

URGENT ACTION

DEPARTMENT OF STATE

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A-105

HANDLING INDICATOR

TO : DEPARTMENT OF STATE

EO.11652 : XGDS-4

TACS : PINS, PGOV, IR

FROM : AMERICAN EMBASSY TEHRAN

DATE: AUGUST 1, 1978

SUBJECT : UNCERTAIN POLITICAL MOOD: RELIGIOUS DEVELOPMENTS, TOUGHER ROYAL LINE ON DEMONSTRATORS

REF :

**SUMMARY:** Source who has been helping broker court contacts with religious groups notes official disappointment with recent developments, especially Ayatollah Shariatmadari's refusal to publicly break ranks with Ayatollah Khomeini. Shah's mood at health concern some court officials. According to this source, Shah has directed much tougher line against demonstrators in wake of July 26-29 rioting. Corruption could become major political issue. Communist and Khomeini forces are staying in opposition background for moment. GOI seen as still in disarray. Source represents pessimistic view current in several circles but probably overstates negative aspects of present situation. Support for various elements of his views are found in other quarters as well, however, and Iranian political mood seems roller coaster for the moment. **END SUMMARY.**

Hedayat Eslaminia, who has been discussing the religious situation with Embassy Political Officers for the past few months, opened a July 25 meeting with Political Officer Steyer in somewhat low spirits. The religious situation has "come apart". Eslaminia learned from General Fardoust and SAVAK Chief Moghaddam that the Shah was most distressed that Ayatollah Shariatmadari did not publicly oppose Ayatollah Khomeini's call for a subdued, "politicized" celebration of 12th Imam's birthday July 21. Eslaminia says Shariatmadari and his supporters have increased their dislike for Khomeini until it borders on hate because pro-Khomeini groups are black-mailing Shariatmadari supporters by threatening to shut down or burn their shops in the Bazaar.

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With respect to Ayatollah Shariatmadari, Eslaminia said recent events have increased Shariatmadari's concern for his own position. Khomeini retains an almost mystic respect of mass of illiterate population and Shariatmadari feels he cannot differ to a significant degree with Khomeini in public. (Comment: We are not sure just how independent Shariatmadari actually is.) Eslaminia noted that all senior Ayatollahs in Iran are beginning to jockey for personal position. This could create a situation in which moderate religious figures would have trouble maintaining centrist policy in the face of challenges from more reactionary groups.

In the wake of disturbances in Iran July 21-22, Shah met on July 22 with his aide, General Fardoust and SAVAK Chief Moghaddam to discuss future policy towards demonstrators. Eslaminia, who is close to both Fardoust and Moghaddam, said the Shah was depressed with the outcome of the religious demonstrations and after a somewhat mercurial session in which Moghaddam was heavily criticized, the Shah directed that demonstrations would henceforth be broken up by military force and the army was authorized to fire on demonstrators. In response to a question, Eslaminia said he had been working for three days to reverse or moderate this decision, but the Shah and his principal advisors were now convinced that compromise with religious leaders may not be possible. Eslaminia believes this is an extreme position which will hopefully change, but it is clear that the throne is taking a much tougher line against dissidents in the wake of Shariatmadari's inability or unwillingness to oppose Khomeini publicly. For example, Shah is now against letting Mullah Falsafie speak publicly because it is feared he might ignite a sizable riot.

In passing, Eslaminia noted that Fardoust and Moghaddam, who are good friends of his, expressed some concern at the Shah's health. Political Officer mentioned rumors were prevalent in Tehran that something had happened. Eslaminia quickly replied that Shah was physically all right as of July 22 but somewhat "down" mentally. According to Eslaminia, medical blood tests had been ordered to determine if there was any physical problem. Later in conversation, Eslaminia noted that the U.S. and others should keep an eye on the Shah and if something were wrong, they should urge him to convene the Regency Council and prepare Iran for change, not just depart Iran abruptly as his father had done. When Political Officer expressed thought that this might be premature, Eslaminia merely smiled sadly and noted it pays to think ahead (absence of Shah from visible public eye has given rise to number of rumors. Eslaminia is concerned because those nearest Shah whom he knows well are concerned. This situation has arisen as a result of the Shah's current vacation during which he has made few public appearances. The Embassy has no evidence to indicate there is anything wrong, but the rumors are beginning to take on a life of their own.)

When asked how religious leaders viewed the recent ministerial changes Eslaminia sighed and said "it does not matter how one arranges the garbage cans". The Prime Minister and the Cabinet are doing virtually nothing about religious/political challenges and persist in the view that this is the Shah's and SAVAK's problem. Only the Shah himself and the Court Minister are concerned and time is passing. A bad situation is developing because Tudeh (communist) and radical groups are lining up behind Khomeini very quietly. They plan to let the Khomeini faction discreetly back candidates to parliament who will, after they are elected, reveal true colors and ban together to "wage war" against the present system. Eslaminia believes this tactic may well work because the GOI is currently in political disarray--the resurgence party is confused and the Prime Minister is not moving with sufficient speed to consolidate his forces. Eslaminia reeled off the following names of political figures who might be used as speakers. All are political activists who have the respect of religious leaders as well as politicians: Saed Vaziri, Rahim Zehtabfard (former East Azarbaijan Resurgence Party Chief who resigned shortly before Tabriz riots in February), Mahmoud Touloui, Abdul Hossen Tabatabaie (presently a judge and former MP), and Dr. Shokraie (an Ex-MP from Qom with excellent ties to the Shariatmadari camp).

These and others like them should begin politicking so that basic lines of administration positions will be public by the time universities open in September. If this is not done, the student movements are likely to be won completely to one or more of dissident groups who are now planning major thrusts on campuses.

Eslaminia sees an even bigger problem with corruption. A number of key Bazaar merchants, including all major leaders, wrote a public letter recently to the Minister of Finance asking for an investigation of certain deals favoring the wealthy importers. Eslaminia ticked off three: A) Ali Rezaie imported two million tons of iron at 20 rials per kilo without paying customs tax and is selling it at 36 rials per kilo. Small iron shops have no or little profit margin and are being driven to the wall while Rezaie is reaping immense profits. B) Fabric maker Yassini, a close confident of Princess Ashraf, has imported two million meters of cloth without paying requisite customs duties. He is selling it at virtually double what he payed for it. C) Textile maker Lajevardi has also imported cheap textiles and sold them at a higher price.

In addition, a number of importers of vehicle spares with known ties to Princess Ashraf have raised their prices to retailers without any apparent justification, thus squeezing profits of this group. The result, says Eslaminia, is the

beginnings of a major new wave of dislike for the royal family as well as the government, raising the question of corruption to a major political issue. Eslaminia said he thought the Shah had better take a hand before small merchants and some manufacturers become convinced their interests lie with the opposition. (COMMENT: While the problem of corruption has been a consistent Eslaminia concern in past, Embassy has heard from a number of sources that financial wheelings and dealings keyed to royal family and friends are beginning to affect a sizable number of people and merchants are getting both smarter and bolder about raising these questions in the public arena.)

COMMENT: This conversation being reported by airgram because it emphasizes several themes which we have heard often elsewhere during the past month relating to confusion in the Iranian political system: A) concern for health of Shah; B) increasing difficulties in getting the regime and religious leaders on compatible tracks; and C) growing concern with corruption and problems of GOI political disorganization.

The actual situation is not, of course, as bad as tableau being painted by pessimists. There is much uncertainty and anxiety in political circles which has increased both suspicions and manic-depressive tendencies of Iranian political figures. Iranian politics are undoubtedly going through a "summer of discontent". New alliances may or may not emerge. Observers should not, however, jump to conclusion that country is going to hell in a hand basket. Situation seems to be one of trying to manage long overdue political growing pains under somewhat less than optimum conditions.

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