17 May 1984

DCI did not attend; Bob Gates in attendance.

DCI TALKING POINTS
NSPG re Iran-Iraq

1. Iraqi and Iranian air attacks against oil tankers in the Persian Gulf have begun to impact significantly on the spot oil market and to raise the cost of oil shipments from the Gulf. The market has reacted to:

-- The increasingly regular pattern of Iraqi attacks against tankers calling at Kharg Island--about one attack a week.

-- Three Iranian attacks against tankers bound to or from Kuwait.

2. We don't believe attacks against Kuwaiti shipping will deter Baghdad. This can lead Iran to mount strikes against targets inside Kuwait or other Gulf states. It also could shift the focus of its air attacks further south in the Gulf. Iran could attack oil and desalination facilities in Kuwait and other Arab Gulf states, hit the Iraq-Turkey oil pipeline, or begin sabotage and terrorist attacks in the Gulf states using local Shia sympathizers. Iran has trained Gulf Arabs in terrorism and sabotage and probably has some already in place. Kuwait's oil facilities are easily accessible to Iranian aircraft and damage to any of its terminal facilities could critically impair its production capacity. Saudi Arabia and Abu Dhabi's oil production and export also depend on a small number of critical chokepoints.

3. With only five Super Etenard aircraft capable of attacking ships well beyond Kharg Island and carrying EXOCET missiles, Iraq probably cannot launch attacks more than once a week or so without risking unacceptable aircraft losses. The kind of attacks both sides can make now would cause some disruptions, but no major impact in world oil markets.

SECRET

-- Insurance rates to Southern Gulf ports would increase and some companies would pull out, but the flow of oil would continue, as it has from Kharg Island in the past month despite air attacks.

-- The market is reacting not only to the number of attacks and the number of tankers hit, but also to the amount of damage. So far, 8 to 10 tankers have been hit by Iraqi and Iranian actions. None were sunk, damage was, on the whole, readily repairable. Damage of this magnitude is clearly an insurable risk and not nearly sufficient to halt the flow of oil.

-- Even if there were some reduction in oil shipments from Iran and Kuwait, there is more than enough excess capacity elsewhere in the Gulf and outside, and a willingness to use this capacity to make up for these losses.

4. The situation will change dramatically in late summer, when acquisition of Mirage F-1 aircraft will increase Iraqi capabilities against tankers by a factor of five or more. By late August, Iraq should be able to attack at a rate of a tanker a day on the average. This could virtually stop shipments from Kharg and the Iranians would probably launch attacks against all Gulf tanker shipping and/or try to close the Straits of Hormuz. Instead of just raising the cost of shipping from that area, the attacks would make Gulf oil shipments uninsurable. And none of the large companies would be willing to risk the voyage without insurance.

5. Given the announced Iraqi policy of stopping the flow of Iranian oil, the fact that the Iraqis are using all their current capabilities to that end, the large projected increase in Iraqi capabilities and the pattern of Iranian reaction, the risks are very high that we will face a severe crisis late this summer, if Iraq cannot be dissuaded from continuing on its present course.