

in the sea of troubles" speech, or "the great arc speech," as we used to call it. Or the simile of "the Shah is trying to pull the Iranian nation out of its womb in to the twentieth century" so forth and so on. I don't know where he developed those things, but they were colorful if nothing else.

But that was an article of faith that there was just no way that he was in any way challenged by any political movement. Sure there would be the odd terrorist. As days went by, it was clear that yes, there was a movement that was out to get him or somebody--anybody they could get to ambush Ambassador MacArthur even, as you probably know. They tried the Shah several times too. But no, there was never a question that he was in any danger in those early five years. The first five years.

Q: Say in terms of the religious opponents of the Shah. Were there any look at them, or thought about them as--

Mr. Lehfeldt: Very little. We knew that with the death of the grand ayatollah--(Kashami) I forget his name now. He (the Shah) had never succeeded in bringing himself or getting anybody to agree on who should be named to replace him as the grand ayatollah. My own feeling is that he just decided he wasn't going to do it anymore. After all, my own view of the sweep of Iranian history is that it was a constant battle between the monarchy and religious--the secular and religious, as exemplified by the monarchy and the religious establishment. I think that goes back as far as the Safavids at least. I don't know whether it went beyond that or not. Probably

so. If you look at some of the old pictures when Reza Shah came in to power, the majlis was made up of mostly mullahs--or at least they were wearing turbans. I was told later when I made that observation to somebody that, "Well yes a lot of people took on the religious attire at that time, but that didn't necessarily make them Mullahs." I still think most of them were, though. At any rate, the religious element was always there.

When Ataturk successfully--at least up until now has successfully--made stick the division of church and state in Turkey, Reza Shah wanted to do that in Iran, and [King] Amanollah wanted to do it in Afghanistan.

Q: Who?

Mr. Lehfeldt: King Amanollah, who was assassinated and overthrown in 1929 by Bacchaw Saqao. At any rate, that's neither here nor there.

Reza Shah's desire was to try to separate church and state. But he had a much more difficult time of it, because the relationship of church and state in the Shi'i tradition I think is stronger than in the Sunni tradition. I'm not totally certain of that, but I think it's--

Q: That's my impression.

Mr. Lehfeldt: So it was more difficult for Reza Shah to impose the same sort of reforms that Ataturk imposed. But that was his desire.

Had World War II not come along to frustrate any further developments by Reza Shah, he might have got them there. But, who knows.

Q: Now in terms of the, say, foreign relations issues. How would you describe, as you understood it then, the policy approach that Nixon, Kissinger, and Rogers took towards Iran.

Mr. Lehfeldt: It changed. Perforce it changed with the withdrawal of the British from the Gulf Area in 1970, 1971. We had relied on the British for a variety of activities in those days, and we were not either psychologically geared or I believe materially geared to replace the British in any real way. Certainly not commercially. [laughs] The advent of a Britishless area, with their ability to manipulate, maneuver, and control made it incumbent on the US to try to look to its policy approach to the area. That coupled with the growing preoccupation with Vietnam--leaving Watergate alone--and the rapprochement that Nixon achieved with the Soviets and the Chinese made it clear to all of us that some changes in American policy were necessary. Now whether it was necessary--well, be that as it may. What eventuated was of course Nixon's sort of anointing the Shah as the peace keeper for the area, to the irritation of the rest of the Arabs, and to the--I presume--great joy of the Soviets. I'm not sure, knowing that he couldn't do it.

But some great things, I think some useful things happened as the result of that. I believe the agreement engineered by the Algerians with Iraq over the Shatt al-Arab was a real achievement, and would--all other things being equal--have led to a

good deal more stability in the area. I don't know whether that was the result of Nixonian-Kissingerian policies or not, but that was certainly one--it followed from them, anyway.

[End cassette one, side one]

[Begin cassette one, side two]

Mr. Lehfeldt: What was I saying?

Q: You were sort of discussing Nixon's diplomacy.

Mr. Lehfeldt: Yes.

Of course the effects of Nixon's diplomacy towards Iran were that the Shah, during the 1973 oil crisis, and as a result of the Arab-Israeli War and the deepening Vietnamese crisis, turned out to be one of the most staunch areas of support for the United States, in the sense that he made available a squadron of used, but a squadron none the less, of F5E's for transfer to Vietnam. He made sure that our Navy was resupplied at sea--of course we paid, none the less the supplies were there, when the Arabs were cutting us off--and other evidences of strong support that flowed from the Nixon-Kissinger policies. There were exacerbations in other directions, but in terms of strictly US-Iran arrangements and relations they were good.

Q: Was there any dissent in the embassy or at the State Department or elsewhere from the policy? Any thinking that maybe it might not be workable?

Mr. Lehfeldt: I wasn't aware of any. Then, that wasn't my bag.

Q: Yes, exactly.

One thing you mentioned earlier in terms of the question of stability. You said that as far as you know, Helms had given no directives saying, "There should be no contact with opposition people." To what extent were there discussions with, let's say, former National Front people. Was there contact with the opposition under Nixon and Ford?

Mr. Lehfeldt: Well of course it's easy to say there were no directives not to discuss anything with them. Mostly it was their decision, the opposition decision, not to have anything to do with the United States representatives. Very few of them would openly consort with us, or talk with us, because they were afraid for their skins as well. You know, those of us who didn't speak Persian particularly well of course were condemned to those who spoke English or French or German or Spanish or Italian or whatever. They were by and large the all ready coopted ones in to the Shah's system. The uncooperative ones, the active oppositionists, the Mujahedin, the religious fanatics, had every reason not to talk to us. So that for someone in my position to go off and seek out someone like that would have been fruitless almost.

Now, having said that let me say this, add this. We got some bitter complaints from the palace one day, from Court Minister [Assadallah] Alam. It seems that every American newsman or anybody

who came to interview the Shah came to the American embassy first for a briefing and then he comes up and asks the most embarrassing questions. [laughs] I recall--and you may recall this too, I don't know. In one interview with Mike Wallace, Mike Wallace came to the embassy and several of us briefed him. I briefed him for a couple of hours. Then he went up to the Shah and asked a lot of searching questions about his sisters' involvement in drug smuggling. Just absolutely infuriated the man. So much so that on his Sixty Minute portion covering the Shah, he was able to make the Shah look like a real fool. Unfortunately. I don't know why the Shah subjected himself to these things. There was absolutely no reason for him to. But he just had enough amour propre and enough egoism to think he could out smart these rather more experienced interviewers.

Q: In terms of the question of context--I mean the CIA had a station in Iran, but did they have people that would be in touch with, in a sense they must control the Soviet Union questions.

Mr. Lehfeldt: You know, as economic counselor I wasn't--again--privy to the things they did. When I was acting either as chargé or a DCM, which I did at various times under Helms, yes then I had a little bit more knowledge but I really don't have a great feel for the kinds of things they were sending in. I saw a lot of their reporting. Yes, they had people scattered around. I don't believe, I never really got the impression, that they were actively cultivating oppositionists. Yet in post-revolution discussions with some of my friends at the Agency, it comes clear that, you know, they had pretty

good relations with a lot of these people. They knew a lot of them.

Q: Through the years.

Mr. Lehfelddt: Over the years, yes. Including Ghorbanifar.

Q: George Cave was station chief then, wasn't he?

Mr. Lehfelddt: No, he was never station chief.

Q: I thought he was station chief?

Mr. Lehfelddt: He was deputy. Station chiefs, unless it was a cover sort of arrangement, the station chief for many years was Bill Bromell followed by Art Callahan followed by somebody else, followed by a man who had spent the thirteen previous years in Tokyo, who was station chief at the time of the revolution. George at one time was technically working for me as my civilian aviation guy.

Q: That was the impression I had. That was his cover.

Mr. Lehfelddt: Yes.

Q: But he had an office somewhere else.

Mr. Lehfelddt: Yes.

Q: And the first one was Bill Bromell?

Mr. Lehfelddt: Yes.

Q: Okay, that's interesting.

Now, in respect to some of these policy issues. From what you sensed, what kind of interest made Iran important to Washington?

Mr. Lehfelddt: Well it was a market among other things. We had hoped it was going to be a growing market. It was a source, of course, of profit for our oil companies--considerable profit. It was an object of possible investment, and other companies were there besides the oil companies. From a military point of view, if the relationships between Turkey and Iran made sense at all after the demise of the Baghdad Pact, it was in the security sense of relationship with NATO and so on, and with Pakistan. And it provided a very important air route for American commercial, as well as military, aircraft from Europe to the Far East. Now they have to go all the way around. Well, that's not quite as important today as it was in those days, in the early days, when jets were just beginning. It was certainly important then. And from another set of glasses, the intelligence side, it provided a safe haven for some of our intelligence gathering operations on the Soviet Union. So there are a whole series of--and it was the kingpin on the Persian Gulf. In Doug MacArthur's time, he would often rail against the "radical Arab regimes of those wretched little states who have just been let free. We have to worry about their long range stability, and the Shah is the man to keep them in



place," and so forth and so on. Finish the statement. So from the point of view of that time frame, there were a whole set of interesting, if not necessarily overwhelming, considerations that made Iran important to us.

Q: How did policy filter down from Washington? Were cables circulated widely, or was it the ambassador who would give you briefings, or what?

Mr. Lehfeldt: Well of course we all, we came in and out of Washington. We were all--those, at least the senior officers of the embassy were privy to the missives that came out and to the periodic assessments, intelligence assessments. We had all the policy briefs that came out of Washington. Unless there was something particularly sensitive, we had access to all the incoming telegram files from Washington--to the ambassador, to the various sections. In the economic-commercial session, by and large I was about the only one who was privy to most of that. But, there was a certain amount of need to know. But when it came to things petroleum and when we got into these very delicate negotiations. John Washburn, certainly was privy to most of them.

Q: Who were your counterparts in Washington? Who did you keep in touch with in Washington in terms of economics?

Mr. Lehfeldt: Oh--[laughs]--good question. Sort of just sent things off in to the blue! No. [laughs] Partly that's true! Partly that's

true. You never knew who you were sending things to sometimes. No, the desk is always uppermost in our mind. At the time, for most of the time I was there, it was either Jack Miklos or Charlie Naas, John Countryman, Bob Dowell, Mike Michaud, and so on who were always understudies. Jim Akins and his successors in the oil-petroleum side. On the commercial side, it was a little bit more dicey because they just-- most of them--the Commerce Department were fighting different games. They didn't like MacArthur. They didn't like me, they didn't like my commercial attaché, because they felt we weren't playing the Commerce Department game.

Q: Who was the attaché?

Mr. Lehfeldt: George Ellsworth. Who was a funny man. You know, very strange, very effective, inspired great confidence in the locals. Was well liked in the American business community, but not by his own department. [laughs]

Q: He was part of the Commerce Department.

Mr. Lehfeldt: Yes. Well, he was a foreign service officer but a career commercial officer. Had worked for them for years! All over the world--Latin America, Vietnam, wherever. Very accomplished, knew the game.

Q: Did you keep in touch with officials at other agencies besides Commerce and State? Like Treasury or the Eximbank?

Mr. Lehfeldt: Treasury to a much lesser degree. Eximbank yes, because you know Henry Kearns used to come out and his minions used to come out. Whenever I came to Washington I would see Henry. I saw Bill Casey, one time when I was leaving Iran. He was then head of Exim. Treasury and certainly the then beginnings of what is now DOE [Department of Energy]. Mel Connant was part of the operation in Treasury. Bob Ebel, who is now here with Enserch.

Q: With what?

Mr. Lehfeldt: Enserch. It's a corporation.

Let me see, what other agencies. Agriculture I used to go see quite a lot as well, because we had extensive agricultural arrangements--CCC credits [Commodity Credit Corporation], Fat Lamb programs, Regional Pulse Improvement Project, and things like that.

Q: Most of the correspondence with Washington was done through cables, or was it also--

Mr. Lehfeldt: Cables. There was a good deal of official informaling as well.

Q: Yes. Letters.

Mr. Lehfeldt: Yes. Cables and what we called dispatches, which I guess, they're almost obsolete now.

Q: Those are the longer papers.

Mr. Lehfeldt: Yes. You were supposed to do your think pieces on those. They served that purpose in the early days, but as cable became so easy and so cheap, in a manner of speaking, dispatches became something that you could sit down and write your novel almost, and send it in. Somebody might read it, and find its way in to the archives, and you will have made your point. But you've had no effect whatever on policy.

Q: Now during this period, as you note, Nixon and Kissinger put in, in effect, a new National Security Council system, in which I gather the State Department lost some of its policy making authority on. Did you get that sense at the time, that State had a diminished role?

Mr. Lehfeldt: Well we had that sense but mostly because of the newspaper reporting that Bill Rogers was not considered to be an equal of anybody's in the White House. It didn't surprise any of us. Certainly didn't surprise me, because I'd lived through the Kennedy White House in the Department of the State, and they had the same approach to dealing with the State Department as the Nixon White House and as the Carter and as the Reagan White House! "Forget the professionals. We politicians know better how to do things." Well it was fine when you have real politicians with a great deal of background--as McGeorge Bundy, and so on and so forth, in the Kennedy White House. Even in the Nixon White House you had enough

professionalism, with Kissinger and the people he gathered around him, to have some faith that nonsensical things would not occur. But in the Carter White House, that faith was dissipated. In the Reagan White House--well, we're not in to that.

Q: The story is still unfolding.

Mr. Lehfeldt: Yes. They had a guilty plea, by the by, from [Carl] Channell today on conspiracy to defraud. He named as his co-conspirators [Oliver] North and, I've forgotten the other.

Q: That's very interesting.

But these arrangements that we're talking about at the NSC. Did this cause any problems for people at the embassy?

Mr. Lehfeldt: Not really.

Q: No real practical effect.

Mr. Lehfeldt: No real practical effect as far as we were concerned.

Q: Okay.

Now, one of the major issues during this period, of course, was the control of oil prices and production. How much work did you do on energy issues? I guess you've all ready talked about it a bit.

Mr. Lehfeldt: A lot.

Q: Apparently quite a bit.

Mr. Lehfeldt: A lot. Yes. John Washburn and Bob Dowell before him were really first rate professionals in the petroleum business. They understood it, they did a good deal of research in it, they had infinite number of contacts and associations within and without NIOC and the oil business and the private companies--British, American, French, Dutch. So, I never felt starved for information, in the daily practical sense. Where the US government was hampered was, the oil companies had been permitted--and some of this I've just picked up recently by reading about the Harriman missions and Hoover, that helped set up the Consortium after the Mossadegh days, and [John J.] McCloy--permitted the oil companies full and unfettered control. There was no requirement on them any time, to keep the US government informed. Indeed, our ability to get good solid, reliable, statistical data was very very low. The, what is it called--American Petroleum, API. It did not collect information. They collected some general stuff, but not the kind of information you needed for close analysis of pricing and supply, and so forth and so on.

So that as time went on, some of the things we had to deal with when 1970 and 1971--the early days of the Tehran negotiations--came along, we had some intractable problems that couldn't be solved that had been caused by other economic actions. For instance. The domestic refining and distribution systems of most oil companies were almost break even operations only. Because the companies had pushed all the profits to the well head. That's because unrepatriated

profits were not taxed! So, they had billions of dollars to play with for added exploration around the world, and development around the world, that were--until they repatriated profits--were free money. So that when the local government started--after the OPEC agreements--started taking a bigger bite, a much bigger bite, it made the distribution and refining operations unprofitable at home. That's why you saw a lot of stations close, a lot of chains sold off, and so forth and so on.

Q: They need to rationalize their systems.

Mr. Lehfelddt: Yes. None of us realized that until, almost too late.

Q: So you're saying the cooperation with the companies was very, nil practically.

Mr. Lehfelddt: Parlous, yes.

Q: Parlous. Before we get to the details, how would you characterize the general approach the Nixon administration took to OPEC as OPEC developed?

Mr. Lehfelddt: All the time until 1973, we had strict instructions to stay away from OPEC. We were not even to recognize it as a viable entity. ~~There may have been--no there wasn't an OPEC office in~~ Tehran but, the OPEC office was in Vienna. The embassy in Vienna was instructed to stay away from it. We had no knowledge of what OPEC

was doing as an organization. When the negotiations came along during the last days of 1971, I guess it was--the early days of 1971--that resulted in the increase of oil prices to, now these get a little hazy.

Q: You mean the Tehran agreement? February 1971?

Mr. Lehfeldt: The Tehran Agreement. Yes, February 1971. The results of that agreement were announced by the Shah in a television address, which we watched at Doug MacArthur's, at the residence. All the oil men were there because they didn't know what was coming out, either. They hadn't been told by the Shah or by anybody what was going on. Just as side light, the Japanese ambassador and a couple of his people had been sent out from Japan to monitor the things were also there, because he was an old friend of MacArthur's. The Japanese of course along with the Germans, who at the time were expected to pay for all of these increases, had no handle on any of it. John Washburn and I at the time, came to the conclusion that the Japanese especially would never let themselves get caught in that situation again. From then on we had a very very active Japanese effort to get hold of, get some controls one way or another--by investing in petrochemicals, by buying oil companies, by buying whatever. Until now you see heavy Japanese involvement all over the oil business. But at that time they felt very helpless.

Q: I'd like to ask you some questions about the Tehran agreement and how it developed, the Irwin Mission and so forth. How are we fixed



for time?

Mr. Lehfeltdt: It's almost six o'clock.

Q: Let's go maybe for a little while longer, then we can break off for now.

Mr. Lehfeltdt: Yes, sure.

Q: Now, many important developments in late 1970 and early 1971. Libya raised prices first, and the OPEC met at Caracas and declared their intention to take over oil pricing generally. How did the embassy I guess, and the State Department generally respond to that decision?

Mr. Lehfeltdt: Well the oil company strategy at the time, which was also the US government strategy, was not to recognize OPEC and was to keep the Eastern Med situation--which is the Libyan situation, we called it Eastern Med[iterranean]--separated, walled off, from the [Persian] Gulf situation. Gulf pricing and Eastern Med pricing would have no relationship one to the other. Even the oil that was delivered to the Eastern Med through pipelines from the Gulf were to be considered special from our point of view. Now the oil companies always suspected that Doug MacArthur gave this away in some of his loose talk with Jamshid Amouzegar and the Shah. I don't know. I think so too, but I don't have any proof of it. That he linked the two through the US government for the Shah and Jamshid Amouzegar, who

was then the, sort of the, leader of OPEC, and forced the oil price increase of January 1971 that did relate Eastern Med and Gulf prices on the oil Consortium in Iran.

Q: Was there much concern that Libya would convince OPEC to use oil as a political weapon?

Mr. Lehfeldt: Yes there was. That was why it was our desire and firm intent to separate Eastern Med pricing from Gulf pricing.

Q: From what I've read, and I've seen some of the Church Committee hearings and so forth, apparently now McCloy and the oil companies, I guess they worked on a plan for the majors and the independents together to take a collective approach.

Mr. Lehfeldt: There were forty some of them that met every morning for hours, yes.

Q: This was called the joint approach, which the State Department and the Justice Department sort of approved?

Mr. Lehfeldt: Yes, they gave them a letter of--

Q: Waiver.

Mr. Lehfeldt: Waiver.

Q: From the Anti-Trust Act?

Mr. Lehfeldt: Anti-Trust Act, yes.

Q: Wasn't John Irwin sent over to negotiate?

Mr. Lehfeldt: Came over on a mission, yes. Came over on a fact finding mission more than anything else, and he went through all of the Gulf, through Saudi Arabia, Kuwait, Iraq, Iran, and I don't know where else. He was accompanied by Jim Akins, I think, at the time as well. Of course John came out of an oil background himself. He was a banker as well as a lawyer. He understood the business. I never ever got the feeling that the Irwin mission--this gets a little foggy--that the Irwin mission really had that much effect on the outcome of negotiations. It was more fact finding as nearly as I could tell.

Q: This joint approach, then, the companies were trying to organize. Did the State Department actively push that? Or was that just--

Mr. Lehfeldt: No, that was just the oil companies. The oil companies. The oil companies acted jointly in Iran, as well.

Q: Now according to one document that I've seen, the Shah was distressed by this joint approach idea of collective bargaining.

Mr. Lehfeldt: Yes, he felt that he was being ganged up on. That was

part and parcel of his congenital, or his long suffering, paranoia. Which is shared by all Iranians, that they're being conspired against. When you see forty oil companies led by the major oil companies of the world, that they view as having manipulated them for years--in a sense they did. Well, in a real sense they did. Ganging up and meeting on how to deal with all of these--as some of the oil men might say--"rag heads," sure you do get real paranoia. Let me just throw in a couple of reasons why at least on the surface it's believable that they were being conspired against.

When I first got to Iran, in 1969, the total oil income for Iran was 690 million dollars. That's it--less than a billion. Of course when I left in 1974 it was twenty-four billion, allegedly. It was, came close to that. We would argue over pennies a barrel, which the oil companies would sit there with a straight face and say, "This means billions of dollars to us." It did. But the penny a barrel the Shah was going to get as increased royalty was peanuts. Five million barrels a day, let's say--not very much.

Q: I guess the Consortium had an agreement whereby they could control production, and limit it. I think it was the APQ system, something like that.

Mr. Lehfeldt: They had an agreement with the Shah on annual liftings. Or they had five term, five year, agreements that were reviewed. What each company would lift. Of course given their alternate supplies around the world, this is why the oil companies were so successful in keeping them separated for so many years. The