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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

THE SHAH OF IRAN AND HIS POLICIES

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
5 June 1967

INTELLIGENCE MEMORANDUM

The Shah of Iran and His Policies

Summary

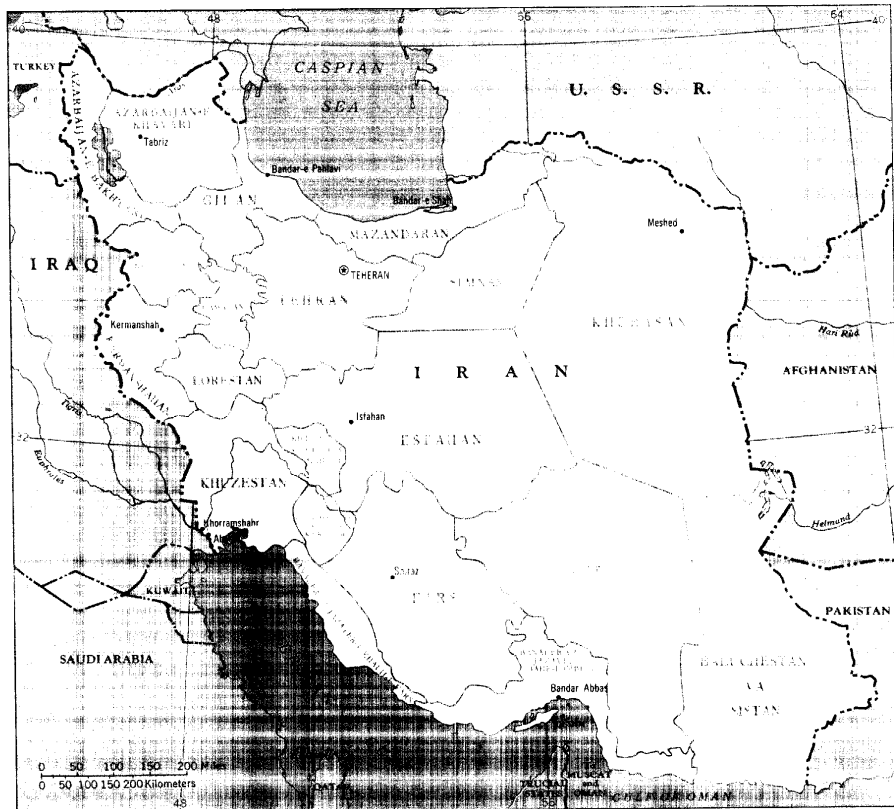
The Shah of Iran and Queen Farah will arrive in Washington on 12 June for a three-day official visit. Since his last visit to the US in 1964, the Shah has been evolving a new foreign policy which entails less reliance on the US and closer relations with the USSR and Eastern Europe. The Shah remains basically pro-US in outlook, but believes that it is advantageous for Iran to broaden its sources of military equipment, economic credits, and trade. He can be expected to press for a firm US policy against his bete noire, Egyptian President Nasir, and to request more favorable treatment for Iran in the extension of US military and economic credits. A proud and sensitive man, the Shah will also be expecting recognition for his role as leader of a country which is stable, achieving rapid economic growth, and undertaking widespread social and economic reforms.

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Background

1. The Shah's new independence stems from many factors, but probably the most significant is his growing conviction that the immediate threat to Iranian security is posed not by the USSR but by the ambitions of Egyptian President Nasir. He believes that Nasir has designs on the Persian Gulf and on the oil-rich Iranian province of Khuzestan, which has a large population of ethnic Arabs (see map).

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The Shah can certainly be expected to point to the current Middle East crisis as evidence of Nasir's insatiable ambitions.

2. The Shah is also convinced that American officials have underestimated the Egyptian threat to Iran and fears that the US would not support Iran if a Nasirist campaign against him were to lead to hostilities. He was severely shaken by the withholding of US arms from Pakistan during the Indo-Pakistani conflict of 1965 and constantly points to this as evidence that Iran must have other sources of arms and economic assistance. He is determined to bolster his defenses in the Persian Gulf, and is doing so with arms from a variety of sources.

3. In economic terms the Shah is, of course, attracted by the low interest rates charged by the Soviets and Eastern Europeans and by the opportunity to repay Eastern military and economic credits with goods rather than with foreign exchange. Last year's US-Iranian military credit negotiations were marked by bitter Iranian complaints that US terms were strictly commercial and took no note of Iran's position as a good friend of the West.

Rapprochement with the East

4. The real turning point in Iranian-Soviet relations came in late 1965 when the Soviets extended Iran a credit of \$289-million for building a steel mill it had long desired. Part of this credit will be used for the construction of a pipeline, through which will pass

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the Iranian natural gas which the Soviets will accept as payment for the credit. Soviet economic credits to Iran now total at least \$346-million. Other projects include construction of the Aras dam on the Iranian-USSR border, an electric power plant in Tabriz, improvement of Iranian ports on the Caspian, and Soviet prospecting for oil in the Iranian off-shore area of the Caspian Sea.

5. During the first five months of 1967 the pace of Iran's rapprochement with the USSR increased. Early in the year, Iran and the USSR signed a \$540-million five-year trade agreement. Although this agreement probably will not be completely fulfilled, it still will result in a significant increase in trade. In April, Soviet Deputy Premier Baybakov visited Teheran and apparently offered the Iranians almost every conceivable type of economic assistance. The communiqué issued at the close of Baybakov's visit mentioned industry, communications, electric power, dam construction, irrigation, mining, oil explorations, and metallurgy. It also mentioned increased shipments of natural gas to the USSR and the sale of Iranian oil. The communiqué was only a "declaration of intent," however, and in negotiations on specific projects the Soviets tend not to be as generous as their initial offers would indicate.

6. The most significant development of 1967 was the announcement in January of a Soviet-Iranian arms deal, involving the extension of a \$110-million Soviet credit toward the purchase of armored personnel carriers, anti-aircraft weapons, and trucks. Arrangements were also made for Soviet technicians and advisers to train Iranians in the use of the equipment. This agreement, together with the purchase of UK naval equipment and Tiger Cat missiles, has broken the virtual monopoly which the US held over the supply and training of the Iranian armed forces.

7. The Shah also informed Western officials in May that he intended to allow the Soviets to prospect for oil in areas in southern and western Iran. The Soviets, however, may be reluctant to undertake expensive prospecting in areas which the Western consortium was willing to give up. Nevertheless, the Shah's willingness to permit a Soviet presence in the southern oil

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region is indicative of the extent to which his attitude toward the USSR has changed. It is also indicative of his determination to increase Iranian oil production and of his disappointment with the record of the Western oil consortium.

8. Eastern European countries have extended over \$158-million in economic credits to Iran--over \$100-million of the credits is from Rumania and the rest is from Bulgaria, Czechoslovakia, Hungary, and Poland. Several new trade agreements have been signed, and Iran has already agreed to sell oil to Rumania and Bulgaria. The Shah was in Czechoslovakia in May; the Czechs had previously indicated an interest in expanding Iran's munitions production capability, and this possibility was undoubtedly discussed.

Domestic Developments

9. Iran is stable and continues to sustain a high level of economic growth. This strong domestic base has contributed to the Shah's increasing self-confidence and has further nurtured his ambitions for even more rapid development. It has also provided the backdrop against which he could for the first time decrease his dependence on the US.

10. Parliamentary elections have been scheduled for August, and there are indications that the government may loosen political restrictions somewhat. The opposition Mardom Party may be permitted to win more seats, the parties may have more leeway in the selection of candidates, and two government-approved candidates may be permitted to run in some constituencies. Nevertheless, the Shah is certainly not prepared to allow outspoken opposition, and there is still no legitimate outlet for the expression of antiregime sentiment.

11. The Shah's "White Revolution"--his term for his reform program--is proceeding apace. The distribution phase of land reform is virtually complete, and the program is now concentrating on farm mechanization and the development of cooperatives. The health and literacy corps are considered successful, although there is little information on the impact of the programs on the average Iranian. All of these programs are hampered to some degree by the lack of trained personnel.

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12. The Shah's reform program has taken the steam out of the left-wing opposition National Front party. The already suppressed Tudeh (Communist) Party has been still further weakened by the reform and by the Iranian-USSR rapprochement. Conservative religious leaders continue to oppose aspects of the reform program--such as increased rights for women--but apparently with little impact on the public.

13. The Iranian economy is healthy, and all indications point to a rapid growth rate at least for the next year. Last year's growth rate was about nine percent, prices remained remarkably stable, public and private investment increased, and oil revenues continued to rise. The government has already taken steps to ease pressures on the balance of payments. Iranian officials continue to believe that oil production is not rising fast enough, and this could lead to further confrontations with the Western oil consortium. A serious Iranian-consortium crisis was narrowly averted last fall when the consortium agreed to step up production, to relinquish 25 percent of its concession area to the Iranian Government, and to make oil available for sale by Iran to Eastern Europe.

14. For the first time, the Shah has been willing to face the succession problem and to make contingency plans for the possibility of his early demise. At the request of the Shah, elections will be held in August for a constituent assembly to examine and amend the articles of the constitution pertaining to succession. The assembly is expected to authorize the Shah to appoint a regent to rule if he should die before the Crown Prince is of age. All indications are that the Shah will appoint Queen Farah. He has absolute faith in her loyalty, and she has proved to be competent, popular, and actively interested in the reform program.

Outlook

15. Despite his new independence, the Shah remains a good friend of the US--he is one of the few third-world leaders who publicly supports the US policy in Vietnam. Iran is still heavily dependent on the West for investment, trade, and military equipment. The Shah constantly insists that his closer relations

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with the East will strengthen Iran, and will thus make his country a better ally of the US. He claims to have no illusions about the ultimate aims of the USSR

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[redacted] Recently, the Iranian press undertook a campaign--obviously with government approval--to put the rapprochement in "perspective." The newspapers have taken note of continued antigovernment broadcasts from Communist clandestine radios, past Soviet perfidy, and the dangers of accepting the Soviet embrace too enthusiastically.

16. Nevertheless, the danger remains that the Shah will overestimate his capability to control the increased Soviet presence in Iran. He has said several times recently, with some overconfidence, that Soviet "dependence" on Iranian natural gas will give Iran significant leverage over Soviet policy in the Middle East, a doubtful analysis at best. The possibility also exists that, in the event of the Shah's demise, the USSR would be in a better position to influence the course of events.

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Talking Paper for "The Shah of Iran and His Policies"

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2. The Shah is due to arrive here on 12 June for an official visit. We believe that it would be profitable to have an up-to-date survey on Iran's policies and problems prior to his arrival. This is particularly true now that the Shah has turned more closely to the USSR for economic and military assistance.

3. Despite the Shah's new stance of independence, he remains a good friend of the US, and one of the few third-world leaders who publicly support the US policy in Vietnam. Nevertheless, the danger remains that the Shah will overestimate his capability to control the increased Soviet presence in Iran.

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