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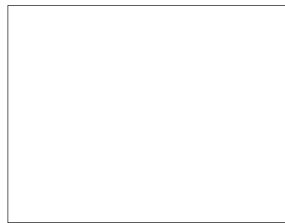
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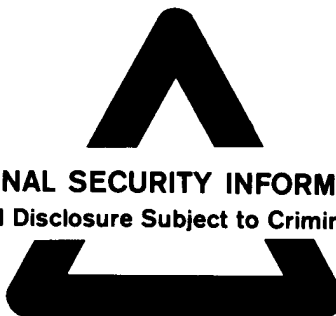


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Central Intelligence Agency



Washington, D. C. 20505

DIRECTORATE OF INTELLIGENCE

7 October 1985

ISRAEL AND IRAN: THE TIES THAT BIND

Summary

We believe Israeli arms sales to Iran, which began in the late 1950s, are continuing.



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* * * * *

Israel's ties to Iran developed from a broader Israeli effort to forge links to strategically-located non-Arab states, also including Turkey and Ethiopia, after the 1956 Suez Crisis. Israel figured that it had much in common with these states, each of which nurtured its own set of grievances with neighboring Arab countries. All had reasons to fear the emergence of Arab power and to resent Soviet military support for their enemies, all maintained a close relationship with the US, and all bordered on strategically important international waterways.

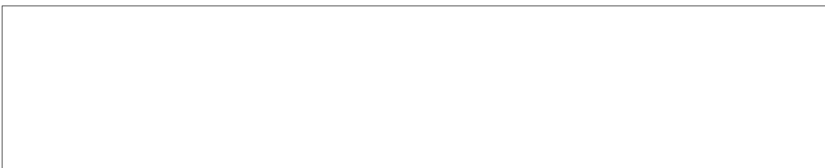
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This memorandum was prepared by [redacted] the Israel-Jordan-Palestinian Branch, Arab-Israeli Division, Office of Near Eastern and South Asian Analysis. Information as of 7 October 1985 was used in its preparation. Questions and comments should be directed to Chief, Arab-Israeli Division, [redacted]

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Building on these commonalities, Israel eventually developed nearly full diplomatic relations with Turkey and Ethiopia. Relations with Iran developed more slowly and cautiously, due mainly to the Shah's concern for the Islamic sensibilities of his subjects. Nevertheless, Israel and Iran eventually exchanged missions which enjoyed diplomatic privileges and built up close economic and security relations in the 1960s and 1970s. Iran became Israel's chief supplier of crude oil until Israel began operating the Sinai oil fields following its conquest of the territory in the Six Day War. After Israel returned the fields to Egypt under the Sinai II Agreements in 1975, Iran once again became the chief source of oil, supplying about 70 percent of Israel's requirement until the overthrow of the Shah in 1979.



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According to a variety of unclassified sources, Israel regularly sold armaments to Iran during the Shah's reign, mainly small arms, mortars, and ammunition; provided engine overhaul and maintenance support for Iran's air force and army; and extended technical support to Iran's infant defense industry.

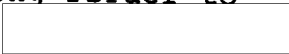


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The arms sales gave a significant boost to Israel's fledgling defense industries, and barter arrangements secured much-needed oil in return for arms and technical assistance. The Israelis also had a keen interest in bolstering the Shah, whom they saw as the sympathetic leader of an effective, strategic counterweight to Iraq. Moreover, according to former senior Israeli diplomat Gideon Rafael, Israel feared that if the Shah fell and Soviet influence grew in the Gulf region, the US might try to mend fences with key Arab states by pressing Israel to withdraw from territories occupied in the 1967 war.



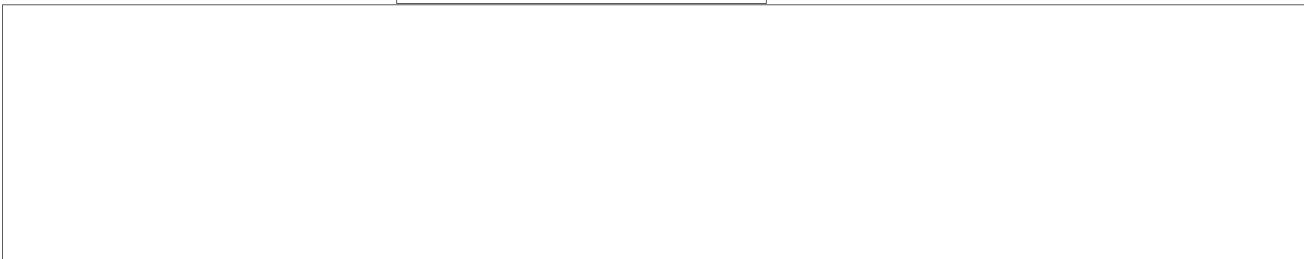
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According to the US Embassy, Israel also was interested in assisting Iran in its support of Kurdish separatists in Iraq, hoping to strengthen the rebels to distract the Iraqi government from anti-Israeli activities. Iran, in turn, may have provided Mossad with intelligence concerning Iraqi order of battle. In addition, Israel was concerned about the welfare of the 90,000 Jews who lived in Iran, and hoped that its developing relations with the Shah would give it leverage to apply on the Jews' behalf if the need arose.



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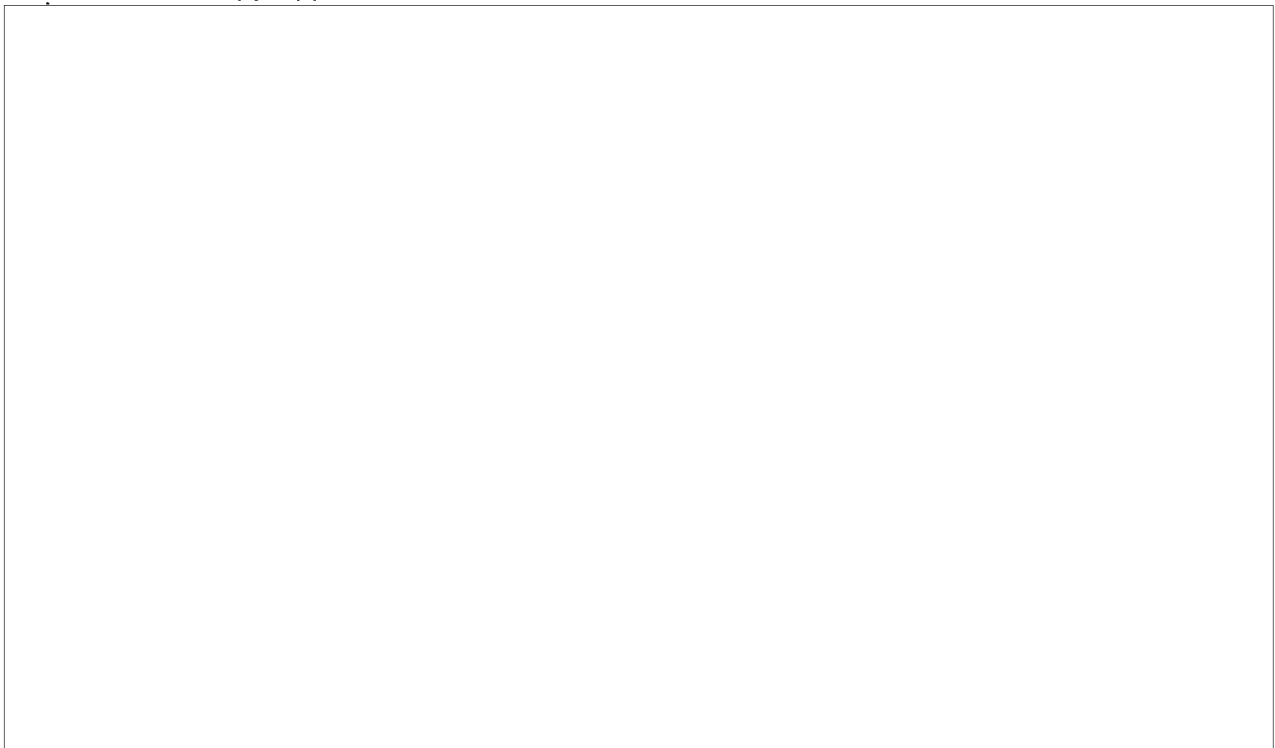


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Are US-Origin Weapons Being Illegally Transferred?

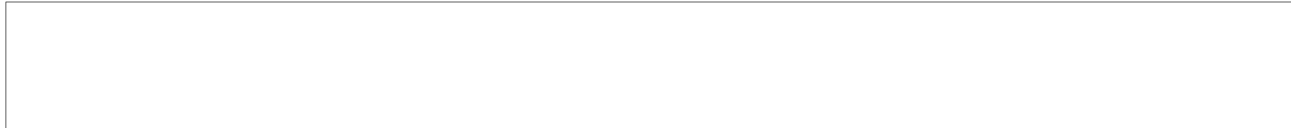
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We do not believe the Israeli Government in recent years has approved direct sales to Iran of US-origin parts or weapons, and we expect Israel to continue to prevent such sales without prior US approval.**

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** The Israeli Government controls arms exports from the country by requiring an export permit that identifies the end-user. Israeli law does not reach Israeli citizens who operate arms sales firms in other countries however, as long as their inventory is not physically located in Israel.

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Will the Sales Continue?

We believe the Israeli Government's relatively benign attitude toward the sales is influenced by the same strategic concerns that impelled Israel to forge links to Iran in the late 1950s. The Israelis have told us that they hope their aid will help to prolong the Iran-Iraq conflict and thereby keep Baghdad's vastly enlarged military tied down along Iraq's eastern border. Their aid, however, probably would not extend to operational assistance such as providing the Iranians with battlefield intelligence. The Israelis probably fear that such assistance would reveal too much about their capabilities and that the Iranians might share this knowledge with confrontation states such as Syria.



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According to the US Embassy, the Israelis also continue to believe, despite repeated US statements to the contrary, that US strategic interests in the Gulf will lead Washington inexorably to mend fences with Iran. Israel sees Iran as the key to promoting its interests in the Gulf and hopes eventually to use its good offices to facilitate a rapprochement between Washington and Tehran.

[Redacted]

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Furthermore, we believe the Israelis want to retain the option to restore ties with Iran in the expectation that this would facilitate renewed purchases of Iranian oil, should the circumstances warrant.** They also undoubtedly hope to retain at least some influence with Tehran in the interest of encouraging humane treatment of the 40,000 Jews who still live in Iran.

[Redacted]

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Given these considerations, we expect the Israeli Government to condone the continuing sale of minor equipment, parts, small arms, and ammunition to Iran as long as the sales are masked through third-party transfers and the arms are not likely to be used against Israel. If either one of these conditions ended, however, the Government probably would be forced to restrict, if not end these sales.

[Redacted]

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Israel is acutely aware of the US desire to punish the Khomeini regime and wants to avoid angering its patron. The Israelis are consequently unlikely to allow arms sales to expand to a point where they are no longer plausibly deniable. In the past, sensitivity to US concerns appears to have prevented Israel from selling Iran any major items such as tanks or aircraft.

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The Peres Government probably will closely monitor the support Iran provides Hizballah militants in southern Lebanon. If Tehran supplies Shia radicals there with large stocks of weapons that are used in attacking Israeli forces in southern Lebanon or in cross-border attacks, the Peres Government would likely restrict arms sales to engine parts and large-caliber ammunition or perhaps even cease the sales altogether.

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Israel currently buys its crude oil from Mexico, Egypt, Norway, and in limited amounts on the spot market. Spot market oil is pooled, so there is no way to determine if Israel is buying Iranian crude when it purchases on the spot market.

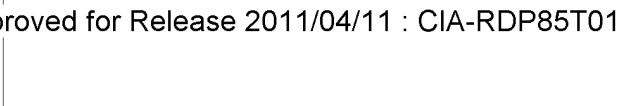
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SUBJECT: ISRAEL AND IRAN: THE TIES THAT BIND

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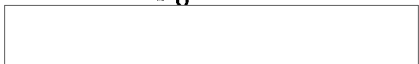
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