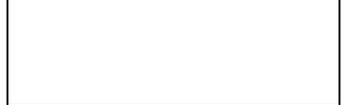


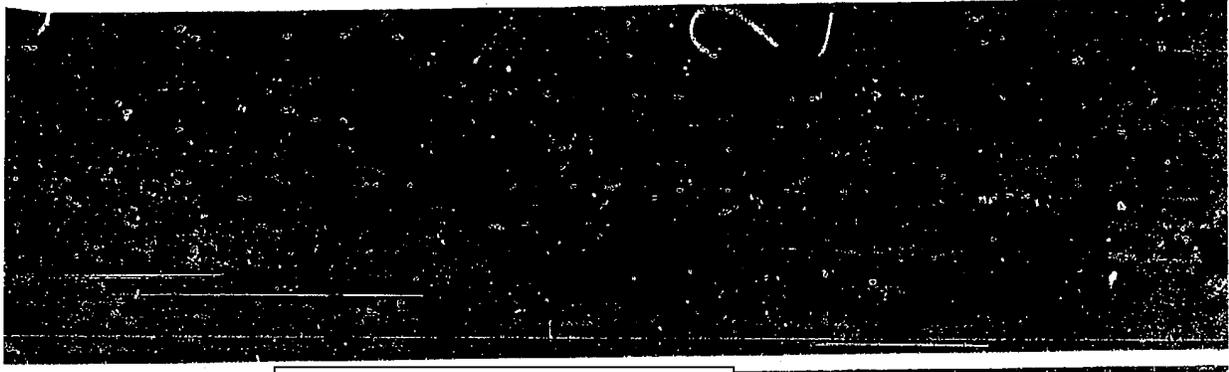


Director of  
Central  
Intelligence

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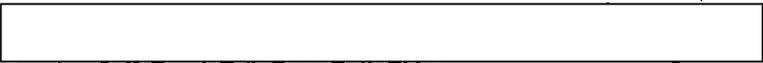
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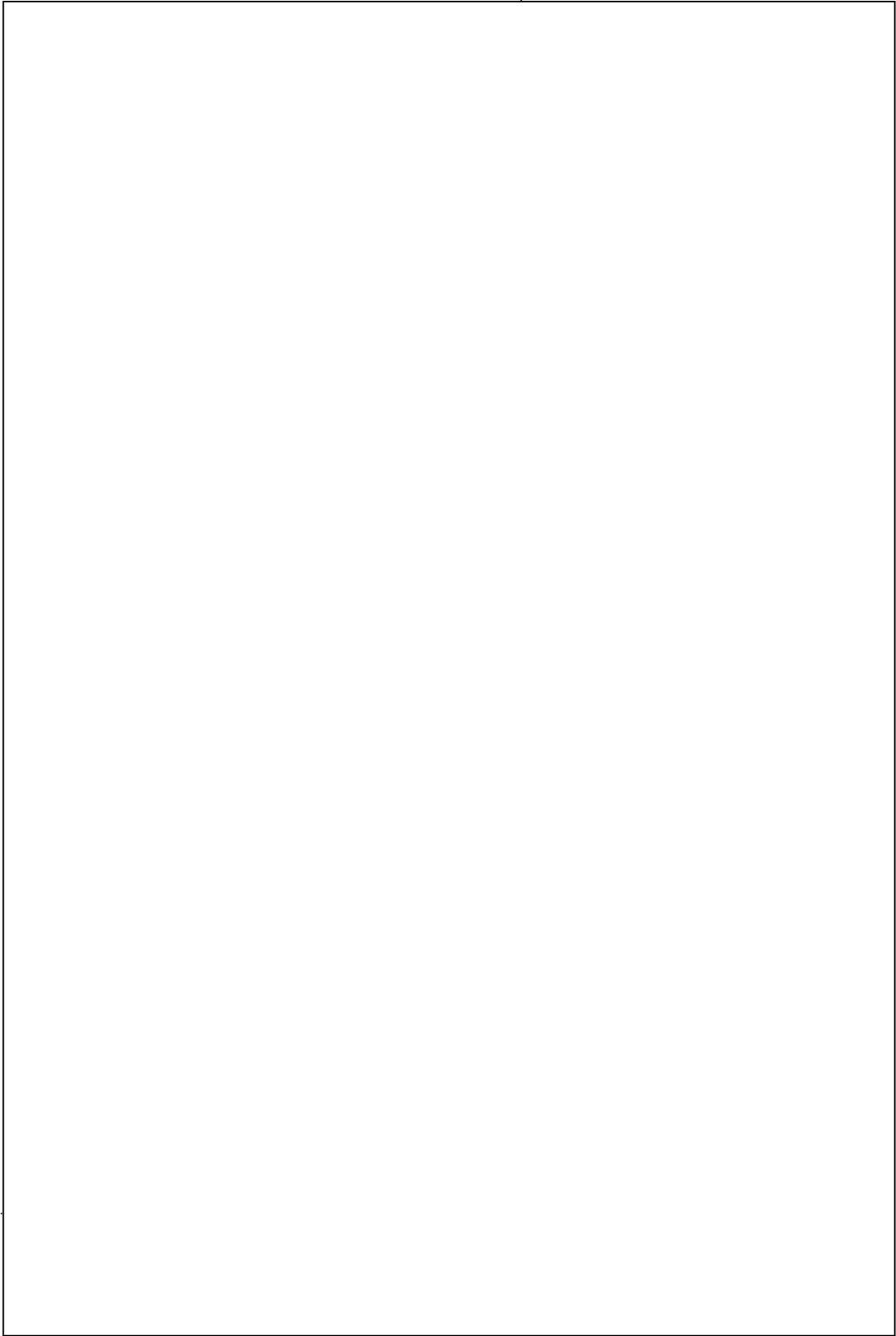
**Persian Gulf: Tough Talk From Both Sides** .....



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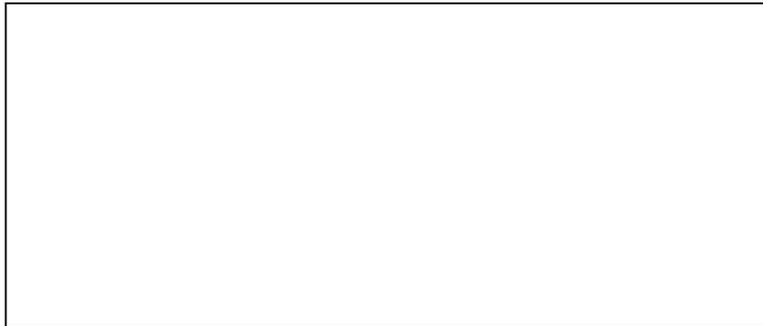


**PERSIAN GULF:**

**Tough Talk From Both Sides**

*Iraq is hardening its position on the Gulf conflict and is setting the stage for further escalation. Iran believes it can pressure the Gulf states into withdrawing support from Iraq, and it has boarded another ship in the southern Gulf. Iran probably will retaliate for Iraq's latest airstrikes, and the Gulf Arabs are seeking additional air defense weapons. There have been no major changes in oil spot markets or insurance rates.* 

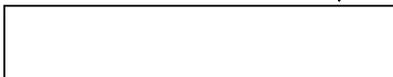
The ruling Ba'th Party newspaper threatened yesterday that Khark Island will be destroyed if Iran launches the new land offensive that Baghdad expects. To underscore the threat, Iraq claimed yesterday to have struck the Iranian oil refinery at Tabriz and a pumping station near Khorramabad. Another Iraqi newspaper warned that the conflict will worsen if diplomatic efforts do not force Iran to negotiate. 



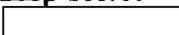
**Comment:** Baghdad is setting the stage for major attacks on Iranian oil facilities, perhaps even before an Iranian offensive begins. Iraq has Scud rockets capable of striking Khark Island and also can use its Air Force if it is willing to absorb losses. Although Iraq earlier appeared to be signaling that it would moderate its stance if progress could be made on alternate outlets for its oil exports, it now seems to have decided to intensify its pressure on Iran to end the war rather than settle for a partial cease-fire in the Gulf. 

Iraq has attacked the Tabriz refinery on three previous occasions, inflicting only moderate damage. If the refinery has suffered serious damage this time, Iran could lose approximately 15 percent of its domestic oil refining capability. Iran probably will feel compelled to retaliate for Iraq's latest attacks, possibly by trying to hit an Iraqi or Kuwaiti refinery. 

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Iran is interpreting efforts at the UN to achieve an evenhanded resolution on the crisis as a sign that world opinion is shifting in its favor and that the Arab position has weakened. A Security Council resolution condemning both Iranian and Iraqi attacks on shipping will be a blow to the Gulf states, whose own draft singled out Iran as the party responsible for the escalation. [redacted]

#### Tanker Attack

The identity of ships—if any—hit by Iraq's attack on Wednesday remains unclear. Some reporting indicates that the 256,000-ton Liberian tanker *Atlantico* was hit, but other reports claim that the ship successfully loaded oil at Khark and departed. [redacted]

[redacted] Charter rates yesterday from both Khark and Kuwait were up slightly, but there were no changes in war-risk insurance rates for the Gulf area. [redacted]

**Comment:** The crude spot market reacted nervously yesterday when the Iraqi claims were first announced. Some further reaction can be expected if Lloyds' of London confirms a successful attack on a tanker. No tanker appears to have been damaged enough to warrant salvage operations. No change in charter or insurance rates is likely as long as the reports of the Iraqi attacks on Wednesday remain unconfirmed or damage is inconsequential. [redacted]

#### Military Situation

[redacted]

*continued*

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[Redacted]

[Redacted]

**Comment:** The Iranians apparently are beginning to inspect some ships they suspect may be carrying supplies for Iraq. Most ships entering the Gulf carrying arms bound for Iraq are Soviet. Tehran probably is not yet prepared to precipitate a crisis with Moscow by seizing a Soviet ship. [Redacted]

The increase in the Iranian activity and the new air defense deployment along the Gulf are efforts to protect ships calling at Iranian ports. These activities could also be a precaution in case Iran decides it must conduct retaliatory strikes against Gulf state shipping or other economic facilities. [Redacted]

[Redacted]

#### **Gulf States Seek Defensive Missiles**

A Soviet military delegation is now in Kuwait to study its air defense needs. [Redacted]

[Redacted]

[Redacted]

**Comment:** Kuwait has Soviet SA-7 missiles and has ordered SA-8s. As the crisis in the Gulf worsens, Kuwait may appeal to the USSR to speed deliveries or to supply additional air defense weapons. Moscow would be eager to sell Kuwait additional arms. [Redacted]

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[Redacted]