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THE WHITE HOUSE

WASHINGTON

filed 2/14/75

~~CONFIDENTIAL~~ (GDS)

MEMORANDUM FOR THE PRESIDENT

FROM: BRENT SCOWCROFT
L. WILLIAM SIEDMAN

SUBJECT: U.S. Approval of Iranian Investment
in Pan American Airways: Notification
to the Iranian Government

You have approved a proposed agreement whereby the Government of Iran will invest some \$300 million in Pan American Airlines, with the understanding that the agreement would be conditional upon satisfaction of DOD requirements and ultimate CAB approval.

Possible approaches for communicating the decision to the Iranian Government are:

Option 1: Unilateral Approach - Notification to Pan American Airlines.

Transmission of a letter from an appropriate level of the U.S. Government to Pan American, noting that the proposed agreement is subject to adequate provisions to satisfy DOD requirements vis-a-vis Pan American and is conditional on review and approval by the CAB. Simultaneously, the text of the letter would be made available to the Iranian Government. A draft of a letter along these lines from Secretary Simon to the Chairman of Pan American, Mr. Seawell, is attached at Tab 1.

Advantages:

- a. This option has the advantage of keeping you personally clear of involvement in any public or private commitment prior to CAB consideration of the Iran-Pan American case.

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- b. The main advantage of this approach is that it minimizes U.S. Government involvement.
- c. It responds directly to Pan Am's request to the EPB and keeps our response in the same channels as the request.

Disadvantages:

- a. A unilateral statement would gain nothing from Iran in return, nor clearly define Iran's intentions vis-a-vis Pan American.
- b. There could be Congressional and other protectionist criticism of Administration approval of such a deal involving a major OPEC country without reciprocity.
- c. A unilateral USG statement on this case could open the way for requests by other countries for U.S. Government approval of their investments here.

Option 2: Unilateral Approach - Other Methods of Communication

In addition to a letter to Pan Am, one could implement the unilateral approach by (1) a letter from Secretary of State Kissinger to the Iranian Foreign Minister; (2) oral communication from Kissinger to the Shah when they meet next week or (3) oral communication by Under Secretary Robinson when he visits Iran next week.

Option 3: Joint Approach

- a. Joint public statement. The U.S. could notify the Iranian Government of its willingness to go on record that it has no objections to the Pan American deal, subject to DOD and CAB approval, within the context of a statement jointly issued by both countries. A suggested draft joint statement is attached at Tab II. Such a statement could be issued following Secretary Kissinger's meeting with the Shah, or following

President selected option (3) fws

Under Secretary Robinson's talks in Tehran. Alternatively, a statement could be issued in both Iran and Washington simultaneously, framed within the context of the U.S.-Iranian Joint Commission.

- b. Simultaneous Exchange of Diplomatic Notes. Both U.S. approval and a statement of Iranian intentions vis-a-vis Pan American are the substantive points around which each note would be structured.

Advantages:

- a. As with Option 1, you are not involved personally in the statement of U.S. approval.
- b. A statement by Iran that it would not intend to control the management or operations of the Pan American would help allay fears of OPEC control of our economy.
- c. Iran would be clearly on record as understanding that the proposed Pan American arrangement is subject to CAB approval and satisfactory arrangements with DOD.
- d. Public acknowledgment by Iran of its intention not to assume control of Pan American would establish a precedent for possible future use ~~by~~ other major OPEC government investments in highly visible U.S. companies.

Disadvantages:

- a. Iran might refuse to participate in a Joint Statement.
- b. It may take some time to work out a joint or parallel statement.
- c. A precedent might be set which might call forth requests for other joint statements from prospective OPEC investors.
- d. A joint statement on a government to government basis implies Presidential approval and might indirectly involve you in a public commitment prior to CAB consideration.

The NSC, the State Department and the CIEP believe that on balance, the joint approach is best suited to the situation. The most compelling reason is that an acknowledgment by Iran that it does not intend to control the management or operation of Pan American would help our efforts to allay Congressional and other protectionist fears of growing OPEC penetration and control of U.S. corporations. Moreover, insofar as the U.S. Government would be acceding to Iranian interest in a public statement of U.S. approval, it is appropriate to ask the Iranian Government for a reciprocal act acknowledging its intent. The Iranians would probably buy the joint approach if it were sold to them as being in their interest.

DRAFT MESSAGE FROM THE CHAIRMAN, ECONOMIC POLICY BOARD

Dear Mr. Seawell:

On January 31, 1975 you and your representatives briefed the Executive Committee of the Economic Policy Board on the terms of^a proposed investment by the Government of Iran in Pan American Airways and asked for some indication of the Administration's position with respect to the transaction.

Although I understand that your discussions with the Iranians have not yet been definitely concluded, we would have no objection in principle to such an investment along the lines outlined in your presentation to the Economic Policy Board Executive Committee. Our position is, however, subject to one important condition - i.e. that any final agreement between the American and Iranian government contains provisions which satisfy Defense Department requirements. Assuming these conditions are met, we would regard the investment as a positive contribution to the close spirit of cooperation that exists between Iran and the United States.

As you know, the proposed investment would be subject to review and approval by the Civil Aeronautics Board. In advance of a final agreement, it is not possible to predict precisely how the CAB would apply the laws and regulations which it administers.

Sincerely,

Simon
~~W. William Seawell~~
Chairman, Economic Policy Board

CABLE FROM SEIDMAN TO KISSINGER

(Back Channel Through the NSC)

The purpose of this cable is to inform you of recent developments concerning the proposed Iranian investment in Pan Am. The President has no objection to the proposed investment (on condition that the final agreement contains provisions which satisfy Defense Department requirements) but does not want to be associated with any public announcement. During your talks next week with the Shah, you may wish to inform him of the President's position but caution him against any public announcement in which he refers to Presidential approval.

Pan American has been informed of the Administration's position through a letter (copy attached) from Secretary Simon to Mr. Seawell, President of Pan Am. The State Department has made a copy available to the Iranian Ambassador.

You may also wish to point out to the Shah that (1) the final agreement between Pan Am and Iran must satisfy Defense Department requirements with respect to classified Defense contracts and availability of Pan Am planes for the Civil Reserve Air Fleet; (2) the agreement would be subject to CAB approval and (3) due to the nature of our system, the President has no control over the review and decision of the independent CAB.

Because the proposed investment would be the first major OPEC investment in the U.S., a favorable Administration decision will undoubtedly evoke some Congressional and public comment. You may wish to suggest to the Shah that a responsible statement by his government could go a long way towards (1) preventing an overreaction in the U.S. to fears that we are seeing the beginning of a wave of takeovers by foreign governments and (2) emphasizing the positive constructive aspects of such investment. It would, for example, be helpful if the Iranian statement made the following points:

1. Iran had made the proposal as a constructive, cooperative move toward improvement of Iranian/U.S. relations;
2. Iran recognized the need to satisfy DOD requirements re CRAF and classified defense contracts;
3. Iran recognized the need for ultimate CAB approval of the transaction; and
4. Iran had no desire to control the management and operation of Pan Am.

DRAFT JOINT US-IRANIAN STATEMENT REGARDING
IRANIAN GOVERNMENT INVESTMENT IN
PAN AMERICAN AIRWAYS

In recent weeks the Government of Iran and Pan American Airways have sought agreement in regard to the possible investment by the Iranian Government in Pan American Airways. The United States Government has been informed of these developments and has been in consultation with both Pan American and the Government of Iran on this subject.

The United States Government and the Government of Iran recognize that any final agreement reached between Iran and Pan American Airways is subject to approval by the United States Civil Aeronautics Board, using its normally applied laws and regulations. It is also understood that there be appropriate provisions in such an agreement which would satisfy various requirements of the United States Department of Defense vis-a-vis Pan American Airways. Both Governments note that in entering into such an arrangement, the Government of Iran has no interest in controlling the management or operations of Pan American Airways. For its part, the United States Government has no objection in principle to the proposed agreement.

Both the United States Government and the Government of Iran regard the fruitful consultations they have had on this issue as an expression of their close cooperation and a further contribution to the strengthening of their relationship.

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D. ROY CHALK

February 13, 1975

The President
White House
Washington, D. C.

My dear Mr. President:

As you are aware, Pan American and the Iranian Government have been negotiating an agreement whereby the Iranians would provide Pan American with substantial financial resources in exchange for an equity in the hotel business and some needed technical assistance. With the concurrence of the Civil Aeronautics Board they would be granted a position on Pan American's Board of Directors and eventually thirteen percent of the common stock. In addition, the Iranian Government would become Pan American's largest creditor. Under long established Board precedent, as well as common business practice, the consummation of these arrangements would result in the Iranian Government having a substantial measure of control over Pan American and the operation of its fleet.

Moreover, to the best of my knowledge, the Iranian Government does not plan, nor could it contribute either the managerial or financial skills necessary for any long term solution to the Pan American problem.

But apart from the prospect that the Iranian deal may prove to be a band-aid where surgery is necessary, there are other aspects which create major public interest problems.

In the first instance, you may note that Pan American is the largest United States flag contributor to the United States CIVIL Reserve Air Fleet (CRAF) which is our Air Force's back up logistics service in case of national emergency. As you are aware, the CRAF activity includes a dedication of crews, maintenance facilities, and the other necessary components for immediate operational capability.

Pan American supplies over forty percent of the Boeing 747 capacity in CRAF and over twenty-nine percent of the overall United States flag capability in CRAF. Patently, the prospect of foreign government control of Pan American, even if such control is less than total, is potentially a serious matter from the standpoint of our national interest and one which warrants public discussion before the deal is consummated.

There is another serious question which I believe should be discussed before this arrangement is finalized. I refer to the precedent which would be established by the Iranian bail-out of Pan American. Thus, if the United States Government is prepared to endorse the control of Pan American by a foreign oil power, could the United States later react negatively were this or any other foreign interest to seek control of United States communication companies, utilities, banks, insurance companies or other vital United States businesses? In short, is the proposed Iranian investment in Pan American a trojan horse for other investments in potentially sensitive areas?

It is against this background that I have accelerated my efforts to develop a United States business interest approach to Pan American. As implied, it has been my long held view that Pan American is a company which has grown beyond the ability of any foreseeable management to operate efficiently and economically. Nor are there, in my judgement, policy changes which the United States Government could or should make to create a more salubrious economic climate for Pan American profitability. I do, however, have a plan that could retain the economic status of Pan American as a viable corporate entity.

I might say that in the discussions which I have had with informed industry observers and interested government officials there was a considerable agreement with my judgement in this regard.

Accordingly, when the first news of the Iranian deal became known, I embarked upon a major effort to place my views before the major United States flag carriers. These discussions are currently in process. It is my intention, should these carriers respond affirmatively, as I anticipate, to complete a plan for a joint offer to be made to Pan American for the acquisition of its assets and the assumption of its liabilities. I believe that I can offer greater security to Pan American's creditors, greater long term job opportunities for its loyal and effective employees, and a reasonable return for its shareholders - and this can be done without any sacrifice of important United States interests.

Certainly, with an arrangement of this type in the offing, there is no sound reason why the United States Government should be stampeded into approval of the Iranian bail-out.

Please accept my kindest personal regards.

Sincerely,

O. Roy Chalk

bcc: Mr. John W. Barnum
Under Secretary
Department of Transportation

THE WHITE HOUSE

WASHINGTON


February 14, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

BRENT SCOWCROFT
L. WILLIAM SEIDMAN

FROM:

JERRY H. JONES 

SUBJECT:

U.S. Approval of Iranian Investment
in Pan American Airways: Notification
to the Iranian Government

Your memorandum to the President on the above subject has been reviewed and Option 3 -- Joint Approach -- was approved.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld