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Office of Current Intelligence**CENTRAL INTELLIGENCE AGENCY**

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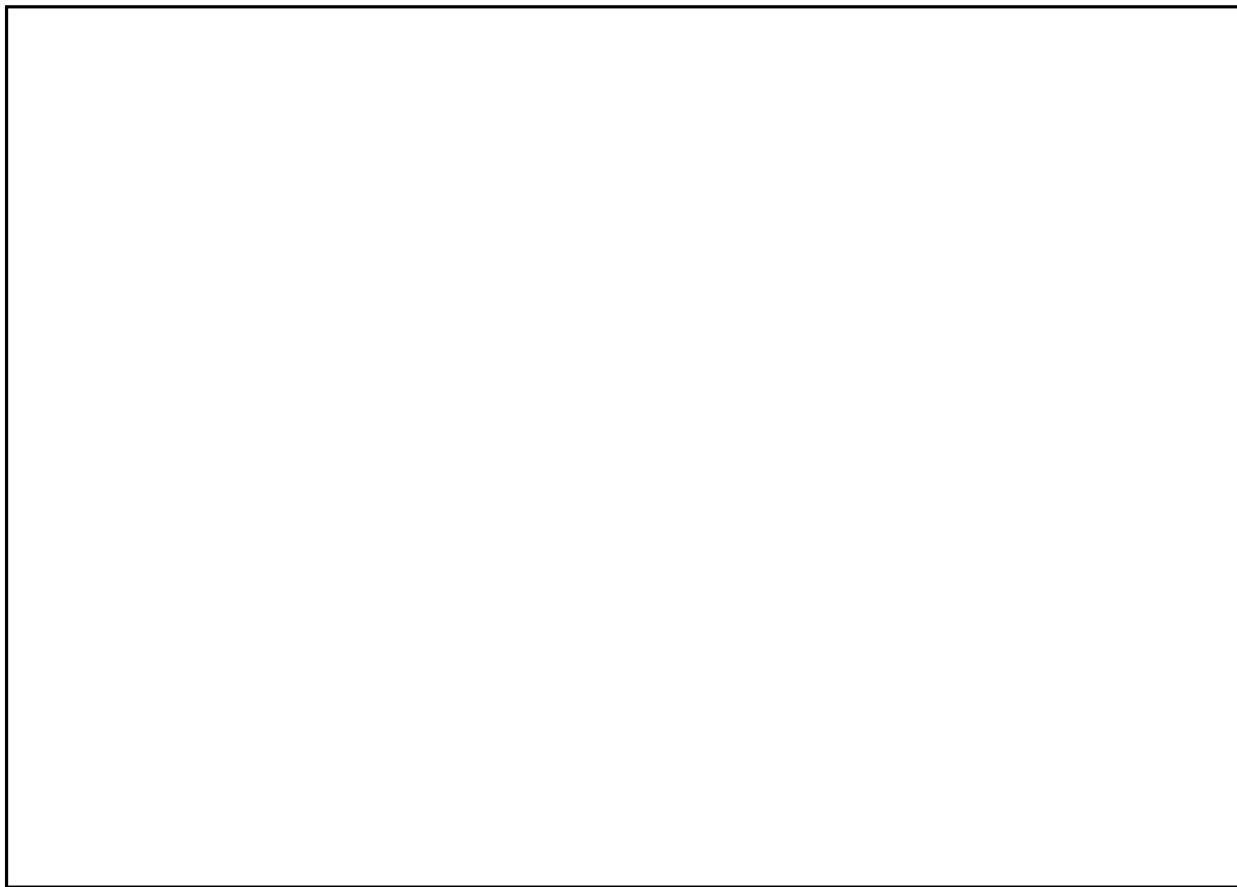
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GENERAL**2. Britain outlines terms for Iranian oil settlement:**

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[Redacted box] Britain has informed the United States that the proposals of last February represent its ultimate concessions to Iran in the oil dispute. Britain would, however, entertain any Iranian suggestions for modifications in presentation of the proposals and would also consider an interim arrangement permitting an early resumption of oil exports.

Britain still insists that any settlement must provide the Anglo-Iranian Oil Company fair compensation for its losses in Iran, and must not give Iran any better financial return from its oil than its neighbors receive.

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Comment: Despite this present reference to "ultimate concessions," British spokesmen have indicated a desire to strengthen Iranian premier Zahedi through an oil settlement.

Zahedi has not yet revealed his views on the oil question. However, he can be expected to object to those parts of the February proposals which appear to prevent Iran from freely exploiting its oil resources and place it heavily in debt to Britain over a long period of time.

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SOUTH ASIA

4. Pakistani army chief wants defense agreement with United States:

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On 13 September General Mohammed Ayub Khan, Pakistani army commander in chief, told an American embassy

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official that the concept of MEDO was impractical and that he wants to discuss a bilateral defense agreement with "top policy people" from the Departments of State and Defense when he arrives in Washington on 27 September. Ayub implied that Pakistan was prepared to make military bases available to the United States.

Comment: It is not clear whether the Pakistani government is prepared to seek such a pact or whether Ayub's mission is purely exploratory. Such a pact would be acceptable to the majority of Pakistanis, though it would subject the government to opposition charges that it was subservient to the United States.

India probably would vociferously attack such an agreement as endangering the peace of the subcontinent by bringing the "cold war" to India's borders.

NEAR EAST - AFRICA

5. Comment on "state of emergency" in Egypt:

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The Nagib government's proclamation of a state of emergency and the public announcement that it had unearthed a conspiracy, allegedly supported by "a foreign power" which aimed at restoring the monarchy, indicate that the military regime is increasingly uncertain of its position.

During the past several days, government spokesmen have been charging that disloyal Egyptians were involved in "imperialistic" plots. While former Wafd Party leaders and some army officers may be involved in a conspiracy, the preliminary publicity given the present situation suggests that the military regime is primarily engaged in generating more support for itself among the people, including the large numbers of ultranationalistic students, who are now returning to the universities.

Government officials are aware that the continuing stalemate in the Suez base talks is weakening their position with the people. They have privately hinted in past months that they might ultimately feel impelled to yield to public clamor for intemperate action against Britain.

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WESTERN EUROPE

6. Austrians refuse to revise text of new note to Moscow:

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Austrian government officials have rejected American and British requests that the draft of a proposed new note from Vienna to Moscow be strengthened

by the inclusion of specific suggestions for revision of the old draft treaty. According to Foreign Minister Gruber, such explicit proposals would give the Soviet Union an excuse for postponing negotiations and in any case could be raised later "if the conclusion of a treaty would not thereby be jeopardized."

Ambassador Thompson believes that Gruber's attitude is accounted for by his "sole concern" with showing the Austrian public that the government is removing every obstacle to the resumption of treaty discussions.

Comment: The Austrian government's draft note includes only a general appeal to the USSR for an easing of the burden which would be imposed by the treaty.

Gruber's attitude again demonstrates the unlikelihood of Austrian support for Western efforts to revise the treaty terms.

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