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ACTION NEA-16

INFO OCT-01 ISO-00 IO-14 SAJ-01 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 OMB-01 DRC-01 /108 W

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R 060815Z MAY 74
FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC 6373
AMEMBASSY KABUL
INFO AMEMBASSY ISLAMABAD
AMEMBASSY NEW DELHI
AMEMBASSY DACCA

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SERIES OF SOCIAL FUNCTIONS INCLUDING STATE BANQUET AND LUNCHEON
HOSTED BY IMPERIAL MAJESTIES, DINNERS OFFERED BY PRINCESS FATEMEH
AND PRIMIN HOVEYDA AND HOUR-LONG DEPARTURE CEREMONY DURING WHICH
ECONOMIC COOPERATION AGREEMENT BETWEEN THE TWO COUNTRIES WAS
SIGNED BY ANSARY AND SWARAN SINGH.

3. AN EIGHT-PAGE COMMUNIQUE WAS ISSUED ON DAY OF DEPARTURE WHICH,
ACCORDING TO MFA, DESCRIBES FULL RANGE OF TOPICS DISCUSSED (TEXT
FOLLOWS BY AIRGRAM). IMPORTANT POINTS ON POLITICAL SIDE INCLUDE
FOLLOWING: (A) MRS GANDHI EXPLAINED INDIAN INITIATIVES TO NORMALIZE
SUBCONTINENT RELATIONS AND OUTLINED TRIPARTITE AGREEMENT; HOVEYDA
EXPRESSED SATISFACTION OVER THOSE DEVELOPMENTS AND COMPLIMENTED
PRIME MINISTERS OF THREE COUNTRIES FOR THEIR STATESMANSHIP. (B)
BOTH SIDES REAFFIRMED SUPPORT FOR EFFORTS BEING MADE TO SETTLE
ARAB-ISRAEL CONFLICT AND CONSIDERED THAT JUST SETTLEMENT COULD BE
ACHIEVED ON BASIS OF RESOLUTION 242. (C) IRANIAN SIDE EXPLAINED
ITS POSITION ON SECURITY AND STABILITY OF PERSIAN GULF AND IMP-
ORTANCE OF LITTORAL STATES SETTLING ISSUES THEMSELVES WITHOUT OUT-
SIDE INTERFERENCE: INDIANS AGREED. (D) IRAN EXPLAINED SITUATION ON
ITS WESTERN BORDER AND ITS APPREHENSION THIS COULD LEAD TO REGIONAL
INSTABILITY, TO WHICH INDIANS EXPRESSED QTE FULL UNDERSTANDING OF
DIMENSIONS OF PROBLEM. UNQTE BOTH SIDES AGREED SUCH PROBLEMS MUST
BE RESOLVED IN ACCORDANCE WITH INTERNATIONAL LAW AND UN CHARTER.
(E) THEY REVIEWED INDIA OCEAN SITUATION AND REAFFIRMED SUPPORT FOR
IOZP RESOLUTION. (F) TWO SIDES AGREED THAT DEVELOPMENTS TOWARD
RELAXING INTERNATIONAL TENSIONS WERE STEP TWOARDS PEACE BUT CAUT-
IONED THAT DETENTE COULD ONLY BE EFFECTIVE ON WORLD-WIDE BASIS.

4. ON ECONOMIC MATTERS, TWO PRIME MINISTERS EXPRESSED SATISFACTION
OVER RAPIDLY EXPANDING ECON AND COMMERCIAL RELATIONS BETWEEN TWO
COUNTRIES AND AGREED THAT BILATERAL COLLABORATION SHOULD BE FURTHER
STRENGTHENED. FOLLOWING DECISIONS WERE ANNOUNCED: (A) IRAN AGREED
TO EXTEND SOFT LOANS TO INCREASE PRODUCTION CAPACITY OF KUDREMUKH
IRON ORE PROJECT TO 7.5 MILLION TONS ANNUALLY FOR USE IN IRAN AND
TO UNDERTAKE JOINT STUDY TO SET UP ALUMINA PLANT WITH CAPACITY OF
300,000 TONS OF WHICH IRAN WOULD HAVE FIRST OPTION. (B) WITH
IRANIAN FINANCIAL ASSISTANCE TWO SIDES WILL FORM JOING SHIPPING
LINE WITH INITIAL CAPACITY OF 500,000 TONS TO OPERATE BETWEEN
INDIA AND IRAN AND POSSIBLY OTHER COUNTRIES. (C) IRAN WILL PROVIDE
LOANS TO INCREASE INDIAN INDUSTRIAL CAPACITY TO MEET REQUIREMENTS
OF BOTH COUNTRIES FOR SUCH PRODUCTS AS CEMENT, SUGAR, IRON AND
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STEEL, PAPER, NEWSPRINT AND CHEMICALS. (D) INDIA WILL PROVIDE
TECHNICAL PERSONNEL, ENGINEERS, PROFESSORS AND DOCTORS FOR SERVICE
IN IRAN. (E) TWO SIDES EMPHASIZED NEED FOR MEASURES TO MITIGATE
IMPACT OF RISING PRICES ON DEVELOPING COUNTRIES AND MRS GANDHI
WELCOMED SHAH'S PROPOSAL TO ESTABLISH FUND FOR THAT PURPOSE. (F)
BOTH COUNTRIES EMPHASIZED NECESSITY TO ENSURE THAT DEVELOPING
COUNTRIES EXERCISE FULL SOVEREIGNITY AND CONTROL OVER THEIR NATURAL
RESOURCES AND COOPERATE TO BRING ABOUT RATIONAL AND EQUITABLE BASIS
FOR INTERNATIONAL ECONOMIC RELATIONS. IN PARTICULAR THEY HOPED ASIAN AND AFRICAN COUNTRIES WOULD COOPERATE ECONOMICALLY TO BRING PEACE AND PROSPERITY TO REGION.

5. COMMENT: BOTH MFA AND INDIAN EMBASSY SEEM WELL SATISFIED WITH VISIT AND BELIEVE IT IS FURTHER STEP IN DEVELOPMENT OF CLOSER TIES WHICH HAVE BEEN EVOLVING DURING PAST YEAR. AS IS OBVIOUS FROM WIDE RANGE OF INTERNATIONAL, REGIONAL AND BILATERAL ISSUES COVERED DURING SHORT VISIT, MUCH OF DISCUSSION BETWEEN MRS GANDHI AND HER HOSTS WAS AT BROAD CONCEPTUAL LEVEL AND DETAILS OF VARIOUS PROGRAMS MUST STILL BE WORKED OUT. BUT AIM OF BOTH SIDES FROM BEGINNING WAS TO USE VISIT TO REMOVE RESIDUE OF MUTUAL MISTRUST AND TO ACHIEVE BETTER UNDERSTANDING OF OTHER COUNTRY'S POLITICAL AND ECONOMIC CONCERNS, NEEDS AND HOPES. IN THIS THEY SEEM TO HAVE SUCCEEDED. SHAH, FOR INSTANCE, STATED PUBLICLY THAT HE COULD NOT RECALL TALKS WITH LEADERS OF ANY OTHER STATE WHERE GREATER DEGREE OF UNDERSTANDING WAS ATTAINED. SIMILARLY, INDIAN DCM TOLD US HE HAD BEEN ESPECIALLY IMPRESSED WITH RAPPORT WHICH DEVELOPED BETWEEN MRS GANDHI AND HIM. HE THOUGHT IRAN NOW WAS MUCH LESS CONCERNED ABOUT INDIAN-SOVIET TREATY THAN IT ONCE WAS AND THAT INDIA HAD BEEN ABLE TO PERSUADE IRAN ITS FRIENDSHIP WITH IRAQ IN NO WAY IMPLIED BALNKET ENDORSEMENT OF IRAQI POLICY OR ATTITUDE TOWARD IRAN. FOR ITS PART, INDIA NOW IS MORE RELAXED ABOUT WHAT IRAN MIGHT DO IN EVENT OF ANOTHER INDIA-PAKISTAN CONFRONTATION, NO LONGER FEARING IRAN WOULD COME TO PAK ASSISTANCE UNDER ANY CIRCUMSTANCES.

6. SOME DIFFERENCES IN OUTLOOK AND APPROACH REMAIN, OF COURSE. INDIAN OCEAN IS ONE SUCH AREA. INDIANS BELIEVE EXPANSION OF US FACILITIES ON DIEGO GARCIA IS PROVOCATIVE AND WILL LEAD TO SOVIET COUNTERMEASURES, WHILE IRANIANS TAKE OPPOSITE VIEW THAT US ACTIVITIES IN AREA BALANCE SOVIET PRESENCE AND ARE THEREFORE STABILIZING. HEAD OF MFA SUBCONTINENT AFFAIRS HEDAYAT-VAZIRI WHO TOOK PART IN TALKS TOLD POLCOUN THAT ALTHOUGH IRAN HAD NO OBJECTION TO ZONE OF PEACE RESOLUTION, INDIAN OCEAN WAS HIGH SEA AND LITTORAL STATES SHOULD NOT TRY TO PROSCRIBE FREE USE BY OTHERS.

7. BOTH SIDES SEEM ESPECIALLY PLEASED WITH PROGRESS MADE TOWARD MUTUALLY BENEFICIAL ECONOMIC COOPERATION. INDIA OBTAINED PROMISE OF HELP IN MEETING ITS CRUSHING ECONOMIC PROBLEMS IN MANNER THAT WON'T SADDLE IT WITH NEW DEBT REPAYMENT PROBLEMS. IRAN WILL RECEIVE MUCH-NEEDED SUPPLIES (AND TRAINED PERSONNEL) THROUGH NON-INFLATIONARY AND POLITICALLY PROFITABLE USE OF SURPLUS OIL REVENUES. TOTAL AMOUNT AND EXACT TERMS OF THESE LOANS ARE YET TO BE WORKED OUT BUT HEDAYAT-VAZIRI HINTED THAT OVER TIME MAGNITUDE MAY APPROACH THE BILLION DOLLARS MENTIONED BY INDIAN EXPRESS (NEW DELHI'S 5942).