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CENTRAL INTELLIGENCE AGENCY
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MEMORANDUM

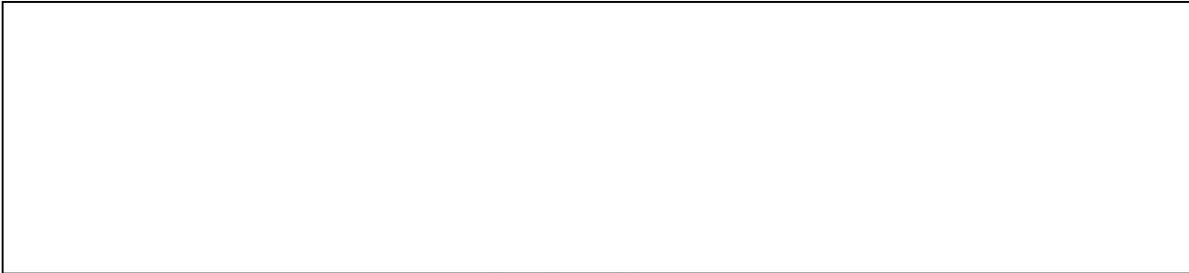
IRAN-IRAQ WAR: STATUS, IMPACT, AND PROSPECTS

Summary

The stalemated Iran-Iraq war probably will continue at present levels of fighting through the winter with neither side able to defeat the other and the Iranians unreceptive to Iraqi peace feelers. The Iraqis seem eager to cut their losses and end the fighting, but the Iranians hold the initiative in the ground war and appear determined to endure, both in the hope of causing the regime in Baghdad to collapse and to occupy their military far from Tehran. Both sides are receiving supplies sufficient to support at least the present level of fighting for the foreseeable future.

The Iran-Iraq war is only the current manifestation of a historical enmity and competition for dominance of the Persian Gulf. When the present war does end, it will be a qualified, temporary, and fragile peace, which probably will leave one of the parties bitter and intent on redressing the situation at the first opportunity.

Continuation or conclusion of the war probably will not be decisive in the development of future US relations with either country. The war will not change Iraq's fundamental attitudes about Arab-Israeli issues nor is it likely to substantially mitigate the anti-US attitudes of the Iranian leadership.



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Continued preoccupation of both Iran and Iraq with the war precludes either from establishing its leadership in the Gulf region and enhances the freedom of action of the moderate Arab states, particularly Saudi Arabia. A more assertive Saudi Arabia, as evidenced in the Fahd peace plan, may complicate, as well as serve, the pursuit of US interests. The greatest danger for US and Arab interests in the Gulf, however, would be an Iranian attack on another Gulf state in an effort to dramatize the vulnerability of the region's oil facilities and to exact revenge for Arab support of Iraq's war effort.

Both Iran and Iraq would like to increase their oil exports, but the war and probably the weak world oil market preclude significant change at this time. The oil market could absorb moderate increases in oil production by both countries, and, with offsetting Saudi production cuts, still sustain current oil prices. An end to the war and a return to prewar oil production levels by both countries, however, would create strong downward pressures on oil market prices. To avoid a significant decline from the current \$34 benchmark level, other Arab states would have to produce well below capacity for an extended period and Iraq might have to phase in full production slowly. The necessary steps to prop up oil prices probably would be taken by producing countries, but success would be dependent on a moderate economic upturn in the Western economies, leading to an increase in demand for OPEC oil.

Prospects for a Settlement

Prospects seem remote for an early settlement or even a ceasefire in the Iran-Iraq war. Although Iraq has indicated an apparent willingness to make major concessions to end the war, Iran remains unresponsive. Iraq's position is influenced by Iran's recent battlefield successes, low Iraqi troop morale, the continued vulnerability of important Iraqi economic sites, and the low level of its oil exports. Iran seems willing to endure the financial drain of the war, serious economic problems, and the frustration of international isolation in the hope that its modest successes on the battlefield, magnified by Iraq's lack of initiative, will undermine the Iraqi military position and even cause the collapse of the regime in Baghdad. It also still suspects the loyalty of its military and wishes to keep the army preoccupied with the external threat.

Recent tentative exploration by both sides, at Iraq's initiative, of possibilities for a ceasefire and negotiation of disputed issues has produced nothing. Iraq has indicated a willingness to accept the 1975 border accord with Iran as a basis

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for negotiation in an apparent concession to Iranian demands. Baghdad may not be willing to renew the 1975 agreement, but it may be flexible even on the central issue of sovereignty over the Shatt al-Arab. Although some Iranian leaders also have suggested that the 1975 accord could be open to negotiation, the Khomeini regime sees little advantage for Iran in negotiations at this time. Moreover, the cost of the war is unlikely to push Iran toward negotiations. Iran has been able to make barter and other arrangements for sufficient equipment and materiel to support at least the present level of fighting.

The embarrassment of continued Iraqi occupation of Iranian territory, along with rising frustrations and heavier casualties, could move Iran to again attack port or oil facilities in another Gulf state, such as Kuwait, in an effort to pressure the Arabs into forcing Iraq's withdrawal or at least ending Gulf assistance to Iraq. Such an attack would dramatize the vulnerability of all the region's oil facilities and enable the Iranians to exact revenge for Arab support of Iraq's war effort.

Despite its war losses and reduced military strength, Iran still has sufficient air and naval forces to attack major military and economic targets in any country on the Persian Gulf. Iran's chances for successful strikes are enhanced by the generally poor air defense and naval capabilities of the Gulf states. Likely actions by the Western powers probably would not be the critical factor in Iran's calculations.

The Military Situation and Supply Relationships

Neither Iraq or Iran now appears capable of achieving military victory over the other or even a military breakthrough. Barring political upheaval in either Tehran or Baghdad, therefore, the war is likely to grind on with Iran nibbling away at Iraq's positions. The Iraqis continue to have a significant advantage in most categories of military equipment, but Baghdad's conservative military tactics and the low morale of its forces seem to preclude a major Iraqi ground offensive. The Iraqis appear content to remain in defensive positions and mount air and missile attacks on Iranian cities and economic installations in an effort to force Iran to the bargaining table.

As a result of Iraq's tactics, the military initiative on the ground has shifted to Iran. The morale and determination of the Iranians appear superior to the Iraqis', but Tehran lacks the military equipment and the offensive power to push them out quickly. Since mid-May, however, the Iranians have been slowly pushing the Iraqis back around Susangerd. In late September the Iranians forced them to withdraw from their positions east of Abadan, winning their biggest victory of the war.

The defeat at Abadan lowered Iraqi morale and Baghdad's current tactics promise more defeats and even lower morale. The Iraqi troops have been stuck in fixed positions for months, and

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pounded by Iranian artillery. They already are reluctant to die fighting for territory which Baghdad has made clear will be returned to Iran during peace negotiations. If this situation worsens, the Iraqi line could begin to crumble, affording the Iranians a dramatic breakthrough.

Iran and Iraq are receiving supplies sufficient to enable them to continue the fighting at current levels.

- Iran, relying on an infantry-heavy "people's war," is receiving small arms, artillery, and ammunition from North Korea--now its largest supplier--and tanks and artillery from Libya. The USSR likely will increase the pace of shipments of its recent \$220 million sale of ground equipment, and probably allow the East Europeans to selectively provide some items in short supply. Israel, Taiwan, and sources in the European black market are supplying ammunition and spare parts for Iran's Western equipment.
- Iraq's resupply position improved markedly after April when the USSR modified its embargo. The Soviets and the Warsaw Pact, under earlier contracts, will continue to provide major hardware, munitions, spare parts, and support equipment. West European suppliers, particularly France, have signed contracts for over \$3 billion in new arms, and China has concluded a billion dollars in new arms contracts, mostly for spare parts and artillery ammunition, but also possibly including some 2,000 tanks. Iraq receives financial and logistical support from the moderate Arabs; these sources have loaned Baghdad \$21 billion since the war began.

The war is altering the military supply relationships of both Iraq and Iran, perhaps in permanent ways. The Iraqis, bitter over the Soviet arms embargo, have purchased almost \$7 billion in arms from non-Communist suppliers since the war started, nearly equal to total Soviet sales since early 1974.

[] Nevertheless, the Soviets will retain a large share of the Iraqi arms market for the foreseeable future because of their ability to supply large quantities of modern equipment quickly and Iraq's difficulty in soon changing from a Soviet-supplied to a Western-supplied military. If Saddam Hussein survives the war, however, the Soviets probably will continue to lose leverage over the Iraqi armed forces.

Iran, on the other hand, is turning increasingly to Soviet-model equipment as the war drags on and Western nations refuse to sell major combat items. If the war continues for many more months, the Iranians likely will have to depend on Soviet-

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model tanks and artillery and possibly aircraft as well. Whether this trend would be reversed when the war ended is unclear; it certainly would be slowed if Western arms became available.

Impact of a Settlement on World Oil Markets

Iraq and Iran both need an increase in oil exports to make alternative arrangements for the purchase of military equipment and other essential goods. Iraq, unable to export oil through the Persian Gulf, has obtained loans from other Arab states to compensate for lost oil revenues. What oil it does export is carried in two pipelines through Syria and Turkey to the Mediterranean Sea. Iran's revenue losses, due as much to the revolution and the current weak oil market as the war, have forced it into barter arrangements with other countries.

An end to the Iran-Iraq war could result in a production increase to 3 million b/d in each of these two countries within a year of the end of the conflict. Both countries will have the economic incentive to at least attempt to boost exports rapidly.

Assuming no additional critical damage to its oil installations, Iraq, currently producing about 1 million b/d, probably could restore exports to its prewar level of about 3 million b/d within 8 months to one year.

Iran still has the physical capacity to raise exports to 3 million b/d or more from its current level of about 1 million b/d. An increase in crude exports to that level, however, is unlikely under the present regime.

An increase to 6 million b/d by Iraq and Iran would create strong downward price pressures in the oil market for the next 2-3 years and, at a minimum, cause an extended decline in real oil prices. Avoiding a significant decline in nominal oil prices from the current \$34 benchmark level would depend on the willingness of Saudi Arabia, Kuwait, and the UAE to produce well below capacity for an extended period, and Iraq might have to phase in production more slowly than capacity would allow. On balance, we think this group would be willing to take the hard measures necessary to underpin nominal oil prices.

The oil market likely will stabilize early next year with ample but not excessive surplus capacity remaining in the OPEC countries even with the war in progress. Current OPEC output is 21 million b/d, and excess oil company stocks are being reduced by about 2-3 million b/d. With a moderate economic upturn in the Western economies and an end to destocking, demand for OPEC oil will rise to around 24 million b/d in 1982 and remain at that level the following year. This would accommodate modest increases by Iraq and Iran and permit the other OPEC members to return to prewar production patterns and still sustain current price levels, with Saudi Arabia balancing the market and producing about 8.5 million b/d.

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If Western economic recovery falters, increased production from Iran and Iraq would result in greater pressures on the other producing states. The Saudis probably would be unwilling to cut their output much below 7 million b/d, and a decline in the nominal oil price would become increasingly likely.

US Interests and the War

Iraq wants better relations with the US, but improved ties hinge more on a change in its perception of US support for Israel than on an end to the war with Iran. Saddam Hussein is sensitive to publicity about Iraqi-US contacts and, fearing criticism from fellow Arabs, is unlikely to move unilaterally. Moreover, current bilateral contacts satisfy most Iraqi economic and political needs. Iraq, however, is seeking to acquire US military equipment and probably will approach Washington directly when the war ends.

The war has further moderated Iraqi attitudes toward the West and the moderate Arab states. This tempering is unlikely to be reversed, even if the war were to end. The war and Iraq's estrangement from the USSR have forced Baghdad to develop close ties with pro-Western Arab neighbors who have long urged Iraq to reduce its dependence on the Soviets. These states, led by Saudi Arabia, Jordan, and Kuwait have provided Iraq essential financial, logistical, and political support. Iraq has responded by muting its traditional hardline views on Mideast issues of importance to its benefactors.

No matter how the war ends, Iraq still will face an Iranian threat to its trade lifeline through the Persian Gulf and the Strait of Hormuz. Baghdad remains concerned about this vulnerability and is trying to speed work on alternative routes--road, rail, and pipeline. Although these efforts may reduce its vulnerability to Iranian attacks, completion and operation of the routes are dependent on other Arabs, and this will leave Iraq beholden to the moderate Gulf states, particularly Saudi Arabia.

Iranian attitudes toward the US and the West show little sign of changing appreciably, even if the war were to end. Iran's need for military equipment because of the war has forced it to turn to the USSR and its allies. Tehran's continuing political and economic turmoil have enhanced the power of those most opposed to the US specifically and the West in general. Moreover, declining oil revenues have forced Iran to increase its use of barter in trade relations and such arrangements have been received more favorably in the East than in the West. The durability of these relationships is uncertain, but if the war were to end Iran might perceive the need to balance them with at least loose ties to Western Europe.

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A clear Iranian victory would be unsettling to the Gulf region--Iraq's role as a counterbalance to Iran would be seriously eroded making the other states of the area more vulnerable to Iranian pressures.

The war has served other US interests in the Gulf region.

- The belief has been heightened among the moderate Arab Gulf regimes that their security ultimately lies both with strengthening ties among themselves and with the West.
- Iraqi dependence on moderate Arab states--and even Egypt--has been established, reinforcing a trend toward a more cooperative attitude in Baghdad on regional issues.
- The war has deflected Iran's efforts to export its Islamic revolution to neighboring countries, and Iraq's poor military performance has damaged its pretensions to Arab leadership in the Gulf.
- The other Arab states of the Gulf have been able to formalize their enhanced power by establishing the Gulf Cooperation Council, which excludes both Iran and Iraq, something long desired but always avoided for fear of angering either country.
- Iraq's declining stature as a result of the military stalemate with Iran has allowed Saudi Arabia to assert a wider leadership role, as evidenced by the Fahd peace proposal; this may complicate as well as serve the pursuit of US policy interests.

Coincidental with US interests, the Gulf Arabs, particularly Saudi Arabia, probably view their interests as best served by the continuation of the stalemated war at its present low level of fighting. These states likely fear that its end would gradually permit the reemergence of either Iraq or Iran, or both, as more aggressive actors in the Gulf region.

More far reaching, the war between Iran and Iraq has clearly widened the margin of Israel's military superiority over its enemies. The Arab forces that could be arrayed against Israel will be sharply reduced as long as tensions remain high around the Persian Gulf.



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SUBJECT: Iran-Iraq War: Status, Impact, and Prospects [redacted]



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