit, such as criticism of the U.S. Although Rafsanjani was doubtlessly accurate in his statement that some within the regime favor closer ties with the west, we do not believe that

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statements made by Iranian officials during the course of Genscher's visit represent a shift in Iranian policy toward the west.

Where Rafsanjani himself stands is unclear. A major source of his political power is his ability to sense the direction of political winds in Iran, and to position himself with the most powerful.

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Efforts to Seek a Global Settlement at The Hague:

The proponents of this settlement have yet to produce evidence that they speak for those in authority in Tehran. Rather, it appears that this is an idea proposed by those who think they can sell it to the Iranians, presumably at considerable benefit to themselves. The concept is not new and is being pushed by the same Iranian lawyer (a Dr. Nassiri) who proposed the idea two years ago, and failed to demonstrate at that time any influence inside Iran. In principle we of course have no basic problem with a global settlement, but this settlement proposal would rewrite the Algiers Accords to Iran's benefit. The carrot offered, eventual normalization, is therefore elusive.

Report from the "Observer":

Other central statements in the citation are clearly incorrect (i.e., the transfer of F-5's to Iran via Turkey), and we have no reason to believe that the mention of Madani's purported meeting with high level Iranian officials has any foundation. It is well-known in Iran that Madani received support for his presidential bid, and he has been sentenced to death in absentia. It is therefore highly unlikely that any currently sitting Majlis member would meet with him.

Countersignals to Iran?

At some point we will want to pass a private message to Iran that we are not implacably opposed to the GOI. Given the present government's attitude on the Gulf war, and its public hostility towards the U.S., any such signal now or in the near future, in the absence of some major change, would be the wrong signal at the wrong time. The Khomeini inner circle would see

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such a message now as U.S. caving in to Islamic firmness. It would reinforce the Islamic leadership's feeling that the U.S. is a paper tiger, strongly reinforce Iranian intransigence on the war, and give the regime courage to persevere in policies to which we are strongly opposed.

The appropriate moment for such a message to go to the Iranians will be when some event -- leadership succession, a change of policy on the war, perhaps a direct blunt Soviet threat -- has heightened the radical leadership's receptivity to changing circumstances. We will continue to review the context of the Gulf war and Iranian politics for a suitable moment to pass a conciliatory message which will achieve the desired result and forward our recommendations to you at that time.

Conclusions

It is unlikely that any of the initiatives reviewed above represents a significant change in Iranian policy. Nonetheless, any development that reduces Iran's isolation and advances prospects for negotiation merits support. We will also continue to support purely commercial relations between Iran and the West (and Japan), so long as these dealings exclude militarily useful items, and to support dialogue with the Iranians (by the Saudis and others). In the case of the Falk initiative, we will continue to reply with questions designed to draw out the Iranians on what they really mean, how firmly the leadership is behind the initiative, and what sort of specific steps they foresee; and at the same time, firmly, but without hostility, set forth what behavioral signs we would expect as evidence of their sincerity and governmental support. Thus far, such probes have produced either lack of official backing for alleged Iranian signals, or an Iranian version of a potential deal with a clear one-way street dimension. As we proceed to assess Iran's evolving policies, we will of course keep in mind that modifications in the regime's posture does not necessarily equate to a softening of their stance vis-a-vis the United States.

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