



Directorate of
Intelligence

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Near East and South Asia Review

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Supplement
9 May 1986

Received 19 May 86

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NESA NESAR 86-011J

9 May 1986

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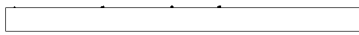
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Articles



**Libya:
Update on the Economy** 

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Libyan leader Qadhafi is giving priority to maintaining the country's oil industry—still the ultimate source of his international influence. The soft oil market poses a serious threat to Libya's economy and the regime, but, as long as Tripoli can retain foreign expertise, Libya should be able to maintain or even increase oil production. 

Lower oil prices are beginning to create problems in Libyan oilfields.  one small operating company has dramatically decreased its activities and has experienced a critical shortage of spare parts—probably a result of Libya's cash crunch.

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 oilfield development projects and drilling programs have also been cut, which will have a long-term impact on productive capacity. 

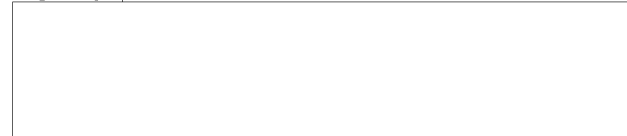
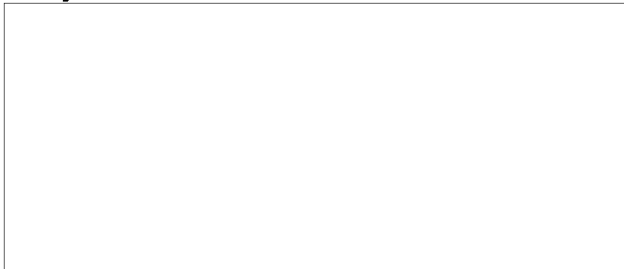
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Emphasis on the Oil Sector



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The US airstrikes have not caused a significant exodus of the foreign workers Libya needs to keep its economy running.  the regime has avoided hostile actions against foreign nationals and is providing special protection to US and British citizens. Some US oil workers have left Libya, but as many as 400 are probably still there at any given time. Another 100 US workers probably are out of the country on leave. The fear of future military action has nevertheless prompted large numbers of dependents to leave and could result in the departure of additional workers. 

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The pattern of Libyan oil exports has changed since the imposition of US sanctions. Exports to West Germany are down by over a third, while exports to Mediterranean refiners in Spain, Italy, and Turkey have remained strong. Libya is using netback pricing—a form of rebate—to remain competitive in the current market. 

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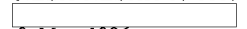
Tripoli has responded to West European actions against Libyan diplomats by randomly expelling small numbers of British, Spanish, Italian, and other foreign workers. The slowdown in the economy gives Tripoli leeway to reduce the foreign work force, but Libya remains heavily dependent on foreign expertise to operate its economy, especially the oil sector. 

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Belt-Tightening Continues

Tripoli's declining cash flow is intensifying an already worrisome deterioration in living standards. The quality of health care and education, hallmarks of Qadhafi's revolution, has fallen off sharply, leading many Libyans to conclude that Qadhafi's economic policies have failed. Food lines are growing longer and consumers more contentious as they search for staples. Hoarding has become a way of life for most, and a thriving black market has evolved despite government efforts to suppress it. The regime is attempting to consolidate its control over the economy by halving the number of government ministries, but this will not solve the problems of an inept bureaucracy and inappropriate regime policies and could further isolate the regime from the general populace.

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Outlook

At current export levels, Tripoli is losing about \$30 million per month for each \$1 decline in oil prices at current export levels. At a price of \$14 per barrel, every 100,000-b/d drop in oil exports costs the regime \$42 million per month. If average prices stay at this level, Tripoli will be forced to make difficult and risky political choices this year.

the regime may have to cut imports by up to half to conserve foreign exchange reserves, which now stand at \$5.2 billion—enough to cover about seven months of current imports. Cuts of this magnitude would have to hit imports of both civilian goods and military equipment, magnifying already unprecedented domestic grievances over the regime's economic mismanagement. Declining oil revenues also will hinder Tripoli's ability to repay \$4 billion in arrears owed to major trade partners.

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Iran's Austrian Arms Connection

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Iran had received at least three Austrian GHN-45 155-mm howitzers, the first major artillery imports from the West since the United States began a campaign to broaden the arms embargo against Iran. The Austrian firm Voest-Alpine says the contract was with Libya, and both the firm and the Austrian Government claim to have been unaware that the weapons were ultimately destined for Iran. Austrian press revelations and US pressure, however, have forced the Austrian Government to halt shipment of the remaining howitzers. Iran has attempted to cover up the sale and is concerned about further deliveries. It has suffered at least a temporary setback in establishing the kind of long-term supply relationship it wants with Western countries and private companies. [redacted]

The Selling of the Howitzers

The GHN-45 story apparently began about 18 months ago. [redacted] the Iranian Ministry of Defense began contract discussions with an unnamed Austrian company in late 1984 for 100 155-mm howitzers. Austrian press reports claim that a subsidiary of Voest-Alpine, which manufactures howitzers, sent representatives to Tehran in March 1985 to conclude a deal for 200 to 600 guns. The Austrian press claims that the subsidiary, Noricum, sold the howitzers to Libya with the knowledge that Tripoli would forward them to Tehran. [redacted]

Voest-Alpine and the Austrian Government both have tried to justify the sale by arguing that the contract was with Libya, which had issued an end user certificate. The Austrian Interior Minister told the US Charge in February 1986 that all requirements for the export permit had been fulfilled and that even the French had been consulted in view of Libyan involvement in Chad. Vienna holds that there was no collusion in the sale, and Voest-Alpine argues that it cannot be held responsible for diversions because it lacks control after delivery is made. [redacted]

Austria's Arms Export Restrictions

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Technically, the sale of howitzers to Iran by an Austrian company is illegal. Austrian law prohibits weapons-associated sales as well as the delivery of weapons, munitions, or machines and plants used for weapons production to countries that are involved in armed conflict. All arms transactions are reviewed by a number of government agencies, including the Foreign Affairs and National Defense Ministries, and permits are then issued by the Interior Ministry to allow the export of the weapons. [redacted]

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Despite the legal restrictions, compelling factors exist favoring such sales. Austria, like many other West European nations, is pressed by its arms manufacturers to allow such sales or at least to ignore the final disposition of the weapons. Besides the profits gained from such sales, the firms hoped to establish a regular arms supply relationship with Iran. From the government's viewpoint, such sales improve Austria's security by keeping necessary defense industries operating and by reducing unit costs for the weapons. Long-term economic interests probably are influential because many Austrians almost certainly hope that such sales will secure Austrian industry a niche in the Iranian market.

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[redacted] numerous offers have been made to Iran by Austrian firms, some with dubious credentials. Over the last few years, [redacted] Iran has concluded agreements for small arms and munitions with Austrian arms manufacturers, often through brokers, but we cannot confirm that specific shipments or deliveries have been made on these sales. [redacted]

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Other evidence indicates that Voest-Alpine and its subsidiary knew that the guns were headed for Iran.

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requests for assistance in the matter with requests for concrete proof that the howitzers actually went to Iran, proof that they claim is still lacking. [Redacted]

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[Redacted] Austrian companies have regularly offered to find third parties to issue an end user certificate in dealing with Iran. In addition to Libya, they have suggested Algeria and Turkey as possible third parties. [Redacted]

In our view, Austrian officials may well have been unaware of the details of the transaction, probably because they were willing to look the other way. This sentiment is apparently shared by many Austrians. One poll showed that 51 percent believe the government acquiesces in violations of the arms export law. [Redacted]

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The means used to deliver the guns also were deceptive. [Redacted]

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According to the State Department, Iranian-chartered free-world flag-of-convenience freighters have called there at least six times in the recent past. [Redacted]

[Redacted]

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Political Fallout

The political crisis in Austria over the howitzer sale emerged in January, when muckraking journals published revelations on Austrian arms deals throughout the Middle East. Partly to offset the press and opposition accusations, Interior Minister Karl Blecha ordered the criminal court in Linz to determine whether Voest-Alpine had broken the arms export law. In addition, Blecha, almost certainly responding to pressure from the United States, froze shipments of the remaining 100 howitzers. [Redacted]

Outlook

Iran has approximately 700 field artillery pieces, but all suffer from considerable usage and many probably need major repairs. As a result, the addition of the 200 Austrian guns involved in the initial contract would have had a significant impact on Iran's aging [Redacted]

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US officials in Vienna have noted that the entire picture is sufficiently muddled to permit various interpretations [Redacted]

[Redacted] Government spokesmen, however, have consistently denied accusations that Vienna was aware of the deal. To support their argument, they point to their own investigations that show Voest-Alpine's compliance with end user requirements. These same officials consistently respond to US

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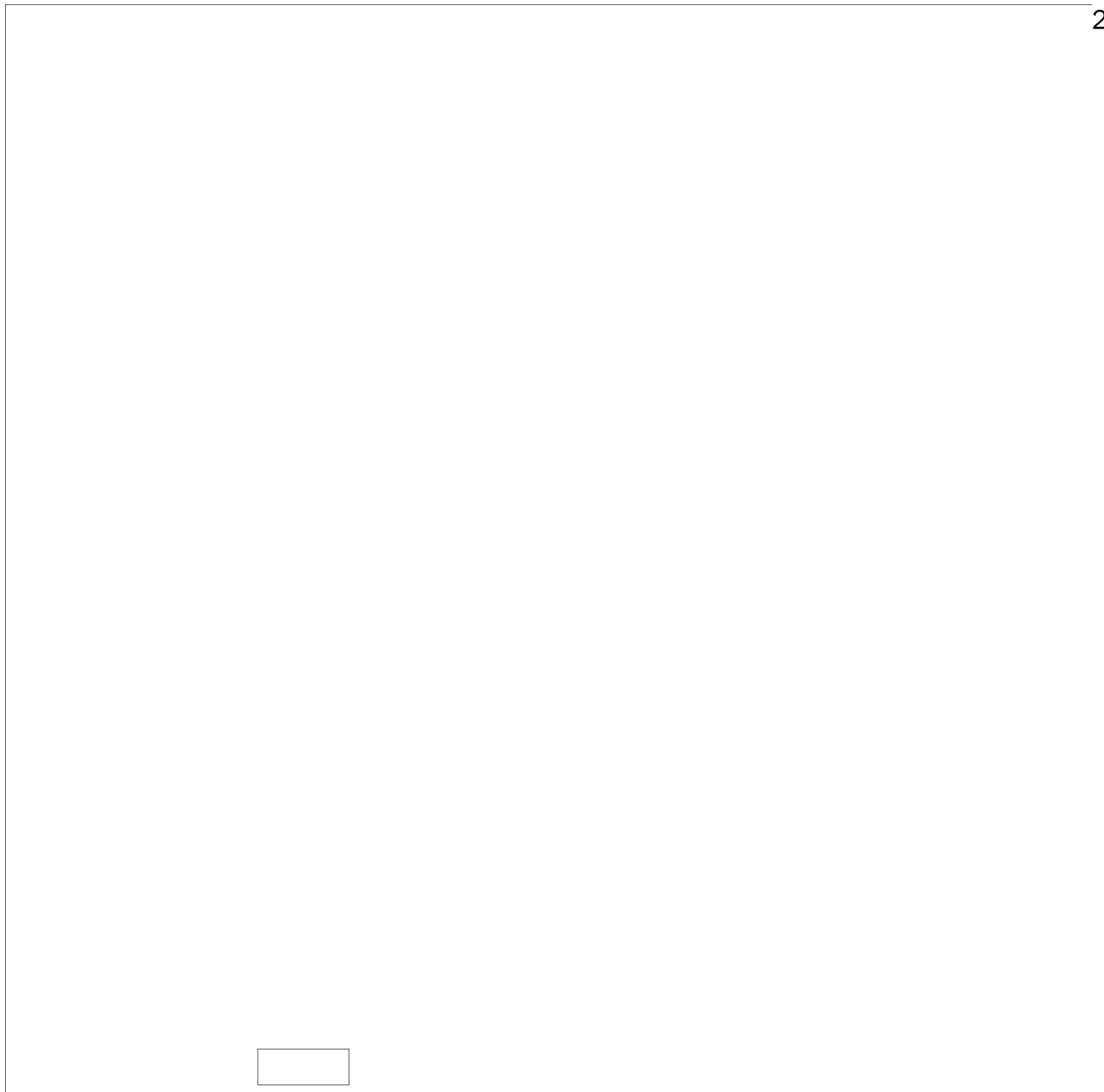
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artillery inventory. Even those that have already been delivered will help keep Iran's frontline artillery units up to strength as the older guns become unserviceable. Iran had received at least 15 GHN-45 howitzers by 20 March 1986 and possibly more. [Redacted]

It is unlikely that all of the remaining howitzers will find their way to Iran, at least under the current deal.

Austrian officials told US diplomats in February that it was unlikely that shipments to Libya would be resumed before the current export license expired in April. According to the [Redacted] the Austrian Army probably will have to buy 56 of the unsold guns. [Redacted]

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Voest-Alpine's Financial Problems and Iran

Voest-Alpine lost at least \$120 million in 1985 due to oil barter, mostly with Iran. The two concluded a deal in 1985 to barter \$2 billion of Iranian oil at a fixed price for food and machinery. As oil prices fell, Voest-Alpine earned less on spot market sales, and, to recoup, it raised prices on its exports to Iran. Tehran, however, responded by reducing imports of Voest-Alpine products and instead collected the money from the barter agreement account that reverted to Iran at the end of the year. [Redacted]

Over the long term, the Austrians are unlikely to revise the arms export law or change their application of it. US Embassy officials reported that the Austrian Government came under pressure during the recent controversy either to apply the law more strictly or to drop it entirely. These same officials note that the government is unlikely to do either, and we concur. Many of these firms, like Voest-Alpine, are important parts of the country's financially troubled nationalized industries, which employ about one-fifth of the Austrian work force. Exports are crucial to the survival of these industries, and the current arms export practice offers the convenience of plausible denial without actually obstructing business.

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These losses and those of other nationalized firms touched off another scandal in Austria. All board members of Voest-Alpine were replaced, and some may face charges of criminal negligence. The company currently is being reorganized. The government also revised the process of nominations for the board managing the nationalized industries to reduce its political influence and increase economic competence. [Redacted]

[Redacted]

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[Redacted]

For the moment, we expect the Austrian Government to monitor carefully any possible arms sale—direct or indirect—to Iran. The Voest-Alpine episode and the concurrent negative publicity surrounding possible arms sales to Iran by the French firm Luchiere indicate that many Europeans do not want their countries openly associated with arms sales to Iran. Austrian officials almost certainly will want to avoid becoming implicated in further arms shipments to a war zone so soon after this uproar. This will not prevent Austrian firms from resuming their efforts to sell weapons in the near future.

[Redacted] has recently reported new allegations that Austrian companies are once again involved with the Iranians. [Redacted]

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**Lebanon: Amal—
The Politics of Decline** [Redacted]

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Amal, Lebanon's dominant Shia organization since Imam Musa Sadr founded it in the mid-1970s, is in decline. Personal rivalries and political frictions pervade the organization, and a fundamentalist Shia organization—the pro-Iranian Hizballah—appears to be growing at its expense. Nabih Barri's reelection as chief during Amal's congress in April may have come at the price of alienating influential members and narrowing Amal's base of support in the Shia community. In addition, generational and class differences are alienating the younger and more religious-oriented Lebanese Shias—who bear Amal's arms—from the more secular-oriented Amal leadership. [Redacted]

committee. Although this strengthens Barri's hand inside Amal, it broadens the opposition to him outside the organization. [Redacted] Hashem is planning to create his own militia as an alternative to Amal. Moreover, the changes do not eliminate the chronic problems Barri has had in southern Lebanon, where Hizballah has steadily gained at Amal's expense. [Redacted]

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Amal's basic problem is that many Shias increasingly see its leadership as too "moderate" and accommodating. Many young, radicalized Shias see Barri as part of Lebanon's traditional political system rather than as a revolutionary leader. Barri's increasingly close relationship with Syria adds to his problems with the radicals, who see Damascus as an obstacle to the creation of an Islamic republic in Lebanon and as reluctant to fight Israel in southern Lebanon and the Maronites in Beirut. [Redacted]

Israel's occupation of the security zone in southernmost Lebanon continues to outrage most Lebanese Shias. Moreover, Israeli forces and their predominantly Christian surrogates, the Army of South Lebanon, periodically sweep the area and arrest suspected Hizballah sympathizers. Israel's punitive forays and the chronic inability of the traditional Lebanese forces to defend against them have radicalized southern Shias and made many converts for Hizballah. [Redacted]

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Problems at the Top

Barri, who succeeded Sadr, has never developed the charismatic leadership style of Amal's founder and has faced internal opposition for years. He is increasingly perceived as a Syrian client by many Amal members. Barri's reelection as chief during the Amal congress in April ameliorates but does not solve his political problems. The removal of many of Barri's rivals from the Amal executive committee and its politburo will narrow Amal's power base by increasing the likelihood that former high-level Amal officials will defect to Hizballah and take their followers with them. [Redacted]

Key Amal leaders like Daud Daud, the Amal military commander in southern Lebanon, discreetly cooperate with Hizballah. There are several instances of other Amal officials working with Hizballah within Amal to further Hizballah's goals. Mustafa Dirani, Mustafa al-Haj, Aqil Hamiyah, Bassam Tulays, Zakariyah Hamza, and Akram Tulays—some of whom hold key positions in the militia command structure—are, in our view, examples of this phenomenon. [Redacted]

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Iranian Subversion

Tehran has cultivated sympathetic Amal members for some time in an attempt to develop a pro-Hizballah cadre within the Amal leadership. For the moment, the Iranians are counseling Hizballah to avoid confrontations with Barri and Amal. [Redacted]

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Former Amal Vice President Hasan Hashem and several other key Amal leaders boycotted the Amal congress and were removed from the executive

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The greatest opportunity for the Iranians is the division between the Amal leadership and the Shia movement in southern Lebanon. [Redacted]

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[Redacted]

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The Syrian Connection

The Syrians support Amal as a major actor in Lebanon and as a bulwark against growing Shia fundamentalism in Lebanon that might spill over into Syria. Barri's victory at the Amal congress was achieved with considerable Syrian assistance. Reports from [Redacted] the US Embassy in Beirut indicate that help from Damascus was crucial in turning out Barri supporters in the Syrian-occupied Bekaa valley and West Beirut. [Redacted]

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Tehran wants to consolidate the gains Hizballah has already made and to promote Hizballah's long-term goal of establishing an Islamic republic in Lebanon. Undercutting Amal leaders who oppose Hizballah and encouraging Amal to become more Islamic are two tactics the Iranians favor. The ultimate goal, however, is to make Hizballah the sole Lebanese Shia organization. [Redacted]

Since mid-1985 Damascus has provided important military support to Amal in the form of tanks, heavy weapons, and training. These military ties helped the Syrians cement a client relationship with Barri and Amal. They also provide important political levers on Amal leaders. Syrian backing, however, has thus far failed to turn the tide of attitudes among Amal's rank and file. Tanks and other weapons have proved of little use in Barri's political struggle against Hizballah sympathizers inside Amal. [Redacted]

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Amal's client relationship with Damascus was a major source of the tension between Barri and Hasan Hashem. [Redacted]

[Redacted]

[Redacted] We believe many lower ranking Amal members share Hashem's distaste for Barri's eagerness to comply with Syrian wishes. [Redacted]

Class Differences

Barri emerged as the leader of Amal shortly after the disappearance of Imam Musa Sadr in 1978. He had been, in essence, Amal's lawyer and may represent the middle- and upper-class Shias and their basically secular orientation better than any other Lebanese politician. Under his leadership, Amal has protected the interests of the moderate Shia business class. [Redacted]

Amal's militiamen, however, are not drawn from Lebanon's political or business elite. Amal relies on lower-class Shias to bear its arms. The bulk of the reporting on the Shia community in Lebanon strongly suggests that many of these young men are likely to favor Hizballah's more Islamic views to Barri's secular orientation. [Redacted]

Amal's Militia—Strong but Slipping

In 1984, Amal demonstrated its military prowess by forcing the Lebanese Army out of predominantly Shia West Beirut—with the assistance of Druze and Palestinian elements—and taking de facto control of the Army's predominantly Shia 6th Brigade. The organization's Syrian-provided tanks, armored personnel carriers, heavy weapons, and 6,000 to 7,000 fighters reinforce the impression that it is a force to be reckoned with. Nevertheless, in several respects, the widespread perception of Amal's military strength masks important weaknesses. [Redacted]

Amal's military arm is not a particularly cohesive organization, even by Lebanese standards. Difficulties with inadequate command and control and spotty performance that have plagued the Amal militia for

[Redacted]

years continue. Solving these problems by centralizing Amal's militia under a strong commander is a frightening political prospect for Amal's leaders because a cohesive militia could form the basis for an internal coup. [Redacted]

Amal's militia is not well disciplined and seems most useful when employed in support of local interests rather than broad organizational objectives. As presently constituted, senior Amal leaders have their own bands of militiamen who are personally loyal and who profit, in turn, from their relationship with their Amal patron via payoffs, extortion, and theft within specific Muslim neighborhoods. [Redacted]

Political differences between Barri and some of his lieutenants, particularly Hasan Hashem, probably reduce the effectiveness of Amal militia units. [Redacted] political splits among senior Amal leaders are reflected among their militia supporters. Some of these divisions apparently arose over the ties of some senior Amal members to Hizballah leader Muhammad Husayn Fadlallah. We believe that the loyalties of many Amal militiamen, particularly in southern Beirut neighborhoods, lie closer to Hizballah than to Amal. [Redacted]

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Outlook

Barri faces hard choices. If friction within Amal persists, he could be forced to prune the leadership again, even though it may lead to additional Amal converts for Hizballah. Alternatively, he may be forced to play a more active role in the struggle against Israel in predominantly Shia-occupied southern Lebanon to keep the allegiance of men like Daud Daud. [Redacted]

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We believe that the political currents inside Amal reflect a general decline in Amal's political attractiveness to Lebanese Shias. Although Barri's removal of dissidents like Hasan Hashem was a clever political maneuver, we see few signs that Amal is reaching out to Lebanese Shias in ways that approach the effectiveness of Hizballah. As a result of his victory in the Amal congress, Barri will preside over a more cohesive and responsive organization. He gained increased control by narrowing Amal's power base within the Shia community, however, and this ultimately may lead to Amal's eclipse as Lebanon's predominant Shia organization. [Redacted]

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