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WITHDRAWAL SHEET

Ronald Reagan Library

Collection: BURNS, WILLIAM J.: Files

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File Folder: Iran [1987-1988] (5of 5)

Date: 8/12/99

Box 91849

Page 1

Wills - F97-107/1

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. Memo	Robert Oakley to Colin Powell, re: Iranian Assets, 1 p.	7/29/88	P1/F1, B3
2. Paper	<i>D 4/7/06 F97-107/1 #85</i> Iran-United States Claims Tribunal Fact Sheet, 1 p.	7/26/88	P1/F1
3. Paper	<i>R " " #86</i> re: Iranian Assets (page 13 only), 1 p.	n.d.	P1/F1
4. Paper	<i>R " " #87</i> Military Property Claimed by Iran, 1 p.	7/29/88	P1/F1 B3
5. Paper	<i>D " " #88</i> Iran-United States Claims Tribunal Status of Military Property Claims, 1 p.	7/29/88	P1/F1 B3
6. Note	<i>D " " #89</i> To Oakley, re: Iran, 1 p.	6/30/88	P1/F1 B3
7. Report	<i>PART 9/21/07 F97-107/1 #90</i> Iran:....., 5 p.	6/30/88	P1/F1, B3
8. Letter	<i>PART 9/21/07 F97-107/1 #91</i> Edwin Meese to George Shultz, 2 p.	7/21/88	P1/F1
9. Draft Proclamation	<i>R 9/4/07 NLR F97-107/1 #92</i> re: Iranian Immigration, 2 p.	n.d.	P1/F1
10. Letter	<i>R " " #93</i> John Bolton to Joan M. Clark, 2 p.	7/27/88	P1/F1
11. Draft Ltr	<i>R " " #94</i> [State] to Meese [Richard?], 3 p.	n.d.	P1/F1
12. Transmittal Slip	<i>PART 4/7/06 F97-107/1 #95</i> to Oakley, (partial), 1 p. <i>PART 9/21/07 F97-107/1 #96</i>	8/19/88	P1/F1 (F3)
13. Memo	To Director, Deputy Dir., CIA, re: Iran..., 5 p. <i>PART 9/21/07 F97-107/1 #97</i>	8/19/88	P1/F1 B3
14. Memo	Burns to John Negroponte, re: <i>CONTEXT, 1p</i> <i>D 4/2/06 F97-107/1 #98</i>	8/23/88	P1/F1
15. Memcon	<i>D " " #99</i> Iran, 2p	n.d.	P1/F1

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

C. Closed in accordance with restrictions contained in donor's deed of gift.

Freedom of Information Act - [5 U.S.C. 552(b)]

- F-1 National security classified information [(b)(1) of the FOIA].
- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- F-3 Release would violate a Federal statute [(b)(3) of the FOIA].
- F-4 Release would disclose trade secrets or confidential commercial or financial information [(b)(4) of the FOIA].
- F-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA].
- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

WITHDRAWAL SHEET

Ronald Reagan Library

Collection: BURNS, WILLIAM J.: Files

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File Folder: Iran [1987-1988] (5 of 5)
Box 91849 Page 2

Date: 8/12/99
Wills - F97-107/1

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
16. Memo	Larry Pope to Burns, re: Iran, 1 p. D 4/7/06 F97-107/1 #100	n.d.	P1/F1
17. Memo	Burns to Powell, re: Iran and Hostages. 1 p. D " " #101	9/12/88	P1/F1
18. Memcon	RE IRAN, 2 p. D " " #102	9/12/88	P1/F1
19. Memo	Pope to Amb Murphy through Amb. Hare, re: Iranina Internal Developments - Musavi's Resignation, 2 p. R " " #103	9/6/88	P1/F1
20. Report	Iran After the War, 22 p. R " " #104	9/88	P1/F1
21. Memo	Peter Rodman to Powell, re: Iran, Iraq, and Syria, 4 p.	10/7/88	P1/F1/D5

RESTRICTION CODES

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PENDING REVIEW IN ACCORDANCE WITH E.O. 13233

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Collection Name BURNS, WILLIAM: FILES

Withdrawer

LOJ 9/24/2007

File Folder IRAN [1987-1988] (5 OF 5)

FOIA


F97-107

Box Number 91849

ID	Doc Type	Document Description	No of Pages	Doc Date
13	MEMO	TO DIRECTOR OF CIA, RE IRAN: STILL THE BIG PRIZE? [F97-107#97]	5	8/19/1988

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THIS FORM MARKS THE FILE LOCATION OF ITEM NUMBER 1 LISTED ON THE
WITHDRAWAL SHEET AT THE FRONT OF THIS FOLDER.





Bill Burns dropped
off the attachment
to be included as
part of System I
document 5600 at
Tab A per Amb.
Oakley.

WHR

7/30

1415



~~CONFIDENTIAL~~

IRAN-UNITED STATES CLAIMS TRIBUNAL
FACT SHEET
July 26, 1988

- o The Iran-United States Claims Tribunal was established by the Algiers Accords in 1981. The Tribunal has before it claims of U.S. nationals against Iran and claims of Iranian nationals against the United States which arise out of debts, contracts, expropriations or other measures affecting property rights. As of July 19, 1988, the Tribunal had issued contested awards and awards on agreed terms with respect to 287 large U.S. private claims (claims for \$250,000 or more) and 51 small U.S. private claims (claims for less than \$250,000), and 4 private Iranian claims. As of this same date, the Tribunal had remaining before it 180 large U.S. private claims, 2560 small U.S. private claims, and 14 claims of Iranian nationals.
- o Also pending before the Tribunal are certain claims of the United States and Iran against each other arising out of contractual arrangements between them for the purchase and sale of goods and services and disputes as to the interpretation of the Algiers Accords. As of July 19, 1988, the Tribunal had issued awards in 31 government-to-government claims and 8 interpretive disputes. As of this same date, the Tribunal had remaining before it 25 government-to-government claims and 13 interpretive disputes.
- o U.S. nationals have been awarded \$1,090,210,575 (including interest) through July 19, 1988. The Tribunal has also awarded approximately \$118 million (not including interest) in 4 cases brought by Iranian nationals.
- o Awards to U.S. nationals and the U.S. Government are paid out of a Security Account which, as of July 25, 1988, contained \$481 million. Interest on the Security Account is maintained separately; as of July 25, 1988, \$160 million remained in the Interest Account.
- o Disputes relating to certain loans and credits made by bank syndicates are payable out of Dollar Account No. 1, established by the Algiers Accords. As of July 19, 1988, \$32 million remained in that account.
- o Other banking disputes are payable out of Dollar Account No. 2, also established by the Algiers Accords. As of July 19, 1988, \$729 million remained in that account.

DECLASSIFIED

NLS F97-107/1#86

BY LOT, NARA, DATE 4/7/06

Frozen Iranian Assets

There has been confusion in some press reports concerning Dollar Account 1 and other "frozen" Iranian assets. It should be understood that although all Iranian property in the U.S. was officially "frozen" during the 1979-1981 hostage crisis by Presidential order, that freeze was lifted upon the release of the hostages in 1981. Assets currently held in the U.S. or in escrow accounts abroad are thus not "frozen" in that technical sense although they may not be immediately available to Iran.

Other accounts include:

Security Account, established by a transfer of one billion dollars in Iranian funds pursuant to the Accords to pay awards made to the U.S. or its nationals by the Iran-U.S. Claims Tribunal. The account is held by the NV Settlement Bank in Amsterdam, with the Banque Centrale d'Algerie as escrow agent. Iran's obligation and practice in replenishing this account are discussed above.

Dollar Account No. 2, established by a transfer of \$1.418 billion in Iranian funds pursuant to the Accords to pay off non-syndicated bank loans. (Paragraph 2(B) of the Undertakings). Many loans have been paid out of this account to individual banks, and negotiations continue with other banks. The fund is held by the Bank of England, with the Banque Centrale d'Algerie as escrow agent.

FMS Trust Fund, containing advance payments made by Iran under the Shah for purchases of military equipment from the U.S. government. Disposition of this account is in arbitration at the Tribunal. ~~Questions concerning details of the trust fund and military equipment owned by Iran and held by the U.S. Government should be directed to the Department of Defense.~~

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NLS F97-107/1 #87

BY WJ NARA, DATE 4/7/06

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THIS FORM MARKS THE FILE LOCATION OF ITEM NUMBER 4-5
~~215~~ LISTED ON THE
WITHDRAWAL SHEET AT THE FRONT OF THIS FOLDER.

U.S. Policy and Iran: Looking Ahead

o Much has been said and written about our Iran initiative. Time has come to set record straight, and move on toward strategic goals that we and our allies in Europe and the Middle East share.

o We continue to believe that those ^{strategic} objectives are sound and widely-supported ^{by the American people and} by our friends throughout the world. We remain committed to: (1) hastening a prompt, peaceful settlement of the Iran-Iraq War; (2) curbing state support for terrorism; (3) securing the safe release of all hostages in Lebanon; and (4) laying the basis for a constructive relationship with an Iran prepared to live at peace with its neighbors.

o We knew ~~that~~ ^{there were serious risks involved in} opening a dialogue with factions within the Iranian government who ^{seemed} ~~seemed~~ ^{realized} that continuing efforts to ~~identify~~ ^{isolate} export the Iranian revolution were a prescription for disaster for Iran. But we also appreciated the potential rewards of such a dialogue.

o We made ^{tactical} mistakes in judgment along the way -- mistakes which all of the President's senior foreign policy advisors share responsibility for. We should have anticipated more clearly that our contacts were bound to ~~look out~~ ^{be eventually} ~~and~~ ^{add} that the provision of even tiny amounts of defensive military equipment would be linked in the public mind -- however ~~in~~ ⁱⁿ ~~correctly~~ ⁱⁿ ~~correctly~~ ^{correctly} -- with our simultaneous efforts to secure the safe return of our hostages.

o To set matters straight, the President has made clear that there will be no further military shipments of any kind from the United States to Iran, so long as the Iranian government continues to prolong the war with Iraq and support terrorism. Nor will we condone arms shipments to Iran by other countries. Furthermore, the President has terminated the Finding which permitted our single limited exception to our policy of staunching the flow of arms to Iran.

o My message to the American people and to our allies and friends is a simple one: whatever tactical errors may have been made along the way, the time has come to look ahead to the important strategic goals that we all share.

~~in the middle East~~

o We seek a quick and honorable end to the Iran-Iraq War. We simply will not tolerate state support for terrorism, whatever its source, nor will we make concessions to kidnappers. My heart goes out to the families of our remaining hostages in Lebanon, and we will continue to do all we can within the bounds of our terrorism policy to bring them home safely.

o We remain ready to build a better relationship with Iran. We accept the Iranian revolution as fact; there is no good reason why we cannot have a normal and mutually beneficial relationship in the future. The doors remain open.

- immediately
- o The President has instructed _____ to travel to a number of countries in Europe, the Middle East, and South Asia to discuss ways in which we and our friends can work together towards our common strategic goals. We will also be consulting with many of our other friends ~~monthly~~ days ahead.
 - o We are determined to move actively to repair whatever damage may have been done in recent weeks to our credibility and our policies. The stakes are simply too important and our relationships with our friends around the world are ^{simply} too vital to permit continued drift.
 - o Foreign policy is not an easy business. It

~~SECRET~~
 ادارة التحليل لشؤون الشرق الاوسط وجنوب آسيا
 המחלקה לענייני המזרח התיכון ודרום אסיה
 اداره تجزيه و تحليل خاور ميانه و جنوب آسيا
 Office of Near Eastern and South Asian Analysis
 Directorate of Intelligence

30 June 1988

NOTE TO: *Bob* The Honorable Robert B. Oakley
 Special Assistant to the President
 for National Security Affairs

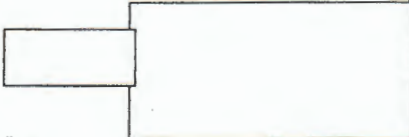
SUBJECT: Iran: Worsening Economic Outlook

The attached paper addresses several questions you have raised about the Iranian economic performance and the impact of Iraqi air strikes against economic targets.



Attachment:
 NESA M 88-20066

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 NLS F97-107 #90
 By 105, NARA, Date 9/21/07

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[Redacted]

(b) (1)
(b) (3)

Central Intelligence Agency

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NLS F97-107 #91

By NT, NARA, Date 9/21/07



Washington, D. C. 20505

DIRECTORATE OF INTELLIGENCE

30 June 1988

Iran: Worsening Economic Outlook [Redacted]

Summary

Iran is facing increased financial pressures as the war with Iraq drags on and the oil market remains soft. The economy is unlikely to improve during the remainder of the 1980s, and Tehran will have to continue using stopgap measures such as delaying import payments, trimming civilian imports, and further increasing the use of countertrade to cover war expenditures. Tehran will aggressively market its oil, but a soft oil market and Arab Gulf states' opposition to Iran's demands for higher oil prices will constrain oil revenues. Although the impact of recent Iraqi attacks against economic targets has been limited by the redundancy in Iranian export capacity and the ability of Iranian technicians to repair damage, Tehran's economic outlook would be worsened if Iraq renewed attacks against Iranian economic targets. Prolonged attacks could combine with economic stress and further military defeats to erode already flagging popular support for the war, possibly encouraging Tehran to more seriously explore ways of ending the conflict. [Redacted]

* * * * *

[Redacted]

NESA M 88-20066

[Redacted]

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[Redacted]

Iran's Gloomy Financial Picture

Iran's financial strains, caused by the soft oil market and the economic drain of the war, are unlikely to ease during the next two years.

[redacted]

Tehran's price discounting and more aggressive marketing tactics have barely increased oil exports since the start of the year, and Iran is still having difficulty finding customers. Iranian net exports averaged 1.6 million b/d in April--the most recent month for which data are available--about equal to March levels, according to our estimates.

[redacted]

Iran's reluctance to use its dwindling foreign asset cushion or to borrow in the international financial markets limits its foreign financing options. Iran's foreign exchange reserves, which peaked at \$19 billion in 1980, are now estimated at \$5.5 billion, sufficient to cover about six months of imports. Although Tehran has avoided long-term foreign loans, its obligations from short- and medium-term trade credits now total about \$5.5 billion. In a possible reflection of its troubled foreign finances, Iran recently joined the Islamic Development Bank, establishing access to an Islamic creditor that Tehran would find more acceptable than Western lenders.

Tehran has used stopgap measures to deal with its economic problems, allowing it to avoid military spending cuts. The government has reduced hard currency allocations for civilian imports in past years.

[redacted] Increasing financial pressures also have prompted the government to expand the use of countertrade, delay import payments where this does not risk its credit rating, and seek trade credits of up to two years.

Iran and the Oil Market

Iranian attempts to prop up oil prices through production cuts have been blunted by the Arab Gulf states, primarily Saudi Arabia and Kuwait, which are concerned about the potential effect of production cuts on their

own oil revenues. Both Riyadh and Kuwait prefer that prices remain near current levels for the next year or two to maintain market stability and preserve a long-term market for their oil. The Gulf states also recognize that their oil policies hurt Iran. Most Gulf states probably welcome this result, even though they generally seek to minimize confrontation with Tehran. [REDACTED]

Iranian hopes for higher oil prices were once again frustrated at the June OPEC meeting. Although OPEC production is currently over 1 million b/d above the 18.6 million b/d ceiling, cartel members were split on whether to adjust production for the rest of the year. They decided instead to roll over the existing production agreement, leaving little prospect for a significant increase in oil prices this year. Under these conditions, Iran will have difficulty boosting oil revenues--increasing its output would put further downward pressure on prices and unilateral production cuts would be ineffective in supporting prices. [REDACTED]

Effect of 1988 Iraqi Attacks on Iranian Economic Targets

Iraqi attacks against Iranian economic targets have damaged refineries and power stations, but have not caused disruptions severe enough to significantly affect Iran's economic operations. Tehran has built up the redundancy in its energy network and has improved its ability to make repairs--if only makeshift--to damaged facilities. Nonetheless, Iraqi attacks have inconvenienced Iranians and have added to its war costs. [REDACTED]

Export Terminals. The main crude oil export terminal at Khark Island--through which all Iranian exports flow--has been spared from attacks in 1988 and maintains a capacity of about 4.5 million b/d. Iraqi military strikes in previous years reduced Khark's export capacity from a pre-war high of about 9 million b/d to a low of less than one million b/d at one point in 1986. Tehran has always been able to restore sufficient capacity quickly enough to limit the effect on oil earnings. Facilities at Khark show the scars of previous bombings, but capacity remains at more than double current oil exports. [REDACTED]

Iran's only other recently active export terminal--a minor one at Sirri Island--was closed by the 18 April US Naval operation against Sirri's offshore gas oil separation platform. The Sirri export terminal was operating at about 30,000 b/d--2 percent of Iranian exports--at the time of the US attack, and the loss of this export capability has not affected overall exports because of excess capacity at Khark Island. [REDACTED]

Iran also maintains the unused capability to export about 2 million b/d at a floating terminal installed off the coast of Ganaveh. This installation consists of four single-point mooring buoys--located about 16 km offshore--as well as four oil tanks and a metering station onshore and was completed in 1987 as a backup to Khark. The Ganaveh terminal has been tested but is not used to support current exports. [REDACTED]

~~SECRET~~ [REDACTED]

Production. Iran's onshore production facilities maintain the capability to produce crude at rates somewhat above current levels of 2.2 - 2.5 million b/d. Iraqi attacks in 1988 have done little to damage surface production facilities in Iran, although past damage has reduced the capacity of these facilities by about 20 percent. Lack of oil well maintenance and poor reservoir management, however, have reduced Iran's production capacity from about 6 million b/d under the Shah to just over 3 million b/d currently. Offshore production has ceased since the destruction of platforms at Rostam, Sassan, and Sirri. [REDACTED]

Refineries. All of Iran's major refineries have been damaged by Iraqi air attacks in 1988, and refining capability has been reduced at times to less than 300,000 b/d, at least 350,000 b/d below domestic requirements. [REDACTED]

Outlook

Iran probably will muddle through its economic problems during the next two years much as it has in the past, but options for dealing with its financial crunch are narrowing. A rebound in the oil market or new sources of revenue are unlikely. The government probably will continue to contain spending through stopgap measures including:

- paring civilian imports;
- seeking payment delays on foreign purchases;
- pressing foreign civilian and military suppliers to accept oil as payment;
- increasing foreign exchange controls; and
- resuming gold swaps to obtain short-term hard currency loans.

~~SECRET~~ [REDACTED]

~~SECRET~~ [REDACTED]

The financial relief provided by these measures is becoming increasingly less effective, however, as Tehran's economic problems intensify, and implementing further austerity would risk heightening domestic discontent.

[REDACTED]

Iran's ability to deal with the economic challenges facing it could worsen significantly if Iraq resumes attacks against Iranian economic targets for a prolonged period. Although the impact of the attacks would vary with the type of facility damaged, all of Iran's petroleum facilities are vulnerable to Iraqi air attacks. The long-term loss of Iran's two largest refineries at Tehran and Esfahan, for example, probably would create severe shortages of petroleum products. These shortages almost certainly would result in unpopular cuts in the civilian economy, but probably would not seriously affect the war effort because military needs could be met through refined product imports. If the main petroleum product import terminal at Emam Hassan--from which about 40 percent of Iran's product imports are shuttled--were also destroyed, the resulting shortages of refined products probably would bring Iranian industry to a virtual standstill and strain Iran's ability to support the war effort, at least until alternative import arrangements could be made.

[REDACTED]

The intense economic pressures facing Tehran and further military setbacks will intensify popular opposition to the war. A prolonged renewal of missile or air strikes against Iranian cities or economic targets would further strain Tehran's financial resources and could weaken already flagging public morale sufficiently to spark renewed large-scale protests against the regime. As its options for dealing with these considerable challenges diminish, Iranian leaders may be forced to more seriously explore ways of ending the war.

[REDACTED]

~~SECRET~~ [REDACTED]

~~SECRET~~

Iran 5375



Office of the Attorney General
Washington, D. C. 20530

21 July 1988

Burns

The Honorable George P. Shultz
Secretary of State
U.S. Department of State
2201 C Street, N.W.
Washington, D.C. 20520

Dear George:

In my letter to you of January 20, 1988, I urged that you take steps to halt the entry into the United States of nonimmigrant Iranian students, because of the terrorist threat that is posed by many of these aliens. In accordance with your reply of February 17, 1988, there have been several meetings between officials of the Department of State, the FBI, and the Department of Justice to discuss issues pertaining to the problems posed by the continued admission of aliens who present potential terrorist threats. The focus of these discussions has been on aliens from both Iran and Libya, and the FBI has outlined in considerable detail its very substantial reasons for believing that a genuine terrorist threat exists from these groups.

During those meetings, Department of State officials raised important concerns respecting the scope of any Presidential Proclamation to suspend the continued entry of aliens of these nationalities, such as the problem of inadvertently causing the separation of the families of United States citizens and lawful resident aliens. Because of such concerns, we have prepared new draft proclamations respecting both Iranian and Libyan nationals which except from their suspension of entry provisions the spouses and minor unmarried children of United States citizens and aliens lawfully admitted for permanent residence. The revised draft proclamations are attached for your consideration.

Recent developments have increased the tensions between the United States and Iran, and add to the threat of terrorist actions being taken against the United States in the near future. Just yesterday, moreover, a number of Libyan nationals were

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NLRR 197-107/1 #92

BY GN NARA DATE 9/4/07

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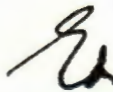
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The Honorable George P. Shultz

arrested in connection with a potential assassination plot against United States officials. I believe that these recent events underscore the urgency of the situation, and make it vitally important that we take immediate measures to reduce the threat of terrorist acts. One such measure is to halt the flow into the United States of those aliens most likely to commit and to provide logistical support for terrorist activities. That is precisely the intent of the Presidential Proclamations we have prepared. Effective implementation of these proclamations would begin the important process of reducing the terrorist threat in the United States, and would increase the difficulty that terrorists would face in carrying out actions within our borders.

I urge you to join me in a recommendation to the President that he sign these proclamations immediately.

Sincerely,



EDWIN MEESE III
Attorney General

cc: The President

- 2 -

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A PROCLAMATION

SUSPENSION OF ENTRY OF IRANIAN NATIONALS

In light of the current state of relations between the United States and Iran, and the immediate concern over the targeting of United States citizens and property by foreign terrorists, I have determined that it is in the interest of the United States to suspend, with certain specific exceptions, the entry into the United States of Iranian nationals.

NOW, THEREFORE, I, RONALD REAGAN, by the authority vested in me as President by the Constitution and laws of the United States of America, including sections 212(f) and 215 of the Immigration and Nationality Act of 1952, as amended, 8 U.S.C. 1182(f) and 1185, having found that the entry of Iranian nationals would be detrimental to the interests of the United States, do proclaim that:

Section 1. The entry of Iranian nationals, other than the spouses and minor unmarried children of United States citizens and aliens lawfully admitted for permanent residence, is hereby suspended.

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NLRR 897-107/1 #93
BY AV NARA DATE 9/4/07

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Section 2. The Attorney General shall, in consultation with the Secretary of State, take whatever steps are necessary to enforce this proclamation.

Section 3. This proclamation is effective immediately.

Section 4. After consultation with the Director of the Central Intelligence Agency, the Secretary of State may issue visas to, and the Attorney General may permit the entry of individual Iranian nationals if, in their judgment, to do so would be in the national interest.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____, in the year of our Lord nineteen hundred and eighty-eight, and of the Independence of the United States of America the two hundred and twelfth.

RONALD REAGAN

~~SECRET~~

PI 7/25

Iran

U.S. policy helped push the ayatollah to 'poison'

Ayatollah Ruhollah Khomeini's decision to drink the "poison" of peace with Iraq had more to do with Iraqi military victories than America's policy in the Persian Gulf. But the additional military pressure that the Western armada placed on Iran played a key role in pressuring Iran to recognize reality.

When the United States decided in early 1987 to reflag 11 Kuwaiti tankers, the given reasons were to pre-empt Kuwait from inviting the Soviets to do the same job and to protect the free flow of oil in the gulf. But the main reason was to reassure America's Arab allies along the gulf, made nervous by the Iran-contra affair and by Iran's military success, that Washington would not stand by and watch a militant Iran impose hegemony.

Critics, fueled by confusion in the policy's early days, and unnerved by episodes like the Iraqi missile attack on the USS Stark, charged that the gulf policy was a headless monster. They said it had no clear goal, but they were mistaken.

There was a goal — to stabilize the Arab gulf until a way could be found to end the Iran-Iraq war. If American policy seemed to tilt toward Iraq, there was a reason: It was Iran that consistently refused to end the war, while Iraq had agreed to sign onto a United Nations cease-fire.

What the critics also failed to see — and "multilateralist" Michael S. Dukakis would do well to note — was that a multinational approach to policing the gulf couldn't work so long as Iran still wanted to fight. So long as Iran and Iraq were still shooting at each other, sending an unarmed United Nations force into the gulf would have been a joke. As for bringing in the Western Europeans, most were initially reluc-

tant to support the U.S. initiative, and came around only after Iran foolishly began mining gulf waters.

What the administration realized, after a few false starts, was that the war could only end when Ayatollah Khomeini decided his holy war was too costly. Washington, chastened by its bitter experience in the Iran-contra affair, rightly recognized that no U.S. meddling in internal Iranian politics could affect Iran's decision. While waiting things out, the administration repeatedly stressed, at the United Nations and elsewhere, that it did not seek an Iraqi victory, that an end to the fighting was its goal.

Meanwhile, Washington's policy galvanized the Arabs, who were at their lowest point. After the bitter winter of 1986-87, when Iran seemed poised to claw off a hunk of southern Iraq near Basra, the American move spurred the gulf Arabs to take a stronger, more united stand behind Iraq. Saudi Arabia broke off relations with Tehran. The gulf states for the first time allowed American ships to call. Washington also made clear it would not cut and run when its ships were attacked. When the Iranian navy foolishly attacked the American armada, half its ships were wiped out. And with morale restored, Iraq finally began to fight in an aggressive and effective fashion.

Now that a cease-fire is within grasp, the United Nations can move into the forefront. When the shooting stops, a U.N. observer force can insert itself between the two sides on land, and most of the U.S. armada in the Persian Gulf can leave.

The lesson of the U.S. gulf experience is that a superpower can still affect events in a vital area if it plays a firm and consistent role. And if it has the nerve to lead.

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JMC

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U.S. Department of Justice

Joan

Civil Division

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BUREAU OF CONSULAR AFFAIRS
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DATE 7/27/88

Office of the Assistant Attorney General

Washington, D.C. 20530

Honorable Joan M. Clark
Assistant Secretary for Consular Affairs
U.S. Department of State
2201 C Street, N.W.
Washington, D.C. 20520

Dear Joan:

Thank you for your letter of July 22, 1988, commenting on the Attorney General's proposal for a Presidential proclamation to bar the admission of certain Iranians and Libyans.

As I am sure you are now aware, the Attorney General modified his original proposal in a letter to Secretary Shultz dated July 21, 1988. The modifications were made in part to address concerns raised by you and your staff in our meeting on July 8, 1988. As a result, a number of the concerns expressed in your letter have already been addressed. Specifically, the proposal does not include any alternative language for excluding only certain religious sect members. This was never our preferred proposal. In addition, we have already modified the description of affected aliens to exclude immediate family members of U.S. citizens and lawful permanent residents.

Our starting point in drafting the resolution was the Haitian proclamation rather than the Cuban proclamations referred to in your letter. The legal sufficiency of the proposed proclamation has been approved by the Justice Department's Office of Legal Counsel. Having again reviewed the Cuban proclamations, it appears to us that the only change necessary to meet your suggestion is to make a specific exception for each country's representatives to the United Nations. It is not clear to us if either country needs additional exceptions to deal with an interest section in the United States. Please advise us of the exact language you would like included to cover diplomatic necessities if you do not believe the Secretary's general power to make exceptions is sufficient.

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- 2 -

The Attorney General will be responding directly to the Secretary of State concerning the factual premise for the proposed action.

Sincerely,



John R. Bolton
Assistant Attorney General

~~SECRET~~

8/15

Bill -

Here's our draft
response to Meese's most
recent (Aug 8) letter on
suspending visa issuance
for Libyans + Iranians.

Any thoughts?

Shawn Wiener

John

Dear Ed: Richard?

Thank you for your letter of August 8, 1988, in which you forwarded additional information relating to your proposal to suspend the issuance of visas to Iranians and Libyans. We at State have given your proposal very serious and deliberate consideration, and I would like to share with you the Department's thoughts on this important issue.

As Secretary Shultz mentioned in his recent letter to you, your proposal to ban the entry of Iranians and Libyans has significant foreign policy implications which cannot be overlooked. A suspension of visas to Iranians, for example, could have serious repercussions on our policy favoring a settlement of the Iran-Iraq war, currently at a particularly sensitive stage, and on our efforts to secure the release of U.S. hostages. Also, given our goal of eventually improving our bilateral relationship with Iran, we have carefully avoided taking restrictive measures against the Iranian people as such. The proposed visa suspension, however, would strike directly at the important segment of the Iranian population which looks to the U.S. for their children's education. If adopted, this proposal would create an emotional reaction against the U.S., play directly into the hands of Khomeini's propaganda efforts which portray the U.S. as the chief enemy of the Iranian people, and impose another artificial barrier between the two countries which we would have great difficulty removing later.

In the case of Libya, while we have taken diplomatic economic and military measures against the Qadhafi regime, we have consistently maintained that we ^{have} ~~that~~ have no dispute with the Libyan people. The issuance of visas to Libyans, mostly students and relatives of U.S. citizens and residents, is the one concrete manifestation of our conscious policy of differentiating between the Libyan people and the Qadhafi regime. Denying access to the U.S. to that element of the Libyan population with pro-U.S. sentiments and U.S. ties would not only assist Qadhafi in his efforts to portray the U.S. as anti-Arab and anti-Libyan, but would deny exposure to the U.S. to the future generation of Libyans. Both would hurt U.S. interests in Libya in the post-Qadhafi period.

In addition to these concerns about the impact of a visa suspension on our overall foreign policy goals with regard to Iran and Libya,

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Finally, since such a proclamation would become public, I believe we must consider the public relations ramifications for this administration of adopting a policy which could be perceived by certain U.S. interest groups as being discriminatory in nature against Middle-Easterners or Arabs.

The State Department remains extremely sensitive to any threat of terrorism here or abroad. I have therefore reviewed with considerable care the information relating to the threat of terrorism in the U.S. by Libyan and Iranian nationals here which was made available by the FBI and conveyed in your August 8 letter. While there is no question that the past activities of the Peoples Committee for Libyan Students and the Anjoman Islamie are disturbing, it is not clear there is concrete evidence of a current terrorist threat in the U.S. The recent charges against the PCLS, for example, were related to diversion of funds, not to terrorism.

I would also note that a suspension of visa issuance would have no impact on the large number of Libyans and Iranians who are already here, a small minority of whom maintain links with their regimes which are reason for our concern. Nor would banning issuance of visas to Libyans and Iranians assure that either of those regimes would not send agents of another nationality into this country. Indeed, on a world-wide basis, Libya may be turning to non-Libyan surrogates such as Palestinians, Haitians, and others, to conduct terrorist activities. The principal malefactor in the current PCLS case, in fact, was not a Libyan, but a naturalized U.S. citizen, originally from Jordan.

In the State Department's view, therefore, a broad suspension of visa issuance to Iranians and Libyans would not significantly reduce any potential threat of Libyan or Iranian sponsored terrorism in the United States. On the other hand, the negative impact on our important foreign policy goals, which I outlined above, would in our view be unacceptable.

Therefore, I would like to suggest that, on an inter-agency basis, the administration work to develop alternative measures which could help eliminate the potential threat posed by some Libyans and Iranians who are already here and to further diminish any chances that visas would be issued to Libyans or Iranians who might pose a terrorist threat. The PCLS case demonstrates the FBI's skill and success in tracking illegal activities in this country on behalf of the Libyan regime. We could perhaps focus our resources on efforts to deport Iranians and Libyans here who are acting illegally as agents for their regimes. We may also want to consider, at least in the case of Libya, a suspension of visa issuance to Libyans who are officials of or in the employ of the regime. Such action would more directly and effectively address the problem, without imposing unjustifiably high costs in terms of other U.S. national interests.

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Thank you for your consideration of this matter. I shall look forward to hearing your further thoughts on this issue.

Drafted: NED/APD - S. A. W. ene

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The Director of Central Intelligence
Washington, D.C. 20505

raw

National Intelligence Council

(b) (3)

NIC# 02926/88
19 August 1988

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

VIA: Chairman, National Intelligence
Council

FROM: [redacted]
Assistant National Intelligence Officer
for Near East and South Asia

SUBJECT: Iran: Still the Big Prize?

1. Iran's ceasefire with Iraq has sparked a flurry of commentary on the urgent need for the United States to improve relations with Tehran. Most experts stress that Iran is the "big prize" in the region. Yet much has happened in the Gulf and Iran during the last eight years of war. I believe that significant changes in the political, economic, and military situation have considerably weakened Iran's strategic value to the United States. While realizing that Iran will remain a key country in the region, I believe the evidence suggests that, at least in the short term, Iran will not be as great a prize for the US as it once was.

2. Iran's value as the strategic prize for the United States is usually based on three arguments:

"Iranian oil is vital to the US and its allies."

3. Destruction from the war, declining recoverable oil reserves, and the world oil glut all have made Iranian oil much less vital to the US and the world. Lack of money for exploration and neglect of existing fields have reduced Iranian oil production to under 2 million barrels a day (mbd)--less than 11 percent of world oil production. In contrast, Iran produced over 6 mbd or over 18 percent of the world's oil in 1978. Preliminary estimates indicate that even with reconstruction efforts, Iran will not reach 3 mbd until 1995 or later. Moreover, Iranian production is likely to decline slightly over the next few years before reconstruction begins to reverse the downward trend.

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4. While Iran's exports have declined, Saudi Arabia, Kuwait, and especially Iraq have maintained or expanded their oil export capabilities. Their excess capacity could easily make-up for even a total cut-off of Iranian production without raising world oil prices much. The ability of these countries to export oil at lower prices than Iran indicates Tehran also will lose some of its market share and suffer a decline in oil export revenues.

5. The decline in oil revenues will reduce Tehran's internal political stability, economic, and military power and thus its threat to US interests and allies in the region. Reequipping the military or aiding other groups or countries will face stiff competition from demands to rebuild Iran's long neglected domestic economy. All of Iran's economic infrastructure--especially its electric power and transportation network--has severely deteriorated. Past policy conflicts within the regime suggest allocating resources to the military or domestic economy will cause significant infighting among Iranian leaders. Such infighting or ideological conflicts probably will lead to the ineffective use of resources and hinder economic recovery.

"The Soviet Union could use political, economic, or military means to gain influence in postwar Iran."

6. The nature of the fundamentalist regime in Iran and its experiences in the war suggest that Soviets will not significantly increase their influence in Iran. Tehran's criticism of Moscow's support for Iraq and the failure of the recent Soviet diplomatic mission to Tehran follow the trend of cool relations and foreshadow no rapid postwar improvement. Soviet material support of Iraq and subversion in Iran shortly after the revolution will reinforce Iran's suspicions of Moscow's efforts to improve relations. Moscow's persecution of Soviet Moslems will continue to anger fundamentalist clerics in Tehran. Soviet efforts to improve diplomatic, economic, and military ties with the Gulf States--an area Iran sees as its sphere of influence--may further increase Tehran's suspicions.

7. For its part, Iran is likely to increase its economic ties to the Soviets, especially for reconstruction aid. Tehran, however, probably would limit the Soviet presence and resist Moscow's efforts to use such aid to press for concessions from Iran.

8. In addition to economic ties, postwar Iran is likely to acquire some arms from the Soviets. Tehran will view the Soviets' continued extensive arms sales to Iraq as strong reason to suspect Soviet reliability in the event of another Iran/Iraq war. To avoid becoming dependent on the Soviets, Iran will diversify its arms suppliers by acquiring weapons from China, North Korea, and Western Europe. As with economic aid, Tehran will acquire Soviet arms without concessions to Moscow.

9. Tehran is unlikely to face the threat of direct Soviet military pressure or invasion in the near term. Although still harboring traditional Russian/Soviet desire for Iranian territory, the Soviet failure in Afghanistan probably has weakened Moscow's willingness for new military adventures. Moreover, threatening Iran would undermine

relations with the US and Gorbachev's efforts to convince Middle East and Third World countries of Moscow's peaceful intentions. Forgoing military options would not stop the Soviets from using political parties and subversion to try to influence developments in Iran. The clerical regime's suppression of the Soviet backed Tudeh Party and internal subversion during the war show, however, that the Iranians can deal effectively with such threats.

"Iran can threaten or control vital oil transportation routes from the Persian Gulf."

10. Tehran's efforts to attack shipping and interdict sea-lanes during the war turned into a political and military disaster for Iran. Iranian leaders are likely to realize that this policy --which eventually brought international attention and US forces to the Gulf--contributed to Iran's defeat. Ship attacks, for example, failed to deter Iraqi attacks on Iranian tankers. Instead of cowing the Gulf States, the attacks caused the Gulf countries to maintain support for Iraq and ask the US for help. The attacks severely strained relations with Kuwait and in part led Saudi Arabia to break ties with Tehran. Future threats to shipping would only undermine Iran's current efforts to mend relations with the Gulf states.

11. More importantly, Tehran probably realizes that threats to shipping would refocus international attention on the Persian Gulf. Such threats, in turn, might lead to the return or increase of Western--especially US--military forces there. Indeed, the continued presence of even few US warships in the Gulf and the possibility of an increase will help deter Tehran from threatening shipping.

12. Iran's poor military capabilities further undermine its weakened ability to threaten Gulf sea-lanes. Although Iran probably will make great efforts to rebuild its naval capabilities, it is unlikely to improve much in the near term. The few remaining Iranian warships are obsolete or largely ineffective because of a lack of maintenance, supplies, and weapons. Iran probably has less than ten old, poorly armed combat aircraft that it might devote to Persian Gulf operations. Although Tehran has contracts with China and North Korean to buy new weapons, Iran will need years to fully and effectively integrate this equipment.

13. In the short term, Iran could resume harassing ships with small boat attacks, but such raids are unlikely to seriously damage or sink large vessels. Threats of mining and Silkworm missile attacks might temporarily reduce shipping. Escort operations in 1987 neutralized such threats, however, and, as Tehran well knows, led to events that left Iran humiliated and defeated in the Gulf.

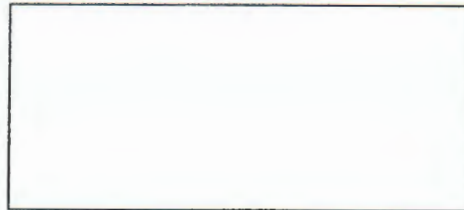
Costs for the United States

14. In the near term, Iran is unlikely to respond favorably to US overtures for better relations. Iran's leaders probably understand that even the appearance of better ties with the US could threaten their control by making the regime vulnerable to criticism from anti-US radicals. Indeed, many of Iran's important clerics, politicians, and

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military leaders remain very hostile toward the United States because of its ties to the Shah and apparent support for Iraq in the war. To offset these negative factors, Tehran probably would demand an extremely high price from the United States for improved relations.

15. The high domestic and international cost of improved relations would further reduce the value of Iran to the US. Even if full diplomatic ties were restored, the US would have nowhere near the influence it had in Iran under the Shah. Lack of gain for our efforts would lead to domestic criticism and international cynicism that we had made one-sided concessions to Iran--a country that backed terrorism and the kidnapping of US citizens. US relations with countries in the Middle East also would be damaged. Relations with Iraq would deteriorate quickly as Baghdad--remembering the Iran-Contra affair--would suspect that the United States was again favoring Iraq's arch-enemy. The Arab Gulf States, especially Kuwait and Saudi Arabia, might begin to question US security guarantees and fear that the US was sacrificing them to regain a position in Tehran.



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SUBJECT: Iran: Still the Big Prize?

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FROM: Larry Pope NEA/NGA 7-5692 5515
(Officer name) (Office symbol) (Extension) (Room number)

MESSAGE DESCRIPTION Iranian Internal Developments

TO: (Agency)	DELIVER TO:	Extension	Room No.
NSC	Bill Burns	395-5194	351

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Department of State Guidelines, July 21, 1997
By dlb NARA, Date 8/13/95



United States Department of State

Washington, D.C. 20520

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September 6, 1988

TO: NEA - Ambassador Murphy
THROUGH: NEA - Ambassador Hare
FROM: NEA/NGA - Laurence Pope 4
SUBJECT: Iranian Internal Developments--Musavi's Resignation

We thought you might be interested in an analysis of the latest turn of events in Tehran.

When Prime Minister Musavi resigned September 5, he claimed that he did so in the belief that eight of the members of his new cabinet--whom he did not name--would be rejected by the Majlis. Musavi had earlier sought exemption from having to present his cabinet for a vote of confidence but was overruled by the Council of Guardians, and the Majlis was scheduled to discuss the cabinet September 6.

Specifically mentioning Foreign Minister Velayati in his resignation statement, Musavi said that the present cabinet would serve until the selection of a new government. However, President Khamenei refused September 6 to accept Musavi's resignation. Khomeini harshly criticized Musavi's action as well, complaining that he had not consulted with higher-ranking leaders before announcing his decision.

The exact motive for Musavi's unexpected resignation is unclear. The circumstances suggest, however, that another confrontation is building between the "pragmatics" of Rafsanjani's camp and the "radicals" who have taken a hard line on the Geneva talks and oppose diplomatic maneuvers to improve Iran's relations with the West, particularly the United States.

Musavi may have been acting on instructions from Rafsanjani to postpone Majlis debate on the cabinet. Although Musavi himself enjoys broad support in the Majlis, a number of his cabinet ministers, including Velayati, have come under attack from Interior Minister Mohtashami, one of the leading radicals.

Mohtashami would likely use the debate to criticize Velayati and other cabinet members who advocate diplomacy to end the war. The debate could also focus on sensitive topics

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such as the Geneva talks and Iran's negotiating strategy there, particularly whether concessions to Iraq are possible. Moptashami could count on the backing of a large bloc of Majlis radicals elected in April 1988.

By postponing such a confrontation, Musavi may also hope to hold off debate on a plan to combine the Revolutionary Guards and the Army under one ministry while Rafsanjani prepares the political ground for such a move.

Musavi will probably try to keep the status of his cabinet suspended as long as possible; he may be awaiting some tangible gains from the Geneva talks--such as implementation of the first clause of 598--before moving to resolve the situation.

A struggle between the radicals and Rafsanjani's group could make it more difficult for the pragmatic camp to arrange the release of a US hostage in Beirut. It may also account for the hardening of the Iranian line in Geneva in recent days (hardline mullahs are keeping a close eye on Velayati).

cc: P:AEastham
NEA:APBurleigh
NSC:BBurns

Drafted:NEA/NGA:CWDunne
9/6/88 #1056N
Cleared:INR/NESA:SCFairbanks

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I N R

United States Department of State
Bureau of Intelligence and Research

Mr. Burns
NSC
The White House

INR Estimate:
Iran After the War
September 1988



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BY LOJ, NARA, DATE 4/7/06

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Cover Photo: Iranian women walk through Behesht-e Zahra, Tehran's cemetery for martyrs of the revolution and the war with Iraq. Photos of the fallen are borne on masts above the flat tombstones. (Photo is OFFICIAL USE ONLY.)

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Iran After the War

Scope *This INR Estimate looks at the political, economic, and military challenges Iran faces in the aftermath of its eight-year war with Iraq; it assumes that the cease-fire holds and the two sides continue to work toward a formal settlement. In view of Ayatollah Khomeini's advanced age and multiple health problems, the estimate in particular assesses Iran's prospects for stability following his death.*

- Key Judgments**
1. Iran as a "revolutionary Islamic Republic" is here to stay, even after Khomeini. Such exile groups as the Mojahedin-e Khalq and the pro-Shah factions have no chance of influencing events.
 2. Nonetheless, the exact shape of the regime is still to be molded. The war delayed some of the natural development of the revolution. One central undecided issue still under contention is the extent to which a centralized and socialist economy should be imposed.
 3. Majlis Speaker Rafsanjani takes a pragmatic approach on the issue of economic structure, trying to please the prosocialist majority in the Majlis without offending the bazaari class. Despite his association with an unsuccessful war and his many opponents, and barring assassination or natural death, Rafsanjani is likely to continue to dominate the political scene for the scope of this estimate.
 4. A key test of Rafsanjani's influence will come in the 1989 election for President (Khamenei cannot succeed himself) and the new President's selection of a Prime Minister (probably not the incumbent Musavi). No obvious candidates have emerged, although Khomeini's son Ahmad could be put forward for either post, particularly if his father has died.
 5. The religious nature of the government will diminish with the passing of Khomeini, in part because no grand ayatollah with his influence exists. Ayatollah Montazeri will provide some religious legitimacy to the regime.
 6. Export of revolution and fundamentalist Islam has greatly diminished as an interest of the regime. The current and probable future foreign policy

direction is to broaden contacts with the West. The regime may justify improving relations with the US by pointing to the drawdown in US forces and the change in US administrations.

7. Tehran will keep its distance from Moscow, although there may be some expansion of economic coopera-

tion. Such pro-Soviet factions as the Tudeh party will remain marginal.

8. Were Rafsanjani removed, many of these trends could be reversed. No strong political or military leader is standing by to succeed him. Instability and coups d'etat would be the probable result for the near to mid-term.

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Political Prospects

Near-Term Prospects

In its decade in power, the leadership coalition in Tehran, headed by Majlis Speaker Rafsanjani and legitimized by the religio-political authority of Ayatollah Khomeini, has institutionalized its control. Even the collapse of Iran's war effort and the decision to accept UN Security Council Resolution 598 have not undermined Rafsanjani's dominance.

An indication of the strength of this coalition was its apparent solidarity in determining positions for Iran's UN negotiating team in New York during the efforts to obtain a cease-fire in early-August 1988. The Majlis Speaker, Prime Minister, and President managed to lay aside personal, institutional, and ideological differences to back the UN efforts. In doing so, they also kept a tight rein on hardline critics within Iran.

Although this augurs well for a relatively smooth transition period after Khomeini's death, the present stability depends largely on the authority of Khomeini. His death appears near, and with it will come an era of increasing uncertainty for Iran.

Iran After Khomeini

Khomeini is now riddled with cancer and suffers from serious cardiovascular and kidney problems. But our information on his various ailments is inadequate to make a firm prediction of when he will die. Present thinking is in terms of months, not years.

Evolution Rather Than Sudden Changes. Iran will retain its present Islamic Republican form of government, as well as its current leaders, following Khomeini's death, although fissures and cracks long patched over by Khomeini himself may appear within a few months. Iranians are unwilling to experiment with an untried alternative despite the opposition of many to the present regime. The tumult of the revolutionary era has made them fearful of further change

and uncertainty. Trends suggest a gradual secularization of the government as the clerics play a decreasing role and as more technocrats enter the government, particularly to manage Iran's postwar reconstruction.

No Role for the Mojahedin... There appears to be little support within Iran for the Mojahedin-e Khalq, an exile organization now based in Iraq that calls for overthrowing the present order. The Iranian public perceives the Mojahedin as terrorists responsible for the assassinations of many top leaders of Iran in the early 1980s and fears their potential to foment disorder following Khomeini's death.

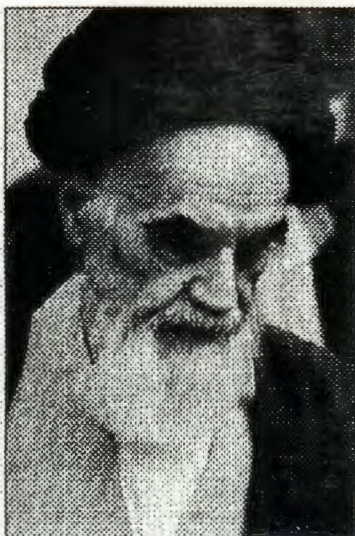
The Mojahedin are also seen as traitors for their armed invasions of Iran alongside Iraqi forces, especially in July 1988. The mauling of the Mojahedin "National Liberation Army" by Iranian Government forces in the first week of August weakens the group's potential, as does the probability that Iraq in complying with the terms of a peace settlement will have to restrain the Mojahedin from operating from Iraqi territory.

...Or for Other Exile Groups. A return to the Pahlavi monarchy, despite the nostalgia of many for the prerevolutionary days, has few advocates, in part because of the bloodshed such a development would bring. Monarchists abroad are hopelessly disunited, and the young shah shows little leadership potential.

Iran's outlawed communist Tudeh party and the Marxist Fedayan-i Khalq guerrilla group probably have little support. The Iranian regime appears unwilling to take any chances, however, and with an eye to the post-Khomeini period announced the executions of several Tudeh, Fedayan, and Mojahedin leaders in early August.

Replacing Khomeini

Irreplaceable. There is no suitable replacement for Khomeini as Iran's supreme religio-political leader. No one can match his charismatic authority or his stature as the founder of Iran's Islamic revolution, and no



Ayatollah Khomeini's charisma and stature as leader of the revolution has enabled him to balance Iran's disparate personal, institutional, and ideological factions. Now 87 and suffering from cancer and circulatory problems, Khomeini could die at any time. With no successor equalling him in stature, Iran's Islamic Republic will be severely tested by factional rifts as well as postwar challenges. (Photo is ~~OFFICIAL USE ONLY.~~)

one can inherit his popular aura as a ruler with divine authority.

In the Iranian theocracy (the "viceregency of the jurist," *velayat-e faqih*), Khomeini is the supreme Islamic jurist (*faqih*) who rules as viceregent until the 12th Shi'ite imam, now in occultation, one day establishes a millennial realm on earth. The jurist speaks with the authority of divine law to resolve contentious government issues.

Iran's Constitution provides that Khomeini's successor must be a *faqih* who is recognized and accepted by a majority of the people as the leader of the age. He must be a "source of emulation" (*marji'-ye taqlid*)—a grand ayatollah recognized as qualified to make original decisions on divine law. If no one such person is recognized, then a leadership council of three or five "sources of emulation" is to be chosen.

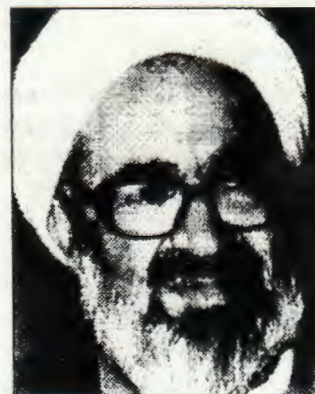
A leadership council to succeed Khomeini is not feasible because the half-dozen or so Shi'ite sources

of emulation oppose the present regime and even the present concept of theocratic government. Only Montazeri, who was named a grand ayatollah by the current government but is not recognized as such by other grand ayatollahs (and probably not by their followers), supports the concept of *velayat-e faqih*.

Montazeri, the "Deputy Leader." Montazeri is thus the only viable successor to Khomeini. He was so designated in November 1985 by the Assembly of Experts, a body of some 70 theologians assigned to select the leader. The choice was by no means unanimous, however, which probably reflects doubts over Montazeri's leadership and jurisprudential qualifications.

Although he has had no real government role so far, Montazeri appears a weak alternative to Khomeini. Lacking charisma and broad popular support, he is expected to be largely a figurehead, filling the role of *faqih* to give the regime its necessary theocratic legitimacy.

Ineffective...at Least for Now. On several occasions in the past year Montazeri publicly opposed the present government leaders but each time failed to change policy to his liking. While these episodes suggest his inability to oppose Iran's current leaders on key issues, they also indicate a tenacious refusal to be silenced. It is possible, therefore, that he could attract a variety of opponents of the present regime.



Grand Ayatollah Montazeri, Khomeini's designated successor, is expected to play more of a spiritual role to give theocratic legitimacy to a regime that will most likely be headed by Rafsanjani. (Photo is ~~OFFICIAL USE ONLY.~~)

He appears already to be attracting conservative clerics who oppose trends toward economic nationalization and socialization.

Montazeri is an essential symbol for the transfer of power after Khomeini, but once that transfer is effected and a stable government ensues, Montazeri's role will become increasingly symbolic. Eventually, the concept of *velayat-e faqih* could even be eliminated. Many in Iran's religious establishment oppose the concept on religious grounds as heretical, while others oppose it as a potential basis for autocracy.

Nonetheless, Montazeri's indispensability to the regime as a source of theocratic legitimacy, at least in the near term after Khomeini dies, could mean his views will carry weight with Rafsanjani, the expected power broker of post-Khomeini Iran.

The Expected Lineup

Rafsanjani In Charge. Hojjat ol-Eslam Ali Akbar Hashemi-Rafsanjani, Iran's most powerful political figure, is likely to remain the country's effective leader following Khomeini's death. As Speaker of the Majlis (parliament), he has the backing of most of Iran's lawmakers, and as Commander in Chief of the armed forces—a position formerly held by Khomeini—he would appear to have the necessary backing to assert his authority. Most of Iran's top leaders are loyal to him, either because of blood relationships or because they owe their positions and wealth to him.

Rafsanjani is a pragmatist and an opportunist rather than an Islamic revolutionary ideologue. Though he has his detractors, he has managed to keep the support of leaders of most factions and centers of power. He does this chiefly through his skill in achieving compromise between different groups on various issues, a talent exceeded only by Khomeini. Like Khomeini, he often manages to avoid strict identification with one side or another on contentious issues.

Rafsanjani has weathered several important storms over the past two years: the "Irangate" scandal, in which he was suspected of having made unauthorized contacts with the US; the military setbacks of June-July 1988, which took place while he was Commander in Chief; and the efforts to negotiate a war settlement according to UNSC Res. 598, which had



Parliament Speaker Ali Akbar Hashemi-Rafsanjani is the man most likely to lead Iran after Khomeini. A pragmatist, he depends on Khomeini's backing to achieve compromise among Iran's competing factions; his strength after Khomeini dies remains a question. He was the chief advocate of ending Iran's diplomatic isolation and of negotiating a settlement with Iraq. As armed forces Commander in Chief, he aims to slowly amalgamate the regular forces and the Revolutionary Guards—a process opposed by the Guards. (Photo is OFFICIAL USE ONLY.)

long been opposed by many of Iran's political and military leaders.

Rafsanjani would return Iran to a modernizing reform posture in some ways reminiscent of the Shah's. He would straddle the gap between the conservative faction that espouses free enterprise and the radicals who see need for some structural reform. In doing so, he would lead Iran toward reform in agriculture by modifying landholding patterns and would promote reconstruction in partnership with Iran's private sector and foreign firms. He would be likely to move to strengthen the bureaucracy and government organs at the expense of the clerics.

But Can He Last? Rafsanjani has numerous vulnerabilities. Like some of the other top leaders, he owes much of his power to his easy access to Khomeini, who has often supported him when he most needed it. For example, several Majlis deputies in

November 1986 demanded an inquiry into the secret contacts with the US; Khomeini stepped in and decreed there was to be no such debate. Rafsanjani's ability to stand on his own without Khomeini remains an open question.

Rafsanjani, the compromiser, has opponents in most of the major factions. Whether the issue is economic legislation, land reform, international diplomacy, confrontation with the US, war strategy, or domestic security, he is seen by some as going too far, and by others as not going far enough. He has personal enemies and will be open to charges of corruption.

Problems With the Guards. Rafsanjani is vulnerable also in his new position as Commander in Chief: His plans eventually to consolidate the Army and Islamic Revolutionary Guard Corps (IRGC) will have to be handled deftly, or he will alienate members of both groups. There were rumors in June and July of assassination attempts by IRGC commanders.



President Ali Khamenei, a champion of the commercial and conservative cleric interests, has become increasingly allied with his former rival Rafsanjani against the radical factions. When Khamenei's presidency expires in 1989, he will be constitutionally barred from seeking a third term. He likely will retain political influence as Tehran's Friday prayer leader. (Photo is OFFICIAL USE ONLY.)

Whether true or not, the rumors reflect Rafsanjani's problems with the Guards.

Some guards fear eventual subordination to the traditional armed forces, while others may be angry about the apparent decline of IRGC Commander Rezaei. Still others may be disgruntled loyal followers of Mehdi Hashemi, who was executed apparently at Rafsanjani's instigation for plotting against the government. Hashemi directed many of Iran's extremist "export of the revolution" activities.

The Triumvirate. *Rafsanjani* is chief among three key leaders, each with his own institutional power base, who will retain power following Khomeini's death (assuming he dies in 1988). The future of the other two is less certain than Rafsanjani's, however.

President *Khamenei*, who often represents the interests of the more conservative clerics as well as the traditional armed forces, is a former rival to Rafsanjani who now appears allied with him out of common opposition to the more radical politicians. He was humiliated when Khomeini publicly rebuked him in January 1988 for ascribing legal restrictions to the powers of the theocracy. His second term ends in 1989 and he cannot be elected to a third term, though he could remain an important government voice if he retains his other post as Tehran's Friday prayer leader. At present, there is no identifiable likely successor for him as President.

Prime Minister *Musavi* was given a vote of confidence by the Majlis in June 1988, and with a Majlis now more sympathetic to his statist economic policies he can expect to remain comfortably in office until next year. The new President, scheduled to be elected in summer 1989, however, is constitutionally required to select his own Prime Minister; Musavi, who in the past has said he would like to step down, likely will then be replaced. Foreign Minister Velayati, now a Rafsanjani ally, is one possibility for the premiership; that development would further Iran's moderating trend.

Khomeini's Son. Ahmad Khomeini has increasingly wielded power in setting policy behind the scenes. We believe he is behind Iran's efforts to end its diplomatic isolation and to negotiate a settlement to the war. Ahmad's control of access to his father has made him a key figure, but since he has no formal



Prime Minister Musavi is the most important of Iran's "radical" bloc. He advocates strong state controls over economic and social programs and has also been a hardliner on the war. Widely regarded as incompetent and often made a scapegoat for Iran's economic ills, Musavi will probably be replaced in 1989 after a new President is elected. (Photo is OFFICIAL USE ONLY.)

government position, he could lose all power when his father dies. However, Iran's dynastic heritage, Shi'ite veneration of the descendants of the early imams, and beliefs in the hereditary holiness of the leading clerical families mean that at least some of the popular reverence for Khomeini will transfer to his son. This could accord Ahmad an important role in post-Khomeini Iran.

Prospects for Stability

Preparing the Way. In the past two years, to prepare for Khomeini's death, Rafsanjani, Ahmad Khomeini, Musavi, and other key leaders took steps to ensure a smooth transition by limiting factionalism within the government. Many of their efforts were directed toward eliminating the institutional power bases of their conservative opponents—those who reject increasing state intervention in domestic economic and social affairs.

By disbanding the Islamic Republican Party in 1987 and carefully controlling Majlis election cam-

paing, they ensured that most conservatives would lose in their bids for Majlis seats. Decrees issued in Khomeini's name (perhaps penned by Ahmad) served to undermine the conservative Council of Guardians (which traditionally blocked Majlis economic legislation) and to broaden government powers by decreeing that government legislation was obligatory on religious grounds. These decrees, however, will lose force once Khomeini has left the scene.

Reemerging Opposition. Factional rivalries are, however, becoming blatant once again. The chief issues of contention are the longstanding dispute over the government's role in distribution of land and wealth, control of foreign trade, taxation, and other economic matters. The Musavi government believes a centralized economy is essential and that careful government management will be necessary for postwar reconstruction. Conservative clerics—perhaps fearing for their large landholdings and independent sources of wealth—are allied with the bazaar merchants in becoming more outspoken in blaming Iran's current economic straits on government mismanagement. The government, in retaliation, blames bazaar hoarding and corruption.

In September 1988 Khomeini and Rafsanjani, apparently recognizing the need to regain the support of the merchants and the conservative clerics, reversed some of Musavi's key economic policies by announcing that the private sector would be relied upon in postwar reconstruction plans. The government would not, as Musavi had wanted, control imports exclusively, nor would foreign companies be banned from reconstruction projects.

Disputed Diplomacy

Hardliners Versus Diplomats. Diplomats who hope to end Iran's isolation and to restore ties with Western nations, as well as to pursue negotiations at the UN on ending the war, are periodically denounced by hardliners, led by Interior Minister Mohtashami, who oppose such efforts as potentially diluting Iran's revolutionary vigor.

The diplomats have been clearly in the ascendancy, however, since spring 1988. The September 13 Majlis vote of confidence on the cabinet resulted in a resounding victory for Foreign Minister Velayati, in-

dicating that Rafsanjani, with Khomeini's backing, had so far succeeded in marshaling support for the diplomatic efforts. Mohtashami barely passed the threshold of required votes, suggesting the hardliners may be retreating from international affairs and concentrating on the postwar economic agenda.

Export of the Revolution

A casualty of Iran's diplomatic image polishing, and perhaps economic exigencies, is the active export of the revolution, a phrase the Iranian Government now defines only as the inspiration that Iran's Islamic revolution offers to other Muslim peoples. Plotting to arouse native Shi'ite populations to overthrow the Gulf state ruling families, as Iran attempted in Bahrain and Kuwait, is likely to remain a thing of the past. Iran's annual effort to politicize the pilgrimage ceremonies in Mecca, which culminated in the bloodshed of July 1987 and led to condemnation by much of the Muslim world, is also likely to be deemphasized.

Such activities now interfere with Iran's political goal of rapprochement with the Gulf states. There is also the need to husband scarce resources for reconstruction and for achieving domestic social revolutionary goals long postponed by the war.

Iran may also become less actively involved in Lebanon, once its greatest hope for achieving an Islamic revolution beyond its own borders. It already appears to be reducing its level of support for Hizballah and is likely to draw down its Revolutionary Guard presence there. A desire to retain the support of Syria, the principal player in Lebanon, is Iran's strongest motive for meddling less there.

Moving Toward the US... Normalization with the US, which Rafsanjani and his allies favor, remains highly controversial because of the persisting dogma that the US still wants to overturn the revolution. Those favoring improved relations are motivated by a desire to neutralize that perceived threat diplomatically, while the hardliners believe any such accommodation will eventually result in a restoration of the old order.

Even the basic first step of permitting an Iranian official to meet publicly with one from the US carries too much political risk for Rafsanjani to attempt. Unless such a step were clearly ordered in a public decree by Khomeini himself, a meeting with a US official would bring charges by hardliners that Rafsanjani was deserting the revolution.

Iranian public opinion must first be prepared carefully for the acceptance of ties with the US, and this is already gradually taking place. Deputy Foreign Minister Larjani, for example, stated in an interview in a Tehran daily in September that such ties could eventually be made if Iran saw "favorable signs" from the US.

Iranian leaders have often called for favorable signs that the Iranian public can accept as showing a lessening US "hostility" toward Iran. In specifying such steps they have repeatedly mentioned the return of frozen Iranian assets in the US and the lifting of US embargoes. The US condemnation of Iraq's use of chemical weapons has been received as such a sign.

Both the end of the war and the advent of a new US administration will strengthen Iranian advocates of resuming relations with the US. The decreasing US military presence in the Gulf following the cease-fire removes a primary impediment to improved ties. The prospect of a new administration, whether headed by Bush or Dukakis, enables Iranian leaders to tell their public that the slate can now be wiped clean: It was President Reagan, they will say, who was responsible for the troubled relationship.

Release of US hostages held by pro-Iranian groups in Lebanon will probably result from an improvement in ties: Rafsanjani and others in the Foreign Ministry have long regarded the hostages as an obstacle to Iran's objective of reversing its diplomatic isolation. Such releases depend, however, on the extent of influence Iran still has with the hostage holders: Relations with Hizballah have declined, for example, in the aftermath of Iran's war losses to Iraq. Iranian factional politics also play a crucial role here, as some leaders (Interior Minister Mohtashami and probably Musavi) appear to regard the hostages as useful for preventing Rafsanjani from moving too close to the West.

Better ties with the US would open the way for the return of US technological expertise, which Iran is likely to strongly desire in the postwar era. Prospects for US companies will be good in some fields—computer and medical technologies, for example—but opportunities have already been lost in others: US construction engineering firms previously involved in Iran's power-generation industry will find tough competition from Japanese, South Korean, Chinese, Swiss, West German, and East European firms now involved in rebuilding Iran's power plants, and a similar situation will exist in the reconstruction of petrochemical facilities. Iran is also unlikely to be a big consumer of US defense industry products as it was under the Shah: Iran instead will seek a relationship with a diversity of suppliers from both West and East.

Another factor motivating Iran's resumption of relations with the US is its longstanding fear of its northern neighbor, the Soviet Union. Iran has experienced Soviet aggression in the past, and in addition has an underground communist party (the Tudeh) that could gain power after Khomeini.

...But Standing Firm With Moscow. Even if Iran reestablishes ties with the US, Tehran is more likely to continue on a "neither East nor West" course of neutrality between the two superpowers. Though there is a distinct minority within the present government that favors warmer ties with the USSR, most Iranians, both in and out of the government and clerical establishment, fear and oppose a closer relationship. The USSR's looming presence to the north, Iranian resentment of Moscow's role as weapons supplier to Iraq, and traditional Islamic opposition to communism are the primary reasons.

Iran's leaders indicate they will turn to the West, rather than the Soviets, for the expertise and perhaps capital investment that they need to rebuild the economy after the war. The Iranians recognize the value of playing a Soviet card against Baghdad but would be reluctant to grant Moscow favors in return.

The Soviets are concerned that Iran's gradual restoration of ties with the West will offer fewer opportunities in the postwar era than they previously anticipated. They expect new openings for US influence in Iran once the war is over. The Soviets' most im-

mediate objective is the reduction of Western navies in the Gulf; to this end they continue to suggest a UN naval force to patrol the Gulf, a development that would legitimize a level of Soviet naval presence.

To slow Western inroads, the USSR may have to cultivate Iran more aggressively. Moscow may resuscitate such old aid projects as oil processing, railroads, and industrial development, and perhaps offer limited military cooperation. The latter would risk a strong reaction from most Arab states.

In the short run, both sides want to continue to improve relations, and there are likely to be moderate increases in cooperation. The Soviets have sought to gain favor in Iran by supporting Iranian positions in the UN-sponsored peace negotiations. Iranian Deputy Foreign Minister Larijani, in response, publicly acknowledged recently that Moscow's "peacetime" line has shown some improvement.

Economic cooperation is picking up as well, though not on a major scale. Iran and the USSR have agreed to convene a long-postponed session of their joint economic commission, and two long-term projects have now come on line: Two of three pipelines associated with a complex oil supply-buyback agreement reached in October 1987 have been completed, and Iran signed a contract with the USSR to build merchant ships for a previously agreed-upon joint Caspian Sea shipping line.

And if All Breaks Down

The Need for an Authority Figure. Conventional wisdom is that Iranians need, and want, a father-like authority figure who will ruthlessly maintain order and contain all the centrifugal tendencies of Iranian society. Thus, Khomeini replaced the Shah, who replaced his even more ruthless father.

Rafsanjani at present appears to be the only leader able to achieve accommodation among Iran's competing factions, even though he lacks Khomeini's charisma.

If Rafsanjani Were Assassinated... There appears to be no one who could step into Rafsanjani's role if he should be assassinated, or if he and his coalition should fail to maintain order. Other top political



Clerics confer outside Shrine of Fatima in Qom. The backbone of the Islamic Republic, the clerics are involved in all levels of government and serve to propagandize the regime's goals and policies throughout Iran. Their influence will wane somewhat, however, after Khomeini dies and as Iran turns increasingly to technocrats to manage postwar reconstruction. (Photo is OFFICIAL USE ONLY.)

leaders, such as Khamenei or Musavi, are too closely identified with institutional or ideological constituencies.

The military too, both regular forces and Revolutionary Guards, has no clear candidate who could step in and achieve control if Rafsanjani were to be assassinated. With a media policy that avoids giving credit to specific commanders for military victories, the regime has been careful to prevent the emergence of any military hero who could command a loyal following.

Assassination of Rafsanjani by disgruntled Revolutionary Guards is possible, but their lack of a clear leader (Commander Rezaei lost much prestige after the 1988 defeats by Iraq) and their divided loyalties along regional and personal lines make it unlikely that they could achieve control.

Hence, Rafsanjani's removal from the scene could lead to a period of frequent coups d'etat as one political or military leader after another sought to achieve the dominance necessary. Personal rivalries, as well as institutional and ideological factionalism, would be uncontrollable.

A leaderless Iran, drifting into a period of weakness and economic decline, could evolve. Iran's long history has featured many such periods of decline following the departure of a strong leader. Such an Iran, without an accepted leader and without a strong central government, exhausted and devastated by war and revolution, would be an easy target for the extension of influence by Iraq, and possibly the Soviet Union.

Economic Prospects

Revenue Needs

Iran's revenue requirements after the war will be extensive. The most immediate need will be to improve the standard of living of the urban poor who have borne the brunt of the war's economic sacrifices. The urban underclass and the rural poor have also accounted for most of Iran's casualties. Although the revolution has brought some benefits to urban poor, such as an ex-

tensive food subsidization program and a sense of prestige, they have suffered from rising inflation, inadequate housing, and high unemployment. The poor have generally been quiescent through these hardships, probably out of patriotic and religious feelings. The end of the war, however, may result in greater economic demands by the poor as they seek the postponed fruits of the revolution.

The government will also have to deal with the problem of finding work for tens of thousands of demobilized soldiers. Although these troops will initially rely on their families for support, they have the potential to become—as did many demobilized European soldiers after World War I—a restless and destabilizing force if they are unable to find work. To mitigate the demobilization problem, Iran is reportedly planning to use some of the Revolutionary Guard Corps after the war to work on development projects in rural areas—somewhat akin to the work program of the US Civilian Conservation Corps in the 1930s.

To help alleviate urban unemployment, the government will probably concentrate on improving industrial production. Lower oil earnings forced the government to cut imports from \$18 billion in 1984 to only \$10 billion in the past two years. With military imports running at about \$4 billion annually, the brunt of the cutbacks fell on imports of spare parts and raw materials for civilian industry. This foreign exchange squeeze has caused industrial production to drop to

only 30 percent of capacity and unemployment to rise to 30-35 percent of the labor force.

The government also will have to cope with the resettlement of at least 1 million of its own refugees from the war-torn areas of southwestern Iran. That region, particularly the cities of Abadan and Khorramshahr, suffered extensive damage in the early stage of the war, and reconstruction has been postponed chiefly because of lack of funds. Rebuilding and resettlement will cost tens of billions of dollars.

Revenue Potential

The war costs Iran annually at least one-third of its \$50 billion budget and roughly \$4 billion in foreign exchange. Undoubtedly, the end of the war will allow Iran to reduce these expenditures and shift more resources to the civilian sector. But the desire to remain a strong regional power probably will necessitate keeping defense spending relatively high. Reluctant to tap its foreign exchange reserves of \$5.5 billion or to borrow abroad, Iran will remain dependent on its oil income to cope with its postwar requirements.

Oil currently accounts for 90 percent of Iran's foreign exchange revenue. Oil earnings fell from \$19 billion in 1983 to only \$7.5 billion in 1986, chiefly owing to the drop in world oil prices. Higher prices and export volumes in 1987 increased oil revenue to about \$11 billion, but lower prices this year are causing oil revenue to drop to an annualized rate of roughly \$9 billion.

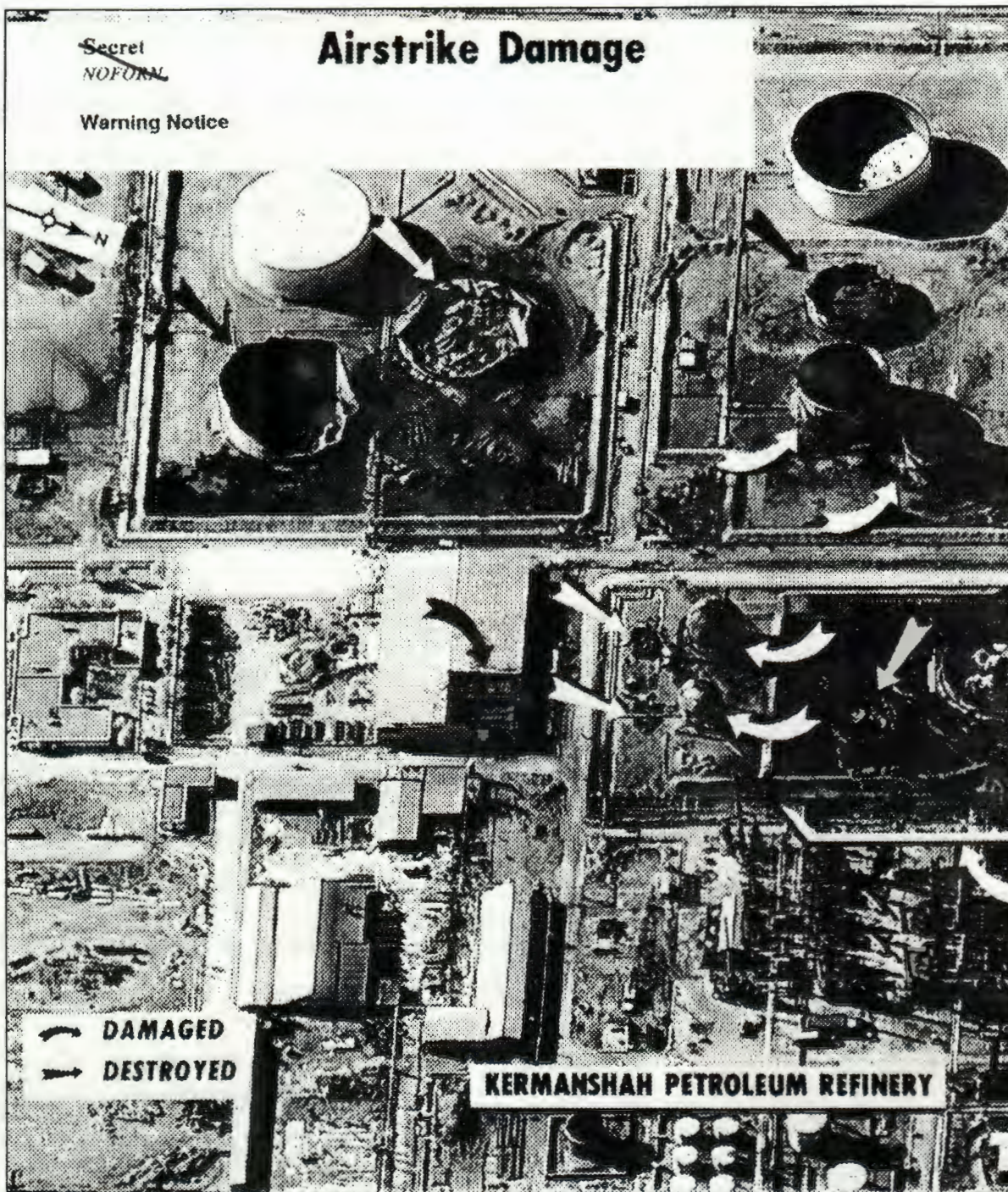
Reconstruction Debate

The August 30 intervention in the economic policy debate by Ayatollah Khomeini indicates that the regime will look to the Iranian private sector for help in postwar reconstruction. Khomeini stated publicly that the bazaar merchants should be free to import goods and engage in trade during the reconstruction period. This constitutes a defeat for those who

favor greater state intervention in the economy.

Rafsanjani supported this policy a few days later, explaining that Iran needs private sector money to facilitate foreign trade necessary for reconstruction. He and Khamenei also favor the participation of foreign companies and experts.

Iran's extensive trade ties to Japan and West Germany, and recent improvements in relations with France and Britain, suggest that Tehran would not be averse to Western help in its postwar reconstruction efforts. Iran's relatively low oil income and reluctance to incur debt will likely limit Western participation over the short term, however.



Damaged oil facilities. At this Kermanshah petroleum refinery, which was hit several times during the war, storage tanks, a pipe gallery, and spherical pressure vessels show heavy fire damage from Iraqi airstrikes. Extensive restoration of oil installations, involving foreign expertise, will be a reconstruction priority. Oil accounts for some 90 percent of Iran's foreign exchange revenue. (Photo is SECRET/NOFORN.)

Iran's current production levels of 2.2-2.5 million barrels per day are within the range of its OPEC quota. Once the war ends, it conceivably could raise this production to its current capacity of 3 million b/d. But some of the increase no doubt would be allocated to cover rising domestic consumption.

In any event, because the world oil market is expected to remain weak over the next few years, higher Iranian output would cause downward pressure on prices. Even though increased production thus would be counterproductive, Iran might feel obliged to move in that direction because of Iraq: Iraq is expected to increase oil production substantially by 1990 when its planned pipeline across Saudi Arabia will add 1.1 million b/d to export capacity. Yet on balance, we expect that Iran, a traditional price "hawk" within OPEC, will probably not increase output significantly as long as the oil market remains soft.

The other option for Iran is to tap international credit markets for loans. Tehran, however, has not pursued this course out of political and religious convictions. Iran has also made it a symbol of revolutionary pride that, unlike Iraq, it is not indebted to the "imperialist West," although it has accumulated \$5.5 billion in short-term trade debt. Even if some Iranian leaders came to favor this option, they probably would not pursue it out of fear of being subjected to charges of selling out to the West. Recently, Iran joined the Islamic Development Bank, establishing access to an Islamic creditor that would be more acceptable than Western lenders. It is highly unlikely, however, that Iran would obtain enough credit from this institution to fund a substantial portion of its postwar needs.

Economy To Improve Only Marginally

Because of the weakness of the world oil market and government prohibitions against foreign borrowing, Iran will have to rely largely on present oil-income levels to improve its battered economy. The end of the war will allow Iran to shift some revenue to the moribund industrial sector and help alleviate the immediate problem of unemployment. Yet large-scale reconstruction programs probably will be stretched out for years, or will have to wait until higher world oil prices result in higher revenue.

Military Situation

The Issues Are Not Just Military

The overarching issue, which very likely has not yet been resolved, is whether Iran intends to return to the war and, if so, when. The analysis below presumes the present leadership does not intend to renew hostilities within the next two or three years. This is based on early indicators of extreme concern that the cease-fire not break down and on the rapidity with which Iran resumed a peacetime posture in its Gulf oil export sector.

Iran's bifurcated military establishment nonetheless faces a long list of serious problems that will not be easily resolved: In many cases they revolve around profound and interrelated political/ideological, doctrinal, and institutional differences. To some extent, Iran's entire foreign policy orientation and intended external alliances are involved.

Short Term Versus Long Term

Iran's military problems can be separated into immediate issues and those that can be resolved in the longer term. The first category includes at least two imperatives: reconstituting a minimal ability to defend against a renewed Iraqi attack and deciding what to do about the innumerable military supply contracts now in force or under negotiation. Given the urgency of these problems—on the one hand, Iran is currently almost defenseless while on the other it must act quickly to minimize the waste of scarce resources involved in buying what it no longer needs—the pressure to act is great. Moreover, "technical" or military prescriptions are fairly clear. Thus, Iranian actions are perhaps somewhat more predictable in the short run than in the longer term.

Issues that will have to be dealt with soon, but with not quite so much urgency, include: rationalizing the maze of military procurement and production channels established during the war; deciding what size military structure to maintain and how to demobilize the rest; deciding what to do with the dual regular military/Revolutionary Guard structure that evolved during the war; determining the organization, doctrine, and armament of the new military establishment; and, perhaps most important, deciding the allocation of resources devoted to rebuilding the military versus

rebuilding the economy. Answers to these questions involve weighty political, economic, and social issues and are subject to a complex interplay of internal and external forces.

New Thinking

Iraq's spring offensives appear to have sobered the Iranian leadership's views on military affairs. At least two things have become clear: that a divided chain of command (not to mention a divided support structure underneath it) is unworkable, and that it takes a conventional military with a full range of capabilities to deal with a well-armed, aggressive opponent. The fact that Iraq explicitly targeted Iran's regular military in its final series of attacks on the central front and that, once these divisions (and their irreplaceable equipment) were decimated, Iran was defenseless, may have helped drive home this lesson.

Some Iranian leaders may even have recognized, in retrospect, that Iran's IRGC-devised offensive posture of recent years smacked of smoke and mirrors—none of the breakthroughs achieved through enormous expenditures of raw troops were ever exploited successfully. This was due in part to a divided chain of command and a reluctance on the part of the regular military to risk everything on one throw of the dice. But more critical, especially in the later years of the war, was the lack of adequate mobility, firepower, air cover, and logistic support to sustain the momentum of an attack. In reality, Iran's "offensive" strategy depended almost completely on the fact that Baghdad's defensive strategy had conceded the military initiative to Tehran.

Pride Goeth Before a Fall

In any event, the series of defeats undermined the cachet that had attached to the IRGC and, thus, much of its political influence. Compounding this reversal was the close association of the IRGC leadership with the politically unpopular drive to continue the war. Thus, even before the decision to accept Res. 598 and seek a cease-fire, the Iranian leadership was taking steps to unify the command structure and its logistic underpinnings. Even in its early stages, this rationalization process constituted a reversal of the earlier trend toward replacing the regular military services with their Revolutionary Guard counterparts.

Integration has not gone far as yet, but early signs point to growing influence for the regular military establishment. If this trend continues as we expect, it will significantly influence Tehran's decisionmaking on a host of subsidiary issues—especially in the area of organizing and equipping the new military structure.

What To Do Now?

As a priority task, Iran must prepare itself against the eventuality that the peace talks break down and Iraq resumes hostilities at some level. In addition, Iran must cooperate with UNIIMOG in making the cease-fire work. Both of these immediate tasks imply reliance on the regular military, which alone possesses the institutional resources and the command and control capabilities to accomplish them. Iran is working now to reequip and rebuild the regular divisions on the central front, evidently using at least some IRGC resources. The regular military continues its leading role on the central and northern fronts, and appears to have been designated as the hosts for UNIIMOG (in part owing to past negative experiences of UN teams in dealing with the Guards to Investigate Iraqi chemical weapons use).

In the short term, Iran will have to make what it has work—this implies a major emphasis on spares and replacement parts for equipment in its inventory, plus matching end items *if they can be had quickly and cheaply*. The on-hand supply of military consumables—ammunition and the like—is probably not well balanced, and Iran will likely follow through on some contracts or deals for this reason alone. Other contracts it may not be able to get out of, stretch out, or otherwise renegotiate.

Looking Down the Road

On the logistic front, it appears to have already been determined that tactical support functions, procurement, and military industry will all be consolidated. So far, the direction seems to be amalgamation under the auspices of the Ministry of Defense entities in each of these areas. Rationalization will increase the impact of whatever resources Iran chooses to make available, by cutting overhead and eliminating duplication. The end of "Operation Staunch" pressures will also make Iranian arms procurement more efficient (better quality, cheaper prices, more reliable suppliers). In fact, Iran may well



The Islamic Revolutionary Guards (*Pasdaran*) march in a parade in Tehran. Established by Khomeini in 1979 to prevent a counterrevolution, the Guards are likely to play more of a domestic security role after the war and to be mobilized for domestic reconstruction projects. The Guards are resisting plans to amalgamate them gradually with the regular armed forces. (Photo is OFFICIAL USE ONLY.)

soon find a crowd of would-be suppliers hat in hand at its doorstep.

Tehran will probably not want to prejudge its long-term procurement effort, and in any event will want to replace much of the battle-worn and increasingly out-of-date equipment it now has. It is very likely, moreover, that Iran will want eventually to divorce itself from much of its US-supplied equipment.

The drive to make Iran self-sufficient in military production, started under the Shah and given renewed impetus by the war, will command the lion's share of available procurement resources and will incline Iran toward suppliers willing to set up turnkey factories, work out coproduction arrangements, or transfer needed technology. Based on these considerations, Tehran will probably not invest large sums in bolster-

ing its current inventory. The key question, then, is what will Iran seek to buy and/or produce, and from whom? An ancillary issue is what will it do with the equipment on hand.

Toward a New Force Structure

The IRGC will not be disbanded: It is too large, too politically influential, and probably too critical to the long-run survival of the clerical regime. Plus, many at the top levels of the regime no doubt still question the political reliability of the regular military. But it seems likely the IRGC will be pruned back to serve an internal security type of function. Its aspirations to field its own air force and navy will likely fall by the wayside, except perhaps for the light aircraft, utility helicopters, and small boats it now has. A kind of "coast guard" function in the Gulf would not be inconsistent with the

roles the IRGC was assigned in major exercises during the past several years.

With a dominant regular military, Iran will have a greater tendency to buy Western, technically sophisticated equipment than would have been the case with an IRGC-dominated military structure. Nevertheless, the groundwork has already been laid for a significant postwar arms relationship with China, and it seems likely this will continue. Israeli upgrading of China's newer weaponry will make the relationship more palatable to the regulars than it might have been otherwise. But the Iranians will very likely look to France and Brazil as well. As it did under the Shah, Iran will buy some Soviet equipment—but such purchases will tend to be "stand alone" items, which need not integrate into the overall logistic system and therefore minimize Iranian dependency.

The need for sophisticated, technically qualified air and naval forces was underlined for Tehran over the past year not only by Iraq's ability to strike virtually wherever it pleased but also by the generally routine way in which the US Navy responded to attacks.

Aircraft. Iran will likely replace its F-5s and F-4s and unload them on the world market but probably will keep its F-14s: No one but the US operates F-14s, plus they retain a certain cachet, provide a useful "mini-AWACS" function, and are air refuelable. Iran probably will try to keep its P-3s operable, too, because it will not have enough money to replace them any time soon. Parts for the military and civilian transports and air refuelers will be easy to obtain, and they are durable, efficient aircraft.

Iran will want to retain an air-refueling capability and will look for at least one replacement fighter with such a capability—quite likely a French plane. The F-5s probably will be replaced with Chinese planes—especially the newer ones incorporating some Western technology. Iran is already in the market for one or more trainers, and this is an area where "off-brand" producers like the Argentines, Brazilians, or Swiss have a shot.

Iran will want to keep its Cobras and Chinooks flying as long as possible; with cannibalization and an increased flow of spares from abroad this will be possible. Nevertheless, it seems likely Tehran will also

add some type of European attack/utility helicopter to its inventory as a way to phase out the UH-1s and augment its Cobras.

Air Defense. It seems unlikely that the IRGC will maintain any role in air defense, so its SA-2s will probably pass into the hands of the Air Force. The Hawks will be maintained as long as possible, but Tehran will seek a replacement. This is an area where the Soviets may be able to make an inroad, because they can offer otherwise unavailable medium- and long-range surface-to-air missiles. The SA-3 and SA-5 are both possibilities. For shorter range air defense, Iran will likely stick with the Oerlikon Skyguard, but it may well seek to add the Aspide missile to the package. Iran has already bought a major British air warning radar system and likely will continue to choose European radars and integration packages as it rebuilds its air defenses.

Navy and Coastal Defense. The Navy may have to content itself with refurbishing its ships and their armaments—new engines, new missiles, and the like—for the near term. It is largely European equipped and probably will remain so. The minisubmarine fad is probably irreversible, but control of the program will likely move from the IRGC to the regular Navy. But the Navy never liked the Silkworms and might leave them in the hands of the Guards—as a kind of consolation prize, if nothing else.

Ground Equipment. Only China or the Soviet Union can provide tanks and APCs in the numbers Iran will require and at a reasonable price. Iran may well buy some Soviet ground equipment—BMPs, ZSU-23/4s, possibly artillery and engineering equipment—but the Chinese (with Israeli technical assistance) seem the probable source for most of Tehran's armor needs. There may be some scope for Brazilian light armor, multiple rocket launchers, and trucks. The Japanese have already been a major source of utility vehicles and will likely remain so.

Iran will push hard for coproduction on ground equipment of all sorts, including short-range SAMs (the Chinese or North Korean copy of the SA-7 seems a good bet). A major problem will be replacing/augmenting the US self-propelled artillery Iran has depended on so heavily. Soviet-designed SPGs built under license in Eastern Europe could be a candidate.

Iran might also find long-range Austrian and South African artillery attractive.

Missiles. Iran is now manufacturing an assortment of poorly designed field rockets and may try to upgrade this capability. But, faced with a major Iraqi missile threat, Tehran will feel compelled to obtain additional SCUDs (presumably from North Korea) and perhaps an even more potent missile system.

In the long run, the Iranians will want their own ballistic missile manufacturing capability. Control over the missile program will be a major political issue. The IRGC has been in charge and will strongly resist losing its most prestigious program. One solution would be to create a separate "missile corps," made up of IRGC personnel, which would report separately to the Supreme Defense Council. Use of the missiles would be a strategic decision in any event. The possibility of

eventually bringing the new service under the Ministry of Defense would be left open.

Chemical Weapons. Iran will of course immediately focus a good deal of attention on its CW defenses. The Soviets and East Europeans, who manufacture an extensive range of decontamination and protective equipment, might secure sales here. But Iran will by no means abandon its efforts to develop an offensive capability to match Iraq's. This effort will likely be consolidated directly under the Ministry of Defense or the Supreme Defense Council—at least initially. Tehran will look to any source it can find for expertise, equipment, and precursors. Syria, Libya, and perhaps North Korea seem especially likely collaborators; however, in recent years would-be CW proliferators around the world have been able to find Western and Third World commercial firms that are all too eager to help them.

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