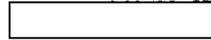




Director of
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Iran-Iraq War: Increased Threat to Persian Gulf Oil Exports

Special National Intelligence Estimate

APPROVED FOR RELEASE
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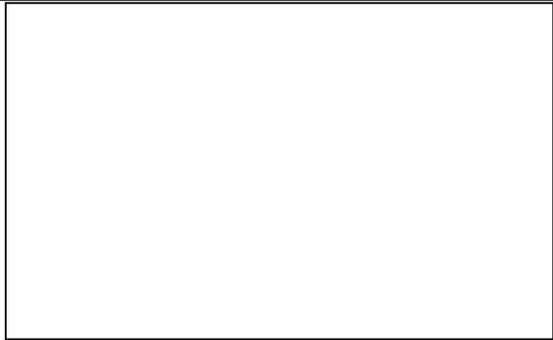
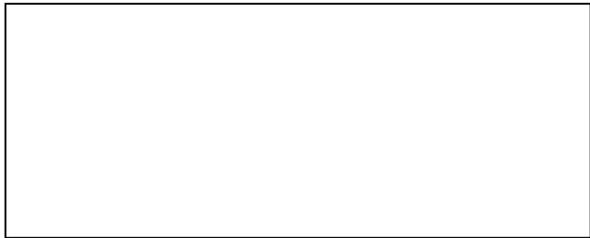
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13 October 1983

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SNIE 34/36.2-83

**IRAN-IRAQ WAR:
INCREASED THREAT TO
PERSIAN GULF OIL EXPORTS**

Information available as of 13 October 1983 was
used in the preparation of this Estimate.

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THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS.

The following intelligence organizations participated in the preparation of the Estimate:

The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organizations of the Departments of State, Energy, and the Treasury.

Also Participating:

The Assistant Chief of Staff for Intelligence, Department of the Army

The Director of Naval Intelligence, Department of the Navy

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SCOPE NOTE

This Special National Intelligence Estimate examines the outlook for an abrupt disruption of Persian Gulf oil exports due to escalation of the Iran-Iraq war in the next year. It examines Iraq's motives and capabilities for attacking Iran's oil exports and Iran's likely response. The impact on world oil supplies is examined and the implications for the United States and the USSR. This Estimate was requested by the Department of Energy. For more information on Iran, see SNIE 34-83, *Iran: Outlook for the Islamic Republic*, 24 May 1983; for information on Iraq, see SNIE 36.2-83, *Prospects for Iraq*, 19 July 1983; for information on Soviet military capabilities in the Persian Gulf region, see forthcoming NIE 11/39-83, *Soviet Forces and Capabilities in the Southern Theater of Operations*.

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KEY JUDGMENTS

The seemingly endless war with Iran and Iraq's worsening financial problems are forcing Baghdad to consider drastic military measures. The French sale of five Super Etendard aircraft to Iraq increases the possibility of an escalation of the Iran-Iraq war that could disrupt Persian Gulf oil exports vital to the West. Iraq first will seek to exploit the threat posed by the Super Etendard aircraft through diplomatic steps both to gain financial relief and to pressure Iran to end the war, but we believe these moves are likely to fail. We believe Iraq ultimately will attack oil tankers calling at Iran's Khark Island but most likely after a series of intermediate escalatory steps to increase the military pressure on Iran.

Iraq might delay a military strike if its renewed discussions with Syria on reopening the Iraq-Syria pipeline prove successful. Such a move would gain Baghdad some financial relief.

We are unable to confirm press reports that France has delivered the Super Etendards to Iraq, but we believe that, even if the aircraft have not yet been delivered, Iraq eventually will receive them. Once delivered, the aircraft probably would be combat-ready within a month. France believes the survival of the Iraqi regime is critical to Gulf stability and that delivery of the aircraft may precipitate events to **Iraq's advantage, possibly even ending the war. France's reliability as a military supplier is also at stake.**

Moreover, [redacted] late next year France will deliver to Iraq new Mirage F-1 aircraft configured to carry the Exocet missile. As a result, even if delivery of the Super Etendards is canceled, Iraq probably will gain the same capability to hit tanker traffic by late 1984. Finally, Iraq already has Super Frelon helicopters armed with Exocet missiles which could be used in desperation to attack tankers, although Iraq reportedly believes their slow speed makes them too vulnerable.

Iraq would have three objectives in attacking Iran's oil lifeline: to impair Iran's warmaking capacity by denying it revenues, to encourage Iran to begin negotiations to end the war, or, failing that, to force the West to intervene in the Gulf. If Iran retaliated against other Gulf oil exporters, Baghdad would hope the Western powers would intervene to ensure the safety of all oil exports from the Gulf, including those from Iraq.

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Iraq may intend initially to use the Super Etendards as a defensive deterrent to shield repairs—which would take six months—on its damaged oil export installations in the Gulf. Iran at any time could take military action to prevent Iraq from repairing its facilities or resuming oil exports from the Gulf. Nonetheless, Iraq then would argue that this places the onus on Tehran for further escalation of the war in the Gulf—giving Baghdad greater justification for using the Etendards to shut down Iran's oil exports.

Baghdad probably would choose to prepare the way for attacks by the Super Etendards on oil tankers by initiating a series of less drastic measures. Such actions would be likely to include renewed public warnings to Iran and neutral shipping, bombing raids against Iranian oil installations—including Khark Island—and increased attacks against Iranian cities, naval units, and shipping in the Gulf. We do not believe such attacks on Iran would encourage it to negotiate for peace.

Once Baghdad began using the Super Etendards against oil tankers, we believe it would conduct several attacks and then pause to assess Iranian and international reaction. Iraq would have difficulty stopping Iranian oil exports for an extended period unless it is prepared to conduct repeated attacks against tanker traffic. International oil tankers would stay away from Khark Island initially, but would be likely to resume loading at Khark if Baghdad were unable to sustain its attacks. Moreover, Iran is likely to reduce its oil prices to offset increased insurance and chartering rates in hopes of encouraging shipowners to continue serving Khark.

We believe Iraq would intensify its attacks on tankers if the initial strikes with the Super Etendards did not result in movement either to end the war or to alleviate Iraq's financial difficulties. Should the Iraqis seriously damage or sink a number of tankers, they would virtually shut down Iranian oil exports from Khark Island. Repeated Iraqi attacks would make it impossible for Iran to entice even cash-starved shipping firms to send their ships to Khark despite substantial price discounts on Iranian oil.

Given our lack of information on Iranian plans and the decision-making process in Tehran, we cannot be confident about the nature of Iran's likely military response. Ayatollah Khomeini has warned publicly that Iran will retaliate against all oil shipping in the Gulf if its own oil exports are disrupted.

We believe that Iran will not strike lower Gulf oil targets or close the Strait to oil exports except as a last resort, and that it probably will take measured responses commensurate with Iraq's phased escalation.

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Iran has sufficient foreign exchange assets to survive a short cutoff of oil exports. Moreover, by showing restraint, Tehran would place on Iraq the onus of threatening international oil shipping. In addition, Iran probably would want to avoid provoking Western military intervention—in part because it has limited capability to defend itself against a likely Western military reaction.

On the other hand, we cannot rule out the possibility that Khomeini may view Iraqi strategy as the logical culmination of the West's desire to intervene in the Gulf and destroy the Iranian Revolution. He might therefore feel obligated to rapidly escalate the conflict through attacks on Arab oil producers—especially Saudi Arabia—in an attempt to close shipping, regardless of the prospect of military defeat at the hands of the West.

Nonetheless, we expect some Iranian military response. Should Iran retaliate directly against Iraq, it might try to bomb the airbase where the Super Etendards were stationed or attack the Iraq-Turkey oil pipeline. Should Iran decide to retaliate in the Gulf it could choose from several options. Given Iran's capabilities, these are the most likely:

- Attack Kuwaiti oil facilities.
- Harass shipping in the Gulf or the Strait of Hormuz.
- Strike the oil facilities of Saudi Arabia, the United Arab Emirates, Qatar, or Bahrain.
- Close the Strait of Hormuz by mining or blockade.

Iran has some capability to initiate any of these actions and even a few attacks against well-chosen targets could do considerable damage to Gulf oil facilities. However, Iran has little capability to sustain coercive measures in the Gulf or in the Strait in the face of Western military opposition.

If Iraq were able substantially to reduce Iranian oil exports, Iran would consider drastic escalatory reactions, including attacks on oil facilities in the lower Gulf or closure of the Strait of Hormuz to all shipping. Iran's Navy is handicapped by numerous problems, but it has the capability to close the Gulf by mining or blockading as long as the action is not contested by Western navies.

Enough excess oil production capacity exists outside the Persian Gulf to absorb the loss of Iranian oil exports and the effect of moderate damage to oil facilities in the southern Gulf. Severe damage to the main Saudi facilities or closure of the Strait of Hormuz, however, would create a worldwide oil shortage and push up oil prices substantially. The

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impact on oil markets and the extent of damage to the world economy would depend on the size of the oil supply disruption and how long it was expected to last. It is impossible to make precise predictions without specifying the economic, political, or military scenario involved.

The United States has a large stake in the continued flow of oil from the Persian Gulf in spite of the fact that US oil imports from the Gulf are small (only about 2 percent of US oil consumption). Gulf oil constitutes about 30 percent of oil demand in the non-Communist world as a whole, 40 percent in Western Europe, and 60 percent in Japan. Denial of all or most of the source of supply for a substantial period of time would create a worldwide oil shortfall much greater than that in 1973 or 1979. The United States could not insulate itself from the disruption of the world oil market. In addition, the United States under the International Energy Agency agreement is obligated under certain circumstances to share the burden of a supply shortfall. The longer term impact would depend on how the Persian Gulf political and military situation was finally worked out.

An Iranian blockade or mining of the Strait of Hormuz would impact directly on Oman, whose territory is involved. Oman probably would appeal for Western support, and the other Gulf states would not impede such a move. Direct Iranian air, naval, or commando attacks on the Gulf states would produce varying reactions—from appeals to Iran for forbearance to requests for Western military intervention—depending on the installation attacked and the number and intensity of the attacks. Syria and Libya as allies of Iran would be expected to provide increased political, propaganda, and material support to Iran.

Escalation of military activity in the Gulf would have serious implications for the United States. We believe the Iranians would attack Western naval ships attempting to break an Iranian blockade or to clear mines from the Strait of Hormuz. Although Iran knows it could not halt Western intervention, it would feel its credibility as a revolutionary state was at stake and that, in any case, the West would not invade Iran.

The Khomeini regime also is likely to view even lesser forms of US military intervention as a threat to its interests. We believe, however, that Iran would not call for Soviet assistance, even if the United States directly intervened in the Gulf. If the confrontation in the Gulf were prolonged, Iran's attitude toward Soviet aid would be less certain. Soviet pressure on South Yemeni and Ethiopian leaders to grant base facilities to counter the United States would be likely to increase as a consequence of US military intervention.

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The Soviets would welcome any disruption of Western economies, however short lived, caused by an interruption of Persian Gulf oil exports. They also could acquire additional hard currency from oil sales. The USSR would try to capitalize on a Western-Iranian confrontation, probably by offering military aid to increase its influence in Tehran, but such offers are unlikely to overcome basic Soviet-Iranian frictions.

On the other hand, the USSR would be concerned about any buildup of Western military forces in the Persian Gulf. Moscow would increase its intelligence-gathering efforts in the region as tensions mounted and Soviet naval forces in the area probably also would be augmented. If Western airpower in the region were increased, some Soviet forces—particularly air and air defense units in the southern USSR—would probably be placed on alert.

Limited Western strikes against Iranian airfields or ports are likely to prompt the Soviets to admonish the West against invading Iran. Militarily, the Soviets would probably step up air defense activities within their borders and might alert and mobilize airborne units and ground forces in military districts bordering Iran. They almost certainly would do so if they believed a Western threat to invade Iran were emerging.¹

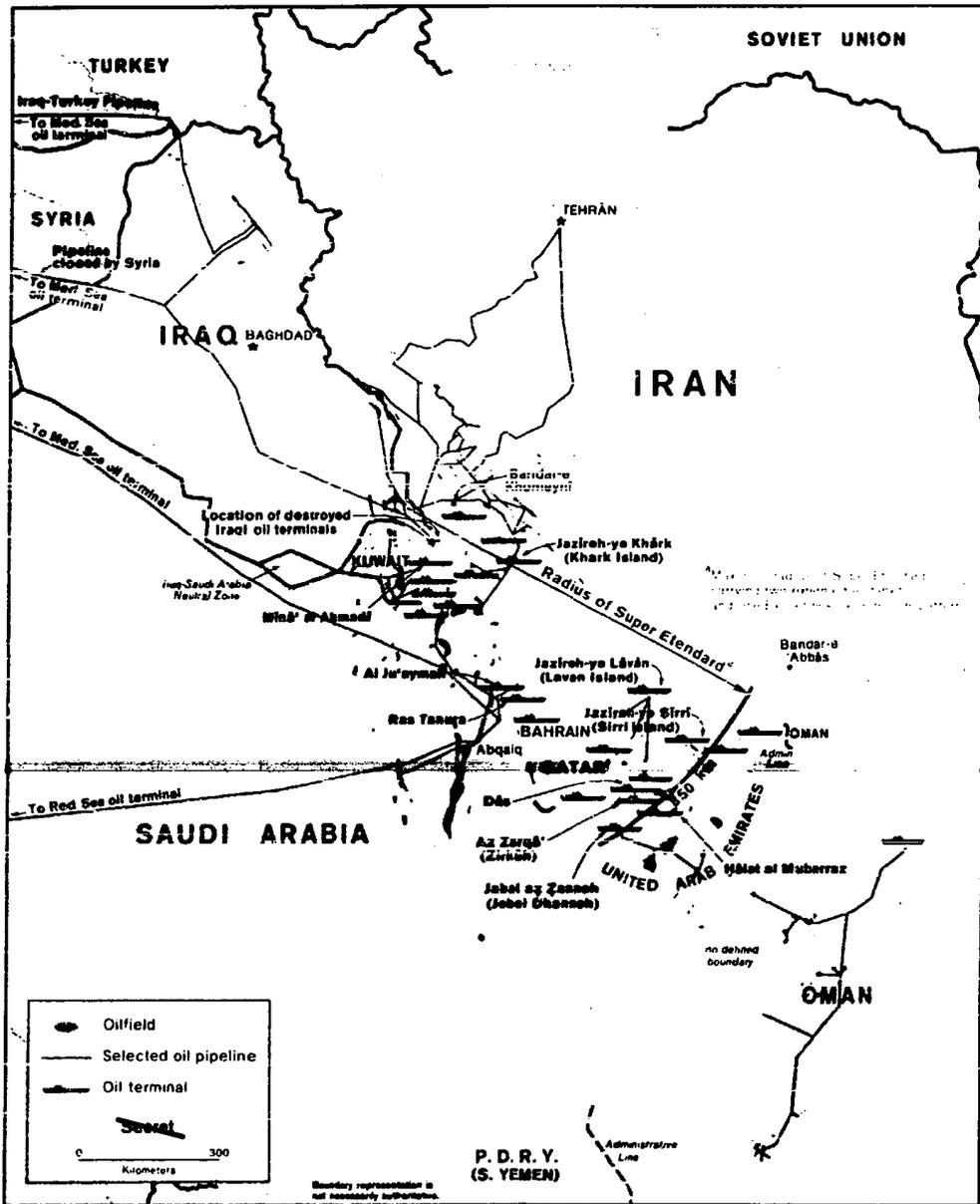
¹ For more information on Soviet military capabilities to respond to events in the West, see forthcoming NIE 11/39-83, *Soviet Forces and Capabilities in the Southern Theater of Operations*.

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DISCUSSION

1. Iraq's inability either to resolve its serious economic situation or to persuade Tehran to negotiate has forced Baghdad to consider escalating the war with Iran. The Iraqis have not yet exhausted their diplomatic options, but they are not optimistic that these will succeed. Iran reportedly believes that attacks on oil tankers serving Iran will set in motion events that would either end the war or reopen the Persian Gulf to Iraqi oil exports.

Iraq's Predicament

2. Baghdad has few realistic military options for ending the war. Despite its overwhelming superiority in equipment, the Iraqi Army lacks the capability to conduct a major offensive that would decisively defeat the Iranians. Sporadic air attacks on Iranian economic targets have not pushed the Iranians closer to a settlement, and the current war of attrition shows no sign of ending. Iraqi President Saddam undoubtedly fears that the war of attrition will increase unrest and worsen his internal security problems. One measure of Iraq's desperation has been its reported use of mustard agent in the war and its use of surface-to-surface missiles against Iranian cities.

3. Moreover, the war is straining Iraq's economy.⁴ Two of Iraq's three prewar oil export routes have been severed, reducing annual revenue by three-fourths. The economy must bear war-related costs that may reach \$1 billion per month. We estimate that Iraq's foreign exchange reserves will fall to \$3-4 billion by the end of 1983, as compared with \$35 billion before the war. Baghdad has been forced to defer some \$4 billion owed this year to foreign suppliers. Iraq's current account deficit this year will reach an estimated \$15 billion, its ambitious development program has been substantially cut back, and imports have been sharply reduced.

4. The cause of Iraq's financial bind is the insufficiency of oil export revenues. The loss of its Persian Gulf oil export terminals at the beginning of the war

⁴ For a more comprehensive treatment of Iraq's economic problems, see SNIE 36-2-83, *Prospects for Iraq*, 19 July 1983.

and the closure of the pipeline across Syria in April 1982 have reduced Iraqi oil export capacity by almost 80 percent. Iraq now has only one oil export route, a pipeline across Turkey that has a current throughput of about 800,000 barrels per day (b/d).

5. One possible source of short-term relief for Iraq's financial problems is a resumption of exports through the Iraq-Syria pipeline. Baghdad and Damascus have recently resumed discussing the issue. Reopening the pipeline, however, would be a major shift in strategy by Syria, which has supported Iran for much of the war. Substantial additional oil income would reduce the pressures on Iraq to intensify the war in the Gulf. Even if only the Syrian part of the pipeline were opened—there is also a spur ending in Tripoli, Lebanon—Iraq's earnings could be increased by some 50 percent from the current level of \$7 billion annually.

Iraq's Strategy

6. Iraq's objective is to end the war and revive its economy. It currently is engaged in a diplomatic campaign to impress upon the international community the likelihood of military escalation if the war continues and Iraq's economic predicament is not resolved. Baghdad probably seeks to persuade its Gulf Arab benefactors to increase their subsidies to Iraq and to allow Iraqi oil pipelines across their territory, thereby relieving Iraq's financial crisis and eliminating the need for military escalation. Iraq also is attempting to persuade the Gulf states to join Baghdad in increasing pressure on Tehran to demilitarize the Gulf to guarantee free shipping to all Gulf states, including Iraq—a suggestion which Tehran will reject. Baghdad wants the West to end the flow of Western arms to Iran, to stop purchasing Iranian oil, and to pressure Iran to negotiate.

7. Iraq would prefer to accomplish its goals without military escalation. But, if diplomacy and threat fail, we believe Iraq will use the Super Etendard aircraft against tankers calling at Khark Island, the terminal through which 90 percent of Iran's oil exports flow. Iraq is currently setting forth through its diplomacy

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the justification for such attacks. We expect the warnings to become more pointed as Iraq moves closer to military escalation.

8. Baghdad's primary instrument for escalating the conflict will be the French Super Etendard fighter aircraft armed with Exocet antiship missiles. Saddam's military advisers recommended this summer that he use the Super Etendards to attack oil tankers calling at Khark Island, [redacted]

They argued that attacks on oil tankers would increase the threat of a cutoff of oil from the Gulf that eventually could force the great powers, including the United States, to intervene militarily. Iraq hopes that the Western powers then would demilitarize the Gulf, ensuring that Iraqi oil could flow through it again.

9. We are unable to confirm press reports that France has delivered the five Super Etendard aircraft to Iraq, but we believe that, even if the aircraft have not yet been delivered, Iraq eventually will receive them. The French have major investments in Iraq—Baghdad owes Paris some \$2 billion—and Iraq is the largest Third World purchaser of French arms. Moreover, France believes the survival of the Iraqi regime is critical to Gulf stability and that the delivery of the aircraft may precipitate events to Iraq's advantage. France's reliability as a military supplier is also at stake.

10. Moreover, even if the Super Etendard deal is canceled, Iraq may gain an enhanced capability against Gulf shipping by late 1984. [redacted] France late next year will deliver new Mirage F-1 aircraft configured to carry the Exocet.

11. The Super Etendards probably will be ready for combat operations within a month of their arrival. The Iraqi pilots who have trained on the aircraft in France are some of Iraq's best pilots. After arrival in Iraq, the aircraft will be checked out and final training missions will be flown before the first operational mission is launched.

12. After they became operational, Iraq could choose to use the aircraft as a deterrent to shield repairs on its damaged oil export installations in the Gulf. Iraq probably could not resume oil exports from the Gulf sooner than six months from the initiation of repairs. Iran could use military action to disrupt

repairs or resumption of oil exports, but Iraq could then argue that this justifies Iraqi use of the Etendards against Iranian oil exports.

13. If Baghdad decides to initiate attacks on Iran's oil exports, it may begin with a series of less drastic measures. Such actions could include renewed public warnings to Iran and neutral shipping, bombing raids against Iranian oil installations, and increased attacks against Iranian naval units and shipping in the Gulf. Iraq initially might use the Super Etendards to hit shipping at the Iranian port of Bandar-e Khomeyni. Such attacks would provide Iraqi pilots with combat experience with the Super Etendards while avoiding the international repercussions of hitting tanker traffic.

14. There are several reasons why the Iraqis might take a gradual approach: their characteristic military caution, the need to test the Etendards and their Iraqi pilots against targets that are not heavily defended, the hope of spurring mediation efforts, and the desire to prepare world opinion for more drastic action. We do not believe such attacks on Iran will encourage it to negotiate for peace.

Iraq's Options for Stopping Iranian Oil Exports

15. Iraq can strike in three ways at Iranian oil exports from Khark Island:

- Bomb pipelines, pumps, or manifold stations on the mainland that serve Khark.
- Destroy storage tanks, pipelines, or loading points on Khark.
- Attack tankers trying to load at Khark.

16. Iraqi attacks against mainland facilities serving Khark are likely to be ineffective. Gravity would keep the oil flowing at rates well above Khark's current exports of about 2 million b/d. The only mainland targets Iraq could destroy to reduce exports from Khark significantly would be the pipelines, and they would have to be struck repeatedly because they are easily repaired.

17. Attacking Khark Island directly is not an attractive option for the Iraqis because of the potential for significant aircraft losses and the complexity of the air campaign that would be required. Khark is heavily defended by HAWK surface-to-air missiles and anti-

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aircraft guns. To date, Iraq has used conservative air force tactics to avoid losses. Commando attacks could be highly effective against Khark or associated mainland facilities, but they would be risky and would be out of character for the Iraqis. However, attacks on Khark itself would have the propaganda value of demonstrating to world opinion that, before attacking tankers, Iraq had exhausted all other military options.

18. The Iraqis have the capability to attack tankers calling at Khark Island even without the Super Etendards. Super Frelon helicopters armed with Exocets already in the Iraqi inventory have the range to reach Khark Island, but the Iraqis reportedly believe their slow speed makes them too vulnerable. The helicopters have been used against merchant shipping close to the Iraqi mainland. Sustained, intense bombing raids by Iraqi aircraft could be effective in keeping tankers away from Khark, but would be out of character for the Iraqis.

19. The simplicity and relatively low risk of using the Super Etendard make it the most likely weapon the Iraqis would use against Iranian oil exports. To ensure that only ships calling at Khark are struck, Iraq would have to hit them at or near the island. To minimize the risk of encountering Iranian air defenses or fighter aircraft, Iraq probably would attempt first to sink tankers near Khark but not at the island itself. Sinking a tanker or setting one afire at a loading point at Khark might be more effective because it could render the loading point itself unusable. The Super Etendard could execute such attacks from outside the range of Khark Island's HAWK missiles.

Effectiveness of Iraqi Attacks

20. Once Baghdad begins using the Super Etendards against oil tankers, we believe it will conduct several attacks and then pause to assess Iranian and international reaction. Iraq would have difficulty completely stopping Iranian oil exports for an extended period unless it is prepared to conduct repeated attacks against tanker traffic. Several reliable sources suggest that international oil tankers would stay away from Khark Island initially. But some tankers are likely to resume loading at Khark unless Baghdad announces it is determined to stop Iranian oil exports and continues the attacks. Moreover, Iran is likely to reduce its oil prices to offset increased insurance and

chartering rates in hopes of encouraging shipowners to continue serving Khark.

21. Baghdad is likely to intensify its attacks on tankers if the initial strikes with the Super Etendard do not result in movement either to end the war or to alleviate its financial difficulties. Subsequent strikes are likely to be supported by other air and possibly naval forces. Should the Iraqis continue damaging or sinking tankers, they would virtually shut down international tanker traffic to and from Khark Island. [redacted] indicate that repeated Iraqi attacks, coupled with a public announcement by Baghdad that it intended to stop oil exports from Khark Island, would make it impossible to entice even cash-starved shipping firms to send their ships to Khark despite substantial price discounts on Iranian oil.

Iran's Reaction

22. Given our lack of information on Iranian plans and on the decisionmaking process in Tehran, we cannot be confident about the nature of Iran's likely military response. Since the Iraqi-French Super Etendard deal became public in late spring, senior Iranian officials, including Ayatollah Khomeini, have warned repeatedly that Tehran would close the Gulf if Iranian oil exports were impaired. The Iranians also have informed officials of several Middle Eastern governments that Tehran would attack Western oil installations in the Gulf and block the Strait of Hormuz as soon as the Super Etendards attacked Iranian oil exports.

23. Several factors suggest, however, that Iran's response more likely would be graduated and depend on the effectiveness of the Iraqi attacks. Iran's \$13 billion in foreign exchange reserves reduces the economic need for Tehran to retaliate quickly. By showing restraint, Tehran could argue that Iraq is the real threat to international oil shipping, thereby attempting to create a rift between Iraq and its Western and Arab supporters. A drastic Iranian response to Iraqi attacks would raise the possibility of a Western military response against which Iran could not adequately defend. Furthermore, any Iranian closure of the Gulf could jeopardize Iran's own seaborne exports and imports.

24. If international tankers stopped serving Khark Island, Iran also might be able to continue exporting

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about 20 percent of its current level of exports. To achieve this it could load its own ships at Khark and carry oil from there to international tankers at anchorages near the southern end of the Gulf, outside the range of the Super Etendard. Iran did this in the early days of the war and was able to ship at least 200,000 b/d. However, Iranian shuttle tankers would be vulnerable to attack. In addition, loading terminals at Sirri and Lavan Islands, at the outer limit of the range of the Super Etendard, also can export about 200,000 b/d.

25. Iran also might retaliate in a nonmilitary way through terrorist operations against French targets in the Middle East. Iraqi exile groups supported by Iran have threatened publicly to carry out such attacks if the Super Etendards are delivered.

Iranian Military Reactions

Striking Iraq

26. If Iran were to retaliate against Iraq, it probably would try to bomb the airbase where the Super Etendards are stationed or attack the Iraq-Turkey pipeline. The Super Etendards are likely to be based at an airfield in southern Iraq well within range of attacking Iranian aircraft. However, the Iranian Air Force generally has been ineffective in its attacks on Iraqi airbases, and we believe Iran would be unable to destroy the Super Etendards on the ground.

27. Attacks on the Turkish pipeline could be carried out by ~~Kurdish guerrillas receiving Iranian support~~, by Iranian commandos, or by Iranian aircraft. All known sabotage to the pipeline during the war has occurred in Turkey. But any attack initiated by Iran would harm Iranian-Turkish relations, a factor likely to deter Tehran. If Iranian supply lines through the Gulf were threatened, Turkey would become even more important to Iran as a transit point for supplies. As a result, we believe any overt Iranian attack on the pipeline will occur inside Iraq. Damage to the pipeline itself would cause only a temporary disruption to Iraqi oil exports because most types of damage could be quickly repaired. Damage to pumping stations would cause longer periods of disruption, but the stations normally are well defended.

28. Should Iran decide to retaliate in the Gulf, the following options are the most likely:

- Attack Kuwaiti oil facilities.

- Harass ships serving Iraq's Gulf allies.
- Strike oil facilities of Bahrain, the United Arab Emirates, Qatar, or Saudi Arabia.
- Close the Strait of Hormuz by mining or blockade.

29. The hardliners in Tehran probably would require a military response of some kind, regardless of whether Iraq was able to slow Iranian oil exports. Iran's choice and timing of a retaliatory option would be influenced by Iraq's success in disrupting Iranian oil exports, Tehran's own military capability, and its perception of the likely political and economic repercussions. The Iranians will try to inflict the maximum damage on Iraq while using the situation to weaken the support of the Gulf Arabs for Baghdad. Iran also will try to avoid giving the West a pretext to intervene in the Gulf. Tehran would fear that an increased Western military presence in the Gulf could become permanent and might directly threaten the regime while reducing Iran's dominance in the Gulf. As a result, we would expect Iran's initial military response to be at the lower end of the escalatory ladder—for example, an attack on the Turkish pipeline, a strike on Kuwaiti oil facilities, or general harassment of Gulf shipping.

30. On the other hand, we cannot fully rule out a sharp ideologically based response by Iran to rapidly and fully escalate the Gulf conflict through attacks on Arab oil producers—especially Saudi Arabia—and a closure of the Gulf. Khomeini has long believed that Iraq originally attacked Iran as a tool of Western powers seeking to destroy the Iranian Revolution. He may well believe that Iraq's effort to draw the West into the Gulf is the logical culmination of such a Western strategy and that the ultimate confrontation with Western "imperialism" in the Gulf must be met. Khomeini may believe that, although Iran would suffer defeat in any naval engagement in the Gulf, the Iranian Revolution must be upheld and Iran's position in defending the Islamic world from Western gunboats will in the long run be vindicated.

Harassing Shipping

31. Iran has the capability to harass ships serving the Gulf states, and the Gulf countries would be reluctant to challenge Iran. Iranian aircraft and ships

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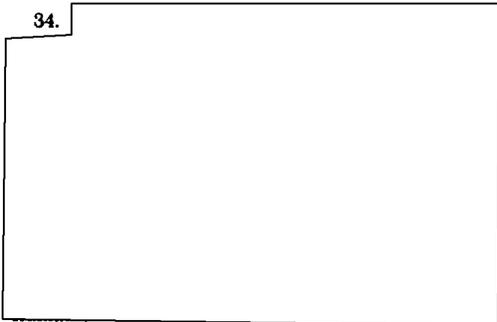
already monitor shipping through the Gulf. The Iranian Navy could board ships or force them to go to Bandar-e Abbas for search or detention of the crew. Iranian fighter aircraft stationed at Bandar-e Abbas would provide cover for Iranian naval ships operating there and also could harass shipping. However, if this activity took place in Omani waters, the Omanis might feel obliged to take some action to counter it.

32. Iranian President Khamenei in late September threatened to "restrict" shipping in the Gulf if the Arab Gulf states continued to allow their ports to be used for the delivery of arms to Iraq. The USSR currently is the only country delivering Iraqi-bound arms to Gulf ports, and Kuwait is the primary transshipment point. A selective Iranian blockade, therefore, could result in a Soviet-Iranian confrontation.

Attacks on Kuwait

33. Attacks on Kuwait would demonstrate Iranian resolve to retaliate and directly involve Iraq's supporters. Early in the war Iran made several limited attacks on Kuwait with little international reaction. The attacks on Kuwait would not affect oil exports from Saudi Arabia or the UAE as long as the military action seemed unlikely to spread. As a result, Tehran probably believes that the great powers would not intervene. It probably also would hope that other Gulf states would blame Baghdad for making military decisions that threatened their security.

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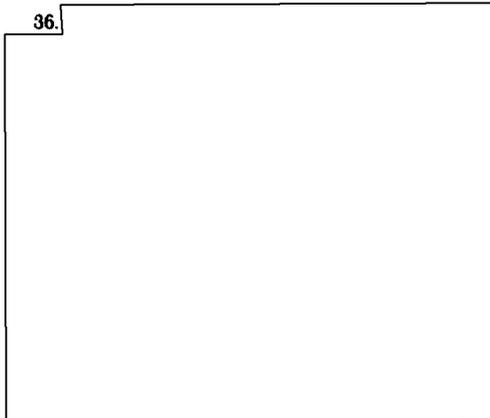


Attacks on Gulf Oil Facilities

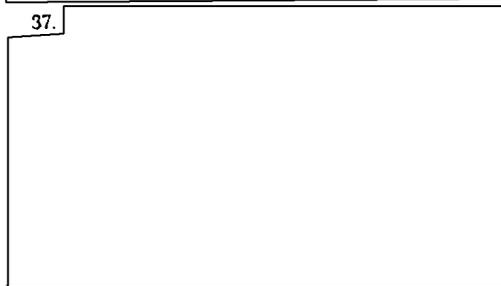
35. If Iraq were able to reduce the flow of oil from Khark substantially, Iran would be forced to begin drawing down foreign exchange reserves to meet

current levels of imports.³ Demonstrations in major Iranian cities this summer, partly over poor economic conditions, suggest that major import reductions would be politically risky. Iran instead might consider more drastic retaliatory options, such as attacking oil facilities in the lower Gulf or closing the Strait of Hormuz.

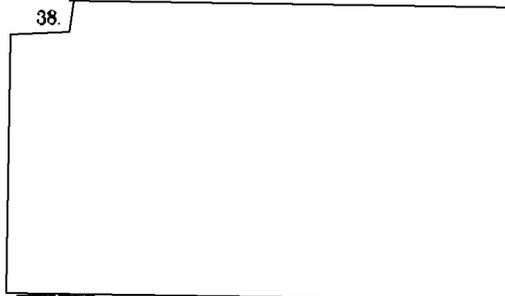
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³ Iran currently is producing 2.5 million b/d and is exporting some 1.9 million b/d. If exports were reduced to about 1.5 million b. d. Iran would be forced to begin drawing down reserves or cut imports. We estimate Iran has over \$13 billion in foreign assets.

39. Air attacks are another option. Even Saudi Arabia, which has the largest air force of any Arab Gulf state (see table 1), could not react in time to prevent some Iranian fighter-bombers from attacking critical targets. Iranian F-4 aircraft probably would carry out these attacks at low altitude, using bombs or air-to-surface missiles. Iran, however, could not sustain an air campaign against Saudi Arabia's critical oil facilities once the element of surprise was gone.

Closure of the Gulf

40. Iran has the capability to close the Gulf by mining or blockade as long as its action is not contested by Western navies. We doubt that the Gulf states would engage Iran on their own, except perhaps Oman, through whose waters two main shipping channels pass. Oman does have Jaguar aircraft with British pilots and some missile boats within range of the Strait of Hormuz, but probably could not stop Iran from closing the Strait.

41. Iran could attempt to interdict or blockade the Strait using its three destroyers, four frigates, and 10 missile patrol boats. Many of the weapons on these ships are not operational, but they could intimidate unarmed tankers and the navies of the other Gulf states. Iran also has fighter aircraft at two nearby

airbases to back up a blockade. Using naval and air forces to close the Gulf would allow Iran to continue its own seaborne shipments, at least temporarily.

42. An Iranian declaration that the Strait had been mined—whether or not this were true—probably would be sufficient to deter most oil shipping from attempting transit at least for a time. Iran has naval mines in its inventory and, although it does not have the expertise to lay a sophisticated minefield, is capable of laying mines randomly. Iran may have received as many as 300 naval mines from North Korea, [redacted] Iran probably also has some World War II-vintage British contact mines and reportedly is receiving mines from Libya.

43. The Strait of Hormuz is difficult to mine because of its depth, width, and strong currents. We estimate, however, that only 15 mines laid covertly in the main shipping channel probably would damage at least one ship transiting the channel within the first 24 hours. Several hundred mines nevertheless would be required to mine the entire navigable width of the Strait effectively. We assess Iranian minelaying capabilities are unsophisticated. Mines probably would be laid indiscriminately.

44. Western navies would be required to clear the Strait. France is considering redeployment of a mine-

**Table 1
Persian Gulf Air and Naval Order of Battle**

	Iraq	Iran	Saudi Arabia	Qatar	Kuwait	United Arab Emirates	Bahrain	Oman
Air Force								
Personnel	30,000	50,000	17,000	300	4,000	3,000	100	2,500
Fighters	500	260*	170	0	50	30	0	30
Attack helicopters	125	100	0	0	23	6	0	0
Surface-to-air missile launchers	345	300	90	18	27	21	0	24
Navy								
Personnel	4,500	15,000	5,500	700	600	1,500	100	1,500
Major combatants	0	7	0	0	0	0	0	0
Missile boats	10	11	6	3	0	6	0	3
Coastal patrol boats	21	34	100	35	40	44	19	24

* Fewer than a third of these are operational.

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sweeper force to the area. Saudi Arabia and Iraq have minesweepers but their crews are poorly trained. The length of time required to sweep the Strait depends on the type of mines laid, the size of the area suspected of being mined, and a variety of other factors, but weeks could be required to sweep even a narrow channel through the central portion of the Strait.

International Reaction

Arab Gulf States

45. The Gulf Arabs, in our judgment, are unlikely to challenge Iran except when directly attacked. Otherwise the Gulf states would attempt strenuously to avoid hostilities and look to the West to remove the Iranian threat. They all recognize that Iran is capable of causing them long-term security problems and they would strongly prefer to avoid actions that might give the Iranians cause for future retaliation.

46. Direct Iranian air, naval, or commando attacks on the Gulf states would produce varying reactions—from appeals to Iran for forbearance to requests for Western military intervention—depending on the country and installation attacked and the number and intensity of the attacks. The Gulf Arab states differ in their willingness to cooperate militarily with the United States. If under attack, these states, with the possible exception of Kuwait, would allow US forces access to their airfields or ports. Oman, geographically and politically removed from the Arab-Israeli dispute, would be the most willing to provide facilities access to the United States. Kuwait, host to a large resident Palestinian population and highly vulnerable to Iranian pressure, would be the most reluctant to cooperate militarily with the United States.

47. In our judgment, Saudi Arabia—the country whose oil resources matter most to the United States—would immediately seek US military intervention if its oil facilities or territory were attacked by Iran. If directly attacked, we believe Saudi Arabia, Oman, and Bahrain would be willing to allow the United States access to their facilities and to permit US combat operations to be launched from their territory against the Iranian threat.

Western Europe and Japan

48. Western Europe would look to the United States to take the lead in any military response to a disruption

of Gulf oil exports. Only France and the United Kingdom could make a significant contribution to Western military operations in the area, although both would prefer that the Allies head off escalation of the Iran-Iraq war through diplomatic efforts. Both are handicapped, moreover, by other current out-of-area requirements, including supporting the Multinational Force in Lebanon. The French Navy in particular probably would find it difficult to deploy substantial forces to the Indian Ocean now.

49. If the United States took direct military action, the French probably would join but would insist on maintaining some distance from US policy and leadership. French forces in the region—including ground and air units in Djibouti as well as naval forces—are at normal peacetime levels.

50. London would lend direct support for US action to reopen the Strait of Hormuz or to respond to attacks on oil facilities. Because of their continuing strong ties in the area, the British would coordinate their response with the Arab Gulf states as well as with the United States and France. The British also might dispatch some type of defensive armament to the aid of the Gulf states, such as the Rapier surface-to-air missiles sent to the UAE last year. A large-scale response would force the United Kingdom to divert forces assigned to the Falklands or NATO.

51. The normal British presence in the area—two frigates and support units—is currently supplemented by a task force, which includes a light aircraft carrier, on routine deployment. In addition, a large UK force, including two light aircraft carriers and amphibious forces, is participating in NATO exercises in the eastern Mediterranean.

52. Because West German leaders are highly sensitive to Western Europe's dependence on Middle Eastern oil, they would view any interruption of Gulf oil exports with alarm and probably would acquiesce in the movement of US military equipment through West German facilities on a case-by-case basis. Given Italy's vulnerability, Rome might consider providing minesweeping units if an international effort were mounted to reopen the Strait of Hormuz with naval forces.

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53. The smaller European states, including Turkey, would lend their support to US diplomatic efforts to resolve the crisis. However, we believe that, short of a direct military threat to their own security, the Turks would be opposed to the use of their facilities by US aircraft engaged in Persian Gulf operations. Turkish military involvement is a possibility only if the oil pipeline from Iraq were directly attacked by Iran.

54. If the United States decided to use force to reopen the Strait, Tokyo would probably offer at least tacit support. Strong public backing by Japan would be likely to depend on whether Saudi Arabia and Oman supported US military intervention and US actions were the minimal necessary to reopen the Strait. This condition would be tempered by the fact that Japan would be faced with the loss of almost two-thirds of its oil at a time when the world oil market would be rapidly tightening.

Economic Impact of Gulf Supply Disruptions

55. The impact of any disruption of Gulf oil exports in the near term would depend most importantly on the market's expectation of the duration and magnitude of the disruption. In addition, the impact would depend, of course, on the actual duration of the disruption, the availability of non-Gulf oil, and petroleum stockpiles. The current combination of surplus productive capacity and weak demand affords industrialized countries considerable protection against a **short-term oil supply disruption. Current available surplus capacity that could offset a supply cutback stands at about 8 million b/d, but only some 3 million b/d of that surplus is outside the Persian Gulf.** (See table 2.)

56. If only Iranian exports were disrupted, the impact would be minimal for most consumers. Surplus available capacity is sufficient to absorb the loss of Iranian exports, currently averaging 1.9 million b/d. Spot prices would begin to rise, however, if buyers anticipated a further spreading of the conflict. At a minimum, customers of Iran would be forced to line up alternative supplies. Turkey, Spain, and Italy rely on Iranian oil for at least 16 percent of import needs, and Iranian oil accounts for 13 percent of Japanese oil needs.

57. If Khark Island were shut down, the Iraqi pipeline through Turkey severed, and Kuwaiti exports

Table 2 *Million barrels/day*
Non-Communist Oil Supplies *

	Available Capacity	Estimated August Production	Surplus Capacity
Persian Gulf states	17.3	12.3	5.0
Saudi Arabia	8.5	5.5	3.0
Iran	3.2	2.5	0.7
Iraq	1.0 ^b	1.0	0
Kuwait	1.2	0.8	0.4
UAE	1.6	1.2	0.4
Other	1.8	1.3	0.5
Other states	33.2	29.9	3.3
Total	50.5	42.2	8.3
Net Communist exports and refinery gain	2.0	2.0	0
Total supply	52.5	44.2	8.3

* Includes natural gas liquids.

^b Represents the sum of Iraq-Turkey pipeline throughput and Iraqi domestic consumption.

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cut off, 3.5 million b/d of exports would be lost, eliminating most surplus capacity in the current market and leaving oil-importing countries in a high-risk situation. Although other Persian Gulf producers alone could replace these lost supplies by increasing production, the uncertainty surrounding the length of a **disruption and the risk to Gulf supplies would almost certainly cause an increase in spot oil prices.** Among major importing countries, Brazil and Turkey rely on imports from Iraq and Kuwait for more than 20 percent of their oil supplies. Whether price increases were sustainable would depend largely on market perceptions and the length and severity of the disruption.

58. The United States has a large stake in the continued flow of oil from the Persian Gulf in spite of the fact that US oil imports from the Gulf are small (2 percent of US oil consumption). Gulf oil constitutes about 30 percent of the non-Communist world's supply. Last year about 40 percent of Western Europe's and 60 percent of Japan's oil needs came from Persian Gulf countries. Denial of all or most of the source of supply for a substantial period of time would create a worldwide oil shortage much greater than in 1973 and 1979. Prices would skyrocket. The economic recovery

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in the developed countries would be interrupted. Oil importers among the less developed countries also would be hurt, and their ability to service foreign debt greatly reduced. The United States could not insulate itself from the disruption of the world oil market; it is obligated under the International Energy Agency agreement under certain circumstances to share in the burden of any supply shortfall. The longer term impact would depend on how the Persian Gulf political and military situation was finally worked out.

Impact on the International Financial System

59. We believe that rising prices following a major prolonged interruption of Persian Gulf oil exports would have severe repercussions on the international financial system, which already is strained by the payments problems of the less developed countries. The initial oil price shock would be destabilizing, particularly for those banking centers and countries with high exposure to LDCs that do not export oil. The major industrialized countries would be faced with the prospect of full-fledged recessions. IMF funds would be inadequate to handle the new large loan requests.

60. Non-Gulf OPEC members and non-OPEC oil producers would benefit most from the disruption. Major OPEC debtors, such as Venezuela and Nigeria, would move from large foreign reserves deficits to surpluses. Iraq and Oman could experience financial gains from the closure of the Strait as long as their overland pipelines continued to function. The other Gulf oil exporters could absorb losses over the short term.

61. We believe many non-oil-producing LDCs would face insurmountable financial problems. Banks would be reluctant to grant loans and risk nonpayment of debts. Some of these LDCs would be likely to turn to the United States for funding and leadership in handling their crises.

Implications for the United States

62. Escalation of military activity in the Gulf would have serious implications for the United States. Depending on the severity of the threat to oil exports, the Gulf Arabs, Western Europe, and Japan are likely to press Washington to intervene militarily or through diplomacy to solve the problem. The United States has little diplomatic leverage over Iraq and none over

Iran. US military intervention, if required, would push any hope of normalizing US-Iranian relations far into the future.

63. We believe Iran would attack Western naval ships attempting to break an Iranian naval blockade or to clear mines from the Strait of Hormuz. Iran knows it cannot halt Western intervention but would believe its credibility as a revolutionary state was at stake and that, in any case, the West would not invade Iran.

64. The Khomeini regime also is likely to view even lesser forms of US military intervention as a direct threat to its interests. The regime probably will try to further unite the population against the United States and to increase its invective against the West. We believe, however, that Iran would not call for Soviet assistance, even if the United States directly intervened in the Gulf. At least initially the regime would depend on its own resolve and perception of itself as God-protected. If the confrontation were prolonged, Iran's attitude toward Soviet aid would be less certain.

65. Tehran probably will choose to strike at the United States through increased terrorism. The Iranians might mount more operations against the US Marines or other targets in Lebanon. They also could be expected to consider attacking US embassies or airlines worldwide.

66. On the positive side, escalation would tend to reinforce US efforts to promote defense planning between the United States and the Arab Gulf states. If US intervention were effective and proportionate to the threat, US standing among the Arab moderates, particularly those hostile to revolutionary Iran, would be enhanced.

67. US intervention would also have negative political consequences in the region. Soviet pressure on South Yemeni and Ethiopian leaders to grant base facilities to counter the United States would be likely to increase. In addition, if the Gulf states perceived US intervention as disproportionate and needlessly increasing prospects for a US-Soviet confrontation in the Persian Gulf, they would be reluctant to pursue close association with US defense planning.

68. Over the long run, the threats to oil exports as a result of the war will intensify efforts by Gulf oil states to develop plans for alternate oil export routes that bypass the Strait of Hormuz. For Iran this means pipelines to the Gulf of Oman; for Arab producers,

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including Iraq, it means pipelines to the Red Sea, or possibly the Indian Ocean.

Impact on the USSR

69. The Soviets would welcome any disruption of Western economies, however short lived, caused by an interruption of Persian Gulf oil exports. It would create problems in the West and Japan and engender strains between the West and the Third World as they competed for the remaining oil available on the world market. In contrast, Cuba, Vietnam, and Soviet allies in Eastern Europe would be only slightly affected by such a cutoff. The Soviets also could acquire additional hard currency from oil sales at higher prices and could underscore Moscow's claims to be a reliable energy supplier and the need for Soviet-West European energy cooperation.

70. Although the Soviets would welcome these benefits, they would probably favor an early end to any escalation of hostilities in the Gulf, especially if the fighting threatened to lead to an increased US presence. The Soviets consistently have called for an end to the Iran-Iraq war because it has created frictions over Soviet arms sales to both belligerents and because Iraq has moved closer to moderate Arab states while improving ties with the United States. The Soviets might be tempted to try mediating the Iran-Iraq conflict themselves. Baghdad would probably welcome any effort to end the war, but Iran would probably reject Soviet mediation. In addition, the Soviets would not hamper efforts to mediate a Gulf conflict, so long as the United States was not perceived as the main broker.

71. The Soviets would seek to translate Iran's predicament into increased Soviet influence in Tehran.

The Soviets probably would offer to sell Tehran more arms and perhaps even offer to augment Iranian air defenses, but such offers are unlikely to overcome basic Soviet-Iranian differences. Moscow would try to minimize the adverse effect this would have on its relations with Baghdad by emphasizing that its aid to Iran was in response to a US threat.

72. The USSR would intensify its propaganda about the US and Western threat to the Gulf. Moscow might well refloat Brezhnev's call for an international conference on Gulf security. The USSR would caution against Western attacks in an attempt to take credit for preventing Western attacks on Iranian territory.

73. The USSR would be concerned about any buildup of Western military forces in the Persian Gulf. Moscow would increase its intelligence-gathering efforts in the region as tensions mounted, and Soviet naval forces in the area probably also would be augmented. If Western airpower in the region were increased, some Soviet forces—particularly air and air defense units in the southern USSR—would be placed on alert.*

74. Limited Western strikes against Iranian airfields or ports are likely to prompt Moscow both to admonish the United States and the West to cease their attacks and to warn them against invading Iran—as Brezhnev did in November 1978. The Soviets probably would also step up air defense activity within their borders and might alert and mobilize airborne units and ground forces in military districts bordering Iran. They almost certainly would mobilize these units if a Western threat to invade Iran emerged.

* For more information on Soviet military capabilities to respond to events in the West, see forthcoming NIE 11/39-83, *Soviet Forces and Capabilities in the Southern Theater of Operations*.

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