

right down the list.

So I would prepare our part of those memoranda, or the gist of what was in it would be taken from the original decision memorandum, which the Secretary approved.

The point is-- and I do take some pride in this, I must say, even looking back-- that I worked out a very good relationship with DOD, where one had not existed much before, and I think the Inspector's report after that was what in part what drove me, because they made recommendations. I mentioned earlier on that I'd become involved. And so I'd go over there probably every two or three weeks and meet with counterparts and sit around and talk. And I became very close to General Fish. Nothing that General Fish and I did-- and I say I and he, because it was the two of us-- was more important than thoroughly scrutinizing major sales-- the Shah often felt that various programs that had been in place were not being satisfactorily run, that they were becoming too expensive, et cetera. And I must admit, I think some of the briefings that he got on various programs-- don't ask me to be specific right now-- were too general, and there was not a real appreciation of the eventual cost. I don't think this was, in most cases-- came out of malintention, except that there's always some, well, how much detail do we want to get into?

Also there's no doubt that we'd find that we ourselves didn't have the capability at times to come up with how the costs were going to go along. After all, we weren't controlling his budget. But what became perfectly clear to me is that they had taken on so many different programs that they didn't really understand fully what their total costs were going to be three or four years down the line. You know, the maintenance cost was going to be this, the manpower cost, that was always a great concern. So General Fish

and I tried on some of the latter massive programs that were discussed to get the briefers to lay it out in excruciating detail, and then tried to institute a new procedure, so that when the briefers returned, they wrote totally detailed memoranda of conversations. I said, I don't want to be here-- that is, I may not be here, but I don't want my successor some day, or the Ambassador, come in and be raked over the coals for actions that we've taken, if we have thoroughly briefed. And I said, I think it would be very useful if the Ambassador could say to the Shah or General Toufanian, look, in 1976 on August 14th, we told you what the scope of the problems were and here's the memorandum. I said, let's come clean and let's keep the record straight. And Fish agreed.

One of the massive programs that the Shah wanted was a sort of total logistics system, a computerized logistics system. They went into great and painful detail of how much this was going to cost year after year after year. I thought that was useful. I think what was quite clear after a while was that all these military programs were going along and the domestic spending was increasing tremendously. There was probably not a person in Iran who had the total picture had long-term projections on costs. It was buy now, pay later. And I was concerned about that.

Q: According to Michaud's memorandum, sometimes consultation with the Defense Department was sometimes less than satisfactory. For example, Defense did not always properly clear messages to Armish-MAAG with the State Department. How serious did this problem become when you were the Country Director?

Naas: Getting other parts of the government to clear messages that they're sending out if they have an independent mission is always a headache. The only way frankly to handle it is to get, and I did, fairly tough on it. And I had this understanding with Ambassador Helms that if, later on, I saw a message that had not gone by us, by the State Department, that I felt should have gone by the State Department, I would call the person up who drafted the message, or the office that drafted the message, and just say simply, you know, we didn't get a chance to look at that, I think we have an interest in it, and I would like you to make sure that we're kept informed, and to clear the message.

[END OF SIDE ONE, TAPE TWO; BEGINNING OF SIDE TWO, TAPE TWO]

Naas: If it happened again, I would call the person and just simply say, if this happens again, you're going to see a telegram come across your desk to the Ambassador, pointing out that the message was not appropriately cleared by the Department of State and that he should ignore it or have the office involved ignore it. That worked.

But much more than that kind of threat is simply getting to know the people well, -- these bureaucratic wars have gone on, will always go on. I've always felt that most of us are trying to work more or less towards the same ends, our national interests. We might view them somewhat differently, depending where you sit, but that most problems in Washington, if you take the time, can be worked out-- not all-- by simply having everybody work like hell together.

And so I-- obviously operational messages, personnel messages, all that kind of trash went out and they never bothered me with it. But after I'd been on the job six months or so, I did not view that any longer as a problem.

Q: Now in October '74, before Kissinger traveled to Iran on the November visit, Clark McGregor of United Aircraft wrote him a letter asking about the proposals for helicopter co-production. Apparently United Aircraft, through its Sikorsky Division, Boeing and Bell were all competing for the same contract at this point. Now McGregor was worried that Bell had a political edge over the others, over United and Boeing, and he asked Kissinger to let the Shah know that the U. S. supported the idea of equal opportunity, that he was free to choose from any of the three competitors when he made the decision on who would do the co-production of helicopters. Was this issue brought to your attention?

Naas: Yes, I knew about it. I mean, I'd forgotten until you raised the thing, I'd forgotten about that particular competition. But-- and this is relying on a fairly weak memory--I think the Iranians were given all three proposals. But Bell obviously had the edge right from the beginning.

Q: What explains that?

Naas: Because they were already running a helicopter training program and the Iranians had already bought a large number of Bell helicopters. I don't know what Bell's eventual employment in the country just in this training program was. So they had the edge simply

by their presence and by the Iranians' general satisfaction with the particular helicopter. So, as I said, a lot of the Bell employees came from very diverse backgrounds and created a myriad of problems for the consuls and for the Embassy. But I think Iran was generally satisfied, and Bell came up with the co-production proposal which the Iranians did accept. But again, to the best of my memory, all three proposals-- whether Kissinger raised it himself, I honestly can't remember. But I do know that we tried to be very, very careful on that sort of thing, to make sure that competing firms had a reasonable, a fair, opportunity. Part of it, frankly, was cover your ass, because I never wanted to be in a position where I could be charged with unfairly favoring a particular manufacturer. It would have been ruinous to me personally, as well as the State Department and the government. So I was quite careful on that. The government as a whole was very careful on that too. Political-military affairs would be heavily involved in this kind of stuff and they had to be very, very careful.

Q: You mentioned earlier this-- I guess this was a wee bit earlier, about March '75 Kissinger and-- I guess and Hushang Ansary signed out this fifteen billion dollars non-arms export agreement. I guess it was signed in Zurich. In March '75, I think? Well, it's one of the big deals.

Naas: It was signed here in Washington. At least the big deal, the really big deal, was signed here in Washington in the State Department with a great flourish. In fact, it was one of those amusing things, because after the joint communique was agreed upon-- you know, last minute fiddling around with the text, as the Iranians kept trying to get more

stuff into it, and I kept fighting them off--Rudd Poats and I-- had the thing typed and to my terrible embarrassment, I missed a major typographical error, where the material, actually some important material was left out, and I was so tired at that point, I didn't notice this. The text had to be retyped by the Treaty Affairs Division. So by the time we had the final session in Washington, Kissinger and Ansari didn't have the full text, but they knew what was in it generally. And Kissinger made a joke. He said, we've got the last page-- showing the reporters' little folders and all that-- and he said, "This is how much I trust my Iranian colleague. I'm just signing a pig in a poke kind of thing." And he signed it. And I escaped having my career ended at that point by the text eventually coming down and it was okay. But the delay was one of my oversights.

But Rudd Poats, along with Chuck Robinson, were the driving forces on the larger issues on some of this. And where they ever got the figure of fifteen million or whatever it was, I never could understand. As I told you, I think, earlier, Rudd called me and I said, figure it out yourself. And I sat down and made a series of assumptions of what we might sell Iran, and that didn't come to that at all. So it was just one of those grandiose little things.

Q: Now, as you mentioned earlier, this agreement included provisions for the sale and construction of nuclear power generating plants. The construction of nuclear power plants raised an issue you've sort of alluded to already, the question of nuclear arms proliferation. Apparently the Shah wanted the right to reprocess spent nuclear fuel, while the Ford Administration was concerned about the possibility of misuse for military purposes. Now how was this issue handled, the question of reprocessing the spent fuel?

Naas: You know, it's the one issue that I might have difficulty commenting on fully, because the materials are still considered classified on this. But you're right, the Shah's insistence on having what he called complete control of the entire fuel cycle process was the stumbling block right from '74 on. We struggled with that one in a whole variety of ways. One of the guys in Policy Planning came up with the brilliant idea of regional re-processing plants, in which we would have a say in investment. The Shah rather liked that idea, but it never got off-- I forget why--the ground.

And so it really wasn't until 1978, the summer of '78, that we finally reached agreement on that particular agreement. And I can't go into detail. The one thing I know, it's still considered quite sensitive how we handled that. I'm not avoiding it.

Q: Okay. Well, maybe some day.

Naas: And frankly, it's not that sensitive, but I know that-- for example, in my current job of-- part-time job in declassification of documents-- requests have come for all the documentation on the negotiations and the final text and all that, and we've never released all those texts. I think some people know pretty well what's in them.

Q: Certain State Department participated in it, I take it?

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Naas: It's a very complicated agreement, and I know the last time somebody from the Carnegie Foundation, who's an expert in this area, asked for this agreement, I checked through and was told that it was still considered classified.

Q: You mentioned earlier your assistance, the time you spent working with representatives of arms corporations and other corporations involved in Iran, in terms of investment and trade activities generally. Were most of the firms that were involved in Iran or interested in Iranian markets, were they mostly large corporations? Fortune 500 types?

Naas: You know, after the period of '74-'75, I think any American who thought he had a saleable idea went to Iran. I remember Ambassador Meyer had gone out-- I forget what purpose-- and he had to sleep on the pool table one night in one of the hotels. Not a hotel room available. The British, the Americans, the French, everybody who thought he had a great idea was out there. I remember some of the wildest people came through my office to get a general briefing on Iran as they went out and tried to sell the Shah or some part of the government on how important a consultant he could be in a particular area.

So at the beginning you had companies of all levels. Individuals, some pretty disreputable ones frankly, went out there trying to get their hand into the golden pie. I did my best now and then to discourage some individuals, but again, I was on thin ice telling them not to go. I remember saying, now if I were you, I'd save my money and not go.

So most of the companies did their own work. GE, for example, had been in the country some time. You've talked with Bill Lehfeltdt. AT&T got the contract to do the



major communications system. U. S. auto firms were interested, were there. Tire firms were there. And they largely did the work for themselves. They were interested primarily in sharing the Iranian domestic market. Some firms felt that perhaps in the long-term future, when Iranian manufacturing skills and the quality of the product improved, that there might be a regional export for them as well. But I think it was the Iranian domestic market.

Q: Now according to Michaud's memorandum, the Iran Desk as well as the Embassy spent considerable time assisting U.S.

businessmen, as you've already indicated. Was the type of aid you gave them mostly information as to the market?

Naas: Yes. The market and general advice. You know, the Counselor for Economic Affairs and the Commercial Attache probably on a slow day would see five or six business people who were coming through, or people already established, who would drop in to brief him on how their project was going. And a lot of the advice would be given on simply the market as we saw it in our wisdom, but also how you operated within the Iranian business and political situation.

There's an excellent airgram that came out in 1974, I think-- '73, '74-- on corruption in Iran. That was recently released. I can't give you the name of the person to whom it was released.

Q: Didn't Lehfeldt work on that?

Naas: Yes.

Q: Yes, I've seen that. It was in the captured documents also.

Naas: Well, good. It was that kind of thing that started to concern us. If you've seen the document, then you know what our concerns were too. And, of course, that became a-- various ill-taken actions-- a real headache for me as Country Director. For example, the Grumman deal with an Iranian-- I can't say five percent, it was more than that-- became a real bit of friction in the relationship. Mostly between Grumman and General Toufanian, the Iranian in that particular organization, but I got heavily involved in it, because all the people from Grumman kept me informed and came down and talked to me, et cetera, and wanted our help. Not much we could do about it.

You had some of the same kind of problems Lockheed. These were various expenses some by error, some perhaps not by error. So our interest in possible corruption, or the misuse of the middleman, remained a problem right up to the last days, when Ross Perot's people were seized on various charges, that, I'm convinced, were incorrect.

So that that was a continuous problem for the Embassy and a lesser problem for me, but when I went there, of course, the Ross Perot problem, in the months of December and January, was a major headache for me.

Q: This is something I should have mentioned earlier, but around the same time, the agreement, the fifteen billion agreement was announced and signed, the Shah agreed to

provide more oil to Israel, to induce the Israelis to withdraw from the Sinai Peninsula, as part of the Arab-Israeli agreement that Kissinger was trying to forge during this period. Did you play any role in discussions over this question?

Naas: No. As you know, as part of the Sinai withdrawal we agreed, to be the provider of last resort, if oil was shut off, we would either provide it or help Israel find other sources. I was aware that we had Iran's understanding or agreement that it would continue to provide oil. I played no personal role. It was strictly the Secretary himself.

Q: Do you know if the Shah needed any inducements to go along with this arrangement?

Naas: I'm unaware of any. Again, the Shah would have viewed this as a natural step. I mean, he was very interested, by this time, in developing a relationship with Sadat, and would have been in favor of the policy of withdrawal from the Sinai, and if he could provide help or assistance, he would have seen this as in Iran's interest. There was no necessity for a quid pro quo. Back to the point I made earlier, his weltanschauung was pretty much the same as ours.

Q: Now in May 1975 the Shah, I guess, visited Washington for the first time that you were Country Desk Director. He visited Washington to meet with President Ford and Secretary Kissinger and so forth. Did this visit have any particular purpose that you can recall? Was it just to meet the President or-- ?

Naas: Basically the Shah wanted to meet every President. And he had. As I recall, we received indications by him that he would like-- he had met Ford before-- to visit the President anyway. We saw this as part of the alliance relationship, as a very natural kind of thing. I really do forget what our briefing papers had in terms of what we were expecting from the visit, but essentially a good will kind of thing. And I must say the Shah was very pleased with the visit.

Q: Now apparently during the visit the Shah met with James Schlesinger of the Defense Department and others to discuss the possibility of buying Boeing 707s with AWACS systems. I guess this was the first time this was brought up, I think, this question of getting AWACS with Ford. How did this request go over, do you recall, the AWACS issue at this stage?

Naas: I really don't remember. Schlesinger as Secretary of Defense was more skeptical about Iran's absorptive capacity, as well as some of the geopolitical thinking that went into the policy. But as the guy in charge of all the people who are out there, he was greatly concerned about the possibilities of corruption by American firms, an over-zealous pitch for the Iranians to buy things.

So I don't really recall. I know the subsequent steps, of course, is that we did a dual survey. We made a major survey of a ground-based radar system in lieu of AWACS. I read all the papers and I participated in writing all our State Department testimony on the AWACS thing. Some of the experts concluded-- and I think this was probably an honest assessment-- that a ground-based radar system in the long terms would be far more

costly, almost impossible really. I had seen all the maps of areas that wouldn't be covered properly, and particularly projections of Iranian manpower needs. A complete, really effective ground-based radar system was going to be far more demanding in manpower, and eventually probably in terms of money, and I conclude that therefore AWACS made sense.

As you know, Lockheed has their P-3. And, of course, the Lockheed people felt that the P-3, of which the Iranians already had a few, really could do the job. And Lockheed was given full opportunity to make its case. In fact, the Shah became-- I remember one time-- really quite annoyed, because we wanted Lockheed to have one more chance, and, you know, he said, "I've already made up my mind. I want AWACS. I know what the P-3 can do. I've got it."

But up on the Hill I remember during the testimony, when I was talking up there, there was some belief that Boeing and we were working together against Lockheed. So, as I say, the P-3 program, the Lockheed people had full opportunity to present their proposal of the use of P-3. And the Navy, of course, was interested in this. The Navy uses the P-3.

There's no doubt that the Defense Department was in part swayed towards AWACS versus the P-3, in that there was going to be a break in production on the AWACS. We had not yet convinced the Europeans and others to buy AWACS, and no European country had yet made-- this is my memory-- had yet made a decision to buy AWACS. So you had a real production problem -- and our own purchases of AWACS were staggered out, and there was a break in the production line in there that the sale of AWACS to Iran would have filled in nicely. It would have kept the production line going. One interest to the Pentagon in any arms sales is obviously that it will cut the unit cost for them too, and you

always put in a little charge for research and development, so you get some of your money back.

I've never heard anybody call this a driving factor, but it was a factor people took into account. You charged four per- cent. There was some R&D money in that that the company gets back and might cut our own unit cost. So that's always an interest. So you had that dual interest. I think the people honestly felt that the AWACS was the better airplane, but it also fitted in better with our own use of AWACS and continued desire to make it the principal battle control station in Europe.

Q: Now you mentioned earlier James Schlesinger's concerns about absorptive capacity and economic implications in the arms sales for Iran's internal economy. To what extent were officials in the State Department beginning to share those concerns at any level? From that point, when the '76 Senate Foreign Relations Committee report on arms sales indicates that some people at the middle level and lower level State Department were worried about these various statements that Schlesinger was worried about. Did you get a sense of this?

Naas: Oh, yes. I was concerned by these problems. Yet I had a dual reaction often to the statement, "My God, how can they absorb it?" I had a lot of discussions at the Pentagon about this and it was pointed out that when we first went into the F-5 program, people said "How are they going to handle it?" They handled it very well over a period of time, so that eventually, I think, we had one or two people in the country of our own on the F-5 program. Lockheed had its own people there who helped out. A lot of our

manufacturers had their own representatives at American military bases. That's not unusual. They also absorbed and handled the F-4 program very well.

You had a history that over a period of time the Iranians proved quite competent to handle the infusion of new systems. So I felt that over time a lot of these other new systems would be absorbed, probably at far more expense than the Iranians thought, with far more problems. A lot of headaches involved. But they could eventually handle these problems. The Sha thought something was going to be thoroughly absorbed by, say, '85. My feeling was it probably would be 1990, but that it was do-able.

My other overriding attitude came from the White House memorandum, as I said, policy had been made. But I felt that essentially the Shah was the sovereign of an important state. He had the money and it was his decision to make. I argued strenuously at times at Policy Planning-- some of the younger people were concerned about this, and I said, you know, damn it, it's his country. Now maybe I was not prescient. Maybe I should have been very forceful on this, but, you know, it was his country. He's got his own ministers, he's got his own military people. Let them make their own bloody decisions themselves. I'd say "You know, he's as intelligent as you are." And how do we know what the reaction's going to be in his country. Well, in part they were right, in part I was wrong. I'm sure-- you know, all of these little things were little drops that eventually accumulated into the revolutionary current.

But as I said, throughout my whole career I've just felt that there's a minimum amount that we could get sovereign states to do. If you've got a big aid program going, then that's different. Then you can control the flow of what you're selling or giving a country. When they're buying, as the Shah was, he can pick what he wants. And he was not above going

elsewhere as we know, he bought the British Chieftain tank. When we were slow coming up with the Nuclear Cooperation Agreement, he signed agreements and had contracts with the Germans and the French. I just didn't feel we had quite the leverage that many believed--and I'm not sure we tried to use it that much.

Q: Now during '73 to '75 James Schlesinger was concerned about these problems that you mentioned, and he first sent Richard Hallock to work with the Shah, to work with General Toufanian on these issues, and later on sent Eric von Marbod in '75 as Senior Defense Representative, who sort of supervised the MAAG's operations and the arms sales program in Iran generally. Now how much support did the plan for the Senior Defense Representative have at the State Department? What was the response to that when it was proposed?

Naas: Let me take one step backwards. I'm not sure what the status of it is, but probably the best document is the Blitgen report. I don't know whether Scott Armstrong has it, but-

Q: I haven't seen it.

Naas: I know it was in part of the documents that were reviewed for the White Paper, but since it was a DoD document, I can't recall. In the declassification process, if you come across another agency's document, you send it to that Agency-- But, Blitgen, Glenn Blitgen, was pulled out of his job and made sort of Schlesinger's specialist to really look into the



problems that were developing. It's a scary report. I mean, more fears rather than proof of things, the fears of the future.

I didn't see that report until very late. Glenn and I were friends who go back to the fifties, but he was under instruction by Schlesinger to show to no one, to share his views with no one until it was all done. And Glenn held to it. I pressed him to tell me what was going on and he wouldn't. He said, "I can't."

When the idea first came for Eric von Marbod to go out, I'd say we were supportive. Not wildly supportive. Ambassador Helms was at first concerned about a new very senior person coming out. And I suppose part of it-- I'm not sure whether he viewed it as a sort of a comment upon his administration of the mission or not. Anyways, I personally convinced him, when he had to come back for more Senate hearings, and showed me the various messages about Marbod, a couple of which I had not seen, to not oppose the idea. As we went over the council, I told him that the heat was high and there was enough interest by Schlesinger and concern on the part of everybody that things could get out of control and lead to a whole variety of scandals. You know, the pressure was heavy from the Hill. And that I thought even regardless of what Eric did that his assignment should not be opposed. I said, I think from now on our main problem is working out-- and your main concern should be working out-- the terms of the agreement this of what his responsibilities are, the extent, nature, et cetera, and get that written down, with your agreement a DoD and State agreement. This was done. Sid Sober did more of the actual drafting and work on that than I did. I was busy with a whole variety of other things.

In retrospect, the Schlesinger effort in part was a cover your ass thing. "See what we're doing." You know, we recognize the problem too, Senator. But it was also out of a

sincere concern, because the Blitgen report was pretty damning. At least damning in terms of what could happen. So I think Eric did a hell of a good job out there. He really took control. I think everybody agreed he did a marvelous job. It was so good, in fact, that when he finally decided he wanted to come home, I think he felt and the Embassy felt that the

situation was sufficiently controlled that we didn't need another defense. And we sent in Phil Gast as Armish-MAAG chief, and Phil was a super manager.

But that was one of those little things. I think it turned out to be a very useful step.

Q: Now Schlesinger remained concerned about the problem of arms sales and in late '75 he requested President Ford to authorize an NSC level reconsideration of U. S. policy towards Iran. Now what did the State Department, or rather Kissinger, think of about this proposal to reconsider policy at the NSC level? How did this go over?

Naas: Like a lead balloon. The last thing Kissinger wanted was a re-examination of policy and the intrusion of the Secretary of Defense or anybody else into his management of foreign affairs. As you know, that request sat with the NSC for a long time, and it finally came out as a study of Iran and the whole Persian Gulf. That was not accidental. Let's put it this way, a number of minds got together and decided that you couldn't kill the idea, but the best way to handle it was to broaden the subject so that frankly you made it almost unmanageable. As I said, a couple of fairly active minds got into that one on that.

Q: These are NSC staff people did that?

Naas: And a few people at State. But as you know, the study eventually was done, and it was an enormous piece of paper. My God! And done at the very end of the Ford-- as I recall, at the very end of the Ford administration the paper was completed. Two hundred pages or more, I forget what the hell it was. It was a useful work eventually. Of course we were under pressure too, you know, from the Hill. We made a commitment to look at our entire policy in the area to Senator Humphrey during-- I'm not sure, it may have been the AWACS or it may have been the F-16, Humphrey and others. We finally were forced in the Carter period-- I forced to make the concession that we wouldn't send any large arms programs, further arms sales, up to the Hill until we had done a thorough study of policy. That was toward the end of my period and I'd left, thank God. Those kind of papers are pretty awful to write.

Q: Has it been declassified?

Naas: I don't know.

Q: Now in August '76 Kissinger visited the Shah again apparently. And there they announced a plan for additional arms sales to Iran. The Shah would buy ten billion dollars in arms under this plan. This would be part of a fifty billion dollars program that would last between '76 and 1980 ostensibly. Now was this another case of numbers sort of being made up, like the other, the earlier agreement, the fifteen billion dollar agreement involving the nuclear power plants?

Naas: I don't think so. I forget the entire contents of what was proposed in that program. But we had a pretty good understanding what a hundred and sixty F-16s, for example, would cost.

Q: It involved F-16 sales?

Naas: Yes. So you had a pretty good idea of what your costs were on that. The big discussion on that particular problem was delivery time. I mean, the Shah wanted very quick delivery on F-16s, which the Pentagon opposed, simply because it would cut into our own F-16 program. But we worked out a compromise with the Pentagon and with the Shah in which we gave a little and he withdrew a little bit in terms of time of delivery and amounts.

Q: Did the visit have any other purposes besides announcement of this arms agreement?

Naas: I'm not sure where else Kissinger went on that visit. I can remember preparing the first briefing paper for him, in which-- and the sort of the way you do this, you know, you have a general statement of your objectives and all this and then maybe a whole list of separate paragraphs or pages of issues that may come up. Issues the Shah may raise, issues we want to raise.

Then I remember that Kissinger had a meeting with Roy Atherton and me and George Vest, who was head of PM [Politico-Military affairs], and a few other people, of looking

ahead to the visit. And he said, "What am I going to do out there?" And he looked at my paper, which I thought was brilliant, and he said, "I know all this geopolitical-- " and he used a four-letter word. "What else am I going to do out there?" Well, sir, you've got the F-16 program and these are the problems. He said, "I know all about that." And we had a list of all sorts of little things that might come up. There was no major purpose in the visit.

Q: Now around the same time-- when they met apparently the Senate Foreign Relations Committee report on arms sales was released. I think it was in the same month. Both Kissinger and the Shah made comments on it at their press conferences. What did you think about the report?

Naas: At the time I was more concerned, I must admit-- and here's where I say a Country Director by nature becomes a bit of a special pleader-- I was a little concerned when I saw the first draft. I was more concerned with some of the tone of it. I felt frankly that part of it was insulting. You know, I'm looking at it with a very narrow viewpoint at that point of what impact is this going to have on our relationship as a totality, what kind of problems is it going to create for me and for the State Department?

So in working, with the people on the draft and I was able to persuade them to change some of it and drop some of it. Not nearly as much as a special advocate-- in the sense that I was-- would have liked to have seen taken out. But they were very cooperative in revising some of the language and content, to make it less objectionable. In retrospect, it was a damned good report. They pointed out all the problems. Bob Mantell did a

very good job on that.

[END OF INTERVIEW]

VA

Interviewee: Charles Naas

Session #2

Interviewer: Bill Burr

Bethesda, Maryland

May 31, 1988

Q: The second part of the interview with Charles Naas took place in Bethesda, Maryland on May 31, 1988.

Mr. Naas, our last interview ended in the midst of a discussion of arms sales issues, and at one point you mentioned General Hassan Toufanian. When you were country desk director, how much interaction did you have with Toufanian?

Naas: Whenever Toufanian came to the United States on an official mission, a meeting at the Pentagon, I was always invited to attend those sessions, and I sat in with the DSAA people. Then the specialists would come in from the various services. And I was a good friend from the old days with a General Masoumi, who was Toufanian's deputy. I'd known him from Turkish days and it was sort of just old friends sitting around. Basically Toufanian would make the strong pitch of what they wanted, et cetera.

Q: What were your impressions of Toufanian?

Naas: Extremely competent negotiator. My impressions of him certainly were. Of course, I saw him a few times in Iran. He knew his arms business, but above all he was a very good negotiator. A very tough negotiator. So I think he, to the extent possible, always

got the best deal that he could get when he was here. He knew what the issues that were involved and he had a pretty good idea of what the issues would be involved within the U. S. government as well. You know, whether there would be a Navy, Air Force competition, et cetera. So he was pretty well clued in.

Q: Now there's been some discussion in recent years about his relationship with the arms manufacturers, whether or not he personally profited from the arms sales that he oversaw from the U.S. to Iran. What did you think of all those allegations? Did you have any information on them?

Naas: I have no direct information whatsoever. That he received a cut were widespread. I have no idea whether they were true. One thing that a lot of Americans didn't understand in handling people like Toufanian and others within the Iranian government who became fairly wealthy is that the Shah had a practice, which I suppose goes back to the history of the Persian monarchies, the fact that he rewarded individuals directly. If you want to go back to the old stories where the person who sat on the throne gave a bag of gold or gave jewelry to some courtier who had done a particularly good job or was particularly favored. And the Shah did this with individuals who worked very hard for him, who were not receiving, obviously within their pay scale, the kind of compensation that the people of their abilities would receive. And he rewarded them. I know of one instance in which I will not give the name, in which the Shah gave an individual what you might call the five per cent. He became the go-between when Iran served as the go-between between a European country and an Asian country in the sale of certain equipment. And



that Iranian individual received the basic intermediary's fee. A perfectly legitimate fee as the intermediary. Instead of that money going to the Shah himself, this individual was rewarded by getting that particular contract, if you will.

I know of other instances in which people very close to the Shah, who on his birthday were given very handsome rewards. This is not to say that corruption was not terribly extensive in the country and that many, many people became very rich through practices that we, and they themselves, would call corrupt. So it's not clear to me that-- or rather it is clear to me that many individuals received their wealth in what in Persian terms would be a perfectly legitimate way.

Q: Now apparently during 1976, if not earlier, there were discussions between the U. S. and Iran over a possible barter agreement on trading weapons for oil. Did you take part in any discussions on this question, this proposed arrangement?

Naas: My part in the discussions were primarily with Mr. Poats, who was working with Charles Robinson at that time. And Robinson was the lead man in the negotiations with Ansari, the Finance Minister of Iran.

The problem basically was that Iran was starting to feel the financial pinch and they were looking for ways to unload more oil, which they had control of rather than the consortium companies. And several American companies-- General Dynamics was one; I'm not sure I really can remember all of them, but the whole idea was of setting up a swap. The problem came, of course, from the fact that General Dynamics and the arms manufacturers didn't have a clue at all about oil, and it's not their business. So they would

try, or did try, to work out deals with various oil companies. In fact, the oil company would take the oil, sell it, give the money to the arms manufacturer, et cetera. The oil companies usually wanted a discount. A small discount; but a small discount, you know, on millions of barrels adds up very, very quickly. The oil companies felt that they could in those days get all the oil that they wanted in the open market and therefore to go through this cumbersome process, they wanted a discount. A couple of companies in the New England area-- and I can't remember their names any more-- were particularly interested, because of the assured supply of heating oil into the area. You know New England has a particular problem. But again, at least as long as I-- in fact, no deal ever went through that I am aware of, because the Iranian government was totally unprepared to give any kind of a discount. And I think as these talks went on, the market firmed up a little bit. I would have to go back-- one would have to go back and look at the statistics, but I think the market firmed up and they became less interested.

But the arms manufacturers were very interested themselves. The talks went on-- I don't know how many sessions Charles Robinson had with Ansari. But nothing ever worked out.

Q: As far as the State Department went, was the decision in facilitating these agreements if they were to come to pass, there was no opposition to them?

Naas: In that particular administration of course that would be very-- I suppose Ford would have been in power. I'm not sure whether any of this occurred during the Nixon period. But anyway, as we discussed before, the policy was to let Iran basically determine what

its own arms needs were. And policy, U.S. policy, coming from the directive that we discussed last time, was to facilitate. Also you have to look at the fact that this would have made jobs. It would have been additional income for American firms, et cetera. So there was no strong objection. This, by and large, was a very tightly held negotiating exercise. There were times in which I was not supposed to know the details, but other people felt that as director and the one who, at least in theory, knew the most about Iran, and who was directly involved all the time in various arms sales, that I should know. So therefore I was kept, sometimes on the side, fully informed of what was going on.

The only role I played actually would be in talking with Rudd Poats and I guess maybe once or twice with Robinson, about the problems that I foresaw. And that would be about it. I was always on the sidelines on this really.

Q: I was just wondering if there were any objections, because I guess historically the State Department had sort of objections toward the idea of bilateral barter as opposed to multilateral trade. I thought there might have been some kind of ideological objections maybe in the Department to that kind of an arrangement.

Naas: You know, so much of it was tightly held that not an awful lot of people-- most people did not know enough about it to get into the action to oppose it, if you follow me.

Q: Okay. Now in 1976 the Inspector General's report on the U. S. Embassy, which was done actually in the fall of that year, recommended that the embassy analyze the economic impact of arms sales, so the embassy would have the ability to provide information to the

Iranian government as to the cost and implications of arms purchases it was making at that time. Was any action taken on this recommendation made by the Inspector General and the State Department

Naas: I personally don't recall any specific action that the embassy came up with, which is not to say that it didn't. After all, it is twelve years ago. The thing that I most remember is that when Ambassador Sullivan came to Washington for his briefing before going to Tehran, which would be the summer of '76, I guess, wouldn't it be-- ?

Q: Or '77?

Naas: '77?

Q: Yes, after Carter was inaugurated.

Naas: That's right. It would be the summer of '77. He also read the Inspector's report and he read voluminously on Iran and just in his guts felt that something had to be done, in terms that this was an economy in which not too many people knew what was going on in it, that the country was in grave danger of taking on far too many commitments. He asked at that time that somebody in the Department do a basic study on the Iranian economy: its commitments, its likely income problems, et cetera.

That unfortunately is the kind of study that the State Department was simply not in a position to do. They talked to a couple of people about a possible contract to have it done

by outside economists. It never went anywhere. Everybody had the sense in the '76-'77 period that you might be looking at an economy out of control, or where commitments were being made and nobody really-- and this, I think is quite true, even within the Iranian government-- had an idea what two years from now the consequences would be. And three years. You know, flow charts. And, you know, the economy went through probably '76-- I guess it would be-- a down-turn. So everybody looking at it, had a gut feeling things weren't quite right, but there was not much that we did about it or could do about it really. Really to do a job like that would have required a major intrusion frankly into Iranian finances, which the Iranians, I'm sure, would not have been prepared to permit. To do that kind of study in the United States with one or two people I think was simply too-- it could not be done. I know Bill-- Bill Sullivan, that is-- suggested once or twice to the Iranians-- or to the Shah-- that Iran might ask the World Bank to come in and take a look. There's a history of Iran's relationship with the World Bank, which I never really pursued backwards. But it was not taken. The recommendation was not accepted and not really taken very well.

Q: Was there some tension between Iran and the World Bank that you were sort of aware of? Of World Bank projects?

Naas: Yes. And what it is, I don't know. I never had the time or frankly the inclination to go back and say, why this sort of standoffishness to the Bank? And I think part of it, of course, was just simply that Iran by the seventies was very affluent, was running its own affairs, did not want once again to have foreigners looking over their shoulders, as they'd

gone through centuries of having foreigners look over their shoulders, including Americans with the AID program. Simply didn't want them. It was a question of pride.

Q: I think one economic issue that you mentioned last time was this whole question of the settlement of lend-lease debts from World War II. Was any progress made during your years on that issue?

Naas: No. We kept pursuing this under pressure from Congress. No, I think I mentioned before, Iran eventually came up with a counter-claim of several hundred million, as I recall, of damage done to its rolling stock, damage done to roadbeds, et cetera.

Q: During the war?

Naas: During the war. And this was clearly just a counter-stroke. They weren't serious. But they wanted to indicate they basically had no intention really of paying the thirty-six, thirty-eight million dollars, whatever it was, that we said that they owed. And we had-- the teams went out and visited and talked with the Iranians, but no progress was ever made on it.

Q: You had negotiating teams who were assigned to work on this?

Naas: It was a small negotiating team. Like one lawyer came out when I was chargé in the summer of '78, trying to find out more about their claims. And we did go through the