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INFORMATION MEMORANDUM

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TO : P - Mr. Eagleburger
FROM : NEA - Nicholas A. Veliotos *OTK*
PM - Jonathan Howard
SUBJECT: Iran-Iraq War: Analysis of Possible U.S. Shift from Position of Strict Neutrality

You asked for our views on the present validity of our policy of neutrality in the Iran-Iraq war and the implications of a shift from that position in favor of Iraq. This paper explores the issue of a policy change and reviews ways in which a change could be given practical effect.

THE PRESENT POLICY

When the war began three years ago, our poor relations with both combatants and concern for our security interests in the Gulf led us to reinforce air defenses by the deployment of AWACS to Saudi Arabia and to block the use of air bases in the Arabian Peninsula by Iraqi aircraft to reduce the threat of expansion of the war. Our neutrality policy evolved out of this preventative reaction. Until now, this policy has served our objectives and interests well. It has:

- avoided direct great power involvement;
- prevented spread of the war beyond the territory of the combatants to threaten Gulf oil supplies;
- contributed to the current military stalemate;
- preserved the possibility of developing a future relationship with Iran while minimizing openings for expansion of Soviet influence.

Two changes in the circumstances surrounding the war now raise the issue of whether this policy continues to best serve our objectives of stability in the Gulf and an eventual negotiated conclusion to the war which return the parties substantially to the status quo ante:

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- Bilateral relations with Iraq have improved over the last three years while relations with Iran continue to be virtually non-existent;
- the Iranian strategy of bringing about the Iraqi regime's political collapse through military attrition coupled with financial strangulation seems to be slowly having an effect.

Iraq appears to have concluded that it must change the strategic situation or risk eventual Iranian success. It has elected to do this by attempting to secure from France the Super Etendard-Exocet system with which to threaten interdiction of Iranian oil exports--thereby hoping to exert irresistible economic pressure for a settlement, perhaps also involving great power intervention. The current delay in French delivery of this system is, we believe, only temporary while public concern about escalation of the war, and the possibility of its affecting exports from the other oil producers, subsides. Nonetheless, Iraqi Foreign Minister Aziz left no doubt, in the hard line he took when meeting with the Secretary last week, about Iraq's annoyance with these delays and determination to overcome them. The Secretary responded that this Administration does not react well to threats.

The changed circumstances could lead to either of two results which would be seriously adverse to our interests: (a) Iraqi attacks on Iranian oil facilities intended to interdict exports could cause Iran to try to prevent through force all oil exports; (b) sustained Iranian pressure could, over the next year, bring about Iraq's political collapse. It is in this context that a possible tilt toward Iraq should be considered.

A TILT TOWARD IRAQ: WHAT IT MIGHT INCLUDE

There are three areas of possible actions we might take to bolster Iraq: financial, diplomatic and military.

FINANCIAL: Iraq's annual foreign exchange expenditure, at present rates, is estimated to be \$12 billion for military and \$6 billion for commercial imports. Its foreign exchange earnings from oil exports are running at \$6 billion yearly. Financing from Saudi Arabia and the Gulf states has fallen from a rate of about \$1 billion monthly during the first half of the

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war to less than half of that rate. Iraq has made up the shortfall by nearly exhausting its reserves, deferring payments and by obtaining additional supplier credits, but these measures are only stopgap.

Increasing financial assistance to Iraq does not seem feasible. Following the Secretary's first meeting with Tariq Aziz last winter, we explored what might be done through international financial institutions and found the possibilities to be so meager as not to provide significant relief. Additionally, any support we might give Iraq in securing access to such funds is severely restricted by various legal and policy constraints. U.S. intervention with Iraq's Arab contributors seems likely to be less effective than what Iraq--as the bulwark against Khomeinism--can do for itself as well as likely to detract from the approaches we continue to make, especially to the Saudis, on behalf of other aid recipients.

Supporting Iraq in exporting more oil is more promising. The capacity of its pipeline across Turkey is being expanded by about 25% by work to be completed late next spring. We have told Turkey that we endorse the strong position it has taken with Iran on the security of that line. Iraq is working out arrangements, involving American firms, which will enable it to build a pipeline that will connect to the pipeline across Saudi Arabia to the Red Sea. However, this link cannot be completed before the end of 1984 at the earliest and, therefore, offers no early relief. Promoting a security environment in which Iraq could fairly quickly (six months) restore some oil export capacity (up to 500,000 b/d) from its damaged facilities at the head of the Gulf would provide the most immediate effective relief, although there are difficulties and uncertainties associated with such a project. We have begun work in New York on an approach through the U.N. which would seek to exempt the oil facilities and shipping of both combatants from further attack.

Additionally, we have encouraged the GCC states to try to persuade Syria to reopen the 1.2 million b/d line across its territory.

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DIPLOMATIC: The Secretary's meetings with Iraqi Foreign Minister Tariq Aziz have raised the level of visibility of our dialogue with Iraq over the last year. In your recent meeting with MFA Under Secretary Ismat Kittani, you told him directly that Iraq's defeat by Iran would not be in the U.S. interest. Contacts through Turkey have sought to reassure Iraq about the sincerity of our interest in seeing an agreed end to the fighting and our efforts to withhold U.S. military equipment from both sides; this has been only partially successful.

To some extent, our expressions of concern to France and others about the increased risk of escalation from delivery of Super Etendard aircraft is regarded by Iraq as having blocked their being supplied, at least temporarily. This modestly successful effort has caused Iraq to threaten to downgrade our relations again. (There are current unconfirmed press reports that the aircraft have left France for Iraq.)

The initiative we are fostering in the U.N. to discourage further attacks on oil-related facilities in the Gulf aims not only at enabling Iraq to meet its financial needs by increasing oil exports--thereby vitiating Iran's strategy of economic strangulation and reducing the motivation for Iraq to escalate the war--but also at establishing an area of tacit agreement between the parties on which an eventual ceasefire could be built. This approach is subtle and fragile but promising, provided that it offers benefits to Iran (such as enabling the leaking wells to be capped and construction work on a petrochemical complex at Bandar Khomeni to resume) backed by the threat of severe Iraqi retaliation if Iran is the first to attack oil facilities again.

Other actions we could take include:

(a) More explicit statements of support for the territorial integrity of Iraq and the survival of its present government. These would only confirm the Iranian regime's belief that Iraq is an instrument of U.S. policy without having any positive impact. Such statements would probably damage Saddam Hussein's credibility among both internal and external supporters while giving a propaganda opening to Syria.

(b) Intensified efforts to assure that U.S.-controlled military items do not reach:

(1) either combatant: We do not have evidence to support the allegations of significant evasion of U.S. export

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controls. But, as was recently done in the case of Korea, we could strongly reaffirm to our friends our opposition to provision of any U.S.-controlled equipment. This, we believe, would have limited military effect, but it would demonstrate to Iraq the seriousness of our effort to keep U.S. arms out of the conflict.

(2) Iran only: This approach would reduce the force of our argument while doing little for Iraq, which does not have U.S. arms in its inventory and has ready access to alternative suppliers.

MILITARY: There are other possible actions which could be taken to seek to affect the military balance:

(a) Seek to discourage the supply of critical equipment to Iran. While difficult to carry out because of the sensitive nature of some of the information which might have to be revealed in a determined effort and because we have only moral suasion to counter commercial incentive, such action, if successful, would have some medium-term effect on Iran's attack capabilities. However, we could not influence Iran's main supplier which is North Korea.

(b) Permit U.S.-controlled equipment to reach Iraq through third parties. (This assumes insufficient domestic support to be able to supply U.S. equipment directly.) New sources or types of military equipment are not needed by Iraq. Moreover, the types of equipment we could supply would be restricted by legal requirements, such as the prohibition on supplying arms through a third party which we cannot supply directly. Also, we would expect sharp resistance in Congress to establishment of any kind of arms sale relationship with Iraq. An openly partisan position on arms supply would reduce our ability to provide leadership on initiatives--such as the current UN approach--to try to limit and stop the fighting.

(c) We do not consider the commitment of U.S. forces to defend Iraq a serious possibility and, therefore, raise only the prospect of U.S. participation in multilateral protection of Iraqi oil export operations. (Unilateral U.S. action would encounter so much greater political opposition and risk that we consider it also to be infeasible.) If Iran were to attack Iraqi oil installations in the Gulf again, the U.S.--in

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conjunction with its friends and allies--could help Iraq defend its oil export operations. The way in which we approach such a commitment would be important in determining whether we were entering into a state of war with Iran--with the domestic and international political burdens that would imply. It would have to be done in the context of keeping the Gulf open for international oil shipments generally rather than characterized as an effort to protect only Iraqi oil exports. Also, before taking any military actions, we would need first to take a number of political and diplomatic steps to establish a firm case that we had taken every possible peaceful measure to help resume the oil flow before we moved on to more serious military options. UN, GCC and US/Allied actions/statements supporting freedom of navigation in the Gulf could help to create a more favorable climate. The US willingness to take firm action would reassure the Gulf states of our support for their security. Such a step should also improve US-Iraqi relations, contribute to a further moderation of Iraqi policies and begin the process of restoring Iraq as a counterweight to Syrian influence.

There are some serious risks, however, associated with such action, many of which would depend on the extent of US involvement:

- Direct U.S. and multinational military support for Iraq could provoke greater escalation by Iran and further defer any improvement in our relations in the post-Khomeini period. (We would be in a position which may make direct attacks on Iran necessary to defend Iraqi facilities.) The more active the tilt, the more predictable the response.
- No matter how we attempt to portray our actions as having the general aim of keeping the Gulf open for oil shipments, they will be seen as specifically supporting Iraq in its war with Iran.
- As a practical matter, it may be very difficult if not impossible, to obtain Allied and Gulf state participation in an active defense, though the French are likely to be willing to provide equipment and advisors. Nonetheless,

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protracted defense of Iraqi oil shipments would require staging areas in the northern Gulf and the active assistance and support of Saudi Arabia and the shaikhdoms. [

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- Defense of Iraqi oil facilities, even with active measures, cannot be guaranteed and would be difficult to sustain, militarily and financially, in light of numerous other worldwide military commitments.
- Congressional and public support for an overt tilt to Iraq would be difficult to obtain.
- Israel and Syria would object strongly to any US military action to assist Iraq.

ASSESSMENT

Our policy of strict neutrality has already been modified, except for arms sales, since Iran's forces crossed into Iraq in the summer of 1982. The steps we have taken toward the conflict since then have progressively favored Iraq. (We assume that other actions not discussed here, such as providing tactical intelligence, would continue as necessary.)

We believe there would be a net advantage to seeking more actively to restrict, so far as possible, all U.S.-controlled equipment transfers to both parties (which would have little or no effect on military capabilities but would strengthen our credibility with the Iraqi regime) and also acting to discourage shipment to Iran of critical equipment from non-communist sources. Other military or quasi-military options have more disadvantages than advantages. Moreover, we need to continue to be cautious about tilting so far toward Iraq that either Iraq is able to force a level of U.S. support we may not wish to provide (such as military protection of transport in the Gulf) or that we become identified with a regime whose longer-term political prospects remain uncertain. Consequently, we propose that you authorize, by further

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instructions to us, approaches to governments which have transferred U.S.-controlled equipment to Iran or Iraq, or might do so. BIAS

In addition, the qualified tilt which we have in fact practiced for over a year is again being wratched one notch higher through the UN approach we are pursuing to assist Iraq to resume oil exports through the Gulf. It balances our interest in seeing that Iraq is not defeated with our interest in avoiding an escalation which could draw us directly into the conflict -- while doing nothing to worsen our position with respect to Iran.

More broadly, we see significant advantage in maintaining an overall posture of neutrality. What we propose here would be within such broad limits. However, this further tilt toward Iraq would, we believe, have the following political effects in the region:

- further improve our bilateral relations with Iraq and encourage its non-alignment;
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- support our objective of avoiding Iraq's collapse before revolutionary Iran without going so far as to alarm Israel.

This paper only reviews the issue of tilting toward Iraq. An inter-agency working group is currently reviewing U.S. response options should Iran threaten an attempt to close the Gulf and near-term measures which might be taken to deter such events.

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