CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
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INTELLIGENCE MEMORANDUM

Some Revenue Implications Of The 14 February Oil Settlement With The Persian Gulf States

Introduction

On 14 February 1971 the six Persian Gulf members of the Organization of Petroleum Exporting Countries (OPEC) -- Saudi Arabia, Iran, Kuwait, Iraq, Abu Dhabi, and Qatar -- reached a highly favorable settlement with the region's private oil producers. Acting in concert, these countries, which produce nearly all Persian Gulf output, won tax and price concessions that will greatly increase their oil revenues over the next five years.

These increased revenues come at a time when some Persian Gulf governments face balance-of-payments problems as well as limitations on development and defense spending. In other cases the increased revenues will merely add to already large coffers, both public and private. This memorandum estimates the level of increased revenue generated by the February 1971 agreement and analyzes briefly the impact that the increases will have on the individual countries.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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E.O. 12958, as amended
June 21, 2006

[Omitted here is general information about the oil settlement and its impact on countries other than Iran.]

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Iran

8. Iran, unlike Saudi Arabia, has not had large foreign exchange reserves in recent years, and its rapid economic and military expansion has led to considerable deficit financing and balance-of-payments problems. At the end of 1970, Iran's holdings of gold and foreign exchange had fallen to a six year low (about $210 million), or less than two months' imports. The revenue increases generated by the February oil settlement afford Tehran an opportunity to push economic development further or to pay off burdensome short and long-term debts. It seems likely that the Shah

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will choose expansion and will spend to the limit of Iran's resources.

9. On 24 February -- ten days after the agreement -- the Shah proposed a budget for FY 1971-72 (21 March 1971 to 20 March 1972) that not only will consume all the increased oil revenues but also will require substantial deficit financing. The new budget will include a $1.3 billion deficit, or one-fifth of the expenditures, which will be covered by drawdowns on foreign loans of about $800 million and domestic borrowing of approximately $500 million. Both forms of borrowing will exacerbate an already difficult financial situation. The increased recourse to foreign loans, some short-term, will increase the debt service ratio, which already is more than 15% of foreign exchange earnings and requires foreign payments in excess of $150 million annually. By expanding its domestic borrowing, the government is using up credit normally available for private investment. Thus Iran will continue to walk a narrow financial tight rope.

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[Omitted here is material unrelated to Iran.]

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