

257525Z AUG 74

0

W

~~SECRET/SENSITIVE~~ EXCLUSIVELY EYES ONLY

[Redacted]

CITE TEHRAN

[Redacted]

TO: ~~SECRETARY~~ KISSINGER, THE WHITE HOUSE

HR70-14
(U)

FROM: AMBASSADOR HELMS, TEHRAN

APPROVED FOR RELEASE
DATE: MAR 2008

REF: WH42550

1. THOSE TWO ASSESSMENTS OF LAST YEAR, TEHRAN [Redacted] OF OCTOBER 12 AND [Redacted] OF OCTOBER 30, LOOK PRETTY GOOD IN RETROSPECT, ESPECIALLY OUR VIEW THAT THE OIL PRODUCERS WOULD BE ABLE TO USE THE OIL WEAPON EFFECTIVELY AGAINST THE USG AND ITS ALLIES. WITH OIL SELLING AT FOUR TIMES ITS OCTOBER 1973 PRICE, OIL RANKS WITH SOVIET, CHINESE AND ARAB-ISRAEL RELATIONS AS ONE OF OUR CURRENT CRITICAL PROBLEMS. AND OF COURSE THE FUTURE OF OIL PRICES DEPENDS ON THE SUCCESS OF YOUR ENDEAVORS FOR A PEACEFUL ARAB-ISRAELI SETTLEMENT.

2. IF OUR ALLIES IN EUROPE AND JAPAN COLLAPSE FINANCIALLY BECAUSE THEY CANNOT AFFORD TO KEEP PAYING INCREASING PRICES FOR A BARREL OF OIL, MOST POLITICAL GOALS WE HAVE BEEN STRIVING TO ACHIEVE OVER PAST DECADES WILL NO LONGER MAKE ANY DIFFERENCE. IF THE INDUSTRIALIZED ECONOMIES COLLAPSE, AND THE INDIANS AND PAKISTANIS AND MANY AFRICANS BEGIN TO STARVE THROUGH LACK OF FUEL, FERTILIZER AND FOOD, WE WILL CLEARLY ENTER INTO A NEW ORDER OF RELATIONSHIPS WHICH WILL MAKE IRRELEVANT MANY OF OUR CURRENT POLITICAL ACTIONS AND CONCERNS.

3. WE MUST STABILIZE THE PRICE OF OIL. THIS CANNOT BE DONE BY THREATENING OR BULLYING OR BY TRYING TO USE THE SAUDIS AS A LEVER AGAINST THE OTHER PRODUCERS, EVEN SUPPOSING THE REAL SAUDIS DECISION-MAKERS ARE WILLING TO BE SO USED. (SO FAR THEY

~~SECRET/SENSITIVE~~ EXCLUSIVELY EYES ONLY

8

8

PAGE 2 TEHRAN ~~SECRET/SENSITIVE~~ EXCLUSIVELY EYES ONLY

HAVE PLAYED THE DANCE OF THE SEVEN VEILS.) WE ARE NOT LIKELY TO DO THIS BY THREATENING THE SHAH. PUBLICIZED PROPOSALS THAT WE "TAKE THE GLOVES OFF" MAKE HIM LESS AMENABLE TO COMPROMISE ON THE OIL PRICE ISSUE THAN HE MIGHT OTHERWISE BE. THE SHAH IS NOT AN UNREASONABLE MAN. MORE THAN MOST HE CAN SEE DOWN THE ROAD THE CALAMITOUS CONSEQUENCES, EVENTUALLY EVEN FOR HIMSELF, IF WESTERN EUROPE, JAPAN AND THE UNITED STATES SUFFER FINANCIALLY THE COLLAPSE LEAVING HIM AND THE ARABS DEFENSELESS AGAINST THE SOVIET UNION. THE SOVIETS EVIDENTLY ANTICIPATE A COMING CRUNCH BETWEEN THE SHAH AND OURSELVES OVER OIL PRICES. THEY HAVE SENT OUT FRIENDLY SIGNALS TO THE SHAH BY AGREEING TO RAISE THE PRICE THEY PAY FOR IRANIAN NATURAL GAS BY 82 PERCENT, BY INVITING HIM FOR A STATE VISIT, AND BY SWITCHING TO HIS SIDE ON THE SHATT AL ARAB DISPUTE WITH THEIR OWN CLIENT IRAQ. THE RUSSIANS MAY BE EXPECTED TO INDICATE TO THE SHAH AND TO THOSE ARAB OIL PRODUCERS WITH WHOM THEY HAVE RELATIONS, THAT THEY CAN COUNT ON SOVIET SUPPORT IN DEMANDING THE "RIGHTFUL" PRICE OF OIL FROM THE IMPERIALISTS WHO EXPLOITED THEM FOR SO LONG. FROM THE SOVIET POINT OF VIEW THE OIL SHAYKHS, THE SHAH, AND ALL OF OPEC ARE HASTENING THE DAY OF THE COLLAPSE OF CAPITALISM BY CONSTANTLY INCREASING THE PRICE OF OIL. IRONICALLY OUR POLICY SINCE WORLD WAR II WAS DEDICATED TO KEEPING MIDDLE EAST OIL RESOURCES AVAILABLE TO OURSELVES AND OUR FRIENDS AT REASONABLE PRICES AND TO THAT END WE SUPPORTED TRADITIONAL REGIMES. NOW THOSE REGIMES ARE CAUSING PROBLEMS FOR OUR FRIENDS JUST AS EFFECTIVELY AS IF THEY HAD BECOME SOVIET SATELLITE REGIMES.

~~SECRET/SENSITIVE~~ EXCLUSIVELY EYES ONLY

4. SINCE DEVELOPMENT OF ALTERNATE RESOURCES WILL TAKE MANY YEARS AND THE CRISIS IS NOW, WE MUST TRY TO STABILIZE PRICES BY PERSUADING THE SHAH AND OTHER PRODUCERS THAT SOME COMPROMISE IS NECESSARY FOR THE PRESERVATION OF A WORLD IN WHICH WE AND OUR ALLIES, AND THEREFORE THE PRODUCING COUNTRIES, CAN SURVIVE. THE SHAH PAYS LIP SERVICE TO THIS CONCEPT, BUT HE DOES NOT APPRECIATE THAT EXCESSIVE PRICES CAN BE RUINOUS AND WILL NOT BE COMPENSATED FOR BY MAKESHIFT LOANS AND SHORT-RANGE EXPEDIENTS.

5. EVEN THE CHINESE, IF THEY PROPERLY EVALUATE THEIR OWN INTEREST AT THIS TIME, SHOULD HARDLY WELCOME AN ECONOMIC COLLAPSE OF WESTERN EUROPE WHICH WOULD FREE SOVIET RUSSIA TO DEPLOY ADDITIONAL FORCES IN CHINA'S DIRECTION. IT MIGHT BE POSSIBLE TO GET THE CHINESE TO DROP A HINT OF THIS TO THE SHAH, THUS GIVING OUR THESIS SUPPORT FROM A GREAT POWER WITH WHICH HE HAS GOOD RELATIONS AND WHICH COULD NOT BE SUSPECTED OF TRYING TO PROTECT ITS OWN COMMERCIAL INTERESTS. THAT THE CHINESE MIGHT DO THIS IS NO MORE MIND-BOGGLING THAN THE SHAH'S SECRETLY SUPPORTING COMIDEASTFOR IN BAHRAIN OR SUDDENLY BUYING OFF AFGHANISTAN AND INDIA.

P3
6. APART FROM THE INDIAN NUCLEAR TEST, MOST DEVELOPMENTS IN THE INDIAN OCEAN-PERSIAN GULF AREA DURING THE PAST YEAR HAVE BEEN FAVORABLE TO THE INTERESTS OF OURSELVES AND OUR FRIENDS. THE SHAH TOOK INITIATIVES MADE POSSIBLE BY HIS INCREASED INCOME TO IMPROVE DRAMATICALLY HIS RELATIONS AND INFLUENCE WITH SEVERAL OF THE REGIONAL STATES INCLUDING INDIA AND AFGHANISTAN. NO ONE HAS EVER USED ECONOMIC POWER MORE RAPIDLY AND EFFECTIVELY TO ACHIEVE BENEFICIAL GEOPOLITICAL OBJECTIVES. SINCE JANUARY 1974,

8

8

PAGE 4 TEHRAN ~~SECRET/SENSITIVE~~ EXCLUSIVELY EYES ONLY

THE SHAH HAS RECEIVED OVER THIRTY HIGH-LEVEL DELEGATIONS SEEKING AID AND TRADE AGREEMENTS AND OFTEN OFFERING POLITICAL AS WELL AS ECONOMIC BENEFITS IN EXCHANGE.

7. IN FEBRUARY, THE SHAH OFFERED OIL TO INDIA ON CREDIT TERMS WHICH MADE THE EFFECTIVE PRICE ONLY \$3.50 A BARREL. HE PROMISED HEAVY INVESTMENT IN INDUSTRY IN EXCHANGE FOR COMMODITIES NEEDED BY IRAN. MRS. GANDHI'S VISIT IN APRIL 1974 FURTHER CLEARED THE AIR POLITICALLY AND LAID THE GROUNDWORK FOR FURTHER COLLABORATION. INDIA DID NOT GIVE THE SOVIETS NAVAL BASE RIGHTS IN INDIAN PORTS, AND BOTH IRAN AND INDIA APPEARED TO TAKE A MORE RELAXED, PRAGMATIC VIEW OF EACH OTHER AS POTENTIAL MILITARY THREATS. THE INDIANS SEEMED BETTER TO UNDERSTAND THAT IT WILL BE YEARS BEFORE IRAN IS A SIGNIFICANT INDIAN OCEAN SEA AND AIR POWER, AND THE IRANIANS TOOK A LESS ALARMIST VIEW OF INDIA, AS THE EASTERN ARM WITH AFGHANISTAN, OF A SOVIET PINCER MOVEMENT USING IRAQ AS THE WESTERN ARM.

8. A COMPARABLY BREATHTAKING REVOLUTION IN ALIGNMENTS WAS ACHIEVED BY THE SHAH IN OFFERING AFGHANISTAN A SERIES OF AID AND DEVELOPMENT PROJECTS WHICH WOULD TOTAL \$2 BILLION OVER A TEN YEAR PERIOD. THE AFGHANS RESPONDED FAVORABLY AND AT A STROKE, THE SHAH CONVERTED A GOVERNMENT WHICH LAST YEAR HE FEARED WAS A STALKING HORSE FOR THE RUSSIANS, INTO A POTENTIAL CLIENT-STATE FOR IRAN. THE AID HE HAS OFFERED AFGHANISTAN DWARFS THE TOTAL AID WHICH THE RUSSIANS AND AMERICANS TOGETHER HAVE GIVEN AFGHANISTAN SINCE WORLD WAR II.

~~SECRET/SENSITIVE~~ EXCLUSIVELY EYES ONLY

8

9. THE INDIAN NUCLEAR TEST IN MAY RAISED AN ISSUE WHICH WILL INCREASINGLY AFFECT REGIONAL RELATIONS FROM NOW ON. ALTHOUGH THE INDIANS HAVE EMPHASIZED THAT THEIR NUCLEAR PROGRAM IS DIRECTED ONLY TOWARD PEACEFUL APPLICATIONS, THE PAKISTANIS FEAR THAT THE PROGRAM COULD COVER DEVELOPMENT OF AT LEAST A FEW NUCLEAR WEAPONS. EVEN WITHOUT A PROPER DELIVERY SYSTEM, A FEW NUCLEAR BOMBS⁹ WOULD ADD STILL ANOTHER DIMENSION TO INDIAN POTENTIAL ~~TO~~^{FOR} OVERWHELM ^{ING} PAKISTAN. THE PAKISTANIS HAVE HINTED THAT THEY HAVE RECEIVED REASSURANCES FROM CHINA, BUT THESE ARE PROBABLY VAGUE AT BEST. THE DANGERS OF PROLIFERATION OBVIOUSLY HAVE INCREASED.

pt
ut

10. IRONICALLY THE UNDERGROUND NUCLEAR TEST WHICH SPARKED SO MUCH DISAPPROVING FOREIGN COMMENT WAS DOMESTICALLY PROBABLY THE MOST POPULAR HAPPENING SINCE INDEPENDENCE. THE HUNGRY PEACELOVING INDIANS WERE SO PROUD OF THEIR NEW ACCOMPLISHMENT AND ITS SUPPOSED POWER IMPLICATIONS THAT THEY SWEEPED TO POWER BY AN OVERWHELMING 80 PERCENT VOTE INDIRA GANDHI'S PRESIDENTIAL CANDIDATE AND INDIA'S SECOND MUSLIM PRESIDENT, FAKHRUDDIN ALI AHMAD.

11. THE SHAH HAS SUBMITTED TO THE UNGA A PROPOSAL FOR A NUCLEAR FREE ZONE IN THE MIDDLE EAST AND SOUTH ASIA. A DOZEN COUNTRIES HAVE INDICATED THEY WILL CO-SPONSOR OR SUPPORT IT DURING THE 29TH G.A. THE SHAH HAS NOTED, HOWEVER, THAT INDIA, IRAQ, AND ISRAEL HAVE NOT SIGNED THE NON-PROLIFERATION TREATY. NEITHER OF COURSE HAVE CHINA OR FRANCE, WHICH ADDS TO THE WILD CARDS IN THE DECK.

SPAGE 6 TEHRAN

SECRET/SENSITIVE EXCLUSIVELY EYES ONLY

12. ANOTHER MAJOR DEVELOPMENT SINCE LAST YEAR HAS BEEN THE USG'S EXTRAORDINARY RAPPROCHEMENT WITH EGYPT AND SYRIA. IN EGYPT, PARTICULARLY, THERE HAS BEEN A REVOLUTION IN GEOPOLITICAL RELATIONSHIPS, WITH SADAT TURNING AWAY FROM THE SOVIET UNION AND TOWARD THE USG, SAUDI ARABIA, AND IRAN FOR COMPENSATORY SUPPORT. IT HAS GIVEN US AND OUR FRIENDS A SECOND CHANCE TO ALIGN EGYPT ON OUR SIDE, AN OPPORTUNITY WHICH HAS NOT EXISTED SINCE 1955. EGYPT IS SO INFLUENTIAL IN THE REST OF THE ARAB WORLD THAT WE SHOULD NOT FAIL TO CONTINUE TO TAKE ADVANTAGE OF THIS NEW OPPORTUNITY. YOUR INDEFATIGABLE DIPLOMACY HAS EXPLOITED THIS NEW CHANCE TO THE FULLEST, ~~SECRET ONLY~~

13. THE PERSIAN GULF AND ARABIAN PENINSULA, WHILE NOT WITHOUT SERIOUS CONTINUING PROBLEMS, HAVE BECOME BRIGHTER SPOTS FOR IRAN AND OURSELVES DURING THE PAST YEAR. WHILE THE PDRY AND IRAQ, SUPPORTED BY THE RUSSIANS, HAVE PERSISTED IN THEIR ATTEMPTS TO EXTEND THEIR INFLUENCE BY SUBVERSION AND BY SUPPORT TO INSURGENCY, OUR FRIENDS ON THE WHOLE ARE STRONGER AND BETTER ABLE TO DEFEND THEMSELVES THAN THEY WERE A YEAR AGO. AND THEY ARE COOPERATING BETTER TOGETHER.

14. THE SHAH HAS PROVIDED EFFECTIVE MILITARY AID TO OMAN ENABLING THE SULTAN TO CONTAIN AND TO BEGIN ROLLING BACK THE PDRY-SUPPORTED DHOFAR REBELS. EVEN THE ARABS ARE TALKING OF SENDING IN A PAN-ARAB FORCE FROM EGYPT, SAUDI ARABIA, KUWAIT AND THE UNITED ARAB EMIRATES. WHILE THIS PROJECT MAY BE SLOW IN GETTING OFF THE GROUND AND MAY IRK THE SHAH, IT WOULD HAVE

SECRET/SENSITIVE EXCLUSIVELY EYES ONLY

THE MERIT OF EMPHASIZING ARAB SUPPORT FOR THE SULTAN'S WAR TO PROTECT HIS TERRITORY AGAINST A COMMUNIST AND SOVIET-BACKED "LIBERATION" MOVEMENT.

15. ALL EVIDENCE INDICATES THAT THE CHINESE HAVE FAITHFULLY ABIDED BY THEIR PROMISES LAST YEAR TO YOU AND TO THE SHAH THAT THEY WOULD CEASE DIRECT AID TO THE DHOFAR REBELS. THEY APPARENTLY REALIZED THAT THEIR AID HAD BEEN TENDING TO STRENGTHEN THE INFLUENCE OF SOVIET RUSSIA WHICH IS THE DOMINANT FOREIGN POWER IN THE PDRY.

16. THE CHINESE CONTINUED TO SUPPORT THE SHAH'S PUBLIC THESIS THAT DEFENSE OF THE PERSIAN GULF IS A MATTER FOR THE LITTORAL STATES THEMSELVES. THEY DENOUNCED BOTH WESTERN AND SOCIALIST IMPERIALISM FOR THEIR NAVAL INTRUSIONS INTO THE GULF AND THE INDIAN OCEAN. THE SHAH, HOWEVER, PURSUED A HIGHLY SOPHISTICATED POLICY TOWARD THE QUESTION OF FOREIGN NAVAL PRESENCE AND BASES IN THE INDIAN OCEAN AND THE GULF. WHILE MAINTAINING HIS PUBLIC POSITION THAT THESE AREAS SHOULD BE LEFT TO THE REGIONAL POWERS, HE PRIVATELY AND EFFECTIVELY SUPPORTED THE NEED FOR COUNTERVAILING U.S. NAVAL STRENGTH IN THESE WATERS AGAINST THE LARGE SOVIET NAVAL PRESENCE. HE SENT MESSAGES TO HIS AMBASSADOR IN WASHINGTON TO CONVEY HIS VIEW TO AMERICAN SENATORS THAT DIEGO GARCIA FACILITIES SHOULD BE IMPROVED. HE BELIEVES DIEGO GARCIA MAY BE VITAL TO HIS ONLY AIR SUPPLY LINE IF THE MEDITERRANEAN-TURKISH CORRIDOR IS AGAIN INTERRUPTED, AS IT WAS TWICE IN THE PAST YEAR. HE EVEN SENT A SECRET MESSAGE TO THE SHAYKH OF BAHRAIN URGING HIM TO ALLOW COMIDEASTFOR TO CONTINUE BASING AT MANAMA ON THE GROUNDS THAT A CONTINUING U.S. NAVAL

PAGE 8 TEHRAN ~~SECRET/SENSITIVE~~ EXCLUSIVELY EYES ONLY
PRESENCE IS NEEDED TO COUNTER THE THREAT FROM IRAQ AND THE
SOVIET UNION. THE SHAH'S SUPPORT OF THE PRESENCE OF MIDEASTFOR
IN BAHRAIN SHOULD HELP ALLAY THE FEARS OF THOSE GULF ARABS, AND
SOME AMERICANS, WHO HAVE BEEN APPREHENSIVE THAT THE SHAH'S
MILITARY BUILD-UP IS A PRELUDE TO FUTURE SEIZURE BY IRAN OF THE
ARAB COAST OF THE GULF.

17. EXCEPT FOR IRAQ, ~~AND~~ ^{AND} THE ARAB GULF POWERS, IRAN MADE
EXCELLENT PROGRESS IN SETTling ISSUES AMONG THEMSELVES AND MOV-
ING TOWARD GREATER COOPERATION. IRAN SIGNED A MEDIAN-LINE AGREE-
MENT WITH OMAN, GENEROUSLY ACCEPTING THE OUT-LYING SALAMAH ROCKS
AS THE BASE POINT FOR MEASURING THE LINE FROM OMANI TERRITORY
AND THUS GIVING UP POSSIBLE IRANIAN CLAIMS TO ABOUT 100 MILLION
BARRELS OF OFF-SHORE OIL IN THE STRAIT OF HORMUZ. IRAN ALSO
SIGNED A MEDIAN LINE AGREEMENT WITH DUBAI.

18. PERHAPS THE MOST GRATIFYING AGREEMENT WAS THE SETTLE-
MENT REACHED BY SAUDI ARABIA AND ABU DHABI OF THE 26-YEAR OLD
BURAIMI DISPUTE. THEIR COMPREHENSIVE BOUNDARY AGREEMENT THIS
SUMMER REMOVED A SERIOUS BONE OF CONTENTION AND REDUCED THE
DANGER THAT SHAYKH ZAYID MIGHT SOMEDAY SEEK INSURANCE AGAINST
HIS BIG SAUDI NEIGHBOR, BY ESTABLISHING DIPLOMATIC RELATIONS
WITH THE SOVIET UNION AND PERHAPS SIGNING A TREATY OF FRIENDSHIP
AS INDIA, IRAQ, AND SOMALIA HAVE DONE.

19. DURING THE PAST YEAR THE SOVIET UNION CONTINUED TO MAIN-
TAIN A SIZEABLE NAVAL PRESENCE IN THE INDIAN OCEAN, INCREASING
IT STRONGLY, AS THE UNITED STATES DID ITS OWN PRESENCE, IN
REACTION TO THE OCTOBER WAR. THE SOVIETS SIGNED A TREATY OF

~~SECRET/SENSITIVE~~ EXCLUSIVELY EYES ONLY

8 0

PAGE 9 TEHRAN ~~SECRET/SENSITIVE~~ EXCLUSIVELY EYES ONLY

u u

FRIENDSHIP WITH SOMALIA AND CONTINUED TO PROVIDE THAT ~~██████████~~ STATE WITH TANKS AND MIG-21 AIRCRAFT, MEANWHILE BUILDING A TEN THOUSAND FOOT AIR STRIP FROM WHICH THEIR VERY LONG-RANGE "BEAR" AIRCRAFT WILL BE ABLE TO KEEP THE ENTIRE INDIAN OCEAN UNDER SURVEILLANCE.

20. SINCE THE CHINESE, LIKE THE IRANIANS, HAVE NO REASON TO FEAR AMERICAN NAVAL POWER IN THE INDIAN OCEAN BUT HAVE PLENTY OF REASON TO FEAR SOVIET POWER, IT IS POSSIBLE THAT THEY WOULD QUIETLY ACCEPT, IF NOT PUBLICLY SUPPORT, COUNTERVAILING U.S. NAVAL PRESENCE IN THE AREA. WHEN THE SUEZ CANAL IS REOPENED, THE SOVIET "SURGE CAPABILITY" INTO THE INDIAN OCEAN FROM THE MEDITERRANEAN WILL BE GREATLY ENHANCED. THEIR MISSILE CRUISERS WILL BE ABLE TO PASS THROUGH THE CANAL. OUR AIRCRAFT CARRIERS WILL NOT. THIS SHOULD WORRY THE CHINESE, PAKISTANIS, IRANIANS, AND SAUDIS AS WELL AS OURSELVES.

p7

21. IRAQ CONTINUED TO BE A DE-STABILIZING FORCE IN THE GULF AND THE AREA. WHILE THERE HAS BEEN SOME RIVALRY BETWEEN THE PDRY AND IRAQ IN THEIR SUPPORT TO INSURGENT MOVEMENTS, IRAQ HAS MUCH GREATER POTENTIAL RESOURCES FOR THIS, LIMITED IN THE CASE OF PDRY ONLY BY DISTANCE AND GEOGRAPHY. IN THE SPRING THE IRAQIS EXTENDED THEIR ARM AS FAR AS NORTH YEMEN IN AN EFFORT TO EFFECT A BA'TH COUP D'ETAT. THEIR EFFORT BACKFIRED AND RESULTED IN A DIFFERENT KIND OF COUP WHICH PUT A PRO-SYRIAN BA'THIST MUHSIN AL AYNI IN AS PRIME MINISTER AND A YEMENI NATIONALIST MILITARY MAN IN CONTROL OF THE ARMY. THE IRAQIS MAINTAINED THEIR CLAIM TO KUWAIT'S BUBAYAN ISLAND AND PROSECUTED HOSTILE

~~SECRET/SENSITIVE~~ EXCLUSIVELY EYES ONLY

8

8

PAGE 10 TEHRAN ~~SECRET/SENSITIVE EXCLUSIVELY EYES ONLY~~

POLITICAL AND PROPAGANDA CAMPAIGNS AGAINST IRAN. MANY BANDS OF IRAQI-~~D~~^ISPATCHED INFILTRATORS AND SABOTEURS SURRENDERED OR WERE CAPTURED BY IRANIAN AUTHORITIES AND TOLD THEIR STORIES OF TRAINING FOR SABOTAGE AND GUERRILLA WARFARE IN IRAQI CAMPS. THE IRAQIS CONTINUED TO RECEIVE MASSIVE QUANTITIES OF SOPHISTICATED MILITARY EQUIPMENT FROM THE SOVIET UNION, INCLUDING T-62 TANKS, SURFACE-TO-AIR MISSILES, OSA-II MISSILE FRIGATES, AND TUPOLEV'S. 22, SUKHOI-20 AND MIG-23 AIRCRAFT. IN THE FACE OF THIS THE SHAH FELT HIS OWN MILITARY BUILDUP QUITE JUSTIFIED, ESPECIALLY IN VIEW OF HIS POPULATION WHICH IS THREE TIMES THAT OF IRAQ. HE ALSO CONSIDERED HIS PROGRAM OF AID TO THE KURDS JUSTIFIED BY IRAQI HOSTILITY TO IRAN AND FREQUENT VIOLATIONS OF IRANIAN TERRITORY OFTEN WITH LOSS OF IRANIAN LIVES. SUPPORTED BY IRANIAN AID AND IRANIAN ASYLUM FOR OVER 60,000 KURDISH REFUGEE WOMEN AND CHILDREN, THE FORCES OF MULLA MUSTAFA BARZANI SINCE MAY 1974 HAVE GIVEN BATTLE TO THE IRAQI ARMY OVER MOST OF NORTHERN IRAQ. ALTHOUGH LACKING AIRCRAFT, ARMOR, ^{AND} ARTILLERY, THE KURDS FIGHTING ON THEIR OWN SOIL IN DEFENSE OF THEIR HOMES AND FAMILIES HAVE GIVEN A GOOD ACCOUNT OF THEMSELVES AND HAVE TIED UP AT LEAST TWO THIRDS OF THE IRAQI ARMY. THE KURDISH WAR HAS REDUCED THE IRAQI CAPABILITY FOR ADVENTURES IN THE GULF AND THEIR ABILITY TO DISRUPT NEGOTIATIONS FOR AN ARAB-ISRAELI SETTLEMENT.

22. RECENTLY, THE BAGHDAD REGIME HAS ATTEMPTED TO REDUCE ITS ISOLATION BY APPROACHING EGYPT, OTHER ARAB COUNTRIES, AND

~~SECRET/SENSITIVE EXCLUSIVELY EYES ONLY~~

8

O

PAGE 11 TEHRAN ~~SECRET~~/SENSITIVE EXCLUSIVELY EYES ONLY

EVEN THE UNITED STATES WITH THE LINE THAT IT WISHES TO REDUCE ITS DEPENDENCE ON THE SOVIET UNION, AND REALLY WISHES TO FOLLOW MODERATE POLICIES. THE SHAH HAS RECEIVED WORD OF THIS FROM KING HUSAYN AND THE EGYPTIANS. HE STRONGLY DOUBTS IRAQI SINCERITY AND JUDGES THIS TO BE A TACTIC INTENDED TO REDUCE PRESSURE AND GAIN TIME UNTIL THE KURDS CAN BE CRUSHED. HE HOPES THE EGYPTIANS AND THE USG WILL NOT BE DECEIVED BY THIS IRAQI MANEUVER AND THAT THEY WILL NOT ACT IN SUCH MANNER AS MAY GIVE THE VERY TROUBLED BA'THISTS A NEW LEASE ON LIFE. WHILE IT IS TRUE THAT EVENTUALLY IRAQ WILL BE SO RICH FROM OIL REVENUES THAT IT WILL BE AGAINST HER INTEREST TO REMAIN THE CLIENT OF THE SOVIET UNION, THE SHAH THINKS PRESSURE SHOULD BE KEPT ON TO BRING A DECENT GOVERNMENT TO POWER IN BAGHDAD FOR FUTURE CONSTRUCTIVE RELATIONSHIPS. KING HUSAYN, UNDERSTANDABLY, SHARES THE SHAH'S VIEWPOINT. EGYPT APPARENTLY DOES NOT. IN OUR OWN GOVERNMENT THERE APPEARS TO BE CONFUSION AS TO WHERE OUR OWN INTERESTS LIE UP TO A SIGNIFICANT LEVEL IN THE DEPARTMENT OF STATE.

23. IRANIAN-CHINESE RELATIONS CONTINUE GOOD. THERE ARE NO CONFLICTS OF ANY IMPORTANT SORT. THERE IS THE COMMON FEAR OF THE SOVIET UNION, INTEREST IN MAINTAINING PAKISTANI TERRITORIAL INTEGRITY, INTEREST IN BRANING AFGHANISTAN AWAY FROM THE SOVIET UNION. CHINA'S MORE RESPONSIBLE POLICY IN TERMS OF "LIBERATION" MOVEMENTS (SUCH AS DHOFAR REBELLION) HAS REMOVED ONE SOURCE OF POTENTIAL TROUBLE. CHINA IS IN NO WAY INVOLVED IN SUPPORT TO THE IRAQIS. CHINA HAS A LARGE INSTALLATION IN TEHRAN (ABOUT 57 PEOPLE, WHICH IS ONE OF THE LARGEST IN THIS

~~SECRET~~/SENSITIVE EXCLUSIVELY EYES ONLY

8 0

PAGE 12 TEHRAN SECRET/SENSITIVE EXCLUSIVELY EYES ONLY

AREA OF THE WORLD), CONDUCTS A RESPONSIBLE POLICY VIS-A-VIS IRAN, AND HAS WON IRAN'S TRUST BY THE GOOD BEHAVIOR OF CHINESE DIPLOMATS ASSIGNED HERE. DISTANCE, WHICH IS ONE OF THE REASONS FOR CHINESE-IRANIAN FRIENDSHIP, IS PROBABLY THE MAJOR FACTOR WHICH INHIBITS A GROWTH OF CHINESE-IRANIAN TRADE. THIS WILL PROBABLY BE OVERCOME. THE CHINESE GAVE THE IRANIANS THE RIGHT TO FLY OVER SINKIANG PROVINCE (THIS WAS A MAJOR CONCESSION) AND IRAN AIR PLANS TO BEGIN ITS SERVICE TO PEKING ON 1 NOVEMBER. CAAC (THE CHINESE AIR LINE) HAS DELAYED ^{OPENING} ITS OWN SERVICE (WHICH IS TO BE PEKING-KARACHI-TEHRAN-BUCHAREST-TIRANA) WITH POSSIBLY A LATER EXTENSION TO WESTERN EUROPE. CAAC NOW HAS 707'S.

14
p9

24. THE USG CONTRIBUTED CONSTRUCTIVE ADVICE AND SUPPORT FOR THE RATIONAL RESOLUTION OF DIFFERENCES AMONG COUNTRIES OF THE INDIAN OCEAN, ARABIAN PENINSULA AND ARAB GULF. REALIZING THAT A GREAT POTENTIAL FOR TROUBLE LAY IN POSSIBLE OVER-REACTIONS OF INDIA, PAKISTAN, AFGHANISTAN AND IRAN TO THEIR PERCEIVED THREATS FROM ONE ANOTHER, THE USG TRIED TO PUT THESE THREATS IN CLEARER PERSPECTIVES IN OUR BILATERAL EXCHANGES WITH THE VARIOUS PARTIES. IN THIS WE HAD SOME SUCCESSES AND SOME FAILURES, THE LATTER DUE NOT TO THE INADEQUACY OF THE EFFORT, BUT TO DEVELOPMENTS OVER WHICH WE HAD NO CONTROL. IRAN ITSELF TOOK INITIATIVES TO IMPROVE GREATLY ITS RELATIONS WITH INDIA AND AFGHANISTAN AND BY IMPLICATION TO WARN PAKISTAN THAT IRAN WOULD NOT SUPPORT AN ADVENTURIST POLICY. AT THE SAME TIME IRAN ACQUIRED LEVERAGE WITH INDIA AND AFGHANISTAN WHICH WILL PRO-

~~SECRET/SENSITIVE EXCLUSIVELY EYES ONLY~~

