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~~SECRET/SENSITIVE~~ EXCLUSIVELY EYES ONLY

TO: SECRETARY KISSINGER, WHITE HOUSE IMMEDIATE

FROM: AMBASSADOR HELMS, TEHRAN

REFS: A. WH-43269

B. Tehran

1. In reviewing and updating Ref B, I find that I have no major revisions in the three months which have elapsed since its writing. There have been a few changes of emphasis and factors and these are outlined below. The numbers correspond with the paragraphs in Ref B:

Para 3. The Soviets will continue to view the question of oil prices as a key issue to be exploited, as other issues dry up. They probably realize that there will not be an immediate crunch between the USG and the area's two main producers (Iran and Saudi Arabia) over this issue, but as the economic instability caused by the price surge will, in their view, hasten the collapse of capitalism, they will attempt to keep this issue alive by offering "big power" moral support.

Para 5. The Chinese have officially come out as supporters of the producing countries' efforts to maintain high prices for their diminishing asset: oil. They have also supported the producers' claims that the major oil companies, seeking ever-increasing profits, are the main culprits. It might be pointed out to the Chinese that, if they properly evaluate their own interest at this time, they should hardly welcome an economic collapse of Western Europe which would free the Soviets to deploy

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additional forces in their direction. It might be difficult to get the Chinese to reverse themselves on this issue, but there are valid arguments, such as the above, which make the effort worthwhile. Another is the impact a stand on lower prices would make in the LDC's where the Chinese and Soviets are in basic ideological conflict. We must not lose sight of the fact, however, that China's new initiative on a border settlement with the Soviets might mean we are less able to use their ideological conflict to our benefit. But until we are quite sure of the reasons for this new initiative, we should not be deterred from using the existing conflict to our advantage on this as on other issues. (I have of course studied your assessment sent to the Shah.)

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Para 9. (Add after the penultimate sentence.) Although the Indo-Pak talks on reopening land and air communications are a good sign, the Pakistanis cannot but feel that they enter any talks with India from a position of weakness. Hence, the ultimate value of such talks, in terms of the reduction of mutual suspicions, will not be great.

Para 12. I would substitute for the phrase "turning away from the Soviet Union" the following: "With Sadat reducing his dependence on Soviet support, at the same time seeking and obtaining compensatory assistance from the USG, Saudi Arabia and Iran, there has been a revolution in geopolitical relationships."

Para 13. (Add at end of paragraph.) Cooperation among the Gulf States is not likely to increase unless there is a

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significant breakthrough in Iranian/Arab relations. The two sides agree on little, from the name of the Gulf (Persian or Arab) to more significant issues such as oil policy and the definition of Gulf security. The USG can play a role by identifying areas of likely conflict and trying to head them off, but true cooperation can only evolve when suspicions about intentions can be reduced.

Para 17 and 18. Progress has been made but, upon review, I hesitate to characterize it as "excellent". My comments on future cooperation are outlined in ~~para 13~~ para 13. ~~_____~~ The Saudi-UAE border agreement has been signed but not implemented. In any event, I doubt that the UAE would consider seeking diplomatic relations with the Soviets without Saudi approval. These two paragraphs might in retrospect be modified and para 13 stand as my substantive comment on the Gulf.

Para 21. Fourth sentence should read, "Their effort backfired and resulted in a different kind of coup led by a nationalist army officer, who now heads the Command Council, and the establishment of a government headed by a pro-Syrian Baathist".

2. A. Chinese activity in Iran is covered in para 23 of Ref B. To this should be added the Shah's statement to you on November 1, "The Chinese are flirting very hard with Iran. They support us in the UN and they want me to visit China." Further, and I am keeping in mind when I make it your comment that the Chinese rarely act without intent: the Chinese Ambassador took a warm farewell of me at a reception we attended prior to his departure. We had been cordial but not particularly friendly before.

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B. In the Peninsula, the PRC has medium-sized missions (20-25) in Kuwait, the YAR and PDRY. In Kuwait they maintain a low profile and the only exchanges are in the cultural/athletic fields. In the YAR the Chinese continue to participate in projects that have appeal to the masses (roads and agricultural) and avoid any activity which might be construed as political. In PDRY, the Chinese are also involved in "mass appeal" projects. They do not aid the Dhufar rebels, nor do they get involved in taking sides in the internal struggle. President Ali's recent trip to China, and his meeting with Chairman Mao, may be an indication that the Chinese recognize that the Soviet position is weakening and they see an opportunity to move in. Generally, we can characterize the PRC effort in the Peninsula as one of establishing its respectability. It cannot compete with the Soviets in terms of volume of aid. It can, however, spread the impact of its aid outside the narrow confines of the military and the ruling parties. The Soviets are tied to such aid, and as parties and military leaders change, the Soviets must do much shuffling. The Chinese just plod along through these changes and increase their popularity among the masses. The whole fiber of Chinese policy in the area, as I see it, is long term. They are avoiding anything sensational, are supporting popular issues (PLO and oil prices), and are capitalizing on Soviet miscues to improve their position. We do not envisage any significant change in this policy ^{within} the next few years.

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