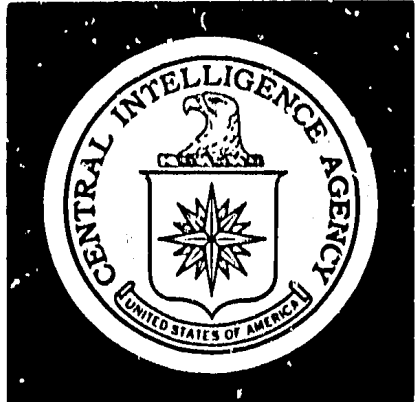


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Spanish Sahara: Phosphates And Sovereignty

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September 1970

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
September 1970

INTELLIGENCE MEMORANDUM

Spanish Sahara:
Phosphates And Sovereignty

Introduction

The political as well as economic future of Spanish Sahara hinges on the exploitation of its phosphate mineral resources. Were it not for these deposits, Spain might have relinquished control of the area as it has many of its other North African possessions. Morocco views the exploitation of Spanish Saharan phosphates as a large potential source of foreign exchange if it could acquire control of the area, and as a threat to its own important phosphate industry if Spain retains control. The planned start of mining operations in 1971 appears to have stimulated an intensification of diplomatic maneuvering. Rabat has obtained the cooperation of Algeria and Mauritania in exerting pressure on Madrid to relinquish control over Spanish Sahara. This memorandum examines Spanish Sahara's nascent phosphate industry and the economic basis for Morocco's fear of Saharan competition.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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Background

1. The sovereignty of Spanish Sahara, a barren wasteland at the western end of the Sahara Desert, is the subject of a growing dispute between Spain on the one hand and Morocco, Mauritania, and Algeria on the other (see Figure 1). Madrid has relinquished much of its colonial territory in Africa but wants to retain control over Spanish Sahara primarily because of its mineral resources, particularly phosphates.

2. Madrid has attempted to maintain sovereignty over Spanish Sahara in several ways. In 1958, following incursions by Moroccan irregulars, the territory was declared a province of Spain. In the early 1960s, Spain took advantage of Morocco's additional territorial claims to Mauritania and to parts of Algeria by encouraging Mauritania to stake its own claim to Spanish Sahara. Algeria, as a state bordering Spanish Sahara, was encouraged to assert its right to a voice in the disposition of the territory.

3. Frustrated by Spain, Morocco turned to the United Nations. The General Assembly adopted several resolutions affirming the right of self-determination for the people of Spanish Sahara. It called upon Spain, in consultation with the Mauritanian and Moroccan governments and other interested parties, to set a date and procedures for a referendum under the auspices of the United Nations. Until 1969, Spain regarded the United Nations resolutions as tolerable and in fact voted for them. Spain apparently felt reasonably secure in the absence of any time limit in the resolutions and, above all, was confident in its ability to manipulate mutual antagonisms among rival African claimants.

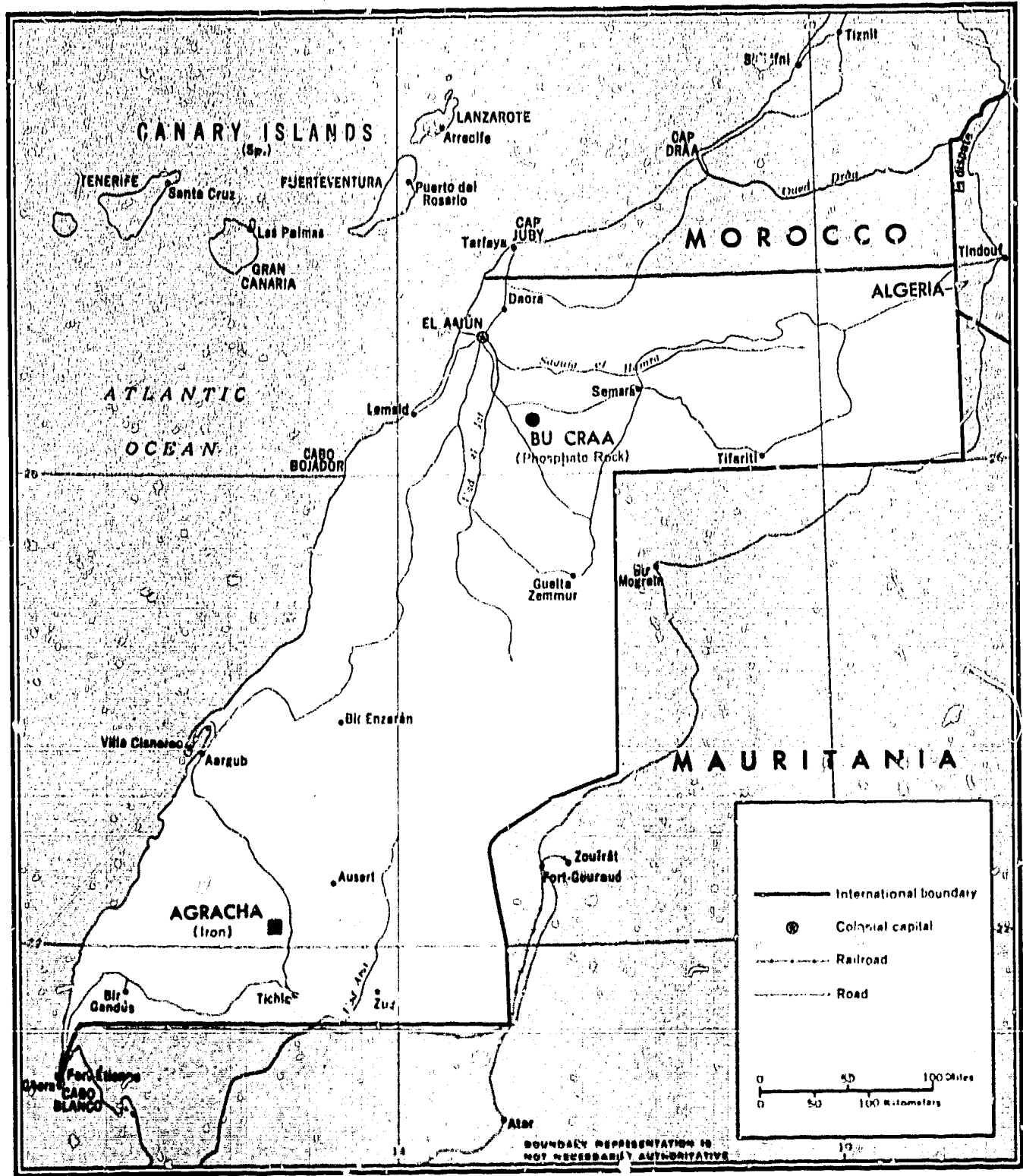
4. By agreeing to drop its border claims against Algeria and by recognizing the sovereignty of Mauritania over its own territory, Morocco now has obtained a semblance of a united front against Spain. A number of high-level talks in the first part of 1970 have led to joint statements by North African leaders in favor of immediate self-determination, and a tripartite summit has been scheduled for September before the United Nations General Assembly meets. Pressures have been primarily diplomatic, but use of the news media to

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SPANISH SAHARA: Phosphate Rock and Iron Deposits

Figure 1



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portray the Spanish as imperialist suppressors of the Saharan people has not been ignored. While the timing and objectives of the UN-recommended referendum have not been established, Rabat's -- and to a lesser extent Nouakchott's -- objective is the end to Spanish rule and the extension of their own rule to Spanish Sahara; Spain's objective is to retain its control, and Spanish officials seem to be thinking along the lines of asking for a vote in support of a political system tied to Spain.

5. The timing of the resolution of Spanish Sahara's political future has now become a principal issue and is the major point of conflict between Spain and Morocco. Spain, stating that Spanish Sahara should be "economically viable" before submitting to a referendum, is trying to postpone the referendum for at least another two years. Morocco, recognizing that exploitation of Saharan phosphates by Spain will hurt its own phosphate exports, is trying to force the issue before mining operations begin in 1971.

Resources

6. Spanish Sahara is almost completely arid, and the sparse, impoverished population, estimated at 30,000 to 40,000, is largely nomadic. Because of the lack of natural harbors, most of the fishing along the coastline is carried out by Canary Islands fishermen. The only crop that can be grown successfully is barley, and that only occasionally in low-lying areas after rain. Recently discovered underground water sources have led to some experimental farming and an end to importing water from the Canary Islands.

7. In the late 1950s and throughout the 1960s, the Spanish believed that the territory held sizable petroleum deposits. They awarded concessions to several foreign companies for large-scale exploration but with negative results. By mid-1969 the possibility of finding onshore oil was discarded, although the search for offshore oil continues.

8. Substantial iron deposits (20 million tons to 70 million tons) are located in the south at Agracha, but the economic feasibility of exploitation has yet to be determined. The deposits consist of titaniferous (titanium-bearing) iron ore

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containing 54% hematite (iron oxide) and 14% titanitic dioxide. Currently, titaniferous ores are shunned by most steel producers because they cannot easily be smelted in a blast furnace without excessive operating difficulties and high fuel consumption. Economically profitable processes for handling such ores, however, appear imminent, as evidenced by Japanese interest in titaniferous ores in Alaska.

9. Spanish Sahara's greatest mineral asset is a large deposit of high-grade phosphate rock discovered in 1963 at BuCraa, some 60 miles from the coast near Morocco. Reserves, estimated at 1.4 billion tons to 1.7 billion tons of minerals, are much smaller than Morocco's 44 billion tons -- the world's largest -- but are sufficient to put Spanish Sahara among the world's leading producers for many years. The phosphate content of the mineral is 70% to 72%, and with processing it can be increased to 78% to 80%, a quality comparable with the best grades of other producers. The phosphate is exposed on the surface and can be worked by open-pit mining methods. Thus, although the initial investment requirements are large, operating costs should be low.

Exploitation of Phosphates

10. The deposits are being developed by the Spanish state mining company Fosbucraa (Fosfacos de BuCraa S.A.). By mid-1970, Fosbucraa had invested more than \$192 million to provide facilities for mining, processing, and transportation. Total investment, including funds from several Western sources, may reach between \$360 million and \$400 million. Facilities and methods for handling the phosphate ore will be among the most modern in the world. The entire mining complex is expected to be operational by mid-1971, producing 3.3 million tons in the first year and placing Spanish Sahara in fourth or fifth place among world producers behind the United States, the USSR, Morocco, and possibly Tunisia (see Figure 2). By 1975, production is expected to reach 10 million tons annually, an output nearly equal to that of Morocco in 1969 and worth approximately \$100 million at current prices.

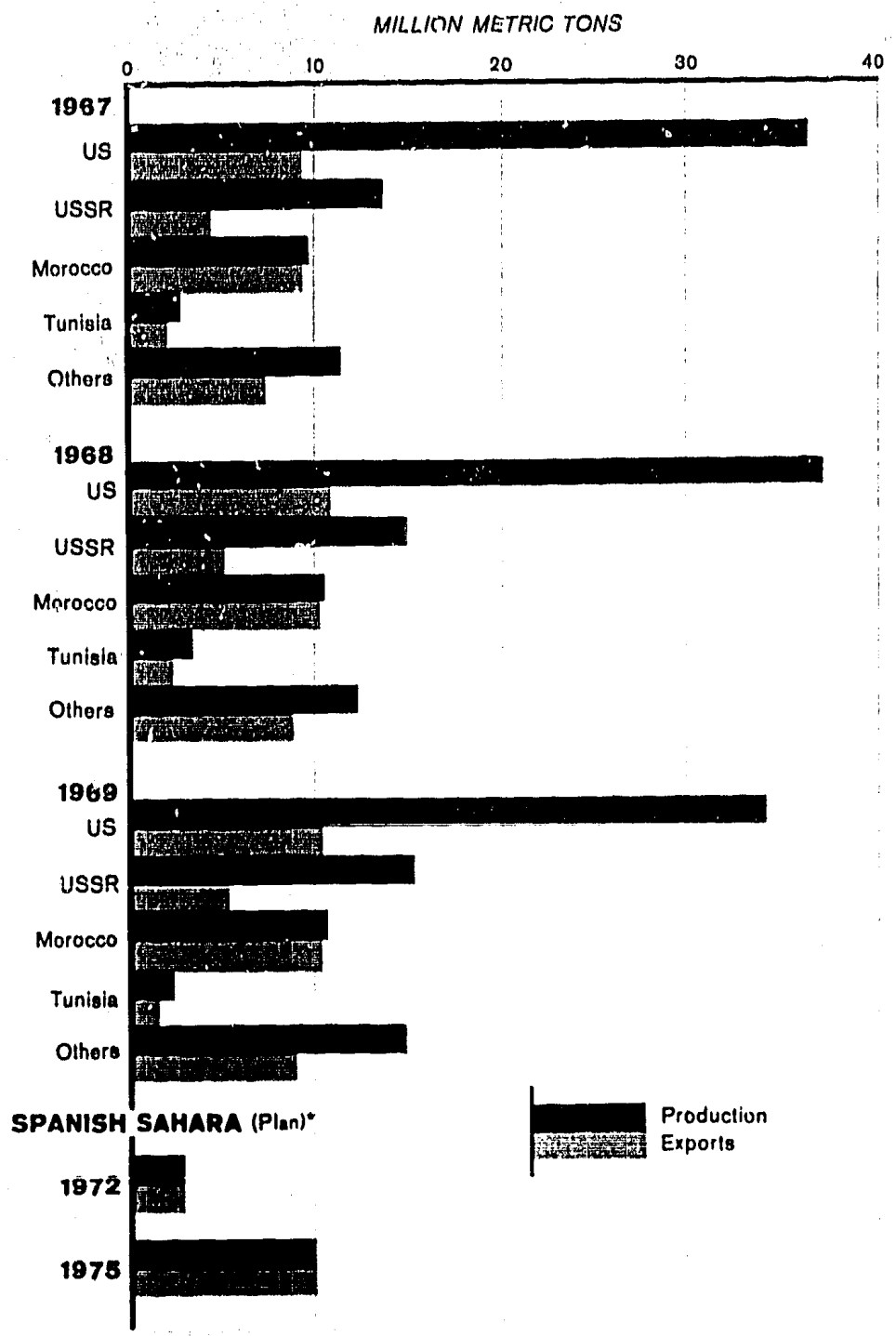
11. Several components of the phosphate complex have been completed, and construction is progressing well on the remainder. At BuCraa, a pilot

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Figure 2

Production and Export of Phosphate ...



*All production exported.

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crushing and concentrating plant is in operation. By 1971, the first of three identical processing plants will be operational and will process 1,000 tons of ore per hour. Near El Aaiun, finishing touches are being made on a 2.2-mile breakwater and ore-loading pier. Each of five loading machines on the pier is able to load ore at the rate of 4,000 tons per hour, and a storage silo with a capacity of 300,000 tons has been completed. The port is capable of servicing 100,000-ton ore carriers. A completely automated belt conveyor system, which will transport the concentrates over the 62 miles between BuCraa and El Aaiun, is under construction. Built by the Krupp Machinery and Steel Construction Company of West Germany at a cost of about \$50 million, the system includes 10 six-mile-long conveyors. When completed in mid-1971, the system will be able to carry a steady flow of ore at the rate of 2,000 tons per hour.

Marketing Saharan Phosphates

12. Spanish Sahara's phosphate industry will enter an expanding but highly competitive world market. World exports reached a record 37.4 million tons in 1968 but declined slightly in 1969 because of oversupply. By 1975, new mining capacity being developed by Spanish Sahara, Morocco, Tunisia, Jordan, Syria, and Egypt will be able to produce an additional 18 million tons of phosphate rock for export annually, and other phosphate exporters also will expand their operations. Thus export capacity will increase about 50%. Moreover, export capacity probably will grow more than import demand, which is unlikely to meet the record 9% annual growth of the 1960-68 period.

13. In this kind of market, intrusion of a large new exporter is bound to cut into the sales of some of the traditional exporters. Spanish Sahara is in a favorable position to carve out a major role in the phosphate market because of an assured market in Spain, a possible inside track in France, and probably lower costs than most competitors. The Spanish market currently stands at 1.3 million tons, perhaps all of which will be supplied by Spanish Sahara in the future. Spanish consumption of phosphate fertilizers has been growing, and Spain is developing a substantial

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chemical complex at Huelva, including several large phosphoric acid projects, many of which will be operational when Saharan phosphates become available. The proposed phosphoric acid projects would provide a demand for phosphate rock at Huelva alone in excess of one million tons annually.

14. French participation in the Saharan operation would ensure Spanish Saharan penetration of the French market, at present dominated by Morocco. Negotiations are in progress involving a possible shareholding by a group of French companies. The French group consists of the five largest phosphate rock consumers in France and accounts for 75% of total French phosphate rock imports, which amounted to 3.4 million tons in 1969. Spain and France together could provide markets for nearly all of Spanish Sahara's initial phosphate rock output of 3.3 million tons a year.

15. Spanish Sahara will have to penetrate markets all over the world to dispose of its projected annual production of 10 million tons by 1975. The characteristics of the Spanish Saharan operation indicate, however, that phosphates will be produced at a relatively low cost and will be able to compete favorably in those markets that do not afford them preferential treatment. The deposits are located near the surface and can be extracted by relatively inexpensive open-pit methods. The belt conveyor system is perhaps the least expensive method available for shipping the ore overland. Moreover, the capability of its port facilities to handle ships of up to 100,000 tons gives Spanish Sahara a distinct advantage by enabling it to use bulk carriers at a time when ocean freight rates are increasing and most other producers are just beginning to develop and use port facilities for handling bulk carriers.

16. The most likely markets are Western Europe (besides Spain and France), Eastern Europe, and Japan (see the table). Morocco is the dominant supplier to Western Europe, but vigorous penetration by the United States, Togo, Senegal, and Israel in recent years has reduced Morocco's overall share of the market. Morocco and Tunisia already have captured a sizable portion of the East European market, and both countries consider Eastern Europe a good market opportunity for

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Summary of World Phosphate Rock Trade ^{a/}
1969 Estimate

Thousand Metric Tons

Destination	All Suppliers	United States	Suppliers								USSR	Other ^{b/}	
			North Africa			West Africa		Middle East					Nauru, Ocean, and Christmas Islands
			Morocco	Tunisia	Algeria	Togo	Senegal	Jordan	Israel	Egypt			
Western Europe	17,142	3,848	7,407	1,029	62	1,306	761	78	510	3	28	2,098	11
Eastern Europe	6,355	--	1,470	754	170	--	--	292	295	74	--	3,300	--
North America	2,479	2,354	--	--	--	--	--	--	--	--	--	--	125
Latin America	1,123	991	81	36	--	--	--	--	15	--	--	--	--
Asia	5,851	2,921	1,232	27	128	158	149	557	32	309	257	--	81
Australasia	3,689	116	50	--	--	--	--	--	--	--	3,523	--	--
<i>Total</i>	<i>36,642 c/</i>	<i>10,230</i>	<i>10,262 c/</i>	<i>1,850 c/</i>	<i>360</i>	<i>1,464</i>	<i>910</i>	<i>925</i>	<i>852</i>	<i>386</i>	<i>3,808</i>	<i>5,398</i>	<i>217</i>

a. For country detail, see the Appendix. Because of rounding, components may not add to the totals shown.

b. Curacao, North Vietnam, and Mexico.

c. Including a small amount (25,000 tons in total) exchanged among North African countries.

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offsetting the decline in their shares of the West European market. Jordan, Israel, and Egypt also anticipate larger sales to Eastern Europe. Japan now purchases phosphates from the United States, Morocco, Togo, Senegal, and Pacific suppliers. The North American and Latin American markets are dominated overwhelmingly by the United States, and Spanish Sahara is unlikely to attempt to penetrate them on a large scale. The Australasian market, similarly, is supplied exclusively by Nauru and other Pacific islands.

Cause for Moroccan Concern

17. Morocco's phosphate industry, owned by the state and managed by the Office Cherifien des Phosphates (OCP), is an important factor in the country's economy. It accounts for almost 25% of total export earnings and the major part of the traffic of Moroccan railroads and of the ports of Casablanca and Safi. Moreover, numerous enterprises depend on the phosphate industry as a customer for equipment, supplies, and maintenance service.

18. Morocco is implementing an ambitious \$143 million expansion program intended to enable the country to regain a portion of the world market lost to competitors during the 1960s. Morocco continues to be the world's major phosphate rock exporter,* but its share of the market has dropped from 37% in 1964 to 28% in 1969 (see Figure 3). Failure to obtain markets for the planned 6-million-ton increment in mining capacity would be a setback to economic development.

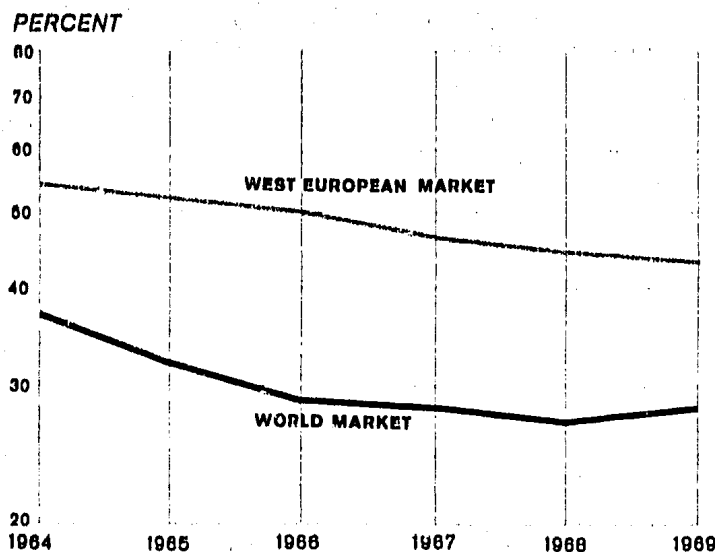
19. The introduction of Saharan phosphate rock on the world market is almost certain to hinder the expansion of Morocco's phosphate exports. Spanish preference for Saharan phosphate will mean a loss in Moroccan sales to Spain alone of perhaps as much as 900,000 tons annually; French participation in the Saharan development could lead to even larger losses in exports to France, currently Morocco's largest market. Spanish Sahara could probably undercut Morocco's price for phosphate rock in other countries because much of Morocco's extraction involves higher cost underground mining

* See the Appendix.

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Figure 3

**Morocco's Share of World
and West European Phosphate Markets...**



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and shipment by rail. Spanish Sahara will have a further pricing edge by being able to make use of larger bulk carriers for ocean shipment than Morocco's improved port facilities will be able to handle.

Conclusions

20. The impending exploitation of Spanish Sahara's phosphate deposits has stimulated the recent intensification of diplomatic maneuvering by Morocco to pressure Madrid into relinquishing control over this area. Morocco considers competition from Saharan phosphates a major economic threat. It has been willing to forgo territorial claims to Mauritania and sections of Algeria, in part to achieve a united front with these two countries for exerting pressure on Spain.

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21. With the start of operations in 1971, Spanish Sahara will become one of the world's top phosphate producers, rising quickly to the world's fourth or fifth ranking producer behind the United States, the USSR, Morocco, and perhaps Tunisia. The necessary facilities for processing and transporting the ore are being constructed and, when completed, will be among the most modern and efficient in the world. With assured markets in Spain and possibly France, and low production and transport costs, Spanish Saharan phosphate is in a strong competitive position. Both the first year's production goal of 3.3 million tons of high-grade concentrates and the 10 million tons per year to be produced by 1975 thus appear to have ready buyers abroad.

22. A genuine basis exists for Morocco's fear of competition from Saharan phosphate. Morocco's phosphate industry is an important factor in the development of its economy. Spanish Sahara may reduce substantially or eliminate a 900,000-ton Moroccan market in Spain and could delay or deny the full utilization of Morocco's new capacity by penetrating other markets in which Morocco has a significant stake. If Morocco could acquire control over Spanish Sahara, it could expect a substantial increase in foreign exchange earnings and government profits. However, the chances appear slim that Spain will soon surrender its control over so profitable an asset.

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APPENDIX

World Phosphate Rock Trade ^{a/}
1969 Estimate

Destination	Suppliers												
	All Suppliers	United States	North Africa			West Africa		Middle East			Nauru, Ocean, and Christmas Islands	USSR	Other ^{b/}
			Morocco	Tunisia	Algeria	Togo	Senegal	Jordan	Israel	Egypt			
Western Europe	17,141	3,848	7,407	1,929	62	1,306	761	78	510	3	28	2,098	11
Austria	329	126	11	42	--	--	--	--	90	--	--	60	--
Belgium	1,743	250	1,139	16	--	93	31	--	8	--	--	195	11
Denmark	326	--	229	25	--	--	--	--	--	--	--	72	--
Finland	490	--	67	--	--	--	8	--	--	--	--	415	--
France	3,445	283	1,612	491	13	737	186	--	123	--	--	--	--
West Germany	2,706	1,219	251	70	--	139	67	--	--	--	--	960	--
Greece	443	16	101	227	--	--	81	--	18	--	--	--	--
Ireland	327	1	326	--	--	--	--	--	--	--	--	--	--
Italy	1,985	1,233	444	88	26	9	31	--	119	--	--	35	--
Netherlands	1,273	275	392	--	--	328	207	--	--	--	--	71	--
Norway	132	15	54	--	3	--	--	--	--	--	--	60	--
Portugal	298	--	295	--	--	--	--	--	3	--	--	--	--
Spain	1,352	313	994	15	17	--	5	--	5	3	--	--	--
Sweden	517	--	422	--	--	--	4	--	--	--	--	91	--
United Kingdom	1,662	108	1,056	44	2	--	140	--	145	--	28	139	--
Other	109	4	15	12	--	--	--	78	--	--	--	--	--
Eastern Europe	6,355	--	1,470	754	170	--	--	292	295	74	--	3,300	--
Bulgaria	483	--	21	92	--	--	--	--	--	--	--	370	--
Czechoslovakia	904	--	276	50	53	--	--	43	--	32	--	450	--
East Germany	1,382	--	57	14	--	--	--	--	--	11	--	1,300	--
Hungary	437	--	--	--	57	--	--	--	--	--	--	380	--
Poland	1,710	--	950	310	--	--	--	--	--	--	--	450	--
Romania	671	--	--	29	20	--	--	--	272	--	--	350	--
Yugoslavia	718	--	114	260	40	--	--	249	24	31	--	--	--
Other	52	--	52	--	--	--	--	--	--	--	--	--	--
North America	2,479	2,354	--	--	--	--	--	--	--	--	--	--	125
Canada	2,354	2,354	--	--	--	--	--	--	--	--	--	--	--
United States	125	--	--	--	--	--	--	--	--	--	--	--	125
Latin America	1,123	991	81	36	--	--	--	--	15	--	--	--	--
Brazil	287	235	44	5	--	--	--	--	3	--	--	--	--
Mexico	704	695	9	--	--	--	--	--	--	--	--	--	--
Other	132	61	28	31	--	--	--	--	12	--	--	--	--

Thousand Metric Tons

Suppliers

Destination	Suppliers												
	Asia Suppliers	United States	North Africa			West Africa		Middle East			Nauru, Ocean. and Christmas Islands	USSR	Other ^{b/}
			Morocco	Tunisia	Algeria	Topo	Senegal	Jordan	Israel	Egypt			
Asia	5,851	2,921	1,232	22	128	158	149	557	32	309	257	--	81
Mainland China	1,052	--	567	--	128	--	--	67	--	210	--	--	80
India	707	278	14	--	--	--	--	168	--	47	--	--	--
Japan	2,957	1,858	474	--	--	158	149	9	32	--	257	--	1
South Korea	540	548	--	--	--	--	--	--	--	--	--	--	--
Lebanon	224	--	27	--	--	--	--	92	--	30	--	--	--
Philippines	144	164	--	--	--	--	--	--	--	--	--	--	--
Taiwan	143	71	81	--	--	--	--	13	--	--	--	--	--
Other	29	--	--	--	--	--	--	7	--	--	22	--	--
Australasia	3,680	114	50	--	--	--	--	--	--	--	3,523	--	--
Australia	2,612	101	50	--	--	--	--	--	--	--	2,461	--	--
New Zealand	1,076	14	--	--	--	--	--	--	--	--	1,062	--	--
Total	14,940 ^{a/}	17,337	17,311 ^{a/}	22	1,307 ^{a/}	317	1,468	919	326	339	3,303	3,333	217

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