

US – Iranian Relations from 1974 to 1977

Gerald Ford Administration

LECTURES IN DIPLOMACY: US - IRAN RELATIONS – LECTURES

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INTRODUCTION

The decline of US-Iran relations started right after Watergate and Nixon's presidency, namely after the failed negotiations between the Shah and President Ford's administration from 1974 to 1976 regarding American nuclear exports to Iran. The Shah did not enjoy the same intimate relationship with President Gerald R. Ford as he had with Nixon. Although Kissinger worked hard to defend the United States-Iran relationship and secure a nuclear agreement, the Shah's detractors were no longer sidelined as they had been under Nixon. Ford sought to appease these critics by foisting a nuclear agreement on the Shah that included safeguards that went beyond Iran's commitments under the 1968 Nuclear Non-Proliferation Treaty. The Shah rejected Ford's demands, seeing them as a violation of Iran's sovereignty and a reversion by the US to treating Iran as a client, rather than a partner.

When President Ford decided to maintain and deepen arms relations with Iran, he cemented a momentum that became near impossible for a successor to break by continuing the policy of his predecessor Richard Nixon. Nixon had given the Shah of Iran a "blank cheque" to purchase whatever American arms he desired—short of nuclear weapons. Although Ford's authority would be challenged by members of his

own administration and a Congress seeking to claw back some of its authority, the need to support allies in the Middle East against the threat of the Soviet Union, even during a time of détente, remained paramount.

What led to the calamitous drop in Iran's oil revenues in January 1977? Politics, religion, culture, and economy have been identified as factors contributing to the collapse of Iran's monarchy in 1979. But until now scholars have been unable to access documents that could shed light on the inner workings of the relationship between senior US officials and the Shah of Iran, whom Henry Kissinger lauded as "that rarest of leaders, an unconditional ally, and one whose understanding of the world enhanced our own."

The declassification of the papers of Brent Scowcroft, who worked in both the Nixon and Ford administrations, marks a significant milestone in our understanding of the origins of the Iranian Revolution. They reveal that in 1976 the US and Saudi Arabia colluded to force down oil prices, inadvertently triggering a financial crisis that destabilized Iran's economy and weakened the Shah's hold on power.

In the first nine days of January 1977, Iran's economy was battered by unusual turbulence in international oil markets. Hundreds of millions of dollars in anticipated revenue were erased by a sudden and precipitous drop in daily oil exports, while total oil production plunged 38% over the previous month. In addition, financial hemorrhaging forced the Shah's government to rewrite its budget, cancel new spending projects, freeze foreign aid programs, and take out a \$500 million emergency loan from US and European banks.

The immediate cause of Iran's fiscal crisis was Saudi Arabia's bold decision to challenge an increase in oil prices agreed to by the rest of the Organization of Petroleum Exporting Countries (OPEC) at a December 1976 meeting in Doha, Qatar. The Saudi Oil Minister, Shaykh Ahmad Zaki Yamani, had announced that his government would offset the impact of the price hike by selling more of its own petroleum at a reduced price. Yamani's threat to flood the market with cheap oil never came about, but OPEC's two-tiered pricing system remained in effect for six months and dealt Iranian finances a grievous blow.

The Shah's chief economists later confirmed that the government had never considered the possibility of a steep drop in oil prices and production. It had overestimated oil revenues that never materialized and spent money it would now

never see. But worse was to come. The government's attempt to restore fiscal order only compounded the crisis. Its harsh deflationary budget led to high unemployment and social unrest that "helped create a classic prerevolutionary situation."

The Shah's personal reaction to the Saudi action was telling. Muhammad Reza Pahlavi had been counting on higher oil prices to buttress Iran's anemic economy - and strengthen his hand - while he embarked on a highly risky course of political liberalization at home. "We're broke," he despaired on January 2, 1977. "Everything seems doomed to grind to a standstill, and meanwhile many of the programs we had planned must be postponed ... It's going to be very tough."

THE US MAY HAVE HAD ROLE IN THE SHAH'S FALL

A new report based on previously classified documents suggests that the Nixon and Ford administrations created conditions that helped destabilize Iran in the late 1970s and contributed to the country's Islamic Revolution.

A trove of transcripts, memos and other correspondence show sharp differences over rising oil prices developing between the Republican administrations and Mohammed Reza Shah Pahlavi in the mid-1970s.

The report, after two years of research by scholar Andrew Scott Cooper, zeros in on the role of White House policymakers -- including Donald H. Rumsfeld, then a top aide to President Ford -- hoping to roll back oil prices and curb the Shah's ambitions, despite warnings by then-Secretary of State Henry Kissinger that such a move might precipitate the rise of a "radical regime" in Iran.

"The Shah is a tough, mean guy. But he is our real friend," Kissinger warned Ford, who was considering options to press the monarch into lowering oil prices, in an August 1974 conversation cited by the report. "We can't tackle him without breaking him."

Analysts and historians often contend that President Carter, a Democrat, fumbled Iran, allowing the country to eventually become one of the chief US opponents in the region. But the report suggests that his Republican predecessors not only contributed to the Shah's fall but also was inching toward a realignment with Saudi Arabia as the key US ally in the Persian Gulf.

The report, based mostly on documents stored at the Gerald R. Ford Presidential Library in Ann Arbor, Michigan, opens a window on an unruly period more than 30 years ago that precipitated Iran's 1979 Islamic Revolution, which established a template for religiously inspired Muslim movements throughout the Middle East.

As high oil prices in the early 1970s began strangling the US economy, Washington began to sour on Iran, the documents suggest. After an oil embargo over American support of Israel ended in March 1974, US officials considered the Shah the principal culprit in keeping oil prices from falling and wanted him to put on the brakes. At one point, Rumsfeld, who later served as President George W. Bush's Defense secretary, warned Iran's chief arms procurement official that Tehran was losing friends in Washington.

"Don't try to get around me," he reportedly told Gen. Hassan Toufanian, in an encounter described by the Washington Post three decades ago and cited in the report. "Remember, Kissinger and I have to approve all [arms] exports."

Chief among those advocating pressure on Iran was William Simon, who served as treasury secretary and energy czar under the Nixon and Ford administrations. He blamed the Shah for high oil prices and wanted the US to use weapons sales to Tehran as leverage.

"He is the ringleader on oil prices, together with Venezuela," Simon told President Nixon in July 1974, referring to the Iranian ruler. "Is it possible to put pressure on the Shah?"

Over the years, Kissinger advocated a friendlier line on Iran and the Shah, who had been brought back to power by a US-engineered coup in 1953. The report suggests that Kissinger had special insights into the country's instability. At the time, university campuses in Iran were in turmoil, and guerrillas were attacking US facilities and assassinating key officials. Even in 1974, a CIA analysis sounded the alarm, saying the Shah's ambitious buildup of the country was causing economic polarization and cultural clashes that were roiling Iran.

By late 1976 the Shah was in deep financial trouble, facing a huge cash crunch. He wanted the OPEC to raise oil prices by 25%, a move the US opposed.

"There is unanimity among my advisors that the world economy health is not good," Ford told Iranian Ambassador Ardeshir Zahedi in December 1976, according to the

archives. “Any increase in the price of oil would have a serious impact on the world financial structure.”

But US officials, especially Simon, had been working with Saudi officials behind the Shah’s back to seek help on oil prices in exchange for political and military support for the Arab kingdom. The Saudis stunned OPEC by announcing at a December summit in Doha, Qatar, that they would boost production to 11.6 million barrels a day from 8.6 million barrels, driving down prices.

“We should get credit for what happened at OPEC,” Kissinger told Ford. “I have said all along the Saudis were the key... Our great diplomacy is what did it.”

But it would prove to be a pyrrhic victory in terms of one American ally. Iran was cash-strapped, having spent much of its reserves on American weapons and the Shah’s Great Civilization programs, which spurred inflation by flooding the country with money.

The Shah was broke. Declining oil revenue amid continued inflation forced him to abandon ambitious plans to modernize his country.

“The collapse of the Doha summit, and the Saudi decision to undercut the price of crude and boost its output to try to flood the market, rushed the Iranian economy to the precipice,” Cooper writes in his report.

The Shah’s government, shaken by the loss of oil revenue, imposed a harsh austerity budget that threw thousands out of work, collapsed investor confidence, and panicked middle-class Iranians. Economic chaos and unemployment quickly spread.

Within a year of the Doha summit, the first mass demonstrations that grew into revolution broke out on the streets of the Iranian capital.

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