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[redacted]

Political Developments

- The emergency Arab League summit began this morning in Cairo. [redacted]
- [redacted]

[redacted]

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International Economic & Energy Weekly [redacted]

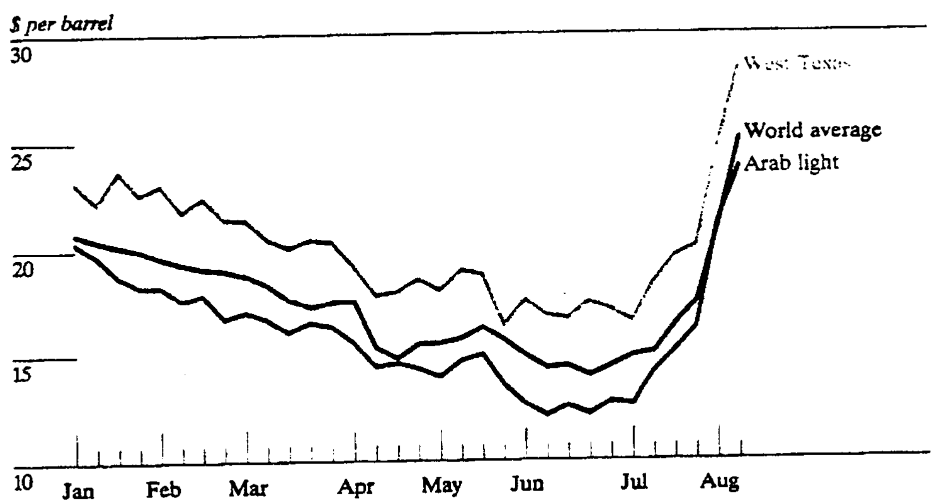
10 August 1990

Perspective

Continued Upward Pressure on Oil Prices [redacted]

Oil prices are likely to remain under upward pressure in the near term as long as Kuwaiti and Iraqi oil exports are shut down. Oil exports from Kuwait and Iraq have fallen by about 4 million barrels per day (b/d). Kuwaiti exports remain shutdown, taking 1.5 million b/d off the market. Iraq will probably export a few hundred thousand b/d in August, as compared with preinvasion sales of 2.7 million b/d. In addition to the loss of oil supplies, we expect some extra pressure on demand as East European countries seek to line up supplies to replace the shortfalls in Soviet oil deliveries to the region. [redacted]

Crude Oil Prices, 1990



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[redacted]

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In light of these rapidly unfolding events in the Persian Gulf region, we have examined three scenarios for oil prices. Each assumes that oil exports are shut down from Kuwait and Iraq for an extended period, but makes different assumptions about the availability of surplus capacity to replace these supplies. Then, [redacted] ve examined the implications of higher oil prices for the world economy. [redacted]

In the first scenario, Kuwaiti and Iraqi oil exports are shut down for an extended period, but non-Persian Gulf producers make their surplus capacity available. Under these conditions, the market would lose about 4 million b/d of exports from the Persian Gulf, but most of the [redacted] surplus production capacity potentially available from producers outside the Gulf—such as Venezuela, Nigeria, and perhaps Indonesia—comes on line. The net oil supply shortfall would approximate [redacted] If prolonged, such a shortfall could push average oil prices above [redacted] over the next year. Higher oil prices cut OECD GNP economic growth [redacted] and raised OECD inflation by several percentage points. [redacted]

In a variant of this scenario, Kuwaiti and Iraqi oil exports remain off the market, but Saudi Arabia raises crude oil output [redacted] and most surplus production outside the Gulf becomes available. Although lost supplies from Kuwait and Iraq would be largely offset by increased production from other OPEC producers, some upward price pressure would remain because the market would be tight and the world oil system operating at nearly full throttle. Prices would most likely hover at or above $30 per barrel. The impact on the OECD economies would be more moderate. [redacted]

[redacted]

Although oil inventories are plentiful worldwide, oil companies may be reluctant to draw down those holdings substantially if they anticipate a prolonged disruption or a rise in oil prices. Under these conditions, government-owned or controlled—including "strategic stocks"—play an important role in curbing upward movements in oil prices and in cushioning the impact of lost oil supplies on economic

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performance. [redacted]

~~This perspective is Confidential Noforn.~~

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International: Economic Interdependence of Persian Gulf and OECD Countries [redacted]

The following presentation details—largely in statistical terms—the degree to which the West relied on Persian Gulf oil supplies prior to the Iraqi invasion and Iraq's equally important dependence on foreign economic ties. It is the disruption of these links with the Persian Gulf producers that will cause dislocations in the world oil market. [redacted]

Persian Gulf Oil Essential

The Persian Gulf has the highest concentration of oil resources in the world:

- The region contains over 60 percent of the world's proved oil reserves, with Saudi Arabia alone accounting for one-fourth. Iraq now controls one-fifth.
- The Gulf also has over one-fourth of the world's oil production capacity and about 70 percent of its surplus capacity. [redacted]

Persian Gulf oil producers normally supply one-fourth of the world's oil requirements, or 16.6 million barrels per day (b/d). Of this amount, 14.3 million b/d are exported:

- Over 11 million b/d—or more than 15 percent of world supplies—were exported via Gulf oil terminals and transit the Strait of Hormuz.
- Another 3 million b/d of exports were sent via pipelines to terminals in the Mediterranean Sea and Red Sea.
- Over 2 million b/d is consumed by the Gulf producers. [redacted]

OECD Dependence on Persian Gulf Oil

The United States received about 2 million b/d of Persian Gulf oil through May of this year, almost all of which came from Saudi Arabia and Iraq. These imports represented about 12 percent of US consumption and 27 percent of US net imports. Japan is heavily dependent on Persian Gulf oil, which usually accounts for 60 percent of Japanese oil consumption. Tokyo purchased 3.3 million b/d of Gulf oil so far this year, mostly from the UAE and Saudi Arabia. Western Europe relied on the Gulf for 31 percent of its requirements, with Saudi Arabia, Iran, and Iraq being the largest suppliers. [redacted]

The Pivotal Role of Iraqi and Kuwaiti Oil Exports

Iraq exported about 2.7 million b/d of oil through three main export routes:

- [redacted] was sent via Iraq's pipeline through Turkey that ends in the Mediterranean. Most of this oil was sold to customers in Europe, the United States, and Latin America.
- [redacted] was sent via Iraq's pipeline through Saudi Arabia, which ends in the Red Sea. Most of this oil was sent to Asia and Africa.
- [redacted] was exported through the Persian Gulf. During 1989, these exports went to the United States, Korea, and Brazil.
- Iraq also trucks a small amount of crude oil to Jordan and a small amount of refined products to Turkey. [redacted]

The United States was by far Iraq's largest single customer. Through May of this year, the US imported over 600,000 b/d of Iraqi oil, which represented 8 percent of US net imports during the first 5 months of the year:

- Moreover, this figure had been rising steadily throughout the year and industry forecasts indicate that US imports of Iraqi oil exceeded 1 million b/d in July.
- A small amount of Iraqi oil—less than 50,000 b/d—had been purchased by the US Government in recent months to help fill the US Strategic Petroleum Reserve. [redacted]

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OECD Oil Dependency
January-March 1990

Million b/d
(except where noted)

	OECD	United States	Japan	Western Europe
Consumption	37.9	17.0	5.5	12.9
Persian Gulf as a share of consumption	26	12	60	31
Crude and product imports	28.9	8.5	5.3	14.1
Of which:				
Persian Gulf	9.7	2.1	3.3	4.0
Persian Gulf as a share of total imports	34	24	62	29
Net Imports	NA	7.7	NA	NA
Persian Gulf as a share of net imports	NA	27	NA	NA
Persian Gulf total	9.7	2.1	3.3	4.0
Iran	1.6	NEGL	0.32	1.2
Iraq	1.7	0.58	0.25	0.89
Kuwait	1.1	0.16	0.39	0.48
Neutral Zone	0.16	NEGL	0.16	NEGL
Qatar	0.25	NEGL	0.24	0.01
Saudi Arabia	3.5	1.3	0.82	1.2
UAE	1.3	0.02	1.1	0.19

[redacted]

Japan received about 5 percent of its net imports from Iraq this year. Largely because of its proximity, Western Europe imported a much larger amount from Iraq, about 10 percent of its net imports. [redacted]

Kuwait exported about 1.8 million b/d so far this year, all through its 5 primary Persian Gulf terminals:
- Of this amount, 1 million b/d was sold as crude oil and about 800,000 b/d was sold in the form of refined products.
- Kuwait moved most of its refined products through its own product distribution system, including some 5,000 Kuwaiti-owned "Q8" gasoline stations located throughout Europe. [redacted]

The United States imported only a modest amount from Kuwait—about 120,000 b/d so far in 1990, or about 1 to 2 percent of our net imports. [redacted]

About two-fifths of Kuwaiti oil sales were to customers in the Far East which has imported about 650,000 b/d of Kuwaiti crude so far this year. Japan bought nearly half of these shipments, representing about 6 percent of its net imports. Other key customers included Singapore and South Korea. [redacted]

Oil Exports from Saudi Arabia and the UAE

Saudi Arabia is the largest oil exporter in the world. It exports about 5 million b/d, primarily through Persian Gulf export facilities but also through its East-West pipeline that ends in the Red Sea:
- Nearly 90 percent of Saudi exports are from two large terminals (Ras Tanura and Juaymah) and a smaller terminal (Jubail) in the Persian Gulf.
- Over 10 percent is sent across the country to the Red Sea port of Yanbu. [redacted]

The United States has an important reciprocal oil relationship with Saudi Arabia. We are by far the largest Saudi customer and Saudi Arabia is by far our largest supplier. Through May of this year, the

Western Europe's Dependence on Iraqi and Kuwaiti Oil

Western Europe's net imports of oil from Iraq and Kuwait were running at a rate of 1.25 million barrels per day—approximately 13 percent of total oil imports—according to trade data for the first quarter of 1990. Western Europe apparently has a considerable cushion to weather its embargo on Kuwaiti and Iraqi oil; strategic oil stocks at the end of 1989 equaled almost one year's worth of imports from the two countries. [redacted]

The Netherlands, Italy, and France were the leading purchasers and together accounted for almost half of West European oil imports from the two Persian Gulf countries. Portugal, Greece, and Denmark, however, have been the most dependent on Iraq and Kuwait for their oil. The Portuguese and Greeks obtained about 20 percent of their imports from them in 1988 and the Danes nearly 55 percent. [redacted]

Turkey is more vulnerable than its Western neighbors. Turkish oil imports from Iraq were running at a rate of 200,000 b/d in the first quarter of 1990 and accounted for roughly three-fourths of Ankara's foreign oil purchases. [redacted]

United States imported over 1.3 million b/d of Saudi oil. This represented about 15 percent of US net imports and over one-fourth of Saudi oil exports during the first five months of the year. [redacted]

Western Europe imports about 1.2 million b/d of Saudi oil, with France, the Netherlands, and Italy accounting for most of these purchases. [redacted]

About 1.1 million b/d of Saudi oil is sent to the Far East:
- Japan is the largest recipient in the region, with imports of over 800,000 b/d.
- Other large customers in the region include Singapore and Taiwan. [redacted]

The United Arab Emirates has exported about 2.1 million b/d so far this year. Three emirates—Abu Dhabi, Dubai, and Sharjah—produce and export oil from one onshore subsystem and seven offshore subsystems. Of this amount, 2 million b/d was sold as crude oil and about 100,000 b/d was sold in the form of refined products. The United States imports a small amount from the UAE—about 24 thousand b/d so far in 1990. [redacted]

The Far East is by far the UAE's largest regional customer. Last year, the Far East received about 1.3 million b/d from the UAE:
- Japan accounted for the biggest share of the total importing about 864,000 b/d from the UAE, almost 18 percent of the country's net imports.
- Moreover, this figure has been rising steadily throughout the year, with Japan importing approximately 1.1 million b/d so far in 1990.
- Other major Far East customers include Singapore, South Korea, and India. [redacted]

Western Europe imports are relatively minor, with about half of the current 200,000 b/d going to Italy. [redacted]

Iraq's Dependence on Foreign Economic Ties

Iraq is critically dependent on the OECD countries for trade. They normally provide about 65 to 70 percent of Baghdad's civilian imports:

- Despite efforts to develop substitutes, Iraq relies heavily on imported equipment for its oil and industrial sectors and on imported consumer goods, especially food.

- About two-thirds of its imports are manufactures—mostly machinery and semifinished goods—important to both civilian and military industries. Many of these manufactures are high-technology items generally unavailable outside the West.

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Persian Gulf Fact Sheet
January-June 1990

Million b/d
(except where indicated)

	Iraq	Kuwait [a]	Saudi Arabia [a]	UAE	Total Persian Gulf Oil
Total oil production [b]	**3.0**	**2.0**	**6.0**	**2.2**	**16.6**
Crude oil production	3.0	1.9	5.6	2.0	15.9
World (percent)	4.0	3.0	9.0	3.0	25.0
Free World (percent)	6.0	4.0	12.0	4.0	31.0
Production capacity	3.3	2.9	8.1	2.3	20.2
World (percent)	5.0	4.0	11.0	3.0	27.0
Free World (percent)	6.0	5.0	14.0	4.0	34.0
Surplus production capacity	0.3	0.9	2.1	0.1	3.6
Crude oil reserves *(billion barrels)*	100.0	97.2	260.0	98.1	612.0
World (percent)	10.0	10.0	26.0	10.0	61.0
Free World (percent)	11.0	11.0	28.0	11.0	67.0
Exports	2.7	1.8	5.0	2.1	14.3
Through Strait of Hormuz	0.3	1.8	4.4	2.1	11.2
Through export pipelines	2.4	0	0.6	0	3.0
To:					
United States	0.6	0.1	1.3	NEGL	2.1
Japan	0.2	0.4	0.8	1.1	3.3
Western Europe	0.8	0.5	1.2	0.2	4.0

[a] Includes Neutral Zone, shared equally by Kuwait and Saudi Arabia.
[b] Includes natural gas liquids that are produced in association with crude oil output.

[redacted]

- Iraq is not self-sufficient in food, which accounts for at least a quarter of its imports. The United States, Turkey, and Australia have been Baghdad's primary food suppliers in recent years. [redacted]

Baghdad has relied on the USSR and France for major weapon systems:

- Moscow supplied close to half of Baghdad's $2 billion in arms imports last year. Iraq was to receive Soviet aerial refueling jets and heavy transport helicopters this year and was negotiating for advanced fighter aircraft.

- Paris this year resumed delivering Mirage fighters under a contract worth about $1 billion.

- Poland, Yugoslavia, Hungary, East Germany, and Romania have provided various arms, munitions, overhaul services, and production facilities even though Baghdad produces munitions and some spares indigenously.

- China has sold Iraq at least $90 million worth of missile technology in the past few years. [redacted]

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Iraq: Sources of Civilian Imports, 1989 [a] *Percent*

OECD	64
US	11
West Germany	11
Turkey	8
United Kingdom	7
France	4
Japan	4
Italy	3
Canada	3
Other	13
Other countries	36
Brazil	3
Yugoslavia	3
Other countries	30

[a] Total value equals $12 billion

[redacted]

Baghdad's serious cash-flow problems lead it to use the limited credit lines available whenever possible. About 85 percent of the nearly $6 billion in credit offers to Iraq during the past year were from OECD governments:

- The United States made available $700 million in agricultural and export credit guarantees, [redacted]
- [redacted]

Iraq depends heavily on oil export facilities that cross neighboring countries. Pipelines through Turkey and Saudi Arabia currently carry nearly 60 percent and 30 percent of Baghdad's oil exports, respectively. Losing these pipelines would leave Iraq able to export only about 700,000 b/d because it has only a limited ability to increase exports through its terminal on the Persian Gulf. [redacted]

Iraq uses ports in Kuwait, Jordan, Saudi Arabia, and Turkey for roughly 85 percent of its imports. Baghdad is expanding its ports at Umm Qasr and Khawr az Zubayr and dredging their navigational channels, [redacted]

~~This article is Secret Noforn.~~