

DECLASSIFIED

Vol. 1. 1/20/61-5/31/70

Authority NND 970042
By EW/NARA Date 5-14-02

Department of State

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PAGE 02 TEHRAN 00928 130409Z

TO GULF AREA AND ARABIAN PENINSULA BECAUSE:

(A) AS BBC BROADCAST SAID THIS MORNING, IT WILL RELEASE "ABOUT 20,000 IRAQI TROOPS FOR DEPLOYMENT TO GULF."

(B) IT INCREASES IRAQI RESOURCES AND CAPABILITIES FOR SUBVERSION AND OTHER MISCHIEF AGAINST SMALL GULF STATES.

(C) IT CLEAR THAT IRAQI GOVT IS VERY MUCH UNDER INFLUENCE OF SOVIETS BECAUSE OF ITS DEPENDENCE ON SOVIET MILITARY AND OTHER AID FOR SURVIVAL.

(D) IT WILL PREPARE WAY FOR NEXT STEP IN SOVIET PLAN WHICH IS EVENTUAL TRANSFORMATION OF AUTONOMOUS IRAQI KURDISH PROVINCE INTO AUTONOMOUS KURDISH STATE WITH VIEW TO ENLARGING KURDISH STATE UNTIL IT EVENTUALLY HAS CONTIGUOUS BORDERS WITH SOVIET UNION WHICH WILL THUS ENABLE SOVIETS TO OVERCOME PRESENT TURKEY-IRAN BARRIER TO THEIR DIRECT PENETRATION OF MIDDLE EAST (REFTEL).

(E) SOVIETS WILL NOT (RPT NOW) BEGIN TO PLAY ON STRONG NATIONAL SENTIMENT OF KURDISH PEOPLE TO STIR UP TURKISH AND IRANIAN KURDS IN SUBVERSIVE ACTIVITIES HOLDING OUT BAIT OF AN ENLARGED INDEPENDENT KURDISH STATE.

3. SHAH ASKED HOVEYDA TO LET US KNOW THAT THESE DEVELOPMENTS IN SHAH'S

VIEW MADE MORE IMPORTANT THAN EVER OUR COOPERATION IN HELPING IRAN TO EQUIP AND DEVELOP ITS FORCES SO THAT MINIMUM NECESSARY DETERRENT STRENGTH COULD BE DEVELOPED PRIOR TO BRITISH PULL-OUT FROM GULF END OF 1971. FURTHERMORE SHAH HOPED THESE DEVELOPMENTS WOULD LEAD TO RECONSIDERATION OF FMS INTEREST RATES AND CREDIT MATTER FOR NEXT TRANCHE, PARTICULARLY GRANTING OF 75 PER CENT USG -- 25 PER CENT PRIVATE CREDIT FOR NEXT TRANCHE, AS IRAN'S FINANCIAL RESOURCES WERE STRETCHED TO LIMIT.

4. HOVEYDA RECALLED THAT IN OUR LAST MEETING HE HAD ASKED ME ON PERSONAL BASIS WHETHER I THOUGHT FMS CREDIT COULD BE INCREASED BEYOND ANNUAL TRANCHE OF DOLS 100 MILLION AND I HAD REPLIED THAT IN MY PERSONAL VIEW BEST WE COULD HOPE FOR WAS CONTINUATION OF DOLS 100 MILLION CREDIT PER ANNUM. HE HAD REPORTED THIS TO SHAH WHO HAD SAID THAT THIS WAS DISCOURAGING BECAUSE WHILE HE DID NOT WISH TO EQUIP HIS FORCES FROM A VARIETY OF "OTHER SOURCES," IF WE COULD NOT

NOT TO BE REPRODUCED WITHOUT THE AUTHORIZATION OF THE EXECUTIVE SECRETARY

4

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PAGE 03 TEHRAN 00928 130409Z

DO MORE TO HELP ON THIS MATTER HE MIGHT RELUCTANTLY HAVE TO LOOK ELSEWHERE IN VIEW OF IRAN'S DESPERATE NEED TO BUILD MINIMUM DEFENSIVE STRENGTH BEFORE BRITISH PULL-OUT FROM GULF. IN THIS CONNECTION GOI HAS HEARD SECRETARY LAIRD VERY RECENTLY ASKED FOR INCREASE IN FMS FUNDS TO DOLS 1 BILLION IN ORDER TO BETTER IMPLEMENT "NIXON DOCTRINE." IN VIEW OF VITAL IMPORTANCE OF GULF TO AMERICAN AND FREE WORLD INTERESTS, SHAH HOPED MOST EARNESTLY THAT IF THIS WENT THROUGH IRAN WOULD BENEFIT THROUGH INCREASE IN AMOUNT OF OUR FMS CREDIT FOR IRAN RESULTING FROM INCREASED FUNDS AVAILABLE.

5. I TOLD HOVEYDA I WOULD OF COURSE REPORT PROMPTLY SHAH'S VIEWS. I SAID WE WERE, AS HE KNEW VERY SYMPATHETIC TO IRAN'S PROBLEM AND AGREED THAT A STRONG, STABLE IRAN COULD MAKE A MAJOR CONTRIBUTION TO PEACE AND STABILITY IN GULF. THIS WAS WHY WE HAD GIVEN IRAN FAVORED TREATMENT IN A NUMBER OF MATTERS WHICH I DETAILED TO HIM (TEHRAN 748). RE FMS CREDIT WE WERE SYMPATHETIC BUT TILL CONGRESS ACTED AND WE KNEW WHAT WE HAD TO WORK WITH I COULD NOT, OF COURSE, GIVE HIM ANY ASSURANCES.

6. WOULD APPRECIATE DEPT'S COMMENTS INCLUDING INFO ON PROPOSAL FOR FMS INCREASE ATTRIBUTED TO SECY LAIRD. SINCE I AM SEEING COURT MINISTER ALAM MARCH 14 ANYTHING THAT CAN BE SENT ME BY THEN WOULD BE MUCH APPRECIATED. GP-3.
MACARTHUR

NOTE: NOT PASSED BY OC/T.