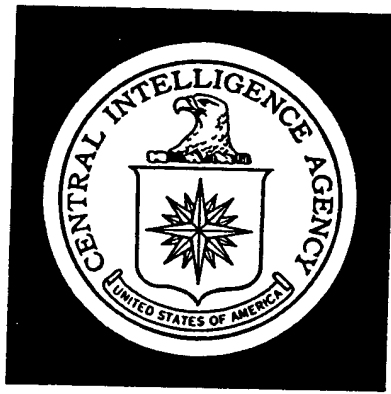


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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*Growing Soviet and Eastern European Involvement  
in Iran's Economic Development*

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
2 June 1967

INTELLIGENCE MEMORANDUM

Growing Soviet and Eastern European Involvement  
in Iran's Economic Development

Summary

Since 1962, when Soviet tactics toward Iran shifted from emphasis on propaganda and subversion to offers of economic aid, Iran's economic relations with the Communist countries\* have expanded rapidly. From 1963 to May 1967 the USSR and Eastern European countries extended economic aid credits to Iran totaling about \$500 million, compared with less than \$7 million prior to 1963 (see Figure 1). Nearly 70 percent of the total was extended by the USSR. In addition, Iran concluded its first military aid agreement with a Communist country in February 1967,

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NOTE: This memorandum was produced by CIA. It was prepared by the Office of Research and Reports and coordinated with the Office of Current Intelligence and the Office of National Estimates; the estimates and conclusions represent the best judgment of the Directorate of Intelligence as of June 1967.

\* For convenience, the USSR and the countries of Eastern Europe (Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania) are sometimes referred to collectively in this memorandum as the Communist countries. Iranian economic relations with Yugoslavia, Albania, Cuba, and the Far Eastern Communist countries remain comparatively unimportant.

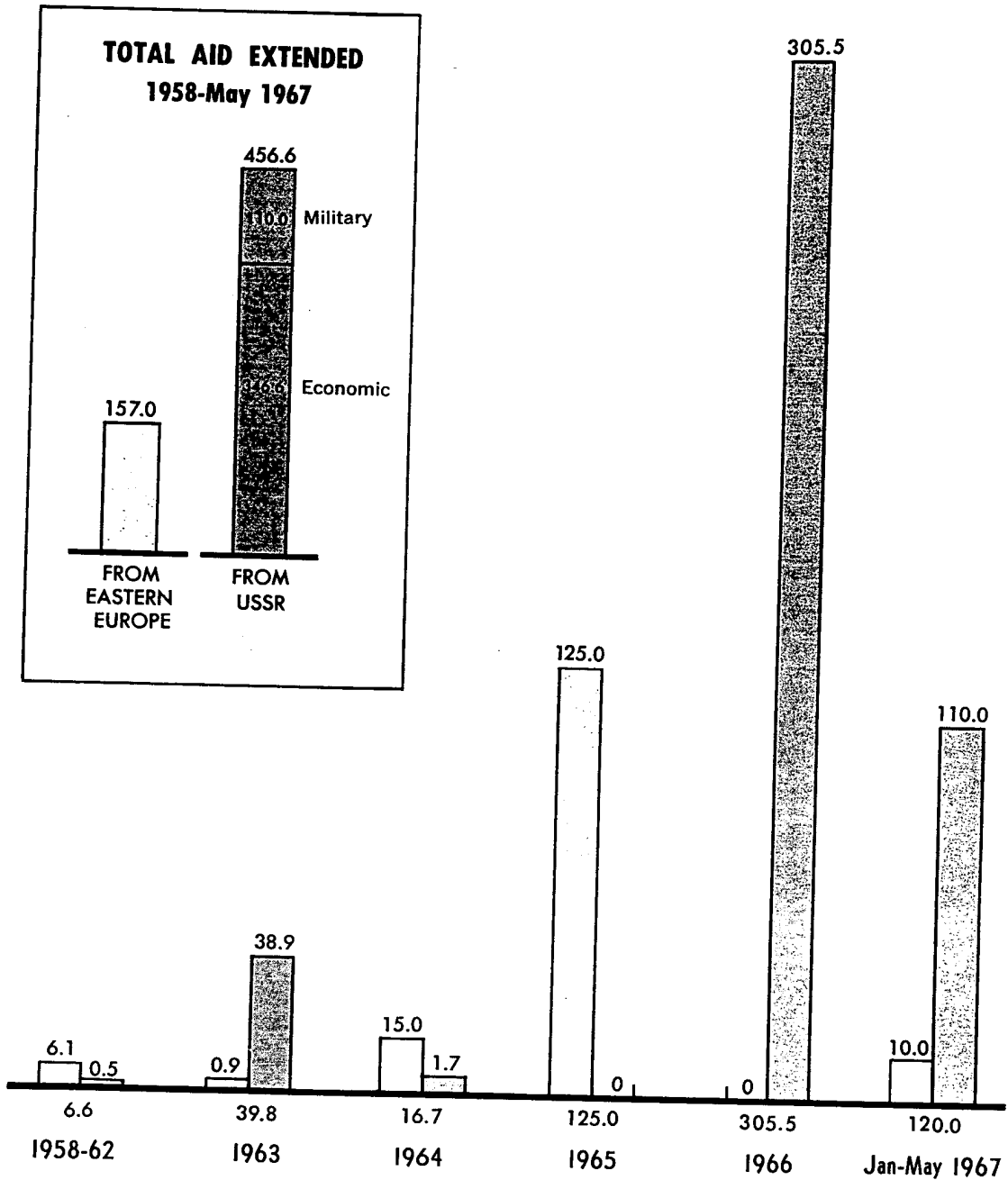
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Figure 1

# COMMUNIST ECONOMIC AND MILITARY AID EXTENDED TO IRAN 1958-May 1967

Million US \$



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when it accepted a \$110 million credit from the Soviet Union. Economic aid extensions will enable the Communist countries to play a significant role in Iran's economic development, but Iran's economic relations with the Communist countries will still occupy only a small place in Iran's overall economic relations and are unlikely to threaten seriously Iran's predominantly Western orientation.

The recent and prospective expansion of Soviet-Iranian relations has a solid basis of mutual economic interest. Beyond this, Moscow's new policy toward Iran has the familiar objectives of strengthening Soviet influence at the expense of the West and of promoting Soviet-type institutions. The Shah has been influenced by his declining fear of the Soviet Union, his desire to project a more independent posture, and his exaggerated fear of an expansion of Nasser's influence in the Persian Gulf area.

The largest Communist aid commitment is a Soviet credit of \$289 million, which includes an estimated \$200 million for a steel mill and about \$70 million for a \$450 million natural gas pipeline from southern Iran to the Soviet Union. The pipeline is scheduled for completion in 1970. An agreement for gas deliveries to the USSR during 1970-85 will provide Iran with nearly \$1 billion in purchasing power, about one-half of which is to be used for payments on credits.

Trade agreements with Communist countries during 1966-67 and a growing level of payments for Communist aid point to a substantial increase in Iran's trade with these countries in the next few years even if trade quotas are not met fully. By the end of 1985, Iran will have paid an estimated \$695 million in principal and interest on Communist economic and military credits extended since 1962. The share represented by commodities (about \$675 million) will account for a large part of the anticipated growth of Iranian exports. It is estimated that such payments will rise from \$9 million in 1968 to a peak of \$70 million in 1972.

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Spurt in Communist Aid

1. After years of unsuccessful efforts to weaken Iran's ties with the West through propaganda, intimidation, and subversion, the USSR late in 1962 shifted its tactics and began wooing Iran with offers of substantial economic assistance. During 1958-62 the USSR had extended almost no aid to Iran. Since that time, however, the Soviet Union has provided Iran with economic aid credits totaling \$346 million (see Table 1). In addition, Eastern European countries have committed aid totaling \$151 million, compared with only \$6 million prior to 1963. In February 1967 the Soviet Union extended a \$110 million military aid credit. In view of Iran's need for increasing amounts of funds to finance its extensive economic and military requirements and the probability that Western sources will not meet these demands fully, additional credits from Communist countries are likely during the next few years.

2. Large-scale Soviet offers of aid to Iran are not new, but earlier offers usually were conditioned on Iran's repudiation of its military ties with the West. In the past the USSR had rejected Iranian pledges not to permit the establishment of foreign missile bases on Iranian territory, which were offered in an attempt to end the Soviet propaganda campaign against the Shah. The USSR had insisted instead on a nonaggression pact that would preclude the stationing of foreign troops in either country. The current pattern of Iranian-Soviet relations dates from 15 September 1962, when the USSR accepted a unilateral Iranian pledge concerning foreign missile bases. Late in 1962, instruments of ratification for transit and border agreements were exchanged between the USSR and Iran. Both agreements originally were signed in 1957 but never were brought into force. In addition, Radio Moscow ceased its hostile broadcasts and even praised the Shah's land reform program. Clandestine broadcasts of the National Voice of Iran and Radio Peyk-e-Iran emanating from Eastern Europe, however, continued to attack the Shah and his policies.

Table 1  
Soviet and Eastern European Economic Aid Extended to Iran a/  
1958 - May 1967

	Million US \$						Jan-May 1967
	Total, 1958 - May 1967	1958-62	1963	1964	1965	1966	
Total	503.6	6.6	39.8	16.7	125.0	305.5	10.0
USSR	346.6	0.5	38.2	1.7	0	305.5	0
Eastern Europe	157.0	6.1	0.9	15.0	125.0	0	10.0
Bulgaria	10.0						
Czechoslovakia	15.0				15.0		10.0
Hungary	10.0				10.0		
Poland	22.0	6.1	0.9	15.0			
Rumania	100.0				100.0		

a. The extensions shown in this table for Poland in 1963 and Rumania in 1965 and the extension of \$16.6 million included in the total for the USSR in 1966 did not appear in EIC RL4-S21, Aid and Trade Activities of Communist Countries in Less Developed Areas of the Free World, 1966, March 1967, SECRET/ . These additions reflect the receipt of more recent information. The figures shown for extensions by the USSR in 1965 and 1966 also differ from those in EIC RL4-S21 because of the transfer of the \$289 million credit to Iran from 1965 (when accords were initialed) to 1966 (when a formal agreement was concluded).

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3. Throughout 1963 the Soviet goodwill campaign proceeded unabated, with numerous exchange visits by cultural and economic delegations. In July 1963 the USSR and Iran concluded a \$39 million economic aid agreement. The following year Poland extended a \$15 million economic aid credit, and Iran and the USSR concluded a three-year trade and payments agreement and their first civil air agreement. Communist aid extensions continued during the next few years, notably with the Rumanian extension of a \$100 million economic credit in 1965 and the Soviet extension of a \$289 million economic credit for industrial projects in 1966 and the large military credit early in 1967.

#### Soviet Motivations

4. For the most part, Soviet policy toward Iran has been motivated by the same objectives which form the basis for Soviet policy toward all less developed countries. Thus the immediate objectives have been to diminish Western political and economic influence and to accelerate developments favorable to Soviet interests. The recent prospect of obtaining supplies of Iranian natural gas to meet the USSR's growing requirements for this commodity has added an important economic motivation to Moscow's political reasons for expanding relations with Iran.

5. The long-run Soviet objective in Iran is to supplant Western with Communist influence and to promote the eventual emergence of a Soviet type of political, economic, and social system. The Soviet leaders believe that a gradual expansion of Soviet influence over a considerable period will be needed to convince Iran of the superiority of socialist techniques. As Soviet officials put it in defending Soviet aid to Iran before members of the Iranian Communist Party:

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It is the Soviet plan to cultivate the underdeveloped areas with foreign aid . . . . Soviet aid will accelerate economic and social changes . . . changes in the social structure will require much time.

Since industrialization will create the necessary conditions for socialism, Iran must be industrialized. This trend has already accelerated in Iran, cannot now be stopped, and must be encouraged by Soviet aid for the sake of the Communist movement, regardless of who is in power in Iran at the time aid is given. All of these changes will hasten the establishment of socialism in Iran.

#### Iranian Motivations

6. Iran's initial willingness to expand relations with the Communist world stemmed, in large part, from the recent improvement in East-West relations. The détente which followed the Cuban crisis of October 1962 seemed to the Iranians to decrease the value to the United States of such organizations as CENTO, and it appeared inconsistent to Iran that it maintain a rigid posture toward the USSR while Western-Soviet relations were improving. The détente also decreased the Shah's fear of Soviet military action against Iran and heightened his desire to refute charges that he is a Western "stooge." Moreover, the Shah had become obsessed with the fear of a possible expansion of Nasser's influence in the Persian Gulf area. He apparently had come to believe that the West would not come to his aid in any Iranian-Egyptian confrontation and that the development of close ties with the USSR would at least insure Soviet neutrality in such a conflict. Another, although less important, factor has been the declining trend of US economic and military assistance and the

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imminent cessation of the US economic and military grant-aid programs.

7. Iran's economic agreements with Communist countries during the past two years reflect economic interests as well as political considerations. The major agreement concluded with the Soviet Union in particular offers significant economic benefits to Iran. Natural gas now destined for the USSR currently is being flared. This gas will be used by Iran to repay the \$289 million Soviet credit that will help Iran to acquire a steel mill, a heavy machinery plant, and a gas pipeline as well as to repay the \$110 million Soviet credit for military equipment.

8. The Shah has become disturbed over Iran's almost complete dependence on the United States for military equipment and his inability to obtain the type and amount of equipment he desires. He therefore has sought to diversify, to some extent, his sources of military equipment. In August 1966, Iran purchased military equipment from the United Kingdom worth \$50 million to \$60 million, and in February 1967 it signed the \$110 million military aid agreement with the Soviet Union.

9. More recently the Shah has come to believe that the best defense against any Communist threat to his regime is rapid economic development and an improvement in the standard of living. Consequently, he is prepared to accept assistance from almost any country if it contributes to these objectives. Moreover, his acceptance of Soviet aid has enabled him to undercut past domestic criticism that he continually gave priority to his commitments to the West and neglected the economic needs of Iran.

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Communist Aid for Iran's Economic Development

10. Although the bulk of financing for Iran's economic development will continue to come from Western sources,\* economic credits of about \$500 million will enable the Communist countries to play a significant role in Iranian economic development, particularly in the public sector. Although these credits are equivalent to less than 10 percent of total planned investment under Iran's current development plan (21 September 1962 - 20 March 1968),\*\* they represent about 20 percent of planned investment in the public sector. Moreover, Communist credits account for about 70 percent of all foreign aid now available. Nearly 80 percent -- about \$392 million -- of Communist credits has been allocated for industrial undertakings. The remainder is largely for multipurpose and agricultural projects and the construction of a natural gas pipeline (see Figure 2).

11. The Soviet Union has moved rapidly to implement its aid program in Iran, partly in response to its own need for Iranian natural gas. Only a few months after formal signing of the \$289 million aid agreement in January 1966, Soviet technicians arrived to undertake the required surveys of the sites for the steel mill and the heavy machinery plant, the proposed route of the pipeline, and the iron ore and coal resources which will be used by the steel mill. During the next few years, sizable groups of Soviet technicians will be employed on these and other projects in Iran.

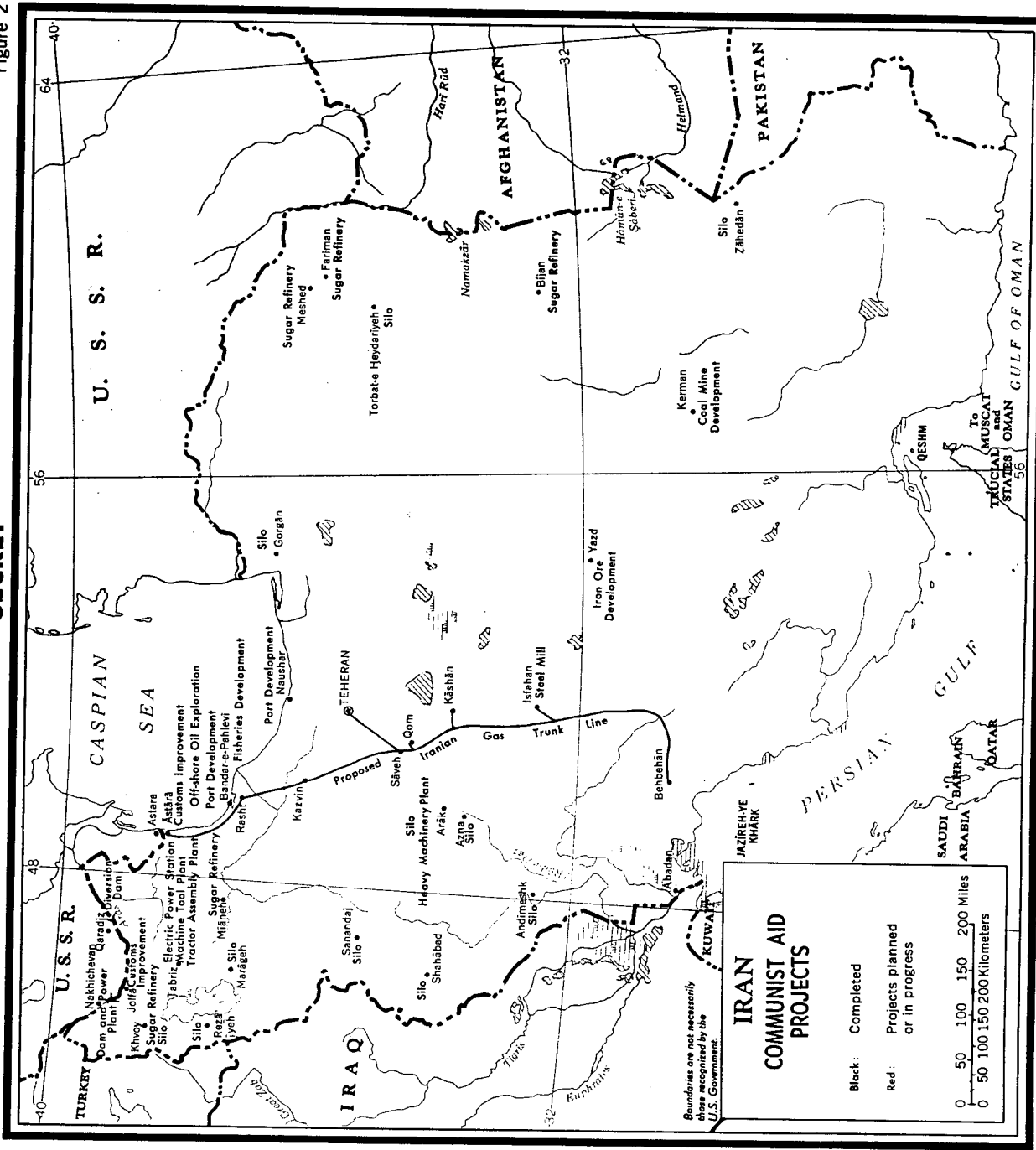
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\* Oil revenues will continue to represent the chief source of revenue for the development program. In 1965 these revenues totaled \$532 million, three-fourths of which were channeled into the development program.

\*\* The bulk of Communist aid will be used during the development plan which begins in 1968, but no figure for planned investment during that plan is available for comparison.

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Figure 2



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### The Isfahan Steel Plant

12. The largest Communist aid undertaking in Iran is an integrated steel mill to be constructed near Isfahan under the Soviet credit of \$289 million. Although the amount to be used for the mill is not known, it has been estimated to be at least \$200 million. By 1970 the mill is to have an initial capacity of 500,000 to 600,000 tons, which will meet much of the country's domestic steel requirements and will save Iran up to \$100 million a year in foreign exchange. The plant's capacity eventually is to be doubled.

13. Two training centers are to be built at the site of the mill. The first will be used to train construction workers and the second to train, over a six-year period, the more than 600 engineers and technicians who will operate the completed project. Some personnel will be sent to the USSR for long periods of training, although Iran expects most of its technical personnel sent abroad to receive their training in the West.

### Plants in Tabriz

14. Another significant aspect of Communist aid activities in Iran is the planned role of the Communist countries in the industrial expansion of Tabriz. The city, once the most important commercial and industrial center in Iran, has experienced a large degree of economic decay during this century. The government seeks to revitalize the city's economy and apparently expects to depend heavily on Communist assistance. Current plans call for Czechoslovak, Rumanian, and Soviet industrial aid for Tabriz totaling at least \$47 million.

15. The city's industrialization program centers around a planned industrial park in which a Czechoslovak machine tool plant and a Rumanian tractor assembly plant are to be built. The electric power for the park will be supplied by a Soviet-constructed 12,000-kw electric

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powerplant -- a sizable addition to the current electric power capacity in Tabriz of about 9,000 kw. Long-range plans call for the establishment of a variety of secondary industries in the park which will service these installations and use their production.

16. The construction of the machine tool plant is being financed under a Czechoslovak credit of \$15 million. The plant, expected to be completed in 1969, will have an annual capacity of 20,000 tons. A cast iron foundry and vocational training center to accommodate 1,000 trainees are included in the project. Czechoslovakia reportedly has offered some Tabriz businessmen a \$10 million credit to finance the establishment of secondary industries around the machine tool plant.

17. The tractor assembly plant will be constructed under the Rumanian credit of \$100 million extended in 1965. The first stage is planned for completion in 1968, when the plant will be capable of assembling 5,000 tractors annually. About 70 percent of the plant's input then will consist of parts imported from Rumania. By 1971, when the second stage of construction is to be completed, the plant will be manufacturing almost all the parts required for the tractors. Moreover, its capacity is to be raised to 10,000 tractors annually.

#### Other Industrial Projects

18. An estimated \$20 million of the Soviet credit of \$289 million will be used to construct a heavy machinery plant at Arak. The first stage is expected to be completed in 1970, when the plant will have a capacity of 25,000 to 30,000 tons annually. Within the following 12 to 18 months, its capacity is expected to be raised to 40,000 tons and to meet a large part of Iran's requirements for heavy machinery.

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19. Bulgaria and Hungary have each extended \$10 million credits to Iran for unspecified industrial equipment. Part of the large Rumanian credit is being used to import industrial machinery and equipment. Poland extended a credit of \$15 million to Iran largely for the construction of four sugar refineries. Two refineries are to be constructed at Khoy and Mianeh in Azerbaijan province and one possibly at Meshed. In 1958-59, Poland extended credits of \$6.1 million for the construction of two refineries at Fariman and Bijan. The refinery at Fariman subsequently was expanded under a 1963 credit of \$900,000. About \$1.8 million of the \$15 million credit reportedly has been allocated for the expansion of the Bijan refinery.

#### The Natural Gas Pipeline

20. The Soviet Union has committed \$70 million of its \$289 million credit to cover about 15 percent of the cost of a 700-mile natural gas pipeline -- the Iran Gas Trunk Line (IGAT) -- from the Agha-Jari and Gach-Saran oil and gas fields in the south to the town of Astara on the Iranian-Soviet border. The total cost of the pipeline has been estimated at nearly \$450 million. The National Iranian Oil Company (NIOC) is responsible for the overall engineering surveys, construction, and financing of the pipeline and for supplying about 350,000 metric tons of 42-inch-diameter pipe (to cost an estimated \$250 million) that are required for the project. The Soviet credit will be used to cover the cost of the engineering and technical services for the northern section of the pipeline (from Saveh to Astara) and the compressors for the entire system.

21. The IGAT is scheduled to commence operations in 1970 and to deliver 6 billion cubic meters of gas to the USSR in its first year. As additional compressors are added and the gas-gathering system is expanded, deliveries will rise until they reach 10 billion cubic meters annually in 1974 and will then remain constant.

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The Soviet Union has agreed to import natural gas during 1970-85 at a price of \$6.60 per thousand cubic meters, but this price is subject to change. Of this amount, \$4.40 represents a fixed portion and \$2.20 a variable portion which will change proportionately with increases or decreases of between 10 and 30 percent in the average posted price for bunker fuel oil at Abadan. No change will take place if the variation in the posted price is less than 10 percent. If the posted price varies more than 30 percent, then the entire price of \$6.60 will be subject to renegotiation.

22. Despite the large capital expenditures that construction of the pipeline will require of Iran, the arrangement has substantial economic benefits for it. The gas to be exported is essentially cost-free, inasmuch as it would otherwise continue to be wasted (flared). At the beginning of 1967 the amount of gas being wasted each day exceeded the daily rate of exports planned for 1970. Iran will receive a favorable price for the gas. Sales to the USSR should yield a gross income for Iran rising gradually from \$39 million in 1970 to \$66 million by 1974 and leveling off at that figure. By the end of 1985, Iran will have acquired nearly \$1 billion in purchasing power in the USSR as a result of these sales of natural gas. About one-half of this sum will be used to repay Soviet credits for the pipeline, steel plant, and heavy machinery plant as well as for the \$110 million worth of Soviet military equipment to be received, and the other half will be available for additional purchases of Soviet goods.

23. This agreement (along with a similar agreement with Afghanistan) also has substantial economic benefits for the Soviet Union. Imports of natural gas from Iran will enable the USSR to supplement dwindling gas supplies in the Azerbaydzhan SSR, to shift gas elsewhere in the Soviet Union (provided that necessary connections and capacities are developed

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in the pipeline system), and possibly to permit an increase in gas exports to Eastern European countries. Since 1958, Soviet domestic requirements for natural gas have been increasing more rapidly than additions to reserves, preventing the accumulation of any sizable surplus for export. Although Soviet exports of gas to Eastern Europe are expected to increase substantially during the next decade, the imports from Iran will be even greater.

24. During the period 5-11 April 1967 a 13-man economic mission headed by the Minister of the State Planning Committee (Gosplan), Nikolai Baybakov, visited Iran to discuss an expansion of economic relations between the two countries -- particularly further Soviet participation in Iran's development plan which begins in March 1968. A number of Soviet proposals were discussed. One of the most important was for an acceleration in the projected volume of natural gas deliveries to the Soviet Union. Baybakov suggested that the delivery of gas at the rate of 10 billion cubic meters now planned for 1974 be moved to 1970 and that the deliveries eventually be raised to 20 billion cubic meters. Iran reportedly indicated a willingness to consider the proposal only if the Soviet Union would bear the total cost of a second pipeline -- presumably meaning if the Soviet Union would provide a credit sufficient to cover all foreign exchange costs. In view of Moscow's unwillingness to finance all foreign exchange costs of the presently planned pipeline, it is unlikely that the USSR would agree.

#### Petroleum Exploration

25. The Soviet Union also has been providing technical assistance for petroleum development by NIOC, primarily for prospecting offshore

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in the Caspian Sea.\* Acting as a contractor for NIOC, the USSR is conducting seismographic tests in the area. If these tests (which probably will continue until late 1967) indicate that exploratory drilling is justified, NIOC presumably would negotiate an agreement with the USSR for such drilling and, if oil were found, an agreement for exploitation and marketing by the USSR. Caspian oil is remote from Western markets. This oil could most logically be marketed in or through the USSR, augmenting the amounts available for Soviet export to Eastern Europe and, possibly, to Western Europe. As of early 1967, NIOC wanted the USSR to bear all exploration costs, which would be credited against oil discoveries. This arrangement was acceptable to the USSR if oil were found, but otherwise it wanted to be reimbursed for all exploration costs.

26. Soviet participation in this activity probably stems from Iranian-Soviet discussions held during a September 1964 visit to Moscow by NIOC Managing Director Eqbal. Within three months after these discussions a Soviet oil delegation visited Iran, offered aid for Iran's petrochemical industry, and reportedly requested (but was refused) an oil concession in Iran. A technical assistance agreement of some kind apparently was concluded, however, because three Soviet technicians arrived in February 1965 to serve as advisers in the Qom oil fields. In January 1966 the USSR signed an agreement to undertake offshore prospecting in Iran's portion of the Caspian Sea. Several months later, a group of more than 70 Soviet technicians initiated these activities.

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\* A Western oil consortium, consisting largely of US and UK companies, accounts for about 95 percent of the oil produced in Iran.

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27. Various reports have suggested that any offshore oil discovered would be sold in Eastern Europe through an Eastern European consortium or a joint Iranian-Soviet marketing organization. Access to Iranian oil supplies probably is of interest to the Eastern European countries. They apparently are interested in finding cheaper oil than that provided by the USSR and probably are concerned over the possibility that the USSR may not be able to meet all of their future requirements. They also are motivated by the need to find additional outlets for their industrial products and already have signed trade agreements to barter machinery and equipment for oil made available to NIOC by the Western consortium.

#### Development of Natural Resources

28. Other Communist assistance for the development of Iran's mineral resources is minimal and is connected largely with other industrial projects. Soviet technicians are employed in developing the Yazd iron ore mines and Kerman coal mines to supply the furnaces of the projected Isfahan steel mill. This assistance also is being provided under the \$289 million Soviet credit. About 75 Soviet technical personnel were expected to be at Kerman by the end of 1966. Soviet technicians also have been noted at the lead mines near Meshed.

#### Multipurpose Projects and Agricultural Development

29. More than \$95 million in Communist aid has been obligated for multipurpose and agricultural projects in Iran. The Soviet Union is building a hydroelectric power station and dam on the Aras River, which forms much of the boundary between Iran and Soviet Azerbaydhan. The project is a joint undertaking, for which the Soviet Union extended a credit of \$39 million to Iran under the

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economic and technical assistance agreement of July 1963 to cover the latter's share of the foreign exchange costs. The project includes a dam and two 21,000-kw powerplants near the Soviet town of Nakhichevan and a concrete diversion dam near Qaradiz (USSR) and Aslanduz (Iran). Both dams are scheduled to be completed in 1970. The generating station located in Iran eventually will hook up with a grid network in Iranian Azerbaijan. In July 1966, about \$12 million of the Soviet credit was allocated for construction equipment, railroad diversion, and the construction of warehouses and repair shops.

30. The waters collected behind the dams will be used to irrigate about 135,000 acres in Iran's Moghan Plain, which will be devoted largely to the production of cotton, wheat, and livestock. Current plans call for distribution of the land to the semi-nomadic Shasavan tribesmen who inhabit the area. About 12 years ago a similar program was undertaken by Iran, and 45,000 acres eventually were distributed to the Shasavan.

31. The Soviet Union also is providing other assistance for Iran's agricultural development. Under the agreement of July 1963, technical assistance is being provided for the construction of eleven grain silos with a total capacity of 79,000 tons\* and for the replenishment of fish supplies in the Iranian part of the Caspian Sea, including construction of a

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\* On 16 April 1967 the Iranians announced that the Soviet Union had extended an unspecified credit for the expansion of grain silo capacity built with Soviet assistance from the present 70,000 tons to 300,000 tons.

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\$4 million sturgeon hatchery. In mid-1966 the USSR extended a \$16.6 million credit to Iran to cover the purchase of Soviet agricultural equipment.

32. A portion of the Rumanian credit of \$100 million is being used to purchase 15,000 tractors and 10,000 tractor-drawn plows. This agricultural equipment will be delivered over a period of five years. The price to Iran of the tractors is not known, but they reportedly will be sold to Iranian farmers at a price of \$2,200 to \$2,800 each, including freight, insurance, and spare parts. In addition, Rumania will establish a tractor repair network (including mobile units) to service these tractors as well as those to be produced by the Rumanian-financed tractor assembly plant. Rumanian technicians also have been employed to assist in the development of 250,000 acres to produce 100,000 tons of sunflower seed oil annually and to develop fruit orchards and livestock farms.

#### Transportation Development

33. Soviet efforts to expand trade with Iran, to enable more rapid and efficient deliveries of Soviet aid goods, and to increase Iranian use of transit routes across the USSR have led to offers to improve transportation facilities in northern Iran. The largest proposed undertakings are connected with the improvement of the Caspian Sea ports of Bandar Pahlavi and Naushahr. The Soviet agreement of July 1963 provides for the dredging of Bandar Pahlavi. Current Iranian plans call for a 60 percent expansion of the port's unloading capacity. An agreement signed with the USSR in November 1966 provides for a study of plans to expand the port's facilities and to improve customs facilities at the Iranian border towns of Jolfa and Astara.

34. In March 1966 the two countries discussed the possibility of improving road facilities between Meshed and Bajgiran on the Soviet border to facilitate the transport of lead ore from the Meshed area to the USSR. Such

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imports currently are trucked to Bandar Pahlavi, where they are loaded on Soviet ships. The cost of transportation to the USSR ostensibly could be reduced by 30 percent with this improvement. If an agreement is reached, an assay station also would be constructed at Bajgiran.

35. The USSR has offered to undertake large-scale highway projects and to construct a subway in Teheran, but the Shah reportedly rejected the latter offer because of concern over the possible propaganda impact of the daily use of such facilities. The Soviet delegation which visited Iran early in April 1967 indicated that the USSR still is willing to discuss the project.

#### Iran's Trade with Communist Countries

36. In recent years the share of the USSR and Eastern Europe in Iran's trade has been relatively small (see Table 2). These countries have accounted only for 4 to 5 percent of total Iranian trade and for 9 to 11 percent of the total excluding the trade of the petroleum sector, which consists mainly of exports by the Western oil consortium. Although the USSR and Eastern Europe have been providing only 5 to 7 percent of Iran's imports (aside from imports by the oil companies), they have been absorbing about one-fourth of Iran's exports other than oil (see Table 6).

37. The value of trade with the USSR has changed little since 1955 (except for 1964), but trade with Eastern Europe has grown considerably. The jump in Soviet-Iranian trade in 1964 largely reflected a sharp drop in Iranian sugar production and a subsequent threefold increase in sugar purchases in the USSR (see Table 7). Iran's imports from Communist countries have consisted largely of sugar, iron and steel products, and machinery and equipment. Fish products, fruits and vegetables, animal products, and cotton have accounted for most of Iran's exports to these countries.

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Table 2  
Iran's Trade with the USSR and Eastern Europe a/  
1959-65

Year	Million US \$			Percentage Share of USSR and Eastern Europe in Total Iranian Trade	
	Total	USSR	Eastern Europe	Including Trade of the Oil Sector	Excluding Trade of the Oil Sector
1959	59	34	25	4	9
1960	60	36	24	4	9
1961	66	36	30	5	10
1962	57	34	23	4	10
1963	62	30	33	4	10
1964	94	53	40	5	11
1965	84	34	50	4	9

a. Data are for Iranian fiscal years beginning on 21 March. Because of rounding, components may not add to the totals shown.

#### Anticipated Growth

38. Trade agreements signed with Communist countries during 1966-67 and a growing level of payments for Communist aid portend a sharp increase in Iran's trade with these countries in the next few years. Three-year trade agreements with Czechoslovakia, Hungary, and Poland call for trade to rise to \$138 million by 1969, compared with \$36 million in 1965. A five-year agreement with the USSR calls for sizable annual increases that would boost trade to some \$90 million in 1969 and some \$200 million in 1971. Trade between the two countries totaled only \$34 million in 1965. Actual trade with the Communist countries probably will not reach the magnitudes envisioned, as trade agreement quotas rarely are fulfilled. For example, a three-year agreement signed with the USSR in 1964 called for

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trade to reach about \$55 million in 1965, substantially more than the level actually achieved. Nevertheless, Iran's trade with the Communist countries should jump sharply during the next few years, at a rate which probably will be much greater than the rate of growth of Iran's total trade.

39. Iranian exports of petroleum are likely to play an important role in the increase in trade with the Eastern European countries. Iran has concluded an agreement with the Western consortium to purchase increasing amounts of oil at reduced prices for export to these countries. Iran will purchase about 2 million tons in 1967, and the agreement calls for purchases to rise by 1 million tons annually during the succeeding four years and to reach 6 million tons in 1971. Several Eastern European countries apparently are possible purchasers of a substantial share of this oil. Rumania has already agreed to import 3.5 million tons during 1968-70, part of which will be used to repay the Rumanian credits extended to Iran and the rest to pay for other Rumanian industrial equipment. Bulgaria has agreed to purchase at least 75,000 tons of Iranian oil in 1967. Trade with the USSR also will be boosted considerably by the scheduled deliveries of Iranian natural gas on commercial account and as payments on credits.

#### Payments

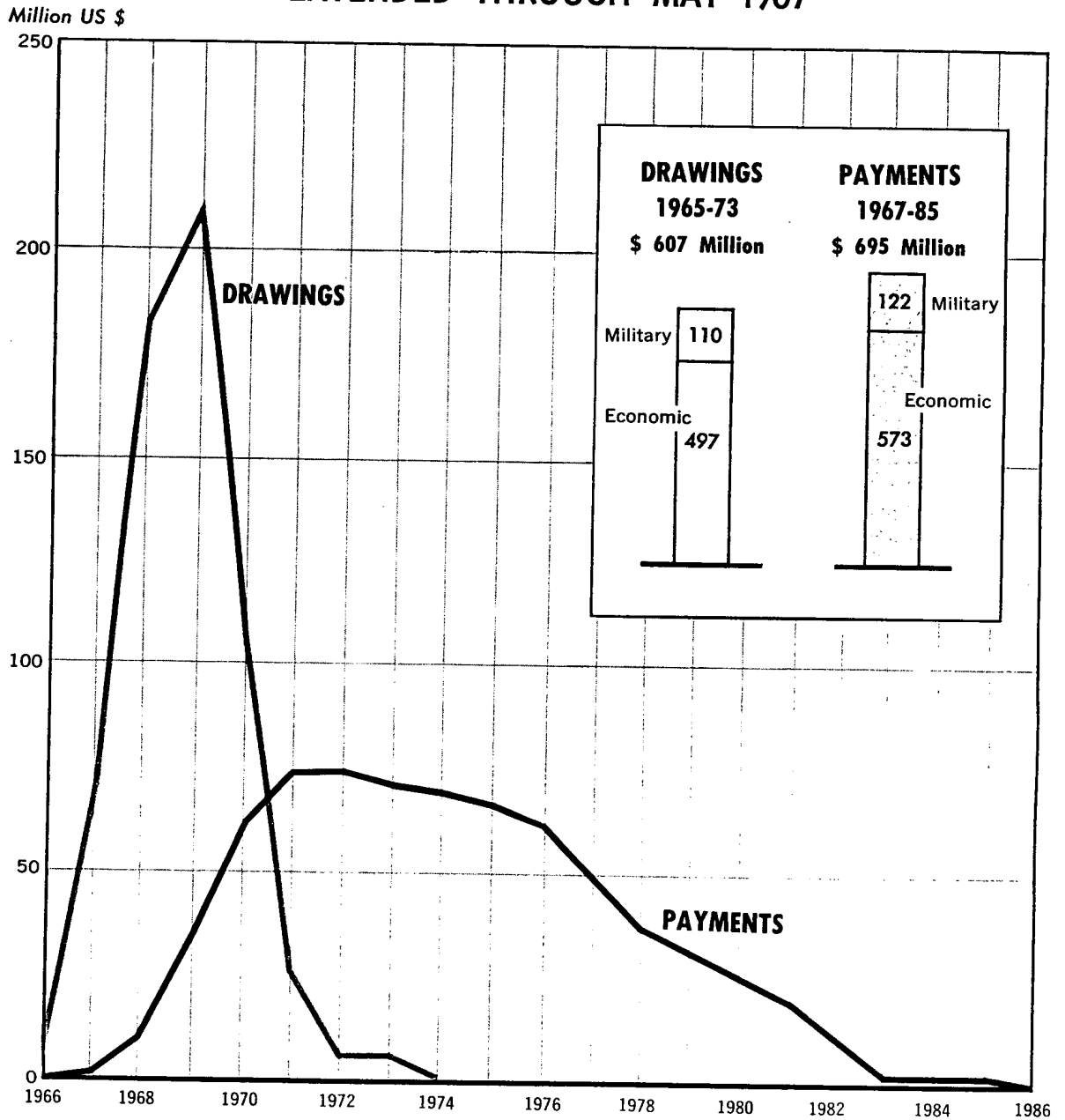
40. Commodity payments for aid drawn on credits extended through May 1967 are expected to amount to about \$9 million in 1968 and \$35 million in 1969 and to account for a large part of the anticipated growth of Iran's exports to the Communist countries in subsequent years. It is estimated that such payments will rise to a peak of \$70 million in 1972, decline gradually until 1976, and drop sharply afterward (see Table 3 and Figure 3). Estimated aid payments in 1970 will exceed the total value of Iranian exports to the Communist countries in 1965.

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Figure 3

### PROJECTED IRANIAN DRAWINGS AND PAYMENTS ON COMMUNIST ECONOMIC AND MILITARY AID EXTENDED THROUGH MAY 1967



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41. By the end of 1985, if all projected payments are made on schedule, Iran will have paid an estimated \$675 million in commodities and \$20 million in hard currency to Communist aid donors. Interest payments will account for nearly \$100 million of this total. An estimated \$437 million will be paid in the form of natural gas shipments to the USSR to cover principal and interest payments for the \$289 million industrial credit and the \$110 million military credit. Such exports will be in addition to the annual export quotas included in the Soviet-Iranian five-year trade agreement. Since scheduled natural gas shipments during 1970-85 amount to nearly \$1 billion, Iran should have a balance of some \$550 million available for additional purchases of Soviet goods (see Table 4).

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Table 3  
 Projected Iranian Payments of Principal and Interest for  
 Communist Economic and Military Aid Extended Through March 1967  
 1967-85

Total	USSR				Eastern Europe
	Total Payments	Total	Economic Aid	Military Aid	
Total	<u>695</u>	<u>524</u>	<u>402</u>	<u>122</u>	<u>171</u>
1967	1	1	1	1	4
1968	10	6	5	9	10
1969	35	25	16	16	16
1970	62	46	30	16	19
1971	73	54	38	16	22
1972	74	52	36	15	21
1973	70	49	34	15	21
1974	69	48	33	15	19
1975	66	47	32	15	17
1976	61	44	31	13	12
1977	49	37	31	6	7
1978	37	30	30		3
1979	32	29	29		
1980-85	56	56	56		

Million US \$

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Table 4  
Planned Iranian Deliveries of Natural Gas to the USSR  
1970-85

	Million US \$				
	Planned Total Natural Gas Shipments	Estimated Payments on Credits in the Form of Natural Gas Shipments	\$289 Million Industrial Credit	\$110 Million Military Credit	Estimated Natural Gas Shipments Available to Finance Other Imports
Total	989	437	325 a/	112 b/	552
1970	39	37	21	16	2
1971	46	45	29	16	1
1972	53	45	29	16	8
1973	59	44	29	15	15
1974	66	44	29	15	22
1975	66	43	28	15	23
1976	66	41	28	13	25
1977	66	33	27	6	33
1978	66	27	27		39
1979	66	26	26		40
1980-85	396	52	52		344

a. Additional payments during 1968-69 totaling more than \$12 million are to be made in other goods.

b. Additional payments during 1968-69 totaling more than \$10 million are to be made in other goods.

Table 5  
Details of Soviet and Eastern European Economic Aid Agreements with Iran  
1958-May 1967

Communist Country	Date of Agreement	Value of Agreements (Million US\$)	Terms of Agreements	Allocation of Economic Aid
Total		<u>503.6</u>		
USSR		<u>346.6</u>		
	July 1962	0.5	Payment in 4-1/2 years.	250 tractors.
	July 1963	38.9	Payment in 12 years at 2.5 percent interest in Iranian commodities.	Multipurpose dam, Aras River.
	December 1964	1.7	N.A.	
	January 1966	288.9	Payment in 12 years at 2.5 percent interest in Iranian commodities.	Electric power station, Tabriz
	June 1966	16.6	Payment in 4 years at 3 percent interest in hard currency.	Steel mill, Isfahan; natural gas pipeline; heavy machinery plant, Arak.
Bulgaria	March 1967	<u>10.0</u>	Payment in 5-8 years in Iranian commodities; interest presumably at 2.5 percent.	Irrigation and agricultural equipment
Czechoslovakia	November 1965	<u>15.0</u>	Payment in 10 years at 2.5 percent interest in Iranian commodities.	Industrial machinery and equipment; technical assistance.
Hungary	May 1965	<u>10.0</u>	Payment in 9 years at 2.5 percent interest in Iranian commodities.	Machine tool plant and vocational training center, Tabriz; other industrial plants.
Poland	February 1958	<u>22.0</u>	Payment in 7 years at 3 percent interest in hard currency.	Industrial equipment.
	January 1959	3.6	Payment in 7 years at 3 percent interest in hard currency.	Sugar refinery, Fariman.
	May 1963	0.9	Payment in 3 years at 5 percent interest in hard currency.	Sugar refinery, Bijan.
	February 1964	15.0	Payment in 8 years at 2.5 percent interest in Iranian commodities.	Expansion of sugar refinery, Fariman.
Rumania	October 1965	<u>100.0</u>	Payment in 8 years (4 years for plows) at 2.5 percent interest in Iranian commodities.	Sugar refineries at Khoy, Meshed, Mianeh; expansion of Bijan refinery.

Table 6  
Iran's Exports to and Imports from the USSR and Eastern Europe a/  
1959-65

	Value in Million US \$									
	1959	1960	1961	1962	1963	1964	1965			
Value of exports to										
USSR	<u>22.0</u>	<u>30.0</u>	<u>33.3</u>	<u>30.0</u>	<u>31.8</u>	<u>39.9</u>	<u>43.1</u>			
Eastern Europe	<u>13.6</u>	<u>19.0</u>	<u>17.7</u>	<u>17.1</u>	<u>15.3</u>	<u>21.2</u>	<u>17.3</u>			
Bulgaria	<u>8.4</u>	<u>11.0</u>	<u>15.6</u>	<u>12.9</u>	<u>16.5</u>	<u>18.7</u>	<u>25.8</u>			
Czechoslovakia	b/	0	b/	b/	b/	0.1	0.3			
East Germany	6.0	5.4	6.9	3.2	3.9	5.7	8.9			
Hungary	0.3	0.7	1.9	2.2	2.3	1.8	3.9			
Poland	1.4	2.2	4.6	4.4	4.6	5.6	3.4			
Rumania	0.7	2.7	2.2	3.1	5.7	5.5	6.4			
	0	0	0	b/	0	0	2.9			
Percentage share of USSR and Eastern Europe in total exports										
Including petroleum exports	3	4	4	3	3	4	3			
Excluding petroleum exports	17	21	26	24	23	26	24			
Value of imports from										
USSR	<u>37.3</u>	<u>30.4</u>	<u>32.7</u>	<u>26.9</u>	<u>30.8</u>	<u>53.7</u>	<u>41.3</u>			
Eastern Europe	<u>20.8</u>	<u>17.3</u>	<u>18.4</u>	<u>16.4</u>	<u>14.5</u>	<u>32.1</u>	<u>16.7</u>			
Bulgaria	<u>16.5</u>	<u>13.1</u>	<u>14.3</u>	<u>10.5</u>	<u>16.3</u>	<u>21.6</u>	<u>24.6</u>			
Czechoslovakia	0.2	0.3	0.6	0.3	0.3	0.6	1.6			
East Germany	9.5	7.1	5.8	4.7	4.7	6.9	7.0			
Hungary	1.6	0.7	0.9	0.7	1.8	2.3	4.7			
Poland	4.5	3.2	4.3	2.5	5.2	6.8	4.8			
Rumania	0.7	1.7	2.1	2.1	3.9	4.5	5.8			
	b/	0.1	0.6	0.2	0.4	0.5	0.7			
Percentage share of USSR and Eastern Europe in total imports	7	5	6	5	6	7	5			

a. Data are for Iranian fiscal years beginning on 21 March.  
b. Less than \$50,000.

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Table 7

Iran's Trade with the USSR and Eastern Europe  
by Major Commodity or Commodity Group a/  
1963-65

	Million US \$					
	<u>USSR</u>			<u>Eastern Europe</u>		
	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
<b>Exports</b>	<u>15.3</u>	<u>21.2</u>	<u>17.3</u>	<u>16.5</u>	<u>18.7</u>	<u>25.8</u>
Fish and fish preparations	1.3	1.2	2.1			
Fruits and vegetables	2.1	2.9	2.8	2.6	2.7	4.7
Animal feedstuffs				1.2	2.1	2.4
Hides and skins	1.7	2.2	1.4		0.2	0.9
Wool and animal hair	2.8	3.3	0.8			
Cotton	4.8	7.9	4.6	10.4	11.6	14.7
Ores and concentrates	1.9	2.4	4.2		0.2	
Other commodities	0.7	1.3	1.4	2.3	1.9	3.1
<b>Imports</b>	<u>14.5</u>	<u>32.1</u>	<u>16.7</u>	<u>16.3</u>	<u>21.6</u>	<u>24.6</u>
Sugar	5.5	23.1	5.5	4.2	4.6	1.6
Wheat	0.3		1.4			
Wood and wood products	2.3	2.7	3.3			
Newsprint, paper, and paper- board	0.5	0.6	0.4	0.4	0.3	0.3
Textiles and yarns			0.2	0.5	1.2	0.6
Iron and steel	1.4	2.0	2.6	3.6	4.2	5.5
Machinery and equipment	2.9	2.2	2.0	5.5	6.8	10.9
Other commodities	1.6	1.5	1.3	2.1	4.5	5.7

a. Data are for Iranian fiscal years beginning on 21 March.

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