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TO IMMEDIATE F C O

TELEGRAM NUMBER 4353 OF 22 OCTOBER 1980

INFO IMMEDIATE UKMIS NEW YORK STOCKHOLM HMY BRITANNIA (FOR WALDEN)

FOLLOWING FROM FRETWELL IN AMBASSADOR'S ABSENCE ON TOUR.

UKMIS NEW YORK TELNO 1561: U.S. HOSTAGES IN IRAN

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1. THERE IS A GREAT DEAL OF ACTIVITY IN TRAIN RELATING TO THE HOSTAGES, SOME OF WHICH HAS BEEN REFLECTED IN MATERIAL FROM SOURCES WHICH MUST ON NO ACCOUNT BE QUOTED OR COMPROMISED. ARDAKANI'S REMARK PROVIDES USEFUL COLLATERAL.

2. U.S. OFFICIALS ARE EXTREMELY TIGHT-LIPPED ON THIS SUBJECT. THEIR FINGERS WERE BURNED WHEN THE ELABORATE DEAL TO SECURE THE HOSTAGES' RELEASE COLLAPSED JUST WHEN SUCCESS WAS IN SIGHT EARLIER IN THE YEAR. THEY ARE FEARFUL THAT ANY DEAL WHICH IS NOW EMERGING WILL SIMILARLY BE FRUSTRATED BY AN IRRATIONAL IRANIAN ACT OR SOME UNACCEPTABLE NEW DEMAND AT THE LAST MOMENT. THEY ARE ALSO CONSCIOUS OF THE POLITICAL SENSITIVITY OF THE QUESTION IN RELATION TO THE PRESIDENTIAL ELECTION. VEST TOLD ME YESTERDAY THAT CHRISTOPHER MIGHT BE ABLE TO SAY SOMETHING ABOUT THE HOSTAGES ON FRIDAY, BUT THAT IN THE MEANTIME NO-ONE IN THE STATE DEPARTMENT HAD AUTHORITY TO DO SO.

3. WE KNOW FROM A VARIETY OF SOURCES THAT THE AMERICANS HAVE BEEN PUTTING TOGETHER THE ELEMENTS OF THEIR RESPONSE TO THE DEMANDS FORMULATED BY KHOMEINI ON 12 SEPTEMBER. THEY HAVE FOR INSTANCE ASSEMBLED COMPREHENSIVE DOCUMENTATION ABOUT THE HISTORY OF U.S./IRANIAN RELATIONS (WASHINGTON TELEGRAM NO 4064). THEY HAVE TRIED OUT VARIOUS FORMULAE FOR THE APOLOGY WHICH THE IRANIANS AT ONE TIME DEMANDED, ALTHOUGH THAT NO LONGER SEEMS TO BE A CENTRAL ISSUE. THEY HAVE PUBLICLY OFFERED TO UNFREEZE IRANIAN ASSETS (APPARENTLY IGNORING THE DIFFICULTIES WHICH WILL ARISE FROM THE NUMEROUS COURT ACTIONS IN WHICH CLAIMS HAVE BEEN MADE ON THE ASSETS AND WHICH MAY TAKE A LONG TIME TO RESOLVE). THEY HAVE EXPRESSED U.S. INTEREST IN THE CONTINUING INTEGRITY OF IRAN.

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4. THE U.S. GOVERNMENT HAVE BEEN IN CONTACT WITH THE IRANIANS ON THESE AND OTHER RELATED MATTERS THROUGH A RANGE OF INTERMEDIARIES IN TEHRAN AND IN EUROPE. THEY HAVE ALSO TRIED TO BRING PRESSURE TO BEAR ON THE IRANIANS THROUGH ALL AVAILABLE CHANNELS OF COMMUNICATION, INCLUDING BOTH ARAB AND WESTERN GOVERNMENTS. THEY HAVE HELD OUT BAIT IN THE FORM OF THE PROMISED RELEASE OF SOME ARMS SUPPLIES ALREADY PAID FOR BY THE IRANIANS:

AND THEY HAVE UNDERLINED THE DAMAGE WHICH THE DISPUTE IS CAUSING TO IRAN ITSELF. THEY HAVE PROBABLY SOUGHT TO CONVEY THAT PRESIDENT CARTER WOULD BE A BETTER BET THAN REAGAN FOR BOTH THE ARAB WORLD AND IRAN, BECAUSE OF HIS PERSONAL COMMITMENT TO SEEK A GENUINE SOLUTION FOR THE PALESTINIANS (A THEME OF WHICH THERE WERE ECHOES IN U.S. CONTACTS WITH LIBYA IN THE BILLYGATE AFFAIR).

5. IN THE LAST FEW DAYS BOTH CARTER AND MUSKIE HAVE MADE PUBLIC STATEMENTS INDICATING A TILT TOWARDS IRAN IN ITS CONFLICT WITH IRAQ - THE REFERENCES TO IRAQI AGGRESSION AND INVASION, THE STATEMENTS OF SUPPORT FOR THE INTEGRITY OF IRAN, ETC. IT IS NOT YET CLEAR WHETHER THESE STATEMENTS ARE SIMPLY DESIGNED TO INFLUENCE AND ENCOURAGE IRANIANS WHO WANT TO SETTLE THE HOSTAGE PROBLEM OR WHETHER THEY ARE PART OF AN AGREED SCENARIO REQUIRING THE PRESIDENT TO COMMIT HIMSELF PUBLICLY ON THESE POINTS.

6. I PICKED UP AN OBSCURE HINT FROM A SENIOR U.S. OFFICIAL THAT THERE HAD BEEN SOME ARGUMENT WITHIN THE U.S. ADMINISTRATION ABOUT HOW TO RESPOND TO RAJAI'S SUGGESTION THAT THE U.S. SHOULD WITHDRAW THE FOUR AWACS AIRCRAFT FROM SAUDI ARABIA. THE QUESTION HAD BEEN RESOLVED, HE THOUGHT DEFINITELY, IN FAVOUR OF RETAINING THE AWACS. BUT THE FACT THAT THE QUESTION COULD BE CONSIDERED AT ALL SUGGESTS THAT SOME PEOPLE WITHIN THE ADMINISTRATION BELIEVE THAT A SOLUTION IS CLOSE AND THAT IT WOULD BE WORTH ONE FINAL PUSH TO BRING IT OFF, EVEN AT A SIGNIFICANT COST.

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7. THE ANNIVERSARY OF THE HOSTAGE-TAKING FALLS ON 4 NOVEMBER AND BOTH CANDIDATES ARE HIGHLY CONSCIOUS OF THE ELECTORAL SIGNIFICANCE OF ANY DEAL WHICH CAN BE DONE BEFORE THEN. VIEWS DIFFER ABOUT WHETHER THE RELEASE OF THE HOSTAGES OR THE ANNOUNCEMENT OF A DEAL WOULD BE AN ELECTION-WINNER FOR CARTER, BUT THE RESULTING SENSE OF RELIEF AND EVEN EUPHORIA WOULD CERTAINLY HAVE A CONSIDERABLE IMPACT. IT IS NO DOUBT AS A PRECAUTION AGAINST THIS THAT REAGAN HAS NOW STARTED TO CRITICISE CARTER FOR THE FACT THAT THE HOSTAGES HAVE BEEN HELD AT ALL.

8. IN SHORT ALL THE PIECES WHICH CAN BE PUT TOGETHER ARE NOW IN PLACE FOR A DEAL ON THE HOSTAGES AND THE ADMINISTRATION WILL GO TO GREAT LENGTHS TO PULL IT OFF IN THE NEXT 12 DAYS. HOPES HAVE BEEN DASHED BEFORE AND THERE IS STILL NO CERTAINTY THAT KHOMEINI WILL FINALLY DECIDE TO PRESS THE BUTTON FOR THEIR RELEASE, BUT MY BEST GUESS IS THAT THE ADMINISTRATION BELIEVE A DEAL IS NOW WITHIN REACH.

HENDERSON

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