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Iran

Submitted by

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Concurred in by the
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The Central Intelligence Agency and the intelligence organizations of the Departments of State, Defense, and the NSA.

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IRAN

THE PROBLEM

To estimate the main trends in Iranian foreign policy and domestic affairs over the next two to three years.

CONCLUSIONS

A. Iran is adopting a more active and independent foreign policy as a result of the Shah's increased confidence in Iran's economic situation, his declining fear of the USSR, and his increasing anxiety about Nasser and other Arab nationalists. Iran's new international stance will provide opportunities for the USSR to expand its presence in the country and will cause difficulties for the US. However, the Shah is well aware that his domestic position and Iran's security depends heavily on US support. Thus he is unlikely to move deliberately to alter the alliance or reduce US activities in Iran. (*Paras. 1-10, 13-15*)

B. Domestic considerations are unlikely to alter Iran's foreign policy to any great extent over the next two to three years. The Shah will probably remain firmly in control, though the bulk of the educated middle class probably will remain estranged from the regime. (*Paras. 16-19*)

C. Iran's rate of economic growth may be adversely affected by the Shah's ambitious military expansion program. Oil revenues, which are Iran's main source of foreign exchange, are not rising as fast as in the past; the reform program is unlikely to have much effect on the pace of economic development. If, as is likely, the Shah gives priority to his military program, the economic growth rate would probably slow somewhat, accompanied by periods of inflation and recession. (*Paras. 21-24*)

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DISCUSSION

I. THE SETTING

1. Since the departure of Prime Minister Amini in mid-1962, the Shah has concentrated virtually all political power in his own hands. He has installed as Prime Minister a series of faithful administrators who, lacking any independent political base, presented no threat to his control. At the same time, he launched a reform program (the "White Revolution") calculated to take the wind out of the opposition's sails. This was followed by successful efforts to buy off or intimidate the opposition, which was already in considerable disarray. Moreover, potentially powerful figures within the government camp were effectively neutralized. As a result, while a strong undercurrent of intellectual dissidence persists, the opposition has been deprived of any effective means of expression. At the same time, the country has recovered from the recession of the early 1960s, and oil revenues have continued to climb. These developments have given the Shah increasing self-confidence and have encouraged him to be more assertive in foreign affairs.

II. IRAN'S INTERNATIONAL POSITION

2. Over the same period, the changing world scene has powerfully affected Iran. In recent years the Soviet Union has undertaken to woo its southern neighbors. Relations between Iran and the USSR, which vacillated between bad and worse during most of the post-war era, have steadily improved since September 1962. At that time, Moscow accepted the Shah's pledge not to permit the establishment of foreign missile bases on his soil and shelved its policy of open diplomatic and propaganda measures to overthrow his regime. Further, the Iranians interpreted the US-USSR relationship which emerged after the Cuban missile crisis as signaling a general detente in Cold War tensions.

3. As fears of Soviet intentions have waned in Iran, regional concerns have come to the fore. The Shah has long believed that Arab nationalists have designs on Iran's oil-rich Khuzistan province, with its large Arab population. Moreover, he is convinced that Nasser is plotting to overthrow the Persian monarchy. At the same time, he feels that support from the West has not been as forthcoming as he would like it to be. He believes that his CENTO partners, Turkey and Pakistan, have received inadequate Western backing in local quarrels over Cyprus and Kashmir, and he is worried that the British may eventually withdraw from the Persian Gulf, and that Nasser may move in. All these factors have persuaded him that radical Arab nationalism is a greater immediate threat to Iran than is the Soviet Union.

4. Thus the Shah sees a more active and independent foreign policy as both necessary and feasible. In his mood of growing self-assurance, he is now confident of his ability to deal with the USSR without falling under its control.

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Moreover, his expectation of steadily rising oil receipts has strengthened his resolve in dealing with the US. With a \$200 million supplemental military purchase fund recently authorized by Parliament, the Shah is threatening to go outside US sources of supply for additional military equipment.

Relations with the USSR

5. The Soviets clearly hope to move the Shah toward greater independence from the West. They have long pressed for a reduction in the US presence in Iran with a view towards its eventual elimination. It is unlikely, however, that the Soviets will use pressure tactics to achieve this goal. Instead they are likely over the next several years to promote an image of the Soviet Union as a peaceful country interested in good relations with its neighbors, in the belief that the US presence will gradually be eroded if the Iranians become convinced that there is no Soviet threat to their country.

6. While the Shah remains wary of the USSR, he apparently views the Communist states as acceptable sources of economic assistance and has recently concluded agreements with various Communist countries. The Shah does not appear particularly worried by the prospect of a substantial Soviet presence in Iran; he feels confident that his security forces can cope with attempts at subversion and that the US can be relied upon to help counter any direct or indirect Soviet threat. Officials of the internal security organization (SAVAK) describe Soviet efforts to develop the Iranian economy as motivated by the Soviet conviction that industrial development will lay the groundwork for a later Communist takeover of the country. The Shah does not accept this thesis and remains convinced that he can keep the situation under control.

7. Aid from the Communist countries covers a variety of economic projects. Moscow agreed in 1963 to build a dam and construct grain silos in northern Iran, and Iran is considering using Soviet assistance in exploring for oil in the southern Caspian Sea. The largest of Iran's deals with the Communist world, however, is a \$256 million Soviet credit in rubles, repayable by 1962, for a steel mill, a machine tool factory, and compressors for a gas pipe line.* This mill is attractive on economic grounds, assuming adequate reserves of indigenous raw materials are found. It is designed to meet Iran's domestic steel requirements, saving on the order of \$200 million per year in foreign exchange and absorbing some of Iran's surplus labor. The construction of the pipe line to deliver natural gas, which is now being burned off, to the USSR in payment for the mill, factory, and compressors is a key element in the total package. However, the Soviets will not provide the pipe itself nor help finance its purchase from Western suppliers, and therefore Iran will be forced to expend convertible foreign exchange for this purpose. Furthermore, Iran will be required to provide ancillary facilities, such as railroads, highways, and power lines, which

* In recent years Iran has also concluded a \$100 million deal with Rumania to exchange oil for capital equipment; a \$15 million deal for machinery with Czechoslovakia; a \$15 million trade agreement with Poland; and a \$10 million trade agreement with Hungary.

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could bring the total cost close to a billion dollars in local and convertible currencies.

8. While Soviet-Iranian economic relations are likely to continue to expand, the Soviets will probably make only little progress in the political and military field. Although the USSR will probably gain greater respectability, it will be difficult to translate this into political influence. The Shah may become more amenable to longstanding Soviet requests for increased consular representation, especially if this concession is associated with additional economic aid offers. Despite his desire for additional military equipment, the Shah would be most reluctant to accept even token amounts of Soviet equipment. Sources of friction will remain, particularly as long as Communist clandestine radio attacks on the Shah continue.

Regional Relations

9. The Shah's fear of the UAR is based on an exaggerated opinion of Nasser's capabilities for fomenting revolution, particularly among the Arabs of Khuzistan. Despite the reverses the UAR has suffered in the Yemen and the ebbing of Nasser's chances for achieving some form of meaningful Arab unity, the Shah apparently perceives little diminution in the threat from this quarter. He remains exceedingly suspicious of Nasser's moves, interpreting them as merely tactical maneuvers to lull his enemies into complacency. In this frame of mind, the Shah continues to believe that Nasser is working through the Iraqi government as well as radical Arab movements in the Persian Gulf to overturn his regime.

10. The weakening of any Iraqi government friendly to Cairo, therefore, holds a high priority in Iranian foreign policy. As the principal means for accomplishing this objective, the Shah is supporting the Kurdish rebels in northern Iraq with arms and safe haven. However, he has limited this support somewhat because he does not wish to see an independent Kurdish state emerge on the borders of his own Kurdish areas. Nonetheless, this Iranian policy antagonizes Iraq, with which the Iranians also have a longstanding dispute over the boundary in the Shatt al-Arab waterway. We believe that little improvement of relations is likely and that, if Iraqis interested in closer ties with Nasser were to come to power in Baghdad, Iran would probably intensify its intermittent efforts to overthrow the Iraqi government.

11. The Shah is also attempting to foster closer relations with conservative Arab leaders. He has given some support to King Faisal in the latter's efforts to force Nasser out of the Yemen and has shown some interest in Faisal's efforts to create an Islamic movement of Arab and non-Arab Muslim countries. Yet the Shah is wary of becoming heavily committed to this effort. He apparently realizes that it has little chance of success and that too close an identification would undercut the reformist image he seeks to project. Therefore the Shah is likely to limit his efforts to improving bilateral ties with Arab monarchs and conservatives. However, Faisal and Hussain have objected to Iran's close

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relations with Israel. Iran might become even more circumspect about its relationship with Israel, but there is little likelihood it would break off its present lucrative trade.

12. The Shah's interest in CENTO has waned since he realized that the alliance could not be used to deal with purely regional problems. Yet CENTO is a vehicle for some economic assistance, and the Iranians will probably retain enough suspicion of Soviet intentions to maintain this formal link to the West as a counterweight, particularly as it is relatively inconspicuous. The Shah's interest in the Regional Cooperation for Development (RCD) arrangement with Turkey and Pakistan will probably remain small.

Relations with the US

13. The changes of the past few years have altered the climate of US-Iranian relations. In addition, numerous bilateral difficulties have caused strains between the US and Iran. With respect to military aid, the Shah has become increasingly dissatisfied with US unwillingness to provide the amount and kind of arms he wants. This dissatisfaction has been further fueled by such irritants as the prolonged litigation in US courts instigated by a former Iranian national who has attached the assets of the Shah's brother and sister—something the Shah suspects the US could have halted if it had really tried. He has been annoyed by US efforts to induce Iran to seek Western offers for the steel mill project, which the Soviets have agreed to build, while at the same time being less forthcoming with US aid.

14. Over the next few years greater strains are likely to appear in US-Iranian relations as Iran attempts to assert its independence and the Shah increases his demands on the US. He will insist on receiving military equipment, particularly anti-aircraft weapons and naval craft, beyond that provided under the current military aid agreement, and, in general, he is likely to expect more for his cooperation with the US. There will probably be acrimonious debate over the amount and type of military equipment to be provided in the future. The US earned considerable unfavorable publicity throughout Iran in 1964 when a Status of Forces agreement granting substantial privileges to US military personnel was hastily rammed through the Iranian Parliament. The Shah appears to be growing more sensitive about the visibility of the US presence in Iran, which has attracted criticism at home and hostile propaganda from abroad. He would be most reluctant to permit any significant increase in this visibility.

15. [REDACTED]

[REDACTED] He is well aware that his domestic position and Iran's security are, in large measure, dependent upon US support. In following a more independent foreign policy line, the

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Shah is thus likely to move within definite bounds set by the need to keep intact the basic US-Iranian relationship, particularly as his ambitious spending plans create additional requirements for foreign exchange. Serious dangers to this relationship are more likely to arise from an Iranian miscalculation of US reactions to a specific Iranian move than from a deliberate Iranian attempt to alter the relationship.

III. DOMESTIC TRENDS

16. The chances are slim that domestic considerations will alter Iran's foreign policy to any great extent over the next few years. The political opposition ranges from traditionalists generally opposed to any reform through middle class reformists who resent their own exclusion from credit for the Shah's reforms to the Communist Tudeh Party on the extreme left. These disparate and fragmented opposition elements have been effectively repressed by the Shah's security forces. The middle class reformists, in particular, have lost some support by their factious opposition to the Shah's reform program in association with traditionalist opposition to it. It is highly improbable that these opposition elements, singly or in combination, will be able to come to power within the foreseeable future.

17. The White Revolution, together with the spread of education and communications, is laying the ground/work for far-reaching changes in Iranian society. But the pace of change is still quite slow. While some land has passed from the hands of the large landlords who were an important prop to the monarchy, this group has lost little of its former status and appears to be adapting to its new circumstances without great economic dislocation. The religious conservatives, who have been more affected, have been prevented by the government's vigorous suppression of dissidence from coalescing behind one man, and the religious opposition has little vigor. The army and security forces, on which the Shah's regime ultimately depends, are well taken care of and have not suffered from the reforms. While our knowledge of political attitudes of the military officers is limited, we believe that the overwhelming majority of the military establishment is, and will remain, loyal to the Shah.

18. The Shah's main domestic political problem is to broaden the narrow base of support for the regime. The reform program has elicited some sympathy from the growing technically trained managerial and administrative class on which the Shah pins his hopes for the ultimate modernization of the country. Nonetheless, the bulk of the educated middle class is estranged from the regime. It will remain so until the Shah is willing to give it some measure of political influence. This he is as yet clearly unwilling to do, and we do not foresee any early change in this attitude. In time, the disaffection of middle class elements might pose serious problems for the regime, particularly if they find supporters within the military.

19. The Shah's clear emergence as the dominant figure increases the already strong identification of the regime with his person. There have been several

attempts on the Shah's life. Some have come perilously close to success. With the effective neutralization of prominent opposition leaders, present dissident groups are small and scattered, hence more difficult for the security forces to identify and guard against. Though the assassination of Prime Minister Mansur in 1965 dramatized this danger, the Shah finds public appearances exhilarating and is loath to take maximum precautions.

20. Should the Shah die, Iran's political stability would be gravely shaken. His son, the Crown Prince, is five years old, and no regency council has been appointed. None of the political elements, including the bureaucracy and the Parliament, have any independent stature. Only the military establishment appears to have the force to fill the political vacuum which would attend the disappearance of the Shah. At least initially, the senior officers would be in the best position to assume control. They are probably somewhat more conservative than the Shah, but a government which they controlled would probably follow much the present course.

IV. ECONOMIC TRENDS

21. Iran has successfully emerged from a recession which began in 1961. Gross National Product expanded about five percent a year during the last three Iranian fiscal years (1963-1965), and both public and private investment have increased. The performance of the oil industry—which is insulated from domestic economic affairs—has provided the main impetus for economic development; other sectors of the economy have registered only modest progress. Because agricultural production has failed to keep pace with population increase, food imports are rising, and will probably continue to do so. Industrial development has been somewhat more successful, gaining momentum particularly in the past year or so. However, despite rising oil income, Iran's foreign exchange reserves have failed to increase significantly because of mounting imports of both consumer and investment goods.

22. The White Revolution is unlikely to have much effect on the pace of economic development. The program of profit sharing for workers and the sale of government enterprises remain largely a dead letter. The Literacy Corps program, under which several thousand draftee teachers have been sent to the villages, has made a good start. However, it is far from certain that the program will be continued long enough and be integrated effectively enough with the rest of the educational system to have a major long-term impact. Land reform, to be sure, has been proceeding at a fairly rapid rate in recent months and may be completed by the end of 1966. It is not generating much disruption of former patterns, however, and as yet has had only a small negative impact on agricultural production. Much of the land—that belonging to the owner of one village or less—has merely been rented to the tenants at fixed long-term rates, and in many cases the landlord remains the source of credit. In coming years, government sponsored agricultural cooperatives could play an im-

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portant role in increasing production, but they will remain difficult to staff and will require considerable financial resources.

23. Oil is the bright spot in the Iranian economic picture, it is on the expanding revenues from this source that the Shah is pinning his principal hopes for economic progress and an independent stance in international affairs. The Iranian government's oil revenues have more than doubled in the past seven years, and net receipts amounted to \$525 million in 1965. However, the increase in 1965 of not quite eight percent disappointed the Shah, who expects the 15-20 percent growth rate of earlier years to continue. He is putting considerable pressure on the Consortium members, which market the bulk of Iran's oil, to step up their offtake substantially. This the companies have refused to do, claiming such a sharp boost in oil lifting would violate their commitments to other members of the Organization of Petroleum Exporting Countries (OPEC). While the oil companies will certainly bear the brunt of the Shah's displeasure, it will probably also trouble relations with the US and, if the companies give in completely, Iran would be in conflict with other OPEC countries. Having no alternative source of foreign exchange, and remembering the hard lesson of an earlier break with the oil companies, the Shah will almost certainly avoid provoking a definite showdown with the companies. Thus, unless world demand increases more rapidly than expected, over the next few years Iran's oil income is not likely to rise much beyond 8-10 percent a year, an amount which will be insufficient to finance the military and economic programs presently desired by the Shah.

24. The Shah may not yet be aware of the degree to which his foreign exchange resources are falling short of the requirements of his ambitious plans. There is a conspicuous lack of real coordination in planning between the various civilian and military agencies in Iran, and few government organizations carry out their tasks efficiently; these conditions are likely to persist. Iran can avoid making a choice between military and economic expenditures for a time by increased use of foreign loans; of late it has not done much borrowing abroad. Eventually, however, the Shah will have to resolve these conflicting demands. He is likely, as in the past, to choose military over economic development. In such circumstances, Iran's economic performance would probably continue along the pattern of recent years—a moderate growth rate, but with periods of inflation and recession. Should Iran's foreign exchange problem become severe, the Shah would probably turn to the US and the West to bail him out. Yet, he would probably strongly resist any efforts to slow his defense expenditures or to disengage from his economic deals with the Communist world.