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GENERAL

1. USSR undercuts world market petroleum prices in deal with Egypt:

[Redacted]

The USSR and Rumania on 22 February signed a one-year barter agreement with Egypt calling for the exchange of 230,000 tons of kerosene and 120,000 tons of other petroleum products for \$11,200,000 worth of Egyptian cotton. The quantities specified represent about half of Egypt's annual imports of kerosene and gas oil and about three quarters of its annual imports of gasoline.

The agreed price for the petroleum is ten percent below the world market price, and the freight charge is also below the prevailing rate. Egypt has demanded that Western petroleum companies distribute these imports at their normal marketing profit under threat of requisition of their facilities.

Comment: In recent years Egypt has imported only negligible amounts of Orbit petroleum products. The prices and freight rates specified may amount to a saving of 16 percent below the world market price. A part of the saving may prove to be illusory, however, if the Egyptian-Italian company handling the shipping encounters the costly loading delays at Orbit ports which have typified such operations in the past.

Soviet willingness to cut prices to this extent is a further indication of the Orbit's increasing reliance on petroleum exports instead of grain to pay for imports.

2. Embargo against China may be threatened by Japanese request for exception:

[Redacted]

West Germany and France can be expected to reopen the entire question of the iron and steel embargo against Communist China if Japan obtains the exception it has indicated it may seek for a 10,000-ton shipment of galvanized iron sheets. American officials in Bonn and Paris point out that in the China

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Committee for the control of strategic shipments to China and North Korea, both Germany and France agreed to the embargo last fall only on condition that Japan refrain from shipping such products to China.

Comment: Japan can cite assurances of last September that the United States would support a Japanese request for exception to permit shipment of galvanized iron sheets less than 0.4mm thick, provided an adequate quid pro quo were obtained. Now, however, pressure in Western Europe for expansion of East-West trade has so increased that almost any excuse is likely to be used for demanding reconsideration of the China embargo classifications.

NEAR EAST - AFRICA

3. Britain outlines proposal for participation in Iranian oil consortium:

The British government is now willing to limit the Anglo-Iranian Oil Company to a 44-percent share in the proposed international oil consortium to market Iranian oil. Remaining shares would be divided equally among five American companies, the Compagnie Francaise de Petroles, and Royal Dutch Shell. The British proposal stipulates that total American holdings must not be larger than that of AIOC.

The American embassy in London thinks the British might eventually agree to restricting AIOC's share to 40 percent.

Comment: Britain had previously insisted that British companies should have at least a 51-percent interest in any international marketing consortium, and Iran had refused to consider the idea of British control.

Iran might accept this 44-percent formula as a face-saving device since it can be exploited as indicating that AIOC will not control the consortium. The British interest in Shell is 40 percent, however, which might raise suspicion that British influence would dominate the voting of Shell's eight-percent interest.

4. Shah and Zahedi disappointed at amount of American aid:

[redacted] The shah and Prime Minister Zahedi are deeply disappointed that the United States can make available to Iran only \$6,000,000 in additional emergency financial aid, the American embassy reported on 23 February. Both emphasized that substantial American aid is necessary to finance the government until oil revenues are again available.

Zahedi expressed fear that his opposition, which is already charging that he sold out to the United States for an insignificant amount of aid, would make additional political capital out of the size of the grant. He added, however, that he would accept the \$6,000,000 if it could be made to appear as an expansion of the previous \$45,000,000 grant rather than as a new one.

Comment: Zahedi will be faced with a recurring budget deficit of several million dollars a month when American emergency financial aid expires in April. Iran's precarious financial position will undoubtedly be the subject of Majlis debate when that body meets, and it is likely that Zahedi will face his first serious parliamentary attack on that issue.

5. Jamali publicly aligns Iraq with West:

[redacted] Prime Minister Jamali publicly announced on 24 February that Iraq will stand by the West and will ask for military aid to fortify its defenses against aggression. He also stated that "in the light of Iraq's interest," his country would consider adhering to the recently concluded Turkish-Pakistani agreement if an invitation were received.

Comment: Jamali's announcement is uniquely pro-Western for an Arab leader, coming as it does on an issue which may jeopardize his career as prime minister.

His conditional approval of the pact and bid for American aid will be severely denounced by other Arab states.

Egypt and Syria, with Saudi backing, are already waging a press and radio campaign against Iraq. The Egyptian press is vehemently criticizing American efforts to attract Iraqi cooperation.

The effort toward alignment with the West challenges Iraqi nationalism and might stir up serious antigovernment demonstrations.