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[REDACTED]

FROM: DDI/O [REDACTED]

/***** THIS IS A COMBINED MESSAGE *****/

BODY

SUBJECT: MIDDLE EAST AREA BRIEF [REDACTED] FOR 25 JULY 1990.

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1. IRAQ-KUWAIT: IS BAGHDAD BLUFFING [REDACTED]

[REDACTED]

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3. IN BRIEF

4. IRAQ-KUWAIT: BAGHDAD'S MOTIVATIONS AND INTENTIONS [REDACTED]

1. IRAQ-KUWAIT: IS BAGHDAD BLUFFING? [REDACTED]

[REDACTED]

KUWAIT BELIEVES IRAQ IS ONLY BLUFFING.
THE KUWAITIS PROBABLY ARE MISTAKEN; IRAQI PROPAGANDA IS ATTACKING
THE US FOR EXERCISES WITH THE UAE AND ADDITIONAL IRAQI TROOPS,
EQUIPMENT, AND SUPPLIES CONTINUE TO POUR INTO THE AL BASRAH REGION.

[REDACTED]

KUWAIT APPARENTLY IS TRYING TO REDUCE TENSION WITH IRAQ BY
ENGAGING EGYPT TO MEDIATE. THE KUWAITI STRATEGY IS TO DEFUSE THE
SITUATION THROUGH CONSULTATIONS AND MEDIATION UNTIL THE OPEC MEETING
IN GENEVA TOMORROW [REDACTED]

[REDACTED] THE KUWAITI PRESS IS
PLAYING UP EGYPTIAN PRESIDENT MUBARAK'S VISITS TO BAGHDAD, KUWAIT,
AND SAUDI ARABIA YESTERDAY AND STRESSING KUWAIT'S INTEREST IN EASING
TENSION. THE RULING FAMILY HAS AVOIDED DIRECTLY CRITICIZING IRAQI
PRESS ATTACKS ON FOREIGN MINISTER SABAH, ONE OF ITS MEMBERS. [REDACTED]

[REDACTED]

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IRAQI REPUBLICAN GUARD ARTILLERY AND MULTIPLE ROCKET LAUNCHERS NEAR THE KUWAITI BORDER. LARGE STOCKS OF AMMUNITION AND SUPPLIES ARE BEING AMASSED AT DEPOTS IN THE AZ ZUBAYR AREA. IRAQ HAS MOVED SURFACE-TO-AIR-MISSILE BATTERIES NEAR ITS ARMOR AND INFANTRY FORMATIONS. AN ADDITIONAL ARMORED BRIGADE HAS ARRIVED AT AZ ZUBAYR BY RAIL, AND [REDACTED] REPORTS 300 ARMORED VEHICLES ON TRANSPORTERS WERE SEEN NEAR AL BASRAH MOVING SOUTH. [REDACTED]

IN A MEMO TO THE ARAB LEAGUE YESTERDAY, IRAQI FOREIGN MINISTER AZIZ REPEATED ACCUSATIONS THAT KUWAIT TOOK ADVANTAGE OF IRAQ'S DISTRACTION DURING THE WAR WITH IRAN TO ENCROACH ON IRAQI TERRITORY. IRAQI DEPUTY PRIME MINISTER HAMMADI COMPLAINED OF KUWAITI INTRANSIGENCE ON THE LONGSTANDING BORDER DISPUTE, AND THE IRAQI PRESS DENOUNCED THE UAE FOR CONDUCTING MILITARY EXERCISES WITH THE US. [REDACTED]

IRAQ PROBABLY IS NOT BLUFFING; TO ACCEPT LESS THAN SATISFACTION OF ITS DEMANDS FOR REDUCED OIL PRODUCTION AND CASH IN THE FORM OF AN ARAB RECONSTRUCTION FUND WOULD BE A HUMILIATING RETREAT. THE STRIDENCY OF IRAQ'S RHETORIC AND THE COST OF MAINTAINING SUCH A LARGE MILITARY FORCE ALONG THE KUWAITI BORDER ALSO SUGGEST SADDAM HUSAYN WILL NOT WAIT LONG FOR A FAVORABLE RESPONSE. UNLESS KUWAIT MOVES TO MEET IRAQ'S DEMANDS QUICKLY, SADDAM IS LIKELY TO TURN UP THE PRESSURE. [REDACTED]

THESE APPARENTLY OPPOSITE COURSES INCREASE PROSPECTS FOR A MILITARY CLASH. AN INITIAL IRAQI MILITARY MOVE AGAINST KUWAIT IS LIKELY TO BE A LIMITED OPERATION TO INCREASE THE PRESSURE ON KUWAIT TO ACCEDE TO BAGHDAD'S DEMANDS. THE FORCE IRAQ IS BUILDING ALONG THE

/***** BEGINNING OF SECTION 002 *****/
KUWAITI BORDER, HOWEVER, WILL BE ABLE TO CARRY OUT ANY MILITARY OPERATION SADDAM DECIDES TO UNDERTAKE. [REDACTED]
AN INVITING TARGET?

BAGHDAD HAS DEMANDED THAT KUWAIT CEASE ITS OIL-EXPLOITATION ACTIVITY JUST SOUTH OF THE IRAQI-KUWAITI BORDER. KUWAIT HAS A DRILLING RIG IN OPERATION ABOUT 1 KILOMETER FROM THE BORDER AND IS PRODUCING OIL FROM WELLS LOCATED 2 TO 5 KM FROM THE BORDER. THE

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IRAQIS CLAIM KUWAIT HAS ILLEGALLY EXTRACTED \$2.4 BILLION WORTH OF OIL OVER THE PAST 10 YEARS FROM IRAQ'S RUMAYLAH OILFIELD, WHICH EXTENDS SOUTH INTO KUWAIT.

THE FIELD--CONTAINING TWO GATHERING CENTERS AND A FIELD SEPARATION FACILITY--HAS BEEN IN PRODUCTION SINCE THE LATE 1970S.

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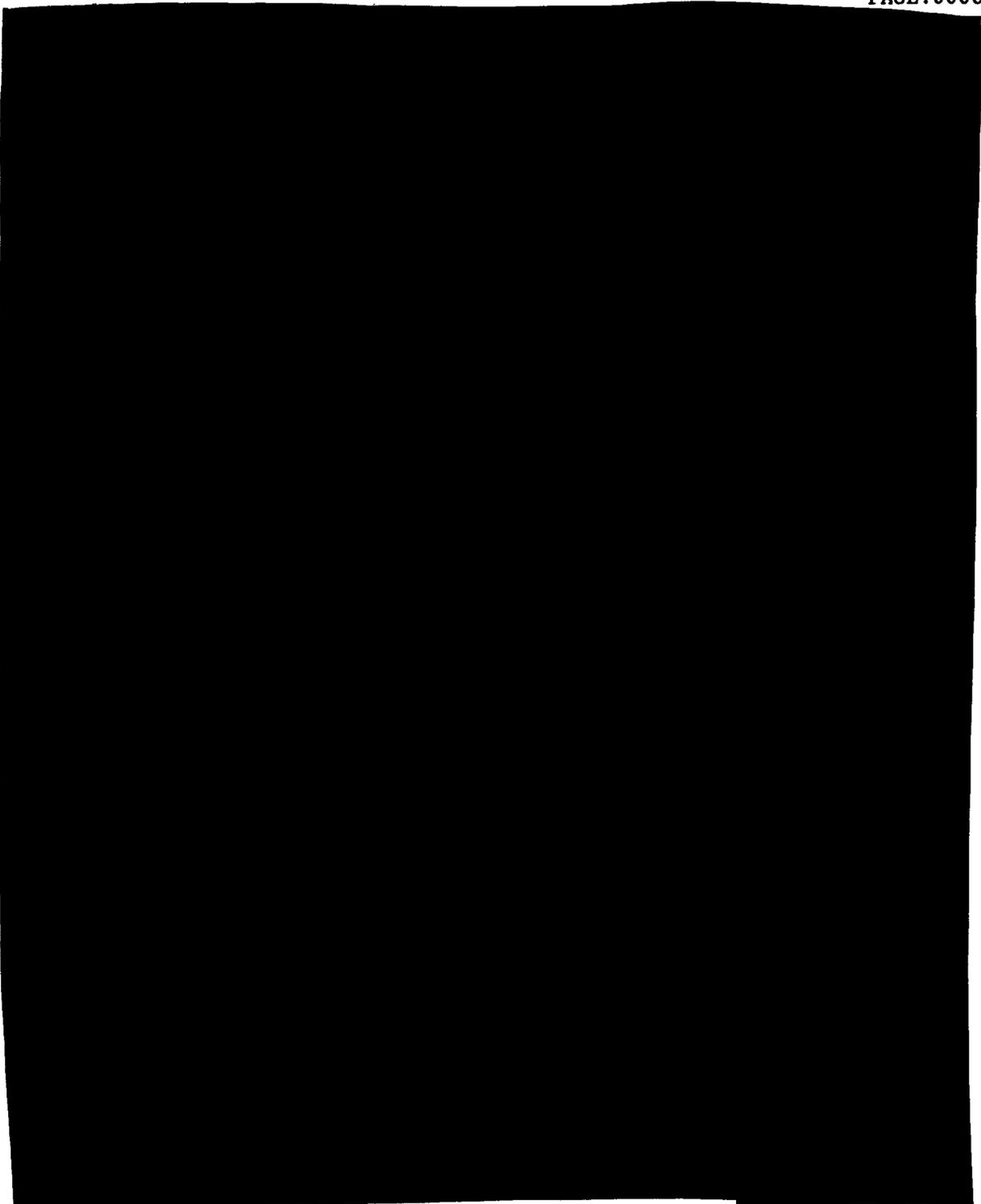
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4. IRAQ-KUWAIT: BAGHDAD'S MOTIVATIONS AND INTENTIONS

PRESIDENT SADDAM HUSAYN WANTS HIS CURRENT BULLYING TO YIELD LASTING POLITICAL HEGEMONY OVER KUWAIT AND A MAJOR VOICE IN OPEC.

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BAGHDAD IS PRESSING HARD SPECIFICALLY FOR AN END TO OPEC OVERPRODUCTION AND FOR MASSIVE ARAB UNDERWRITING OF ITS POSTWAR ECONOMIC RECOVERY. THE LIMITED OUTCRY FROM THE ARAB WORLD AND ELSEWHERE OVER HIS TACTICS WILL ENCOURAGE HIM TO MAINTAIN A TOUGH POLITICAL AND MILITARY STANCE WELL BEYOND THIS WEEK'S OPEC MEETING.

IRAQ HAS A LONG HISTORY OF TRYING TO EXTORT CASH AND POLITICAL CONCESSIONS FROM KUWAIT. ON SEVERAL OCCASIONS, NOTABLY 1961 AND 1973, IT THREATENED FORCE ONLY TO BE REBUFFED BY CONCERTED INTERNATIONAL AND ARAB PRESSURE.

LOW OIL PRICES IMPEDE POSTWAR RECOVERY

THE DECLINE IN OIL PRICES BETWEEN JANUARY AND JUNE COST IRAQ MORE THAN \$1 BILLION IN OIL REVENUES. FOREIGN EXCHANGE RECEIPTS FOR THE YEAR PROBABLY WILL FALL SEVERAL BILLION DOLLARS SHORT OF BAGHDAD'S EXPECTATION. IT HAS BEEN FORCED TO REDUCE SPENDING AND FURTHER SQUEEZE DISCONTENTED CONSUMERS.

RECONSTRUCTION AND DEVELOPMENT PROJECTS HAVE BEEN DELAYED, INCLUDING MANY IN THE OIL SECTOR. GROWTH IN NONOIL SECTORS ALSO REMAINS STALLED.

SERIOUS FINANCIAL PROBLEMS HAVE PREVENTED IMPROVEMENT IN LIVING STANDARDS DEPRESSED SINCE EARLY IN THE IRAN-IRAQ WAR. ATTEMPTS SINCE THE AUGUST 1988 CEASE-FIRE TO IMPROVE SUPPLIES OF CONSUMER GOODS AND REDUCE THE 40-PERCENT ANNUAL INFLATION RATE HAVE BEEN LARGELY INEFFECTIVE. SADDAM'S CONTINUED SPENDING ON WHAT MANY IRAQIS VIEW AS FRIVOLOUS ITEMS, SUCH AS THE COSTLY CEREMONIES TO CELEBRATE THE RECONSTRUCTION OF AL FAW, PROBABLY HAS CONTRIBUTED TO POPULAR DISCONTENT AND RUMORS OF COUP PLOTS.

BAGHDAD'S OPTIONS

SADDAM, SURROUNDED BY SYCOPHANTS, MAY ONLY RECENTLY HAVE FOUND OUT THAT HE MUST CHANGE HIS GUNS-AND-BUTTER POLICY. HE PROBABLY IS UNWILLING TO REDUCE THE SEVERAL BILLION DOLLARS SPENT ANNUALLY TO MODERNIZE THE ARMED FORCES AND DEVELOP IRAQ'S MILITARY INDUSTRIES. HE IS ALSO RELUCTANT TO CUT SPENDING ON THE OIL SECTOR OR ON INDUSTRIAL PROJECTS THAT PROMISE JOBS FOR DEMOBILIZED SOLDIERS AND MORE EXPORTS AND THAT SUPPORT MILITARY INDUSTRIALIZATION. BAGHDAD CANNOT INCREASE OIL EXPORTS;

UNWILLING TO TRIM SPENDING AND UNABLE TO EXPAND OIL PRODUCTION, SADDAM IS TRYING TO RAISE OIL PRICES BY EXPLOITING WIDESPREAD SENTIMENT IN OPEC TO REIN IN OVERPRODUCERS. IRAQ HAS DEMANDED THAT

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KUWAIT AND THE UAE STOP PRODUCING ABOVE THEIR OPEC QUOTAS. BAGHDAD HAS ALSO DEMANDED COMPENSATION FOR LOSSES INCURRED BECAUSE OF KUWAIT'S PERCEIVED ECONOMIC 'AGGRESSION' AGAINST IRAQ. SUCH COMPENSATION WOULD INCLUDE THE ESTABLISHMENT OF AN ARAB RECONSTRUCTION FUND FOR IRAQ. [REDACTED]

THE GENERALLY MILD ARAB AND INTERNATIONAL REACTIONS TO SADDAM'S SABER RATTLING ALONG THE BORDER PROBABLY HAVE ENCOURAGED HIM TO INCREASE PRESSURE ON KUWAIT. THE GULF COOPERATION COUNCIL--OF WHICH KUWAIT AND THE UAE ARE MEMBERS--THUS FAR HAS REFRAINED FROM ACTIVELY SUPPORTING EITHER COUNTRY. IRAN SUPPORTS IRAQ'S EFFORT TO CURB OPEC OVERPRODUCTION, ACCORDING TO PRESS REPORTS. [REDACTED]
OUTLOOK

SADDAM IS LIKELY TO CONTINUE PRESSING HIS DEMANDS FOR HIGH OIL PRICES AND SUBSTANTIAL FINANCIAL ASSISTANCE. TO DO LESS NOW WOULD BE A HUMILIATING RETREAT. EVEN IF THE ARABS OFFER CONCESSIONS, BAGHDAD IS LIKELY TO KEEP TROOPS ALONG THE BORDER TO ENSURE KUWAIT KEEPS ITS END OF THE BARGAIN. [REDACTED]

BAGHDAD PROBABLY BELIEVES ITS AGGRESSIVE PROPAGANDA, WHICH HAS INCLUDED PERSONAL ATTACKS ON KUWAITI OFFICIALS AND MEMBERS OF THE ROYAL FAMILY, WILL PROVIDE IT A PRETEXT FOR SOME FORM OF MILITARY ACTION. IRAQ ALMOST CERTAINLY WOULD USE ANY SEIZED TERRITORY TO FORCE KUWAITI COMPLIANCE WITH PRODUCTION CEILINGS, EXTORT FINANCIAL ASSISTANCE, AND PRESS FOR A SETTLEMENT OF THE BORDER DISPUTE. IRAQ HAS LONG DEMANDED CONTROL OF BUBIYAN AND WARBAH ISLANDS TO ENHANCE ITS ACCESS TO THE SEA. SADDAM PROBABLY BELIEVES HE HAS LITTLE TO LOSE FROM A LIMITED INCURSION, BUT HE ALMOST CERTAINLY FEARS THAT BROADER MILITARY ACTION WOULD BRING THE US INTO THE FRAY AND UNDERMINE HIS REGIONAL LEADERSHIP ASPIRATIONS. HIS LONG-TERM GOAL IS TO ACHIEVE POLITICAL AND ECONOMIC DOMINATION OF KUWAIT. IN OPEC, HE WANTS TO SUPPLANT SAUDI ARABIA AS THE KEY PLAYER. [REDACTED]

KUWAIT DRAWS ENVY AND EXTORTION

KUWAIT'S INVESTMENT POLICY HAS MADE IT THE WEALTHIEST GOVERNMENT IN THE REGION AND THE ENVY OF ITS LESS SUCCESSFUL NEIGHBORS. [REDACTED]

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[REDACTED]

KUWAIT SITS ATOP THE WORLD'S THIRD-LARGEST OIL RESERVES AND IS HOME
TO ONLY 570,000 KUWAITIS. [REDACTED]

[REDACTED]

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