



Director of
Central
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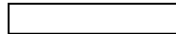
National Intelligence Daily

Wednesday
1 October 1980

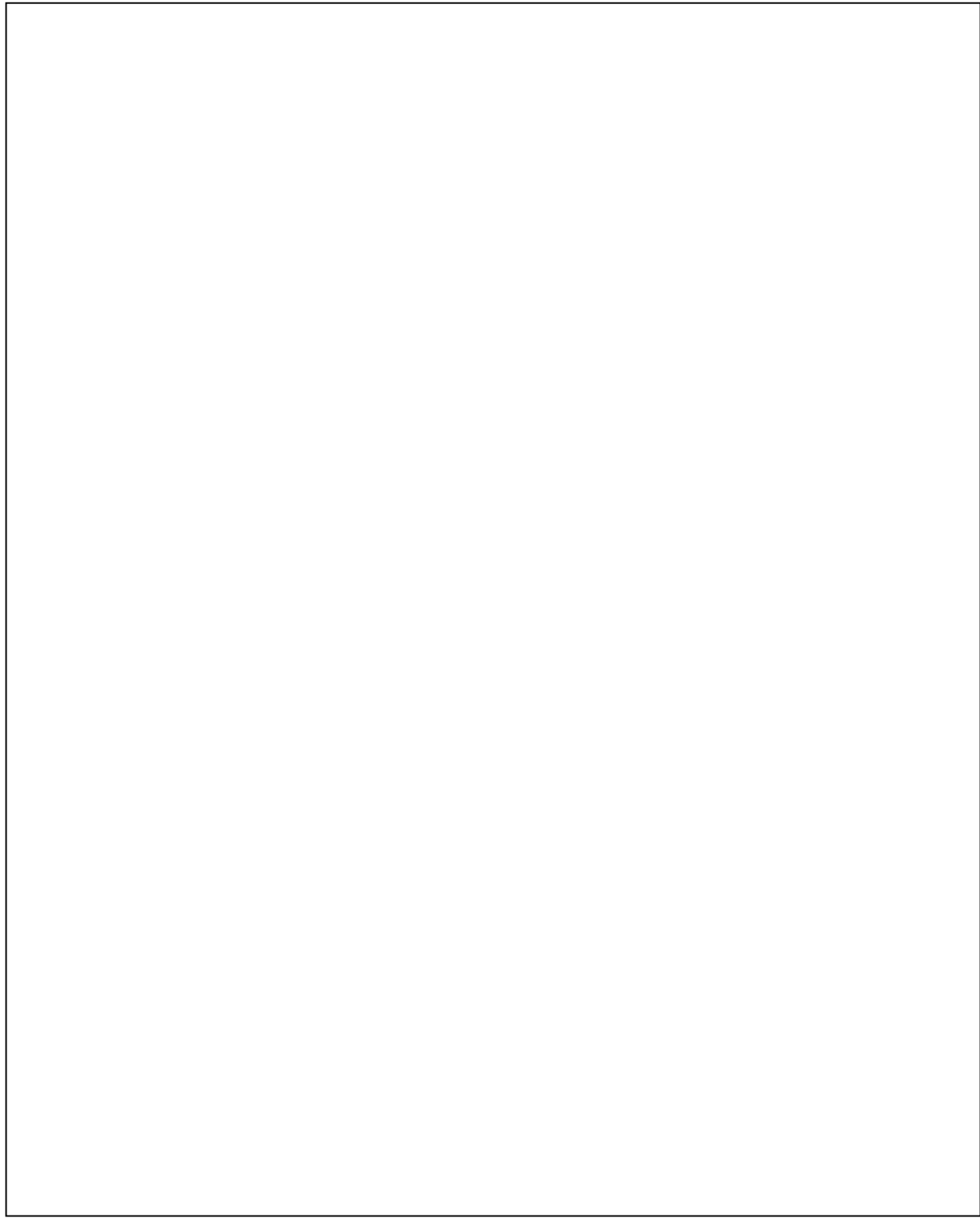
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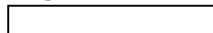
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SITUATION REPORT

IRAQ-IRAN

Ayatollah Khomeini's statement yesterday opposing any compromise with Baghdad indicates that there may be no early end to the conflict. []

Khomeini ruled out any negotiations unless Baghdad "surrenders." His tough statement reflects the continuing optimism in Tehran despite Iraq's gains. []

[] Most Iranians apparently are rallying behind the Khomeini regime. Support for exile leaders is said to have dropped, and even Iranian Kurds have avoided stepping up their anti-Khomeini activities while the war continues. []

We cannot determine how accurately Tehran has assessed the magnitude of its military losses. We believe, however, that the Iranians will rationalize that military defeat is not political defeat. By refusing to negotiate away territory, the Khomeini regime is likely to exploit successfully the popular image of Iran standing alone against the challenge now being posed to its revolution by "the Arabs and the US." So long as the government appears unwilling to capitulate, the Iranians are likely to believe that they have won a moral victory despite Iraqi occupation of Khuzestan. []

Military Situation

Iraqi ground forces renewed their attacks on Abadan, Ahvaz, and Dezful yesterday, while both air forces conducted limited airstrikes and supported ground force operations. []

[] has confirmed press reports that two Iranian F-4 fighters damaged the Iraqi nuclear research center in Baghdad, but [] only secondary buildings were hit. []

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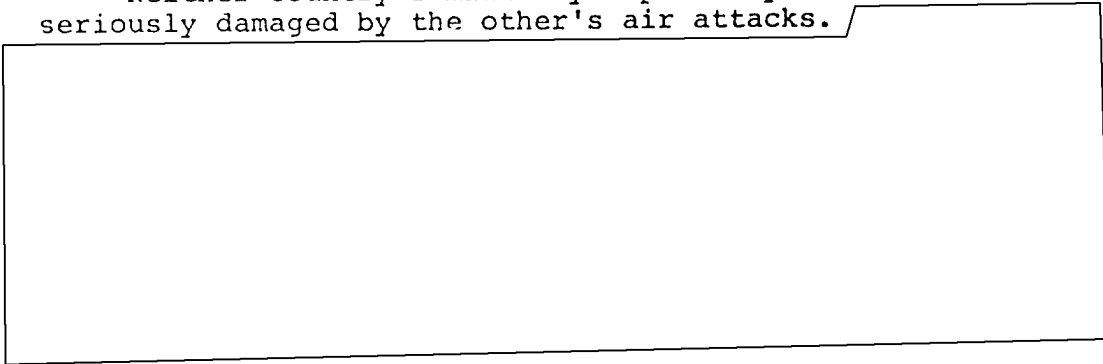
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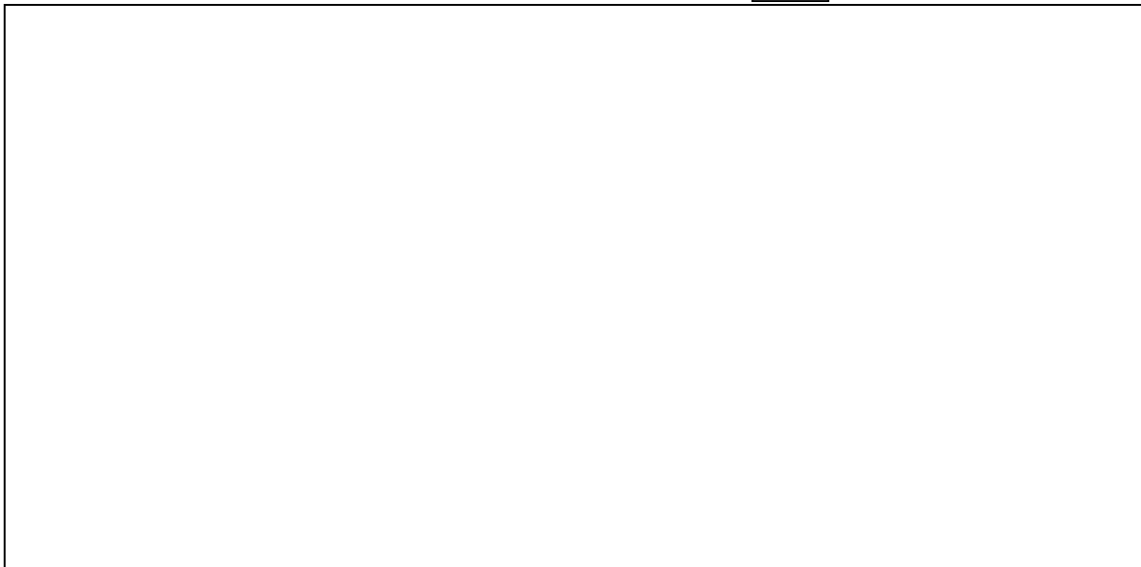


Neither country's military capability has been seriously damaged by the other's air attacks.



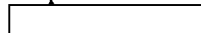
Economic Developments

The Iraqis have experienced more problems than they anticipated in seizing control of Khuzestan's major cities. Should they occupy the province, however, Iran's economy would be in dire straits. Iran could probably resume crude oil exports at prewar levels--about 600,000 barrels per day--but Iraq would control the pipelines feeding crude and products to the interior of Iran. It also would control the only rail and the primary road access to Iran's major Persian Gulf ports.



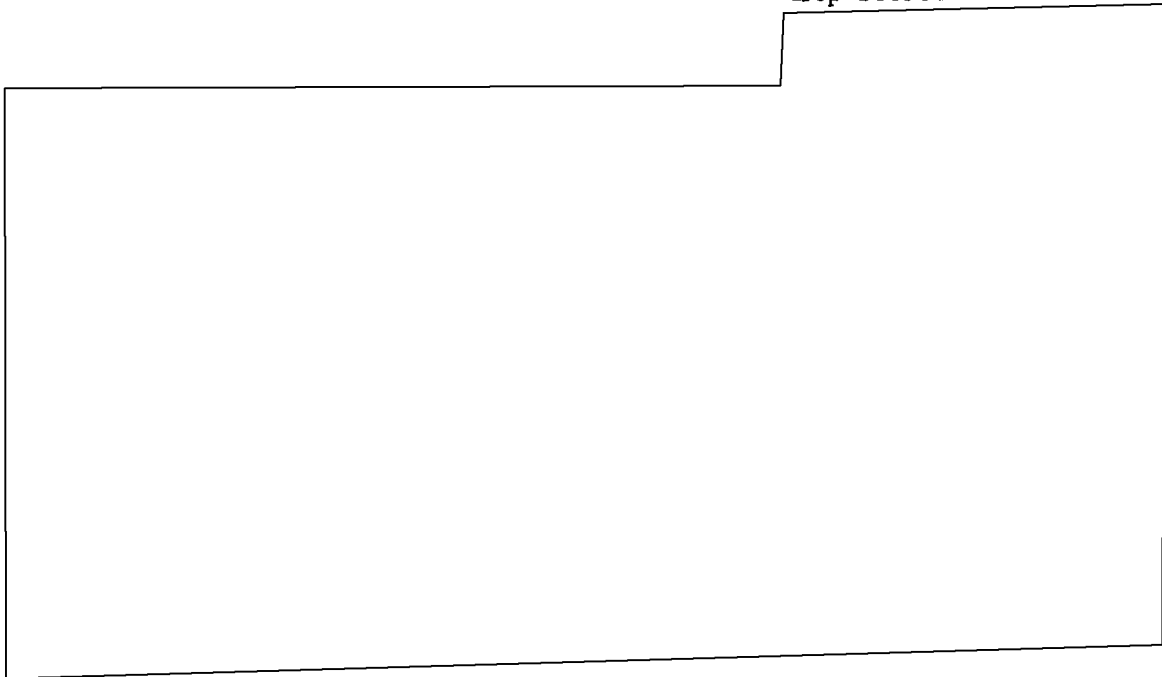
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Soviet Appeal

Soviet President Brezhnev yesterday issued Moscow's strongest appeal yet to Iraq and Iran to settle their dispute through direct negotiations. (U)

Although Brezhnev's call for a settlement was ostensibly evenhanded, it suggested that the USSR would favor a cease-fire with Iraqi forces in place in Khuzestan. He said that Iraq and Iran should quickly settle issues that can be negotiated now but postpone those issues that cannot be settled until "tomorrow." (U)

Consistent with previous Soviet commentary, Brezhnev stressed that the Soviet Union has "friendly" relations with both Iran and Iraq and that the fighting can benefit only the US, which he charged aspires to reestablish its influence in Iran and gain control over the region's oil resources. (U)

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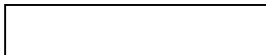
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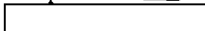
Hostage Situation

The seven-member Islamic Consultative Assembly committee formed yesterday to investigate the hostage issue is to hear the opinions of parliament members and submit reports but will not decide the hostages' fate, which is to be acted upon by the entire Assembly. The decision that there should be no deviation from Khomeini's line on the hostage issue probably does not rule out adding conditions to the four required by Khomeini. 

Hardliners on the hostage issue have become more vocal. The Assembly session yesterday ended with a dispute over whether or not the new committee should contact US and foreign officials. Ayatollah Khomeini, a legislator who works with the militants at the US Embassy, and other hardliners are opposed to contacts with the US. Ayatollah Khomeini, a hardline Islamic Republic Party member, said Monday that no hostages will be freed in the near future. He also said none will be freed unless Khomeini's four demands are met by the US. 



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