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DE WTE #0419 0421940  
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FM JERRY H. JONES

TO: DICK CHENEY

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E.O. 12958, Sec. 3.5

NSC Memo, 11/24/98, State Dept. Guidelines  
By W/HN, NARA, Date 11/21/00

MEMORANDUM FOR

THE PRESIDENT

FROM:

L. WILLIAM SEIDMAN

SUBJECT:

PROPOSED IRANIAN GOVERNMENT  
INVESTMENT IN PAN AMERICAN AIRLINES

AS YOU KNOW, INITIAL NEGOTIATIONS HAVE BEEN COMPLETED WITH RESPECT TO AN IRANIAN GOVERNMENT INVESTMENT OF \$300 MILLION IN PAN AMERICAN AIRLINES. BECAUSE THE CONTROVERSIAL ISSUE OF OPEC GOVERNMENT INVESTMENT IS INVOLVED, BOTH PAN AM AND IRAN ARE SEEKING A FAVORABLE SIGNAL FROM THE ADMINISTRATION BEFORE PROCEEDING FURTHER WITH THE TRANSACTION.

ANY AGREEMENT REACHED BY THE PARTIES WOULD ULTIMATELY BE SUBJECT TO CAB APPROVAL OF MATTERS RELATING TO POTENTIAL IRANIAN CONTROL OF PAN AM. A FAVORABLE ADMINISTRATION DECISION WOULD, THEREFORE, NOT NECESSARILY ENSURE SUCCESSFUL COMPLETION OF THE TRANSACTION. A NEGATIVE SIGNAL WOULD, HOWEVER, ALMOST CERTAINLY STOP THE PROPOSED INVESTMENT.

DECISION REQUIRED. THE MAIN DECISION REQUIRED IS WHETHER THE ADMINISTRATION SHOULD APPROVE IN PRINCIPLE THE PROPOSED IRANIAN INVESTMENT IN PAN AM.

TERMS OF TRANSACTION. AFTER COMPLETION OF THE TRANSACTION AS NOW PROPOSED, IRAN WOULD HOLD APPROXIMATELY \$245 MILLION (20-30 PERCENT) OF PAN AM'S DEBT, OWN 55 PERCENT OF THE STOCK OF INTERCONTINENTAL HOTELS CORPORATION (AN OFFSHORE HOTEL CHAIN WHOLLY OWNED BY PAN AM), HAVE WARRANTS TO PURCHASE

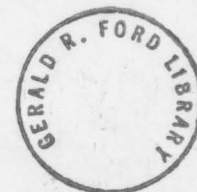
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UP TO 13 PERCENT OF PAN AM'S EQUITY AND HAVE ONE MEMBER ON PAN AM'S 17 MEMBER BOARD OF DIRECTORS (SEE ATTACHED ANNEX I FOR FURTHER DETAILS OF TRANSACTION).

BASIC ISSUES -- SEVERAL BROADER ISSUES MUST BE CONSIDERED IN ORDER TO REACH A DECISION ON THE IRANIAN/PAN AM REQUEST. THEY ARE:

- OUR POLICY WITH RESPECT TO OPEC GOVERNMENT INVESTMENT IN THE U.S.
- OUR POLICY WITH RESPECT TO RECYCLING AND THE IMPACT OF DENIAL ON THE FUTURE FLOW OF OPEC FUNDS TO THE US.
- FOREIGN POLICY IMPLICATIONS - ESPECIALLY IRANIAN/ U.S. RELATIONS.
- FOREIGN GOVERNMENT INFLUENCE IN KEY U.S. FIRMS.
- INJECTION OF AN UNDESIRABLE FOREIGN POLICY ELEMENT INTO THE CAB AND PRESIDENTIAL DECISION MAKING PROCESS IN CASES INVOLVING PAN AM.
- EFFECT ON PAN AM'S LONG RUN ECONOMIC VIABILITY.

DISCUSSION OF KEY ISSUE: OPEC GOVERNMENT INVESTMENT IN U.S. - ONE OF THE PRINCIPAL OBJECTIVES OF OUR RECYCLING POLICY IS TO ENCOURAGE OPEC NATIONS TO MAKE LONG TERM CONSTRUCTIVE INVESTMENTS IN THE CONSUMING NATIONS. SUCH INVESTMENTS CONTRIBUTE TO OUR CURRENT BALANCE OF PAYMENTS, HELP ALLEVIATE THE CURRENT CAPITAL SHORTAGE, AND GIVE THE OPEC COUNTRIES A STAKE IN OUR ECONOMY WHICH SHOULD PROVIDE SOME INCENTIVE FOR THEM TO REFRAIN FROM ACTIONS WHICH WOULD HAVE A NEGATIVE EFFECT ON OUR ECONOMY AND THEIR INVESTMENTS. AN INTERAGENCY REVIEW OF FOREIGN INVESTMENT IN THE U.S. IS UNDERWAY AND, WHILE NOT COMPLETE, IT IS POSSIBLE TO SAY THAT ALL BUT THE MOST EXTREME VIEWS WOULD PERMIT SOME FOREIGN GOVERNMENT INVESTMENT IN US FIRMS - INCLUDING FIRMS LIKE PAN AM.

OUR EXISTING LAWS AND REGULATIONS ARE SUCH THAT THERE IS MINIMUM DANGER THAT A FOREIGN INVESTOR COULD USE HIS INVESTMENT HERE IN A WAY THAT WOULD CAUSE SERIOUS HARM TO OUR ECONOMY OR NATIONAL SECURITY. HOWEVER, A MAJOR RESERVATION HAS BEEN RAISED CONCERNING THE POLITICAL AND ECONOMIC INFLUENCE THAT A FOREIGN GOVERNMENT MIGHT OBTAIN THROUGH SUBSTANTIAL INVESTMENTS. ALTHOUGH THE SUBSTANCE OF THESE CONCERNS HAVE NEVER BEEN CLEARLY DEFINED, THOSE THAT HOLD THIS VIEW MAINTAIN THAT A FOREIGN GOVERNMENT COULD MAKE SUBTLE USE OF SUCH INFLUENCE TO HARM OUR NATIONAL OR ECONOMIC SECURITY INTERESTS BUT IN A MANNER THAT WOULD PUT IT BEYOND THE REACH OF EXISTING LAW.

THERE IS AN ADDED DIFFICULTY IN THE PRESENT CASE IN

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THAT PAN AM IS REGULATED BY THE CAB AND, IN SOME CASES, THE PRESIDENT. THE DEPARTMENT OF TRANSPORTATION IS CONCERNED THAT IRANIAN INVESTMENT IN PAN AM WOULD INJECT ADDITIONAL FOREIGN POLICY CONSIDERATIONS INTO THE DELIBERATIONS OF THE CAB AND THE PRESIDENT IN MAKING DECISIONS INVOLVING PAN AM OR OTHER INTERNATIONAL CARRIERS. ON THE OTHER HAND, OTHER AGENCIES LOOK UPON CAB AND PRESIDENTIAL REGULATIONS AS AN ADDED SAFEGUARD TO ENSURE THAT THE IRANIANS WOULD NOT USE THEIR INVESTMENT IN A WAY CONTRARY TO OUR NATIONAL INTEREST.

DEFENSE DEPARTMENT REQUIREMENTS. ANY AGREEMENT REACHED BY PAN AM AND IRAN MUST CONTAIN PROVISIONS WHICH ASSURE CONFORMITY WITH DEFENSE DEPARTMENT REGULATIONS DEALING WITH CLASSIFIED DEFENSE CONTRACTS AND THE CIVIL RESERVE AIR FLEET (CRAF). OTHERWISE, THE DEFENSE DEPARTMENT WOULD OBJECT TO THE TRANSACTION.

PAN AM OFFICIALS ARE OPTIMISTIC THAT THEY CAN WORK OUT APPROPRIATE ARRANGEMENTS, BUT THE PRECISE METHODS OF SATISFYING DOD CONCERNS REQUIRE FURTHER DISCUSSIONS WITH IRAN AND DOD. THEREFORE, ADMINISTRATION APPROVAL IN PRINCIPLE AT THIS TIME MUST BE GIVEN SUBJECT TO SATISFACTION OF DEFENSE DEPARTMENT REGULATIONS.

#### ADVANTAGES OF A FAVORABLE DECISION

1. A FAVORABLE DECISION WOULD INDICATE TO OTHER POTENTIAL OPEC INVESTORS THAT THE U.S. IS WILLING TO ACCEPT CONSTRUCTIVE LONG TERM OPEC GOVERNMENT INVESTMENT.

2. THE INVESTMENT WOULD SET A USEFUL PRECEDENT FOR THE TYPE OF OPEC INVESTMENT WE WOULD WELCOME (I.E. MAINLY DEBT WITH A RELATIVELY SMALL EQUITY INTEREST IN A FIRM IN A HIGHLY REGULATED INDUSTRY).

3. DENIAL WOULD BE INTERPRETED BY OPEC NATIONS AS AN INDICATION THAT WE INTENDED TO LIMIT THEIR INVESTMENT IN THE U.S. AND COULD HAVE A MAJOR NEGATIVE EFFECT ON SUCH INVESTMENT HERE.

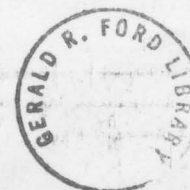
4. BECAUSE OF ITS GENERALLY FAVORABLE FEATURES, THE TRANSACTION PROVIDES A GOOD TEST CASE TO SAMPLE CONGRESSIONAL AND PUBLIC REACTION TO SUBSTANTIAL OPEC INVESTMENT IN U.S. COMPANIES.

5. THE INVESTMENT WOULD AVERT ANOTHER PAN AM CASH CRISIS IN LATE 1975 AND MIGHT PROVIDE THE TYPE OF MEDIUM TERM FINANCIAL RELIEF NECESSARY TO ENABLE PAN AM TO CONSUMMATE A MERGER OR ROUTE RESTRUCTURING NEEDED TO CREATE A VIABLE AIRLINE.

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#### DISADVANTAGES OF A FAVORABLE DECISION

1. THE INVESTMENT MIGHT TAKE PRESSURE OFF PAN AM TO TAKE THE DRASTIC ACTIONS REQUIRED TO RETURN TO LONG RUN PROFITABILITY (E.G. MERGER OR ROUTE RESTRUCTURING).

2. IRANIAN INFLUENCE IN PAN AM WOULD INJECT A NEW, AND WHAT SOME CONSIDER AN UNDESIRABLE, ELEMENT INTO CAB AND PRESIDENTIAL DECISION MAKING IN CASES INVOLVING PAN AM AND OTHER INTERNATIONAL AIRLINES.

3. WHETHER OR NOT THE RELATIONSHIP ACTUALLY AFFECTS PRESIDENTIAL DECISIONS, IT WILL BE PERCEIVED AS HAVING, OR AS CAPABLE OF HAVING, AN INFLUENCE ON SUCH DECISIONS, WHICH MAY GIVE FURTHER IMPETUS TO THE CURRENT EFFORT TO LIMIT THE PRESIDENT'S STATUTORY AUTHORITY OVER INTERNATIONAL ROUTE AND RATE DECISIONS.

4. FURTHER PAN AM FINANCIAL PROBLEMS COULD LEAD TO ANOTHER REQUEST FOR AN IRANIAN BAILOUT WHICH, IF APPROVED, WOULD INCREASE IRANIAN INFLUENCE IN PAN AM AND THEREBY SET PRECEDENTS FOR LARGER SHAREHOLDINGS IN US COMPANIES BY FOREIGN INVESTORS.

5. WOULD ADVANCE IRAN AIR'S CASE FOR ADDING ROUTES TO THE U.S., WHICH WOULD FURTHER DILUTE THE NORTH ATLANTIC MARKET FOR U.S. CARRIERS AND COULD INCLUDE ADDITIONAL CONCORDE OPERATIONS WHICH WOULD IMPACT THE FIRST CLASS MARKET.

#### AGENCY RECOMMENDATIONS

(1) TREASURY, STATE, COMMERCE, OMB, CIEP, NSC AND THE DOMESTIC COUNCIL ALL FAVOR APPROVAL OF THE INVESTMENT (ON CONDITION THAT THE FINAL AGREEMENT BETWEEN PAN AM AND IRAN CONTAIN PROVISIONS WHICH SATISFY DEFENSE DEPARTMENT REQUIREMENTS.) THE MAIN REASONS FOR THEIR RECOMMENDATIONS ARE THE POSITIVE EFFECT IT WOULD HAVE ON (I) OUR PROSPECTS FOR ATTRACTING MORE OPEC GOVERNMENT INVESTMENT AND INFLUENCING ITS MOVEMENT INTO CONSTRUCTIVE, LONG TERM VENTURES IN THE US AND (II) THE SHORT TERM FINANCIAL CONDITION OF PAN AM.

(2) THE ONLY DISSENTING AGENCY IS TRANSPORTATION WHICH BELIEVES THE INVESTMENT COULD ADD AN UNDESIRABLE FOREIGN POLICY ELEMENT TO CAB AND PRESIDENTIAL DECISION MAKING, OR WOULD BE PERCEIVED AS INFLUENCING PRESIDENTIAL AUTHORITY OVER INTERNATIONAL ROUTES AND RATES. TRANSPORTATION IS ALSO CONCERNED THAT PAN AM WOULD NOT PROCEED AS VIGOROUSLY AS IT SHOULD WITH A MERGER OR RESTRUCTURING.

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(3) DEFENSE TAKES NO POSITION FOR OR AGAINST BUT POINTS OUT THAT ANY FINAL AGREEMENT MUST CONTAIN PROVISIONS WHICH ASSURE CONFORMITY WITH ITS REGULATIONS DEALING WITH CLASSIFIED DEFENSE WORK AND THE CIVIL RESERVE FLEET.

(4) THE FEDERAL ENERGY ADMINISTRATION BELIEVES THAT THE ADMINISTRATION SHOULD NEITHER APPROVE NOR DISAPPROVE THE TRANSACTION. RATHER, FEA RECOMMENDS THAT WE OFFER NO OBJECTION AT THIS TIME, PROVIDED THAT THE CONCERNS OF THE CAB AND THE DEPARTMENT OF DEFENSE ARE MET. IN THE MEANTIME THE ISSUE OF FOREIGN GOVERNMENT INVESTMENT IN THE U.S. PER SE SHOULD BE EXPLORED -- AS IS CURRENTLY BEING DONE BY THE INTERAGENCY REVIEW GROUP.

(5) ARTHUR BURNS, SPEAKING FOR THE FEDERAL RESERVE, INDICATES HE HAS DOUBTS, MAINLY ON GROUNDS OF NATIONAL PRESTIGE, ABOUT THE PROPOSED INVESTMENT. THESE DOUBTS WOULD, HE NOTES, BE GREATLY REDUCED IF IRAN WOULD AGREE TO LIMITING THE WARRANTS TO NON-VOTING COMMON STOCK.

#### RECOMMENDATIONS OF SENIOR WHITE HOUSE STAFF

(1) MR. HARTMANN BELIEVES (I) A MORE COMPREHENSIVE CHECK OF CONGRESSIONAL AND LABOR REACTION IS DESIRABLE BEFORE ANY DECISION IS MADE, (II) DOD SHOULD BE REQUIRED TO STATE ITS POSITION AND (III) DOD CONCERNS WITH RESPECT TO THE CIVIL RESERVE AIR FLEET AND CLASSIFIED CONTRACTS SHOULD BE FULLY RESOLVED BEFORE ANY ADMINISTRATION APPROVAL IS ANNOUNCED.

(2) MR. RUMSFELD'S OFFICE HAD NO COMMENT.

(3) MR. MARSH FAVORS APPROVAL OF THE IRANIAN INVESTMENT.

(4) MR. AREEDA BELIEVES THE TRANSPORTATION DEPARTMENT CONCERNS ARE "WORTH WEIGHING" BUT ON BALANCE HE DOES NOT BELIEVE THEY ARE STRONG ENOUGH TO DETERMINE THE RESULT.

INITIAL CONGRESSIONAL AND LABOR REACTION -- THE SUBJECT OF OPEC INVESTMENT IN THE U.S. IS ALREADY AN IMPORTANT ISSUE IN CONGRESS AS SEVERAL BILLS TO RESTRICT OR LIMIT FOREIGN INVESTMENT HAVE BEEN INTRODUCED. ANY DECISION ON THE IRANIAN CASE WILL UNDOUBTEDLY EVOKE CONGRESSIONAL COMMENT.

PAN AM REPRESENTATIVES HAVE CONSULTED A NUMBER OF SENATORS AND REPORT THAT SO FAR THEY HAVE ENCOUNTERED NO ADVERSE REACTION. AN INDEPENDENT CHECK BY THE STAFF OF

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CIEP WITH SENATORS JACKSON, JAVITS, SCOTT, WILLIAMS, PERCY, STEVENSON, CHURCH, STEVENS, PEARSON ALSO UNCOVERED NO OBJECTION TO THE TRANSACTION. PAN AM HAS ALSO HAD A NUMBER OF CONSULTATIONS ON THE HOUSE SIDE AND REPORTS NO ADVERSE REACTION SO FAR.

ACCORDING TO PAN AM, INITIAL CONTACTS WITH THE TEAMSTERS AND THE AFL-CIO INDICATES THAT LABOR WILL NOT HAVE MAJOR OBJECTIONS TO THE TRANSACTION.

APPROVE IRANIAN INVESTMENT IN PAN AM-----

DISAPPROVE IRANIAN INVESTMENT IN PAN AM-----

WILL DISCUSS-----

NATURE OF PUBLIC STATEMENT - IF YOU DECIDE TO APPROVE THE IRANIAN INVESTMENT, YOU SHOULD THEN DECIDE WHETHER THE APPROPRIATE DEPARTMENT SHOULD MAKE SOME PUBLIC STATEMENT TO SATISFY THE IRANIAN AND PAN AM DESIRE FOR PUBLIC ADMINISTRATION ENDORSEMENT OF THE PRINCIPLE OF THE TRANSACTION.

A PUBLIC STATEMENT COULD HAVE ADVANTAGES IN THAT IT (1) WOULD INDICATE CLEARLY THE ADMINISTRATION POSITION ON AN ISSUE OF IMPORTANCE TO IRAN AND OTHER OPEC INVESTORS (2) MIGHT BE USED TO REEMPHASIZE TO IRAN THAT THE TRANSACTION IS SUBJECT TO CAB APPROVAL AND CONDITIONAL UPON SATISFACTORY ARRANGEMENTS WITH DOD WITH RESPECT TO THE CRAF FLEET AND CLASSIFIED CONTRACTS. THERE WOULD BE PARTICULAR ADVANTAGES IN A PARALLEL OR JOINT STATEMENT WITH IRAN IN THAT IRAN WOULD CLEARLY ACKNOWLEDGE THAT IT RECOGNIZED THE NEED FOR DOD AND CAB APPROVAL AND THAT IT HAD NO DESIRE TO CONTROL THE MANAGEMENT OR OPERATION OF PAN AM. SUCH A STATEMENT WOULD GREATLY ASSIST IN ALLAYING PUBLIC AND CONGRESSIONAL FEARS OF AN OPEC TAKEOVER.

THE MAIN DISADVANTAGES OF A USG PUBLIC STATEMENT ARE THAT (1) IT MIGHT APPEAR THAT THE ADMINISTRATION WAS FAVORING PAN AM OR TRYING TO INFLUENCE THE ULTIMATE CAB DECISION AND (2) IT COULD SET A PRECEDENT LEADING TO SIMILAR REQUESTS FROM OTHER INVESTORS.

RECOMMENDATIONS: THE AGENCIES FAVORING APPROVAL ALSO FAVOR A PUBLIC STATEMENT INDICATING APPROVAL IN PRINCIPLE BUT MAKING IT CLEAR THAT THE TRANSACTION IS SUBJECT TO CAB APPROVAL AND CONDITIONAL UPON WORKING OUT ACCEPTABLE ARRANGEMENTS.

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MENTS WITH DOD CONCERNING AVAILABILITY OF PAN AM PLANES FOR THE CRAF FLEET AND IRANIAN ACCESS TO CLASSIFIED DEFENSE MATERIAL.

MR. HARTMANN BELIEVES THAT A MESSAGE FROM THE SECRETARY OF STATE TO HIS COUNTERPART IN IRAN WOULD BE A SUFFICIENTLY AUTHORITATIVE SIGNAL IF SUCH A SIGNAL IS ESSENTIAL TO FURTHER PROGRESS ON THE TRANSACTION.

ALL OF YOUR ADVISERS CAUTION AGAINST YOUR PERSONAL INVOLVEMENT IN ANY PUBLIC OR PRIVATE COMMITMENT PRIOR TO CAB CONSIDERATION OF THE CASE.

STATE, THE NSC AND THE CIEP STRONGLY RECOMMEND THAT WE CONDITION ANY OFFICIAL STATEMENT OF APPROVAL ON ISSUANCE OF A PARALLEL OR JOINT STATEMENT BY IRAN IN WHICH THE IRANIAN GOVERNMENT CLEARLY ACKNOWLEDGES THAT (1) THE TRANSACTION IS SUBJECT TO CAB APPROVAL AND SATISFACTORY WORKING OUT OF DOD REQUIREMENTS AND (2) IT HAS NO DESIRE TO CONTROL MANAGEMENT OR OPERATION OF PAN AM. THE APPROPRIATE US DEPARTMENT (OR DEPARTMENTS) COULD ISSUE A STATEMENT ALONG WITH ITS IRANIAN COUNTERPART OR A JOINT STATEMENT COULD BE MADE IN THE CONTEXT OF THE JOINT COMMISSION IN ORDER TO PLEASE THE SHAH.

APPROVE JOINT OR PARALLEL US/IRAN  
STATEMENTS-----

APPROVE UNILATERAL US STATEMENT-----

DISAPPROVE PUBLIC STATEMENT-----

WILL DISCUSS-----

CONFIDENTIAL

JANUARY 31, 1975

PRINCIPAL PROVISIONS OF TENTATIVE  
AGREEMENT BETWEEN PAN AM AND IRAN

THE AGREEMENT CONTEMPLATES THAT THE IRANIAN SIDE WILL MAKE AVAILABLE TO PAN AM AN AMOUNT NOT TO EXCEED \$300 MILLION. THE PRINCIPAL PROVISIONS OF THE TENTATIVE AGREEMENT ARE AS FOLLOWS:

1) OF THE \$300 MILLION, AN AMOUNT (SAY \$55 MILLION) WILL BE USED TO ACQUIRE 55 PERCENT OF THE STOCK OF THE INTERCONTINENTAL HOTELS CORPORATION, AN OFF-SHORE HOTEL CHAIN WHOLLY OWNED BY PAN AM. THE EXACT PURCHASE PRICE IS YET TO BE NEGOTIATED.

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EACH SIDE WILL HAVE THE RIGHT OF REFUSAL IN THE EVENT EITHER WISHES TO SELL ALL OR ANY PART OF ITS IHC STOCK.

2) OUT OF THE REMAINDER OF THE \$300 MILLION, THE COMPANY WILL ENDEAVOR TO ACQUIRE AT LEAST 75 PERCENT OF THE OUTSTANDING \$389,500,000 OF PAN AM'S SENIOR DEBT NOW HELD BY INSTITUTIONAL INVESTORS AT A SUBSTANTIAL DISCOUNT PRICE SATISFACTORY TO IRAN AND PAN AM. UP TO \$70 MILLION OF THE AMOUNT REMAINING FROM THE \$300 MILLION AFTER THE ACQUISITION OF THE HOTEL COMPANY STOCK AND THE DISCOUNT PURCHASE OF THE SENIOR DEBT WILL BE LENT TO THE COMPANY FOR ITS NECESSARY CASH NEEDS.

3) THE MONIES MADE AVAILABLE FOR THE ACQUISITION OF SENIOR DEBT AND THE COMPANY'S CASH NEEDS WILL BE IN THE FORM OF A TEN-YEAR LOAN TO PAN AM BEARING INTEREST AT A RATE OF 10 1/2 PERCENT PER ANNUM, WITH A COMMITMENT FEE OF 1/2 PERCENT PER ANNUM. SINCE NO PRINCIPAL REPAYMENTS WILL BE REQUIRED FOR THE FIRST THREE YEARS, THIS WILL IMPROVE THE COMPANY'S CASH FLOW FOR THE FIRST THREE YEARS BY A CUMULATIVE AMOUNT OF ROUGHLY \$60 MILLION.

4) THE AGREEMENT IS SUBJECT TO THE CONDITION THAT THE BANKS WHICH HAVE PRESENTLY EXTENDED A LINE OF CREDIT AMOUNTING TO \$125 MILLION, PAYABLE ON SEPTEMBER 30, 1975, WILL CONTINUE THAT LINE OF CREDIT INTO THE FUTURE.

THE FUNDS LENT BY IRAN SHALL SHARE PARI PASSU IN COLLATERAL WITH THE OTHER SENIOR DEBT OF THE COMPANY, BUT IF THE OTHER LENDERS AGREE TO EXTEND THEIR CREDIT ON AN UNSECURED BASIS, IRAN WILL ACCEPT THAT ITS LOAN NOT BE SECURED.

5) AS PART OF THE TOTAL TRANSACTION, PAN AM WILL MAKE AVAILABLE TO IRAN WARRANTS ENTITLING IT TO PURCHASE SIX MILLION SHARES OF THE COMPANY'S STOCK AT ANY TIME WITHIN TEN YEARS AFTER THE DATE OF THE AGREEMENT, AT THE LESSER OF \$2.75 PER SHARE OR 15 PERCENT PREMIUM OF THE AVERAGE DAILY CLOSING PRICES FROM THE SIGNING OF THE AGREEMENT TO ONE WEEK PRIOR TO THE FIRST BORROWING. THE WARRANTS WOULD BE TRANSFERRABLE EITHER THROUGH A PUBLIC OFFERING OR IN PRIVATE TRANSACTIONS PROVIDED THAT, UNLESS THE COMPANY OTHERWISE AGREES, NO TRANSFEREE CAN ACQUIRE WARRANTS TO PURCHASE A NUMBER OF SHARES GREATER THAN 1 PERCENT OF THE NUMBER OF SHARES OF THE COMPANY STOCK THEN OUTSTANDING.

WHEN FULLY EXERCISED, THOSE WARRANTS WOULD RESULT IN IRAN ACQUIRING 13 PERCENT OF THE ISSUED SHARES (COMPUTED AFTER THE FULL EXERCISE OF THE WARRANTS), OR 8 PERCENT OF THE TOTAL AUTHORIZED SHARES (41 MILLION SHARES ARE NOW ISSUED AND OUTSTANDING; 80 MILLION ARE AUTHORIZED).

6) PAN AM'S MANAGEMENT WILL INCLUDE ON THE MANAGEMENT SLATE

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OF DIRECTORS (NOW CONSISTING OF 17 DIRECTORS, BUT EXPANDABLE TO 20) ONE PERSON NOMINATED BY IRAN SO LONG AS IRAN CONTINUES TO HOLD THE DEBT OR THE SHARES ACQUIRED THROUGH THE EXERCISE OF WARRANTS.

7) IT IS UNDERSTOOD THAT FINAL IMPLEMENTATION OF THE AGREEMENT WILL BE SUBJECT TO REQUISITE APPROVALS BY THE PERTINANT U.S. REGULATORY AGENCIES.

8 FEBRUARY 1975

IN REPLY REFER TO  
1-1375/75

MEMORANDUM FOR MR. L. WILLIAM SEIDMAN, ASSISTANT TO THE PRESIDENT  
FOR ECONOMIC AFFAIRS

SUBJECT: PROPOSED IRANIAN GOVERNMENT INVESTMENT IN  
PAN AMERICAN AIRLINES

THANK YOU FOR OUR COPY OF YOUR MEMORANDUM OF 6 FEBRUARY CONCERNING DOD COMMENTS AND RECOMMENDATIONS ON IRANIAN INVESTMENT IN PAA. LET ME RE-EMPHASIZE THE DOD VIEW THAT WE ARE NOT IN A POSITION TO APPROVE OR DISAPPROVE THE ARRANGEMENTS. HOWEVER, ANY DEAL WORKED OUT MUST CONTAIN PROVISIONS WHICH ASSURE CONFORMITY WITH CERTAIN CONDITIONS OF DOD INDUSTRIAL SECURITY REGULATIONS AND THOSE PERTAINING TO THE CIVIL RESERVE AIR FLEET (CRAF) PROGRAM.

THE FIRST PROBLEM CONCERNS THE DOD INDUSTRIAL SECURITY PROGRAM AND ITS REGULATIONS. PAA NOW HOLDS CLASSIFIED CONTRACTS ON BEHALF OF THE DEPARTMENT OF DEFENSE. IF THE APPOINTMENT OF AN IRANIAN-NOMINATED MEMBER TO THE BOARD OF DIRECTORS WOULD COMPROMISE ANY OF THESE CONTRACTS, THE DOD WOULD FEEL OBLIGATED TO OBJECT UNLESS THE IRANIAN DIRECTOR COULD BE ISOLATED FROM CORPORATE MANAGEMENT OVER PAA ACTIVITIES ASSOCIATED WITH CLASSIFIED CONTRACTS. THIS COULD BE DONE IF THE IRANIAN ON THE BOARD OF DIRECTORS WAS EXCLUDED IN THE MANNER PRESCRIBED IN THE DOD INDUSTRIAL SECURITY MANUAL. THIS EXCLUSION ACTION WOULD HAVE TO BE MADE A MATTER OF RECORD BY THE PAA BOARD OF DIRECTORS, AND AT LEAST A QUORUM OF THE BOARD OF DIRECTORS WAS PROPERLY CLEARED AND NOT APPOINTED BY A FOREIGN INTEREST.

THE SECOND PROBLEM CONCERNS THE QUESTION OF A RESPONSIVENESS IN TIME OF EMERGENCY ACTIVATION OF THE CRAF, BECAUSE OF PAA PARTICIPATION IN THAT PROGRAM. ANY SECURITY LIENS ON PAA AIRCRAFT RAISE THE QUESTION OF LOSS TO CRAF OF THE PAA CONTRIBUTION TO CRAF (ABOUT 20 PERCENT OF THE TOTAL CRAF) IN THE EVENT OF

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DEFAULT. IF AIRCRAFT ALLOCATED TO CRAF ARE OFFERED AS SECURITY FOR THE IRANIAN LOAN, WE BELIEVE THAT SOME RIGHT OF FIRST REFUSAL SHOULD BE PROVIDED TO ENABLE THE US GOVERNMENT TO PURCHASE (OR ARRANGE FOR A US COMPANY TO PURCHASE) THE AIRCRAFT AT THE BEST AVAILABLE PRICE IN THE EVENT THAT THEIR SALE IS NECESSARY TO PAY BACK THE LOAN. THIS WOULD GIVE US THE OPTION TO PREVENT SALE TO A FOREIGN PURCHASER (INCLUDING IRAN). IF TRANSFER TO IRANIAN REGISTRY WAS CONTEMPLATED, THUS REMOVING THE AIRCRAFT FROM CRAF ALLOCATION UNDER US LAW, OR IF ANY OTHER REASONS THERE WAS DOUBT AS TO PAA'S CLEAR OWNERSHIP AND CONTROL OF AIRCRAFT IN THE EVENT OF A CONTINGENCY CAUSING ACTIVATION OF CRAF, IT WOULD BE NECESSARY FOR THE DOD TO OBJECT.

THE DEAL MUST ALSO BE CONSISTANT WITH CURRENT USG AIRCRAFT CONTRACTS TO HAVE PAA PLANES REMAIN IN THE CRAF PROGRAM. FOR EXAMPLE, ONE REQUIREMENT OF THE CRAF PROGRAM RELATES TO THE NATIONALITY OF THE AIRCREWS. PAA IS OBLIGATED TO FURNISH CREWS WITH AIRCRAFT IF CRAF IS ACTIVATED. THOSE CREWS MUST BE LICENSED BY THE USG AND HAVE APPROPRIATE SECURITY CLEARANCES. THIS COULD BE AN ISSUE IF THE CREWS WERE FOREIGN PERSONNEL.

WE ARE PREPARED TO HAVE COGNIZANT OFFICIALS PROVIDE TECHNICAL ASSISTANCE CONCERNING THE INDUSTRIAL SECURITY PROGRAM AND THE CRAF PROGRAM, IF DESIRED.

/S/ ROBERT ELLSWORTH  
ASSISTANT SECRETARY OF DEFENSE  
INTERNATIONAL SECURITY AFFAIRS

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INTERNATIONAL  
SECURITY AFFAIRS

ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D.C. 20301

8 February 1975

In reply refer to  
I-1375/75

MEMORANDUM FOR MR. L. WILLIAM SEIDMAN, ASSISTANT TO THE PRESIDENT  
FOR ECONOMIC AFFAIRS

SUBJECT: Proposed Iranian Government Investment in  
Pan American Airlines

Thank you for our copy of your memorandum of 6 February concerning DOD comments and recommendations on Iranian investment in PAA. Let me re-emphasize the DOD view that we are not in a position to approve or disapprove the arrangements. However, any deal worked out must contain provisions which assure conformity with certain conditions of DOD Industrial Security Regulations and those pertaining to the Civil Reserve Air Fleet (CRAF) Program.

The first problem concerns the DOD Industrial Security Program and its regulations. PAA now holds classified contracts on behalf of the Department of Defense. If the appointment of an Iranian-nominated member to the Board of Directors would compromise any of these contracts, the DOD would feel obligated to object unless the Iranian Director could be isolated from corporate management over PAA activities associated with classified contracts. This could be done if the Iranian on the Board of Directors was excluded in the manner prescribed in the DOD Industrial Security Manual. This exclusion action would have to be made a matter of record by the PAA Board of Directors, and at least a quorum of the Board of Directors was properly cleared and not appointed by a foreign interest.

The second problem concerns the question of a responsiveness in time of emergency activation of the CRAF, because of PAA participation in that program. Any security liens on PAA aircraft raise the question of loss to CRAF of the PAA contribution to CRAF (about 20% of the total CRAF) in the event of default. If aircraft allocated to CRAF are offered as security for the Iranian loan, we believe that some right of first refusal should be provided to enable the US Government to purchase (or arrange for a US company to purchase) the aircraft at the best available price in the event that their sale is necessary to pay back the loan. This would give us the

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Authority DOD Directive 5200.30  
By W/HM 11/21/00

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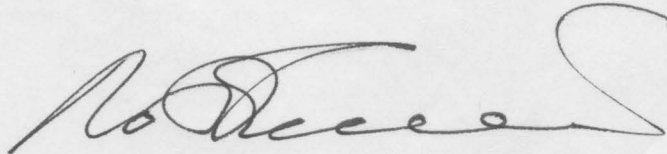
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2.

option to prevent sale to a foreign purchaser (including Iran). If transfer to Iranian registry was contemplated, thus removing the aircraft from CRAF allocation under US law, or if for any other reasons there was doubt as to PAA's clear ownership and control of aircraft in the event of a contingency causing activation of CRAF, it would be necessary for the DOD to object.

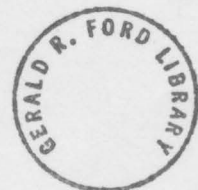
The deal must also be consistent with current USG aircraft contracts to have PAA/ planes remain in the CRAF Program. For example, one requirement of the CRAF Program relates to the nationality of aircrews. PAA is obligated to furnish crews with aircraft if CRAF is activated. Those crews must be licensed by the USG and have appropriate security clearances. This could be an issue if the crews were foreign personnel.

We are prepared to have cognizant officials provide technical assistance concerning the Industrial Security Program and the CRAF Program, if desired.



Robert Ellsworth  
Assistant Secretary of Defense  
International Security Affairs

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E.O. 12958, Sec. 3.5

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NSC Memo, 11/24/98, State Dept. Guidelines  
By W/HM, NARA, Date 11/21/00

ACTION

MEMORANDUM FOR

THE PRESIDENT

FROM: L. William Seidman

SUBJECT: Proposed Iranian Government  
Investment in Pan American Airlines

As you know, initial negotiations have been completed with respect to an Iranian Government investment of \$300 million in Pan American Airlines. Because the controversial issue of OPEC government investment is involved, both Pan Am and Iran are seeking a favorable signal from the Administration before proceeding further with the transaction.

Any agreement reached by the parties would ultimately be subject to CAB approval of matters relating to potential Iranian control of Pan Am. A favorable Administration decision would, therefore, not necessarily ensure successful completion of the transaction. A negative signal would, however, almost certainly stop the proposed investment.

Decision Required. The main decision required is whether the Administration should approve in principle the proposed Iranian investment in Pan Am.

Terms of Transaction. After completion of the transaction as now proposed, Iran would hold approximately \$245 million (20-30%) of Pan Am's debt, own 55% of the stock of Intercontinental Hotels Corporation (an offshore hotel chain wholly owned by Pan Am), have warrants to purchase up to 13% of Pan Am's equity and have one member on Pan Am's 17 member Board of Directors (see attached Annex I for further details of transaction).

Basic Issues -- Several broader issues must be considered in order to reach a decision on the Iranian/Pan Am request. They are:

- Our policy with respect to OPEC government investment in the U.S.
- Our policy with respect to recycling and the impact of denial on the future flow of OPEC funds to the US.
- Foreign policy implications - especially Iranian/U.S. relations.



- Foreign government influence in key U.S. firms
- Injection of an undesirable foreign policy element into the CAB and Presidential decision making process in cases involving Pan Am.
- Effect on Pan Am's long run economic viability.

Discussion of Key Issue: OPEC Government Investment in U.S. - One of the principal objectives of our recycling policy is to encourage OPEC nations to make long term constructive investments in the consuming nations. Such investments contribute to our current balance of payments, help alleviate the current capital shortage, and give the OPEC countries a stake in our economy which should provide some incentive for them to refrain from actions which would have a negative effect on our economy and their investments. An interagency review of foreign investment in the U.S. is underway and, while not complete, it is possible to say that all but the most extreme views would permit some foreign government investment in US firms - including firms like Pan Am.

Our existing laws and regulations are such that there is minimum danger that a foreign investor could use his investment here in a way that would cause serious harm to our economy or national security. However, a major reservation has been raised concerning the political and economic influence that a foreign government might obtain through substantial investments. Although the substance of these concerns have never been clearly defined, those that hold this view maintain that a foreign government could make subtle use of such influence to harm our national or economic security interests but in a manner that would put it beyond the reach of existing law.

There is an added difficulty in the present case in that Pan Am is regulated by the CAB and, in some cases, the President. The Department of Transportation is concerned that Iranian investment in Pan Am would inject additional foreign policy considerations into the deliberations of the CAB and the President in making decisions involving Pan Am or other international carriers. On the other hand, other agencies look upon CAB and Presidential regulations as an added safeguard to ensure that the Iranians would not use their investment in a way contrary to our national interest.



Defense Department Requirements. Any agreement reached by Pan Am and Iran must contain provisions which assure conformity with Defense Department regulations dealing with classified defense contracts and the Civil Reserve Air Fleet (CRAF). Otherwise, the Defense Department would object to the transaction.

Pan Am officials are optimistic that they can work out appropriate arrangements, but the precise methods of satisfying DOD concerns require further discussions with Iran and DOD. Therefore, Administration approval in principle at this time must be given subject to satisfaction of Defense Department regulations.

Advantages of a Favorable Decision

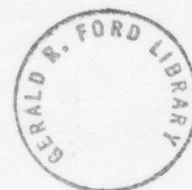
1. A favorable decision would indicate to other potential OPEC investors that the U.S. is willing to accept constructive long term OPEC government investment.

2. The investment would set a useful precedent for the type of OPEC investment we would welcome (i.e. mainly debt with a relatively small equity interest in a firm in a highly regulated industry).

3. Denial would be interpreted by OPEC nations as an indication that we intended to limit their investment in the U.S. and could have a major negative effect on such investment here.

4. Because of its generally favorable features, the transaction provides a good test case to sample Congressional and public reaction to substantial OPEC investment in U.S. companies.

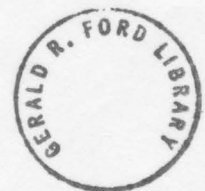
5. The investment would avert another Pan Am cash crisis in late 1975 and might provide the type of medium term financial relief necessary to enable Pan Am to consummate a merger or route restructuring needed to create a viable airline.





Disadvantages of a Favorable Decision

1. The investment might take pressure off Pan Am to take the drastic actions required to return to long run profitability (e.g. merger or route restructuring).
2. Iranian influence in Pan Am would inject a new, and what some consider an undesirable, element into CAB and Presidential decision making in cases involving Pan Am and other international airlines.
3. Whether or not the relationship actually affects Presidential decisions, it will be perceived as having, or as capable of having, an influence on such decisions, which may give further impetus to the current effort to limit the President's statutory authority over international route and rate decisions.
4. Further Pan Am financial problems could lead to another request for an Iranian bailout which, if approved, would increase Iranian influence in Pan Am and thereby set precedents for larger shareholdings in US companies by foreign investors.
5. Would advance Iran Air's case for adding routes to the U.S., which would further dilute the North Atlantic market for U.S. carriers and could include additional Concorde operations which would impact the first class market.



#### Agency Recommendations

(1) Treasury, State, Commerce, OMB, CIEP, NSC and the Domestic Council all favor approval of the investment (on condition that the final agreement between Pan Am and Iran contain provisions which satisfy Defense Department requirements.) The main reasons for their recommendations are the positive effect it would have on (i) our prospects for attracting more OPEC government investment and influencing its movement into constructive, long term ventures in the US and (ii) the short term financial condition of Pan Am.

(2) The only dissenting agency is Transportation which believes the investment could add an undesirable foreign policy element to CAB and Presidential decision making, or would be perceived as influencing Presidential authority over international routes and rates. Transportation is also concerned that Pan Am would not proceed as vigorously as it should with a merger or restructuring.

(3) Defense takes no position for or against but points out that any final agreement must contain provisions which assure conformity with its regulations dealing with classified defense work and the Civil Reserve Fleet.

(4) The Federal Energy Administration believes that the Administration should neither approve nor disapprove the transaction. Rather, FEA recommends that we offer no objection at this time, provided that the concerns of the CAB and the Department of Defense are met. In the meantime the issue of foreign government investment in the U.S. per se should be explored -- as is currently being done by the interagency review group.

(5) Arthur Burns, speaking for the Federal Reserve, indicates he has doubts, mainly on grounds of national prestige, about the proposed investment. These doubts would, he notes, be greatly reduced if Iran would agree to limiting the warrants to non-voting common stock.

#### Recommendations of Senior White House Staff

(1) Mr. Hartmann believes (i) a more comprehensive check of Congressional and Labor reaction is desirable before any decision is made, (ii) DOD should be required to state its position and (iii) DOD concerns with respect to the Civil Reserve Air Fleet and classified contracts should be fully resolved before any Administration approval is announced.

(2) Mr. Rumsfeld's office had no comment.



(3) Mr. Marsh favors approval of the Iranian Investment.

(4) Mr. Areeda believes the Transportation Department concerns are "worth weighing" but on balance he does not believe they are strong enough to determine the result.

Initial Congressional and Labor Reaction - The subject of OPEC investment in the U.S. is already an important issue in Congress as several bills to restrict or limit foreign investment have been introduced. Any decision on the Iranian case will undoubtedly evoke Congressional comment.

Pan Am representatives have consulted a number of Senators and report that so far they have encountered no adverse reaction. An independent check by the staff of CIEP with Senators Jackson, Javits, Scott, Williams, Percy, Stevenson, Church, Stevens, Pearson also uncovered no objection to the transaction. Pan Am has also had a number of consultations on the House side and reports no adverse reaction so far.

According to Pan Am, initial contacts with the Teamsters and the AFL-CIO indicates that labor will not have major objections to the transaction.

Approve Iranian Investment in Pan Am \_\_\_\_\_

Disapprove Iranian Investment in Pan Am \_\_\_\_\_

Will discuss \_\_\_\_\_





Nature of Public Statement - If you decide to approve the Iranian investment, you should then decide whether the appropriate department should make some public statement to satisfy the Iranian and Pan Am desire for public Administration endorsement of the principle of the transaction.

A public statement could have advantages in that it (1) would indicate clearly the Administration position on an issue of importance to Iran and other OPEC investors (2) might be used to reemphasize to Iran that the transaction is subject to CAB approval and conditional upon satisfactory arrangements with DOD with respect to the CRAF fleet and classified contracts. There would be particular advantages in a parallel or joint statement with Iran in that Iran would clearly acknowledge that it recognized the need for DOD and CAB approval and that it had no desire to control the management or operation of Pan Am. Such a statement would greatly assist in allaying public and Congressional fears of an OPEC takeover.

The main disadvantages of a USG public statement are that (1) it might appear that the Administration was favoring Pan Am or trying to influence the ultimate CAB decision and (2) it could set a precedent leading to similar requests from other investors.

Recommendations: The agencies favoring approval also favor a public statement indicating approval in principle but making it clear that the transaction is subject to CAB approval and conditional upon working out acceptable arrangements with DOD concerning availability of Pan Am planes for the CRAF fleet and Iranian access to classified defense material.

Mr. Hartmann believes that a message from the Secretary of State to his counterpart in Iran would be a sufficiently authoritative signal if such a signal is essential to further progress on the transaction.

All of your advisers caution against your personal involvement in any public or private commitment prior to CAB consideration of the case.

State, the NSC and the CIEP strongly recommend that we condition any official statement of approval on issuance of a parallel or joint statement by Iran in which the Iranian government clearly acknowledges that (1) the transaction is subject to CAB approval and satisfactory working out of DOD requirements and (2) it has no desire to control management or operation of Pan Am. The appropriate US department (or departments) could issue a statement along with its Iranian counterpart or a joint statement could be made in the context of the Joint Commission in order to please the Shah.



Approve Joint or Parallel US/Iran  
Statements \_\_\_\_\_

Approve Unilateral US Statement \_\_\_\_\_

Disapprove Public Statement \_\_\_\_\_

Will Discuss \_\_\_\_\_



January 31, 1975

PRINCIPAL PROVISIONS OF TENTATIVE  
AGREEMENT BETWEEN PAN AM AND IRAN

The agreement contemplates that the Iranian side will make available to Pan Am an amount not to exceed \$300 million. The principal provisions of the tentative agreement are as follows:

- 1) Of the \$300 million, an amount (say \$55 million) will be used to acquire 55% of the stock of Intercontinental Hotels Corporation, an off-shore hotel chain wholly owned by Pan Am. The exact purchase price is yet to be negotiated. Each side will have a right of refusal in the event either wishes to sell all or any part of its IHC stock.
- 2) Out of the remainder of the \$300 million, the Company will endeavor to acquire at least 75% of the outstanding \$389,500,000 of Pan Am's senior debt now held by Institutional Investors at a substantial discount price satisfactory to Iran and Pan Am. Up to \$70 million of the amount remaining from the \$300 million after the acquisition of the Hotel Company stock and the discount purchase of senior debt will be lent to the Company for its necessary cash needs.
- 3) The monies made available for the acquisition of senior debt and the Company's cash needs will be in the form of a ten-year loan to Pan Am bearing interest at a rate of 10½% per annum, with a commitment fee of ½% per annum. Since no principal repayments will be required for the first three years, this will improve the Company's cash flow for the first three years by a cumulative amount of roughly \$60 million.
- 4) The agreement is subject to the condition that the banks which have presently extended a line of credit amounting to \$125 million, payable on September 30, 1975, will continue that line of credit into the future.

The funds lent by Iran shall share pari passu in collateral with the other senior debt of the Company, but if the other lenders agree to extend their credit on an unsecured basis, Iran will accept that its loan not be secured.

- 5) As part of the total transaction, Pan Am will make available to Iran warrants entitling it to purchase six million shares of the Company's stock at any time within ten years after the date of the agreement, at the lesser of \$2.75 per share or 15% premium of the average daily closing prices from the signing of the agreement to one week prior to the first borrowing. The warrants would be transferrable either through a public offering or in private transactions provided that, unless the Company otherwise agrees, no transferee can acquire warrants to purchase a number of shares greater than 1% of the number of shares of the Company stock then outstanding.

When fully exercised, those warrants would result in Iran acquiring 13% of the issued shares (computed after the full exercise of the warrants), or 8% of the total authorized shares (41 million shares are now issued and outstanding; 80 million are authorized).

- 6) Pan Am's management will include on the management slate of directors (now consisting of 17 directors, but expandable to 20) one person nominated by Iran so long as Iran continues to hold the debt or the shares acquired through the exercise of the warrants.
- 7) It is understood that final implementation of the agreement will be subject to requisite approvals by the pertinent U. S. regulatory agencies.

