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TO : Department of State

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FROM : Amembassy BEIRUT

SUBJECT : IRAQ: Soviet Pressures on MOI

REF : CERP D

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ANALYSIS BRANCH

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During an impromptu social encounter June 28, Mike Gardiner, Deputy Chief Representative of the Iraq Petroleum Company (IPC) in Baghdad (protect), told the reporting officer in "strictest confidence" that IPC for the first time in five years had faint hopes of resolving several of its most difficult outstanding problems with the GOI. The primary reason for this new optimism is the desperate financial plight of the GOI.

According to Gardiner, the Soviet Union is putting heavy pressure on the GOI to pay the overdue installments on past Soviet loans for the construction of various industrial projects. (Gardiner mentioned a figure of 35 million pounds sterling.) The government does not have the necessary cash and the Soviet Union allegedly has threatened to withdraw its support of some current projects, including development of the Mishraq sulfur deposits (a Polish project) and construction of the new \$62.5 million Basra refinery (a Czech project). Alternatively, it would be willing to negotiate a debt moratorium if the GOI would take into the government several persons it would designate.

The Baathi rulers in Baghdad fear acceptance of such conditions would irrevocably compromise their hegemony in Iraq and lead to formation of a government totally subservient to Soviet will. They see this development as the logical next step after their surrender to Soviet pressure for an unwelcome settlement with the Kurds.

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FORM 10-64 DS-323

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Beirut A-295

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2

Gardiner believes the Soviet objective is to create a secure base in Iraq for penetration into the Gulf and eventual subversive moves against Iran, Kuwait, and Saudi Arabia. To avoid this development, IPC believes the GOI may now be willing to settle outstanding problems in exchange for a "generous" cash consideration. Gardiner asked that this subject be held very closely so as not to jeopardize the sensitive negotiations now taking place.

On another subject, Gardiner stated that the GOI had recently sentenced a number of Iraqis for various alleged subversive activities. He mentioned specifically former Defense Minister 'Abd al Aziz al 'Uqayly, sentenced to death, and his brother Ghanim al 'Uqayly, sentenced to fifteen years imprisonment for his association with Lutfi 'Ubaydi and former Secretary of the Treasury Robert Anderson in connection with negotiations over the Mishraq sulfur scheme.

Comment: The austerity theme highlighting recent Iraqi budgetary statements and static Iraqi oil revenues foreseen at ID 170 million are probably not unrelated to Gardiner's comments. IPC payment of at least \$150 million in settlement of the OPEC royalty expensing formula of 1964/65, which Iraq never has accepted, and subsequent higher annual payments to Iraq would indeed help the Iraqi revenue picture. One must view Gardiner's opinions with some caution, however, as they no doubt reflect the hopeful views of his superior, C. (Cocky) E. Hahn, chief IPC representative in Iraq. Hahn is well known as a very persistent negotiator and his relations with IPC/London headquarters dictate a hopeful tone in his reports to London. V-P Henry Moses and Robert Barnes of Mobil/New York noted this aspect of Hahn's operations in Iraq during their recent passage (June 12-16) through Beirut. On the other hand, Moses also noted that recent changes in IPC's top-level management could mean a more aggressive and flexible approach to resolution of IPC's long-standing problems in Iraq. Another point concerning the Iraqi financial picture was recently brought to our attention by the Beirut-based representative of Morgan Guaranty bank. He was very puzzled by the \$60 million drop in Iraqi foreign exchange and gold holdings in the period December 1969-January 1970, as indicated in IMF financial statistics. We could not recall any sudden payment that would have accounted for a drop of this magnitude and a check of Iraqi-watchers in Beirut produced no concrete information on the reason for the drop.

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Beirut A-295

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3

Our Iraqi contacts also have had little information of the results of GOI action taken against the 'Uqayly brothers; to our knowledge, this is the first reliable information we have had concerning their fate. Ghanim's Beirut-based partner, Tariq Shafiq, is currently in the United States; we suspect Aramco, Continental, or Thomas E. Stauffer of Arthur D. Little in Cambridge, would know his whereabouts.

PORTER

9

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