

COUNTRY TEAM ASSESSMENT SHOULD BE TAKEN SERIOUSLY INDEED.

4. WE ARE IN AN UNPRECEDENTED SITUATION IN WHICH SAUDI ARABIA TOOK THE LEAD IN UNDERWRITING ECONOMICALLY THE MILITARY INITIATIVES OF EGYPT AND SYRIA AND IN SECURING THE FINANCIAL AND POLITICAL PARTICIPATION OF OTHER CONSERVATIVE STATES IN THE UNITED ACTION. THE ULTIMATE FAILURE OF THE ARAB MILITARY EFFORT HAS MADE EVEN MORE DRAMATIC AND IMPORTANT THE POTENTIAL POWER OF THE ARAB ECONOMIC EFFORT AND IN THIS SAUDI ARABIA IS THE KEY TO SUCCESS OR FAILURE. FAYSAL SURELY ⁹MUST ENJOY THE INCREASED POWER AND PRESTIGE OF HIS NEW POSITION. HE IS ALSO DEEPLY ATTACHED TO THE ~~XXX~~ IDEA OF A SPECIAL STATUS FOR JERUSALEM, AS JIDDA HAS POINTED OUT.

5. IT HAS BEEN TRADITIONAL ON THE BASIS OF PAST EXPERIENCE TO SAY THAT BECAUSE OF COMPETING INTERESTS, THE ARABS WOULD NOT STAND TOGETHER TO USE THE OIL WEAPON EFFECTIVELY AGAINST THE USG AND ITS ALLIES. NOW, HOWEVER, WE HAVE COME INTO A NEW SITUATION WHERE OLD PRESSURES FOR OIL REVENUE NO LONGER APPLY. SAUDI ARABIA AND KUWAIT HAVE SUFFICIENT FINANCIAL RESERVES TO WAIT US OUT. ⁹ AND EUROPE AND JAPAN HAVE SUFFICIENT SELF-INTEREST

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PAGE 3 TEHRAN _____ ~~S E C R E T~~/SENSITIVE

TO DEAL DIRECTLY WITH THE PRODUCERS, CUTTING OUT THE AMERICAN COMPANIES AS MIDDLEMEN, IF THIS SEEMS TO THEM NECESSARY TO INSURE A STEADY FLOW OF OIL TO THEIR COUNTRIES.

6. SAUDI ARABIA SO FAR HAS APPLIED ONLY THE MILDEST OF MEASURES TO PUT PRESSURE ON THE UNITED STATES: THE 10 PER CENT CUT-BACK IN PRODUCTION AND AN EMBARGO ON EXPORTS TO THE USA. SHE HAS ALSO, WE SUPPOSE, APPLIED A SECOND INFORMAL PRESSURE BY NOT MOVING FORWARD ON NEW CONTRACTS WITH AMERICAN FIRMS. WE DO NOT KNOW TO WHAT EXTENT THE SAG MAY HAVE BEGUN TRANSFERS OF DOLLAR RESERVES AND INVESTMENTS. ^{I do} BUT BELIEVE WE SHOULD BE CONSTANTLY AWARE OF THE POSSIBILITY THAT OTHER SAUDI PRESSURE OPTIONS WILL BE TAKEN IF WE DO NOT APPEAR TO BE USING OUR INFLUENCE TO SECURE ADHERENCE TO SC 242. THESE OPTIONS WOULD BE FURTHER CUT-BACK IN OIL PRODUCTION; DENIAL OF OVERFLIGHT RIGHTS; CLOSING OF THE U.S. MILITARY TRAINING MISSION; NATIONALIZATION OF ARAMCO; WITHDRAWAL OF SAUDI FUNDS FROM U.S. ACCOUNTS AND U.S. INVESTMENTS; A ^g BREAK IN DIPLOMATIC RELATIONS; AND EXPULSION OF AMERICANS FROM THE COUNTRY. IF THESE MEASURES WERE TAKEN IN CONSORT WITH KUWAIT, QATAR AND ABU DHABI, THE IMPACT UPON OUR

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INTERESTS WOULD BE SERIOUS INDEED.

7. FAYSAL USED TO BE INHIBITED FROM CONSIDERING SUCH RADICAL MEASURES BECAUSE THE LOSS OF HIS AMERICAN ALLIANCE WOULD HAVE MADE HIM VULNERABLE TO EXTERNAL AGGRESSION FROM EGYPT OR IRAQ AND VULNERABLE TO INTERNAL SUBVERSION BY NATIONALIST AND "PROGRESSIVE" FORCES. TODAY HIS PRESTIGE IS SO IMPROVED, HE PROBABLY WOULD FEEL SAFE IN ADOPTING SUCH MEASURES AGAINST US. EACH MEASURE WOULD ACTUALLY TEND TO INCREASE HIS POPULARITY AND STRENGTHEN HIS REGIME.

8. LONG BEFORE THE PRESENT CRISIS, AS THE SECRETARY WILL REMEMBER, THE SHAH IN CONVERSATIONS IN WASHINGTON AND WITH ME HERE MADE IT CLEAR THAT HE THOUGHT THE USG SHOULD ADOPT POLICIES WHICH WOULD RESTORE ITS APPEARANCE OF BALANCE BETWEEN THE ARABS AND ISRAEL. HIS OWN GOVERNMENT HAS REPEATEDLY STATED ITS SUPPORT OF SC 242, WITH THE INTERPRETATION THAT EVACUATION OF OCCUPIED TERRITORIES MEANS JUST ABOUT ALL TERRITORIES.

9. SINCE THE OPENING OF HOSTILITIES, IRAN HAS REAFFIRMED THAT POSITION. IN RESPONSE TO POPULAR SENTIMENT, IRAN HAS FLOWN MEDICAL SUPPLIES TO THE ARABS, HAS MADE PREPARATIONS TO ACCEPT ARAB WOUNDED FOR TREATMENT, HAS LOANED C-130'S TO SAUDI ARABIA

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PAGE 5 TEHRAN _____ ~~S E C R E T~~/SENSITIVE

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AND HAS AUTHORIZED A MODERATE TILT BY IRANIAN MEDIA IN FAVOR OF THE ARABS. ^{*(HAS OCCURRED)*} THIS [^] DESPITE THE FACT THAT THE SHAH AND THE IRANIAN ESTABLISHMENT HAVE HAD, AND CONTINUE SECRETLY TO HAVE, VERY CLOSE COOPERATIVE RELATIONS WITH ISRAEL. THE REASON ~~IS~~ ~~IS~~ IS THAT THE SHAH AND HIS ADVISORS HAVE COME TO BELIEVE THAT THE BALANCE OF FORCES HAS CHANGED SUFFICIENTLY THAT OVERT IDENTIFICATION WITH ISRAEL WOULD NOT BE POLITICALLY VIABLE, EVEN THOUGH THEY ARE PLEASED THAT THE ARABS WERE NOT MILITARILY VICTORIOUS.

10. FROM THE PERSPECTIVE OF TEHRAN IT LOOKS TO US AS IF THE USG AND ISRAEL MUST THIS TIME HAMMER OUT A SOLUTION ~~WHICH~~ WHICH A CONSERVATIVE ARAB LEADER LIKE FAYSAL AND A MODERATE NATIONALIST LIKE SADAT CAN AND WILL ACCEPT. YOU HAVE HEARD THIS BEFORE. I KNOW. THIS TIME, HOWEVER, SOBER AMERICANS FEEL THAT THE ARAB STATES ARE IN A POSITION WHERE THEY CAN AND WILL USE THE OBT-THREATENED OIL WEAPON.

11. WARM REGARDS.

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