

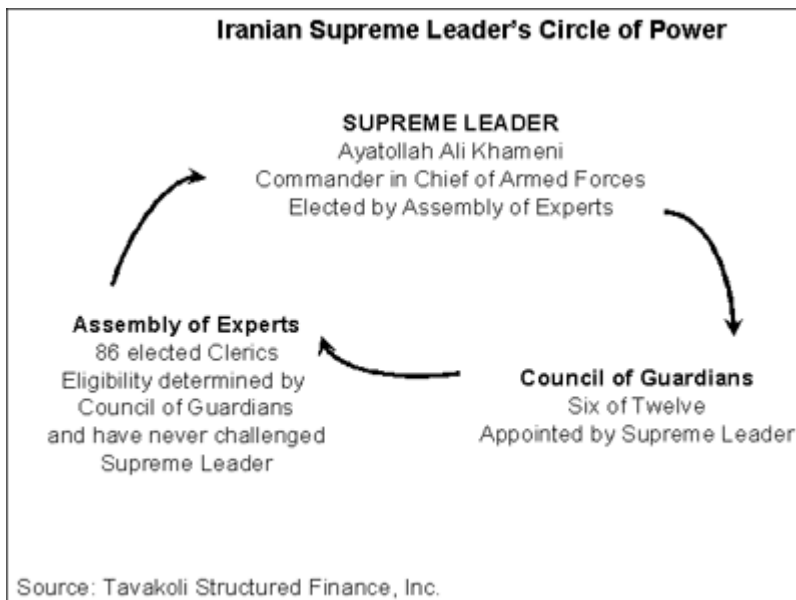
Oil and Power: Iran Approach Must Avoid Past Mistakes

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By Janet Tavakoli

As tensions rise in Iran, fund managers look at events there and consider the right moves for their energy portfolios. It is estimated that Iran has 10% of the world's oil reserves, and the nation produces approximately four million barrels of oil per day with the capacity to produce six million barrels per day in easy reach. Ayatollah Ali Khameni, the supreme leader of Iran, threatens to put his country's oil supply in play, and Iran's allies in the Middle East could join in moves to further drive up the price of oil. This is not an idle threat, since Khameni's control in his own country is close to absolute.

The supreme leader is chosen by the Assembly of Experts, 86 clerics whose eligibility for the Assembly is determined by the Council of Guardians. The Council of Guardians has 12 members, but six of those 12 are appointed by the supreme leader. It is no surprise that the Assembly of Experts has never challenged the supreme leader. Khameni's power extends to all branches of government. He controls the Iranian military, the media and the judiciary, and he indirectly controls the legislature.



Despite my strong view that the regime in Iran must change, we should remember not to repeat our past mistakes. It seems the late shah's son—Reza Pahlavi—feels we should support "the opposition," but his comments seem self-serving, and one suspects that in his mind the opposition must invariably include him. If history is a guide, he is not part of the solution, he is part of the problem. Reza Pahlavi urges the United States to support the opposition from the safety of his home in Virginia, where he lives on the dwindling remains of the money his father took out of Iran. It is very telling that his employees refer to him as his majesty; the Pahlavi family has the most tenuous of claims to royal blood. Mr. Pahlavi nonetheless aspires to be

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installed as a shah in Iran if the "people" want him. Reza Pahlavi's father spent his early childhood in poverty. Mr. Pahlavi's grandfather, Reza Khan, rose from peasant stock to command a Cossack division, became minister of war, and gained power in 1921 when he staged a coup d'état and deposed the last Shah of the Qajar Dynasty. In 1926, Reza Khan placed the imperial Iranian crown on his own head, and dubbed his son, Mohammed Reza, the crown prince. Of course, Mr. Pahlavi would be delighted to assume the title of shah, but this is not a step in the right direction for a democratic Iran. Democracy calls for three branches of government. None of them has a place for a shah wannabe.



If our goal is to stabilize the Middle East, then installation of a constitutional monarchy and the instability it will inspire should cause a surge in oil prices. A short digression to our role in Iran's history illustrates this point. Reza Khan, Reza Pahlavi's grandfather, was a brutal dictator, controlling those around him by fear. Under Reza Kahn's iron rule, Iran made progress but was in a state of political unrest. During World War II, the Soviet Union and Britain occupied Iran and forced Reza Khan to abdicate in 1941 in favor of his son, Mohammed Reza. In 1951, Iran elected a new government headed by Prime Minister Mussaddiq. The prime minister forced the young Shah to flee the country and planned to nationalize the British Anglo-Iranian oil company mainly because Iranians were not getting a fair share of the profits. In 1953, the United States and Great Britain—through the repeated joint efforts of the CIA and Britain's MI5—launched a joint military operation and restored the Shah to power. At the time, President Eisenhower led the United States, and Allen Dulles was head of the CIA. John Foster Dulles was Secretary of State. The Dulles brothers were formerly employed by the Wall Street law firm of Sullivan and Cromwell, and one of the firm's clients was the British Anglo-Iranian Oil Company.

The Shah allowed only one party, and he ruled as absolute dictator. There was no true separation of powers under the Shah. Eventually, even this didn't satisfy him. Shah Mohammed Reza proclaimed that he ruled by "divine right," and Allah guided his rule. This self-aggrandizing hubris incensed the Muslim clerics and inspired derision from progressive Iranians. The Shah's

eldest son, Cyrus Reza, also known as Reza, was born in 1960. He has spent most of his life on foreign soil, and Iranians say he speaks English better than he speaks Farsi. The 45-year-old son of the late Shah hasn't set foot on Iranian soil in almost three decades. He goads the United States for help, but why should we repeat our mistakes? Reinstallation of a shah will be a futile step backward both in history and for stability in this region.

Negotiations may produce a short-term détente, but Iran will continue to be a theocracy with power concentrated in the hands of a supreme leader. Rather than support a succession of street riots, it may be time to negotiate for gradual change within the current regime. If a long-term solution is to be found, it will rest in a true separation of church and state, and a creation of an independent legislative, judicial, and executive branch of government. It seems there is a will among the Iranian people for this sort of democracy to happen, so if we intend to provide support, it is in our best interest not to disappoint them.

Janet Tavakoli is a U.S. citizen and lived in Iran in 1978 and 1979 as an Iranian citizen—by virtue of marriage—in the months leading up to the overthrow of the shah through the early months after the installation of Ayatollah Khomeini as Iran's leader. She is the president of Tavakoli Structured Finance, a Chicago-based firm that provides consulting and expert witness services. Ms. Tavakoli has more than 20 years of experience in senior investment banking positions and is a former adjunct professor of derivatives at the University of Chicago's Graduate School of Business. She has authored a pair of books on the credit markets: Credit Derivatives & Synthetic Structures (John Wiley & Sons, 2nd edition, 2001) and Collateralized Debt Obligations & Structured Finance (John Wiley & Sons, 2003).