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2. Our own review has produced following judgments: Despite seeming intractability both islands and federation problems USG should not sit back and let Gulf situation drift ominously into 1972 if there are places and ways in which US influence can be brought effectively to bear. In view restricted range our relationships with Gulf shaykhs and far more influential British relationship with them we see no point in direct US approach to Gulf rulers on ~~island~~ islands problems and no need to increase our encouragement to them re Federation beyond general statements which ConGen Dhahran has made under instructions in past. While we should continue to encourage constructive role by both Saudis and Kuwaitis in Gulf, we feel specific approach to them at this time in support of Federation will not be effective although we do not preclude such approaches at later stage. Thus, we conclude that any US initiatives to solve these problems must be taken primarily with UK and Iran. After exploring in London how British see remaining options, we expect to find it necessary to make strong pitch that they increase pressure on shaykhs re Federation and islands or

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June 21, 2006

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that they reach agreement directly with Iran on islands. At same time we observe that Iran has become increasingly inflexible over islands and federation issues which we feel to be inconsistent with Iran's looming role as primary force for area stability.

3. In London talks March 8 we intend to raise following questions with British and would appreciate addressee comments:

a. Assuming British efforts to date, including March 1 policy statement, have not borne fruitful results by end March, what further steps can UK take to establish Federation and compose islands dispute?

b. Is shaykhs' acquiescence needed or just helpful for UK to reach arrangement on islands with Shah? / ~~What US support for such arrangement would concentrate on urging Shah to go along. ~~strongly than for us~~~~

c. Is there some sort of "objective" commission which could be expected to reexamine historical ~~claims~~ and find in Iran's favor?

d. Are there ways in which USG can usefully support future British initiatives?

e. What are prospects for either UK, US or both making carefully

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phrased approach to Iran urging more active role in support of Federation? Point we would try to sell Iran is that rather than opposing Federation as tactic in getting islands Iran should in own interest be working for Federation and could even use Federation question to further acceptable solution of islands problem. For instance, Iran might be able to bring pressure on Ras al-Khaimah and Sharjah by helping create and support a truncated Federation with condition that these two shaykhdoms be excluded until islands dispute settled.

4. We intend push for UK response to questions para 3, as perhaps amended by addressees' comments. If British response appears to offer prospects that UK can make substantial and timely progress on Gulf problems, we would continue remain in background. If, however, UK response not promising, alternatives for US initiative would appear to be either strong pressure on British (para 2) or approach to Shah along lines para 3(e) or both. END

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