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ADNAN MOHAMED KHASHOGGI

January 10, 1987

Dear Mr. President;

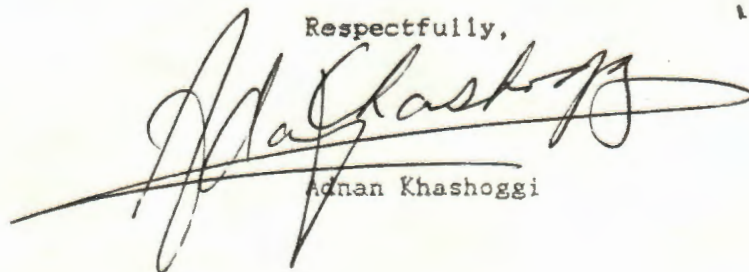
As I am sure you are aware, as a Saudi with international business interests my continual concern for a potentially dangerous neighbor has caused me to maintain contacts in Iran that are beyond the reach of formal diplomacy and intelligence enquiry. One contact, in particular, is Mr. Menuchehr Ghorbanifar. His information, I have found, is unique. Not only does it extend with extraordinary perception into the recesses of Iranian political life; what he has had to say is confirmed by other top grade sources available to myself and others with comparable concern for that troubled country.

I now attach a report from Mr. Ghorbanifar just received. The principle conclusion to which it points is truly alarming. It happens, Mr. President, that your judgments to date have been sound; history will prove them so. But momentum is essential. I believe that discreet cooperation between yourself and His Majesty, King Fahd, professionally executed is what is required to sustain this momentum.

I must add this: My friend Mr. Ghorbanifar, describes his words to me as alarmist, and he apologizes for perhaps having 'cried wolf' too often. This is a possibility that has until now moderated my judgment. At this point in history, however, I must agree with Mr. Ghorbanifar's sense of urgency. His country has become an irresistible vacuum, which if not filled by the West will most certainly be filled by the Soviets.

It is this latter thought that prompts me to send a translation of the Ghorbanifar letter to His Majesty King Fahd, in the hope that during this period in which your Government is handicapped by domestic difficulties his Government will be able to "pinch hit" for you.

Respectfully,



Adnan Khashoggi

Mr. Adnan Khashoggi

6/1/1987

My Dear Brother,

Admittedly, my correspondence with you until now has been alarmist. I have so frequently used the word "crisis" that you may think I have "cried wolf" too often. I have not until now, however, suggested that the situation in my country is irretrievable.

I do so now. The American's abandoning our project in mid-stream puts us in the position of the patient whose body has been opened for an open heart operation but who has been abandoned by his surgeon.

As the "patient", our fear is not of dying through neglect so much as it is of having another "doctor" : the Soviets, take over the "operation".

It is this terrifying prospect that prompts me, once again, to report on our situation, bringing it up to date in the light of the so-called "scandal" in the United States resulting from undue publicity of our activities. At the risk of trying your patience, I must begin by reviewing the events which have led to this critical juncture in Iran's relations with the outside world.

#### I. BACKGROUND

When almost two years ago preliminary contacts were started to define a framework within which a dialogue could be started between the United States and the Islamic Republic, two main inter-related goals were outlined :

A. A slow process of normalization of relations between the two countries to counterbalance expansion of Soviet influence in Iran and in the region.

B. As within the ruling political and religious establishment in Iran, three main lines of political and religious thinking were competing for power, the aim was to strengthen those who would support such a normalization and opening to the West and in this context would give up the policy of export of revolution, subversion and any terrorist activity and seek at the same time a honorable solution to the Gulf War.



The problem of hostages and arms deal was only a by-product of the process.

When both sides, the United States and the Islamic Republic had come to the conclusion that a political dialogue was in the interest of both parties, the way to proceed to open the dialogue was as important as the decision itself. It was essential to act in such a way to keep this "dialogue" outside the power struggle which was taking place in Tehran and prevent that the contacts with the United States would upset the power balance in Tehran and endanger the whole policy.

Naturally, attention had to be given to the particular characteristics of the Iranian Regime and the different powers within it. At that time there existed three main lines in Iran :

1. The radical line under the Prime Minister, Mr. Mir Hossein Mousavi, who, despite his enmity with Western countries but because of Iran's ever-increasing needs, wished to make contact with the West. He believes that such relations would lead to the delivery of arms in sufficient amounts to give Iran the upper hand in the Iran-Iraq war and himself a stronger position in the power struggle.

2. The moderate line under Hojatolislam Ali Akbar Hashemi Rafsanjani, the speaker of the Majlis, who basically believed that Iran belonged to the Free World and needed to create relations with the West. He, therefore, supervised all movements in this direction. But at the same time, he was enough involved to be able to move at a later stage to get for himself all the benefits.

3. Montazari and the conservative members of (Line 1), who were strongly in favor of normalization of relation with the United States, were fully informed of the undertaking. Furthermore, it had been agreed that any profit from the arms deal would be made available to them to

strengthen them in their fight to take power. Parallel several meetings were arranged between American officials and leading members of the line with knowledge of Mr. Montazari. As the power struggle developed in Tehran, substantial payments financed by loans were made to this group in Iran, with the hope the funds would be recovered at a later stage from arms sales. Consequently, the contacts were underway for more than 18 months without any leak. The whole thing was blown up when it became suddenly an issue in the power struggle in Tehran.

The undertaking progressed and reached some success : three American hostages were freed. The necessity of opening a dialogue with the West was accepted in principle at the peak of the Iranian pyramid of power. Most importantly, the two moderate wings, under Montazari and Rafsanjani, strengthened their positions within the Iranian regime. It became almost certain that following the death of the Ayatollah Khomeini, this wing, which favored relations with the West, would take the rein of power in Iran. Hojatolislam Khoeyniha, the symbol of extreme radicalism and anti-Americanism, all but disappeared from the political scene. Hojatolislam Khamnei, the President of the Islamic Republic, lost his power and Prime Minister Moussavi, one of the radical leaders, prepared himself to cooperate with the West and accept their points of view.

Unfortunately, at this point a certain amount of carelessness was introduced into the process. Without regard for the principle that a system can only function completely with the full cooperation of its members, and that members which work independently will bring about the collapse of the system, certain tendencies immerged to create a direct link between Iran and the United States. Following events spurred the materialization of this link :



As at that time the previous contacts were not making any progress, because among the spare parts agreed and paid to the Americans, some had been deficient and some important ones had not been delivered; furthermore, the Iranians had found out that the American prices were 500% overcharged and submitted related documents to proof their claim. Instead of trying to solve the problem the Americans made the mistake to bypass the previous channels of the Prime Minister. The CIA contacted Mr. Rafsanjani through the son of Rafsanjani and the Ambassador of the Islamic Republic at the United Nations and tried to make a completely new deal. The CIA did not act himself but put the new channel at the disposal of Admiral Poindexter. In this deal, the price of the tow missiles were much cheaper than what they had asked before in their dealings with the previous channels<sup>and</sup> with the delivery of 500 tow missiles Jacobson was freed. Montazari and Line 1 who were watching and informed of the new American approach and contact became very suspicious of the American behaviour, thinking that inspite the previous American involvement with them, they may have changed their mind and were now trying to eliminate Montazari and members of Line 1 and finalize everything with Rafsanjani and his followers. To safeguard their position in the power struggle they felt obliged to blow up the whole process. The radicals under the Prime Minister who had also taken the risk of getting involved had also the same feeling of being brushed aside by the Americans and almost panicked. As a result, the power struggle worsened and the whole policy collapsed. This incident totally destroyed the undertakings and networks of communication which had been developed over eighteen months. An analysis of the power struggle in Tehran is not only necessary to understand the developments of the last months but also to understand the actual situation and the future of the Islamic Republic.

## II. THE CURRENT SITUATION IN IRAN

All signs indicate that the regime is weakened and to a certain extent paralyzed. On the one hand, the opening of a dialogue with the United States has not succeeded and therefore the regime is unable to tap the military resources of the West and get Western political support. And on the other hand, the regime is suffering internal attacks because it has supposedly created such a relation.

Extremist leaders and radical lines are taking the opportunity to direct constant attacks at the heads of the regime because of its contacts with the United States, a country still referred to in Iran as the "Great Satan". For a revolutionary regime, like the Islamic Republic, political slogans to mobilize the masses are as important as any policy. For years, the Islamic Republic has been acting under the banners of "Death to America, Death to Israel", but now that everything has come out, public opinion feels deceived and more important within the guardians of this revolution many questions are asked about the regime's policies and the regime is at lost to give any acceptable explanation. For the first time the legitimacy and the credibility of the regime has been shaken even among its own followers. Perhaps recent Iranian military failure is due to a certain loss of moral. Meantime the power struggle continues and is becoming even worse, and for that reason the regime is unable to define a common policy to handle the crisis.

Rafsanjani has weakened the position of Montazari. He even gained the support of Khomeini in the imprisonment of several of Montazari's supporters. But his situation is not ideal. He attempted to consolidate his position through military victories and, despite severe reservations



on the part of the heads of the army, he managed to impose on them the recent attack on the four islands in the Shatt-el-Arab. On the pretence of visiting the victims of the flood, he travelled to Boushehr where he personally supervised the military operations. He believed he could regain his reputations through a victory on the front. However, the attack met with complete failure, thereby worsening his position.

Although his brother is the head of the Iranian radio and television, Rafsanjani has hardly appeared on these mediums in the past few days and for your information President Khamnei has rejected Rafsanjani's proposal to coordinate their actions.

The radical groups with the help of Hojatolislam Doai, Publisher of the Ettelaat newspaper, and Fakhreddin Hejazi, a deputy of the Majlis, Hojatolislam Khoeyniha attempted once again to reactivate groups linked with line of the Imam students and to unify the Islamic associations of all Iranian establishments in a central office but they are still at the stage of organizing themselves.

Moussavi, under the burden of executive difficulties, had laid aside his extremist thoughts. He often turns to weak and illogical solutions in the governing of the country's affairs. As an example, he dismissed the head of the Central Bank, who was against circulation of new bank notes, in order to circulate huge amounts of bills for the day-to-day expenses of the country. It is natural that under the present situation in Iran there is no room for radical thoughts. However, caution must be exercised to prevent that he reverts to his previous radicalism.



The other Iranian leaders are not in better positions. Within Iran, there is presently no religious or political leader who could conceivably take power after Khomeini's death. For this reason Hojatolislam Ahmad Khomeini, his son, who preferred to remain in the background, is beginning to take a prominent role in the executive sector. He has not only taken over the supervision of his father's office, but also that of Iran's two largest newspapers, Ettelaat and Keyhan.

The potential effects and dangers of this vacuum of power cannot be estimated even now. If a solution is not found immediately, the death of Khomeini, Iran's old and ailing ruler, could plunge Iran into a civil war.

Another important issue must be considered : the rulers of the Soviet Union have never hidden their interest in expanding their sphere of influence to Iran and the recent steps taken in this direction are clear to any observer. However, the presence of the Soviet Union in Afghanistan has always pushed the Iranian government and its people to show strong reactions against the Soviet Union out of solidarity with the Afghan Muslims . But recent developments in this field, Gorbachev's search for a solution to leave Afghanistan, visible in the statements made in India, Najibollah's visit to the Soviet Union, the Soviet Foreign Affairs Minister's visit to Afghanistan, preparations for an amnesty in Afghanistan, murmure of a possible date for the withdrawal of Soviet troops, have improved the Soviet Union's position in Iran

Positive Soviet reaction to some economic proposals by Khamnei, the President of the Republic, may be an indication that the Russians, in order to prevent a religious, conservative, anti-marxist pro-Western regime in Iran, may

be more ready to support the Islamic extremists. Although being religious, this group would at least continue to destabilize Western and conservative Arab interests in the region.

In the present situation in Iran, the radical groups will try to overcome their difficulties and unify. They have already begun to attack the moderates for their attempts to create a dialogue with the United States. They are trying to use the situation as a tool to distance the moderates from the center of power. In this respect, these groups are hoping, as mentioned above, for the support of the Soviet Union. And since the present circumstances in the United States prevent the American government from intervening in any way, the Soviet Union has the possibility to take any steps it deems necessary. This is a very dangerous situation for Iran and the region and immediate and serious action must be taken.

Nevertheless, as Richard Helms has said recently :  
" The United States may have lost a battle, but they now have a chance of winning the war ". Especially since, in the words of another American observer, the present position of the Iranian leaders can be summarized in the following way :

Powerful religious and political figures in Iran have been awakened to the possibility of a mutually profitable relationship with the United States, also to the dangers of not having such a relationship.



Even the Ayatollah Khomeini, while not moderating his view of the United States as "the Great Satan", is admitting that there might be some advantages to Iran in "limited cooperation" with American intelligence agencies in monitoring the Soviet-Iranian border.

Both the Iraqis and the Iranians have been shocked into the realization that prolonging their war, whatever its eventual outcome, is sure to have disastrous consequences for both.

### III. POSSIBLE SOLUTIONS

With respect to the present situation, the following solutions can be proposed for the Iranian problem :

1. The most immediate step is to support the moderate groups. As Rafsanjani has weakened himself and is a constant target for attacks from all sides, it is best to direct support towards Montazari. Especially since his moderate views and the consequent strikes against him from the governing body have made him a non-popular and oppressed figure. He has always been in favor of relations with the West and the United States, in particular. Furthermore, his belief in liberalism has led the Bazaris, a considerable force in Iranian internal affairs, to support him.

2. Other groups must be prevented from uniting and gaining power to solve the crisis in this way, this will aggravate the Iranian internal crisis. The fighting between them will

sap their energy and strengthen the moderates.

3. Indirect contacts must be made with the radicals to involve them in the recent policy of creating relations with the West. In this way, they will be unable to distance themselves from the problem and will cease attacks on the moderates.

4. Constant and continue assistance must be made to the moderates to encourage them to continue their relations with the West and especially the United States.

5. These policies shall lead to the total removal of extremist radical groups and in supporting Montazari, this group would take complete control of the Iranian regime.

To summarize the situation, we have been on the center of the process and today our position is so strong that we are both in a key position for the expected developments in the future. It is well understood by all parties that your initiative was your own and you have not involved in any way Saudi Arabia, your aim has been to make a contribution to counterbalance Soviet influence in the region and bring peace to the region. The same applies also to me. The credibility and contacts in the USA and in Iran which we have established are fully accepted by all parties involved. In order to keep the momentum of the started process which is in the interest of the stability of the region, Saudi Arabia has here an opportunity to take an important role through you without getting directly involved. This role is essential as for some time American policy, although supporting the opening to Iran, may be paralyzed, and Saudi Arabia may fill through you the vacuum.



In the realisation of the above-mentioned policies, Saudi Arabia with its special position in the region, can play a very important and sensitive role.

Saudi Arabia can support the moderate within Iran and this support could eventually lead to a mutual cooperation in the following fields :

1. The Islamic Republic would give up completely its policy of exporting its revolution.

2. There should be no subversion, concerning the independence and integrity and political structure of the countries of the region. Iran must refrain from taking part in any terrorist action and must realize that failure to comply, would be dealt with without compromise.

3. An honorable solution should be found for the Iran and Iraq war. Such a solution shall ensure that neither Iran nor Iraq would upset the balance of power within the region. Keeping the balance has to be ensured in ending the war and once peace has been established.

4. Saudi Arabia and Iran, as the two main oil producing countries, would cooperate closely within the OPEC to increase oil prices and bring about the necessary stability on the oil markets. The already increasing in the oil markets shall enable all countries to take care for any reparations and compensations, if hopefully we arrive to end the war; in fact with higher prices the buyers of oil, those who have taken advantage of lower prices in the past will actually pay for any reparations.<sup>1</sup>

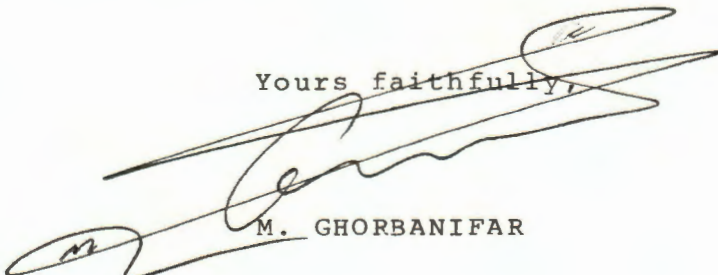
5. Iran being in the frontline against the expansion of communist influence in the region, Saudi Arabia and the other countries of the region would cooperate with Iran in limiting Soviet influence.

6. Saudi Arabia would assist Iran in opening new channels with the West.

As we have already shown in the past, we will do everything in our power to realize the new policy.

With the hope that this report gains your attention, I remain,

Yours faithfully,



M. GHORBANIFAR