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# Iraq: Alternative Trade Routes

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An Intelligence Assessment

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# **Iraq: Alternative Trade Routes** [Redacted]

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**An Intelligence Assessment**

This assessment was prepared by [Redacted]  
the Office of Near East-South Asia Analysis.  
Comments and queries are welcome and may be  
addressed to the Chief, Persian Gulf Division, NESAs,

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This paper has been coordinated with the  
Directorate of Operations and with the National  
Intelligence Council. [Redacted]

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**Iraq: Alternative Trade Routes**

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**Key Judgments**

*Information available as of 13 August 1982 was used in this report.*

The vulnerability of Iraq's trade routes to disruption poses a fundamental strategic problem that is largely beyond Baghdad's control. Use of the Persian Gulf ports hinges on relations with Iran, and alternative overland routes depend on the good will of Iraq's neighbors. The war with Iran has graphically underscored Iraq's need for alternative trade routes:

- At the outbreak of hostilities, Iran closed Iraq's Persian Gulf routes, the Shatt al Arab, and Iraq's oil export terminals in the Gulf.
- In April 1982, Syria, allied with Iran, closed its borders with Iraq and with Jordan to Iraq-bound cargo. More important was the fact that Damascus closed the pipeline carrying Iraq's oil across Syria to the Mediterranean, a measure Damascus had taken several times in the past.

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Iraq now depends on land routes through Kuwait, Saudi Arabia, Jordan, and Turkey for all its imports. These routes were used even before the war because Iraq's Gulf ports were overburdened by soaring imports for Iraq's ambitious development program.

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Syria's closing of its border with Iraq has not substantially affected Iraqi imports; the relatively small volume of traffic that came through Syria is now moving through the ports of Iraq's other neighbors. Syria's closing of the pipeline, however, has seriously hurt Iraq's ability to export oil and earn foreign exchange. Iraq's crude exports are now restricted solely to the pipeline through Turkey. This pipeline has a capacity of only about 700,000 barrels per day. Before the war, Iraq exported over 3 million barrels per day.

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The Iranian invasion has reduced the volume of Iraqi freight transiting the key trade route linking Basrah with Kuwait and the Saudi port of Dammam. Shippers concerned about the proximity of the route to the war zone have stopped accepting Iraqi cargoes. An Iranian breakthrough to the Shatt al Arab would threaten to close this route to all Iraq-bound traffic. This outcome would increase the likelihood of major supply breakdowns as Iraq attempted to divert shipments to already overburdened alternative routes. The Kuwait link has handled about one-third of Iraq's imports and most of the Soviet military equipment bound for Iraq.

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Iraq now depends on loans from the Gulf Arabs to help finance the war and imports. Gulf oil states have contributed at least \$20 billion to Iraq since the war with Iran began and have agreed to make up most of the loss in oil earnings of \$16 million per day resulting from the Syrian pipeline closure. We believe these states will provide additional aid to Iraq, although each has financial problems of its own because of the weak world oil market. Most of the burden will fall on Saudi Arabia, but the Gulf nations together will not meet all of Baghdad's aid requests. [redacted]

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Iraqi President Saddam Husayn, therefore, will have to introduce more austerity measures this year, imposing some discomfort on the populace. Baghdad already has had to draw down its foreign exchange reserves by about \$5 billion this year—to about \$15 billion—to avoid major cuts in imports. [redacted]

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Iraq cannot quickly revert to its prewar trade pattern when hostilities cease. Repairs to port facilities will take at least a year to complete, and rebuilding the oil terminals will take even longer once Iran permits Iraq to reopen its Persian Gulf approaches. Longstanding territorial disputes will keep tensions high and will increase the likelihood of recurring incidents that will complicate Baghdad's attempt to resume trading through the Gulf. [redacted]

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**Iraq: Alternative Trade Routes** [redacted]

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**Prewar Trade Patterns**

The rapid rise in Iraqi imports to support military and economic modernization in the 1970s put a tremendous strain on the domestic transportation system. Between 1976 and 1980, imports more than doubled—to \$13 billion a year—as Baghdad bought new equipment for its armed forces and inaugurated major development projects. [redacted]

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Oil has accounted for virtually all of Iraq's exports. Before the war Iraq exported about two-thirds of its oil from its two offshore oil export terminals at Khor al Amaya and Mina al Bakr on the Persian Gulf. The remaining crude was shipped through the Iraq-Turkey pipeline terminating at Ceyhan and the Banias spur of the Iraq-Mediterranean pipeline across Syria. [redacted]

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Because Iraq is a net importer of products in virtually every major trade category, alternative transportation links are critical to its economic well-being. Manufactured goods head the list, but consumer imports also jumped sharply as President Saddam Husayn sought to solidify the popularity and legitimacy of his regime. Inefficiencies and bureaucratic bungling have generally negated Iraq's agricultural potential, requiring Iraq to buy large quantities of food, mostly grain. During the 1980/81 marketing year, about 55 percent—2.3 million tons—of Iraq's grain needs were imported. [redacted]

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**Developments Since the War**

All Iraq's ports have been closed by the war, and the principal road link to Kuwait's ports is jeopardized by the Iranian offensive. [redacted]

Iranian airstrikes and commando raids in October-November 1980 virtually destroyed the oil loading facilities at Khor al Amaya and Mina al Bakr, which had a combined export capacity of about 3.2 million barrels per day. The principal port at Basrah has so far suffered little physical damage, but its approaches are blocked by sunken merchant vessels and by heavy silting in the absence of dredging. Foreign shippers will not risk the trip through the Shatt al Arab that separates the war zone between the two countries. Harbor facilities at Umm Qasr are largely unscathed, though this port is also closed because of its proximity to the war zone. [redacted]

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Iraq's only major ports—at Basrah and Umm Qasr on the Persian Gulf—were unprepared to handle this influx of cargo. About 80 percent of Iraq's total imports funnelled through these ports. To relieve the congestion, Iraq in the late 1970s devised alternative routes through neighboring countries:

- An agreement was signed with Kuwait in 1978 that allowed Iraq-bound cargo to be unloaded at Shuwaikh, Kuwait's largest general cargo port.
- Iraq has transshipped goods through the port of Aqaba in Jordan since the late 1970s. In May 1980 Baghdad provided Amman with a package of loans for port and road expansion.
- Iraq used the Turkish ports at Izmir, Mersin, and Iskenderun as transit points for its goods. [redacted]

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To compensate, Iraq turned even more to its neighbors—Jordan, Kuwait, Turkey, Saudi Arabia, and Syria. [redacted]

[redacted] we estimate Iraq transshipped roughly 12-14 million tons of cargo through these countries' ports last year, compared with about 2 million tons in 1980.

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Iraq has experienced congestion and overland delays but only minor shortages. The volume of imports in 1981 increased about 50 percent over the 1980 level. Enough military hardware also got through to keep the Iraqi Army better supplied than its Iranian opponents. [redacted]

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Even so, overcrowding in Iraq's Gulf ports did not slacken as imports rose to meet Iraq's development goals. [redacted] in 1980 port delays stretched at times to more than 100 days; as many as 150 ships waited to unload cargo [redacted]

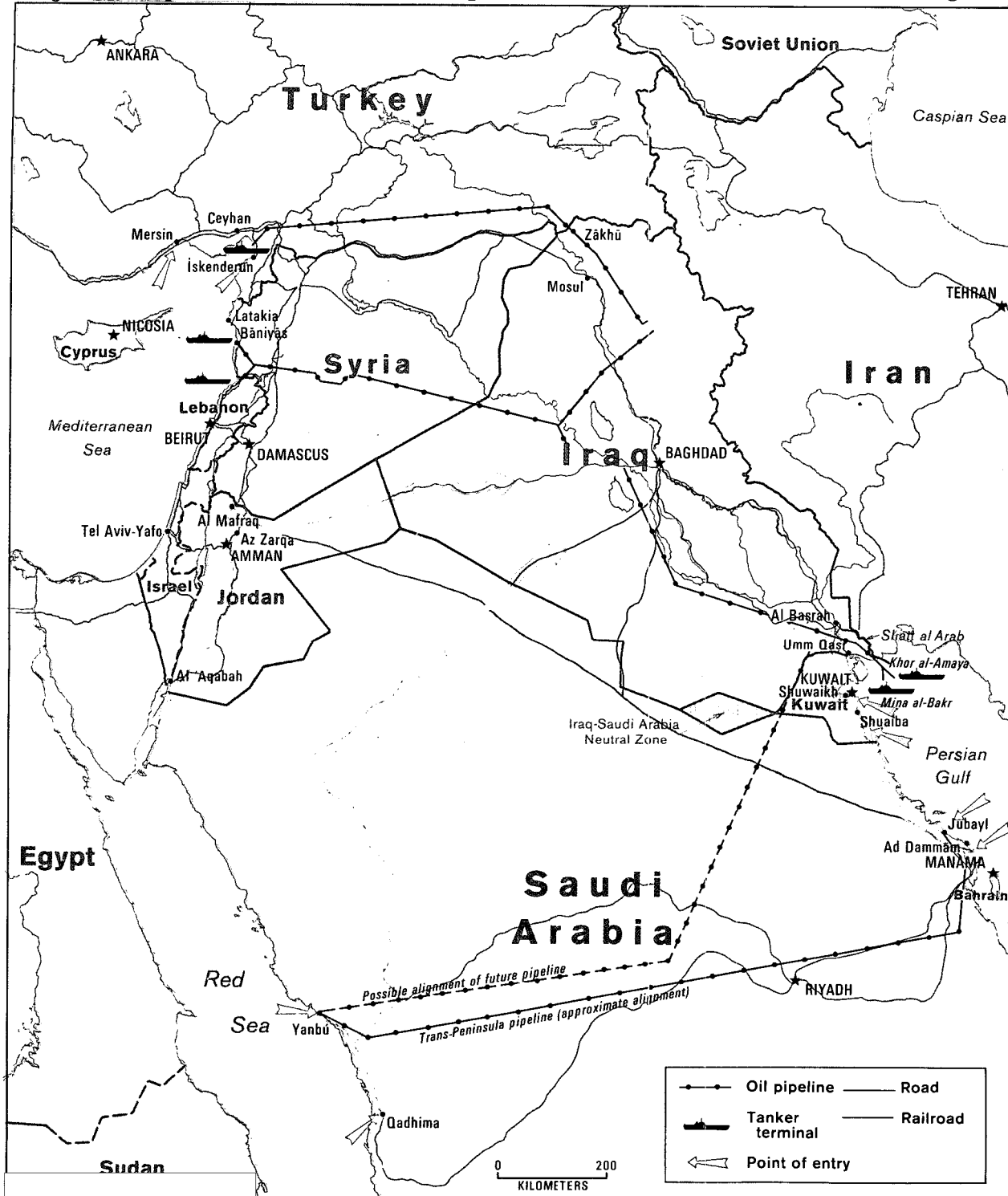
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Major Transportation Routes into Iraq

Figure 1



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The most serious consequence of the Gulf closure was the reduction in oil exports which, in turn, cut Iraqi revenue earnings last year by more than half compared with 1980.<sup>1</sup> Iraq could not compensate for the loss of its Persian Gulf oil terminals. Iraq was limited to oil exports through the Mediterranean pipelines; the pipelines were closed periodically by Iranian airstrikes early in the war. By the spring of 1981, Baghdad was able to export oil on a regular basis through the Iraq-Mediterranean pipeline across Syria and the Turkish pipeline. In November 1981 Damascus permitted Baghdad to ship oil through the Tripoli spur of this line across Syria, raising total Iraqi oil shipments to 1.4 million barrels per day by the end of 1981. Nevertheless, Iraqi oil exports averaged only about 900,000 barrels per day in 1981, considerably below the 2.3 million barrels per day averaged in 1980. [redacted]

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Oil revenues of about \$10 billion in 1981 covered only about half of Iraq's import bill. Other foreign exchange expenses, including payments to foreign workers in Iraq, pushed the current account into a deficit of over \$17 billion. To finance the shortfall—and slow the drawdown of foreign exchange reserves—Iraq borrowed about \$15 billion from Saudi Arabia, Kuwait, Qatar, and the UAE from late 1980 to December 1981. [redacted] The loans have so far enabled Iraq to prosecute the war without exhausting reserves or slashing imports of consumer goods [redacted]

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By early 1982, however, financial pressures were mounting, and Saddam ordered across-the-board cuts in government spending. Most new projects have been canceled, postponed, or interrupted. The regime temporarily suspended consumer goods imports for state-owned shops. Shortages are chronic for almost all nonessential consumer items, and the government apparently is allowing prices to escalate above mandated levels. Priority has been given to war expenditures, essential consumer goods, and projects associated with the Nonaligned Summit that was to be held in Baghdad in September. The meeting now is scheduled for a later date in New Delhi because of the war. [redacted]

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<sup>1</sup> The rise in oil prices in 1981 helped offset the nearly two-thirds drop in Iraq's oil export volume. [redacted]

The Iraqi economic predicament worsened in April 1982 when Syria closed its borders with Iraq and with Jordan to shipments destined for Iraq and again shut down the pipeline to Baniyas and Tripoli. At the time, the pipeline was carrying about 45 percent of Iraq's oil exports. Damascus intended these moves to put economic pressure on Iraq and to support Iran's war aim of bringing down Saddam Husayn. [redacted]

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We estimate the closure of the Syrian pipeline will cost Iraq \$6 billion in lost oil revenues in 1982, lowering projected export revenues for the year to about \$9 billion—about one-third the prewar level. [redacted]

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Iraq's only remaining oil export route, the 700,000-barrel-per-day pipeline across Turkey, currently is operating near capacity. But this line is highly vulnerable to sabotage and already has been damaged several times, most recently in March by Kurdish rebels from Iraq. [redacted]

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We do not believe the shutdown of Iraq's land transit routes across Syria will seriously impede the flow of imports into Iraq. Baghdad had already discouraged shipments through Syrian ports because of political feuding between the two countries. [redacted]

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As a result we estimate that Iraq's import bill will be nearly \$21 billion this year. According to the US Interests Section in Baghdad, the war is costing Iraq about \$1 billion per month. [redacted]

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Mostly because oil revenues will be only half of import expenditures, Iraq will face the prospect of a foreign exchange shortfall of about \$11 billion in 1982. To head off major import cuts, Baghdad already has had to draw down its foreign exchange reserves by as much as \$5 billion according to our estimate. The Gulf states have provided about \$5 billion in aid so far this year. [redacted]

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**Table 1** *Thousand tons*  
**Routes Used for Iraqi Imports**

	1973	1979	1980	1981 <sup>a</sup>	1982 <sup>b</sup>
<b>Total</b>	<b>2,090</b>	<b>8,200</b>	<b>8-10,000</b>	<b>12-14,500</b>	<b>12,000</b>
Persian Gulf ports	1,400	6,200	6-8,000 <sup>c</sup>	0	0
Basrah	1,200 <sup>d</sup>	5,200	NA	0	0
Umm Qasr	200 <sup>d</sup>	1,000	NA	0	0
Alternative routes	690	2,000	2,000	12-14,500	12,000
Kuwait	NA	NA	NA	3-4,000	3,000
Jordan	NA	NA	900	3-3,500	4,000
Turkey	NA	NA	NA	3-3,500	3,500
Syria	NA	NA	NA	1-1,500	0
Saudi Arabia	0	0	0	2,000	1,500

<sup>a</sup> Estimated.

<sup>b</sup> Projected.

<sup>c</sup> Most deliveries for the year probably cleared the ports before the war started in 1980.

<sup>d</sup> Estimated, based on ship arrivals.

[Redacted]

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[Redacted] Without additional Gulf state assistance, Iraq will be forced to reduce reserves further if it is to maintain its present import level. Reserves will now cover the equivalent of less than nine months of imports at the current rate. [Redacted]

[Redacted] congestion has eased in the past few months, with an average of only 15 ships waiting to be unloaded. The director attributed the improvement to Iraq's import cutbacks and to an increase in shipping through Jubail and Dammam in Saudi Arabia, where clearing procedures are easier. The Kuwaiti and Saudi ports handle over one-third of Iraq's imports, including most Soviet military equipment. [Redacted]

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Saddam is preparing the populace for additional belt tightening. New measures are likely to include more contract cancellations and restrictions on imports of luxury goods. A continued erosion of the standard of living will weaken Saddam's popularity, already tested by the stalemate on the battlefield. [Redacted]

The shipping trade press reports traffic has been reduced even further in recent weeks as the Iranian invasion apparently has caused some shippers to divert their cargoes from Kuwait. Iran has warned shippers carrying Iraqi goods to stay away from Kuwait, but so far Kuwaiti ports have not been attacked. Most of the diverted ships are now en route to Jordan's port of Aqaba; as a result, the number of ships calling at Aqaba reportedly has doubled since mid-June. [Redacted]

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**Iraq's Key Entrepots**

**Kuwait** has become the main transit point for Iraqi goods. The ports of Shuaiba and Shuwaikh handled an estimated 3-4 million tons of Iraqi goods in 1981. Only about 1 million tons of Iraqi goods were expected to transit this port before the war. According to US Embassy reporting, Kuwait dedicated one-third of its 33 available berths for ships carrying Iraqi cargo. Even so, the harbors were filled with ships waiting in queue up to 60 days. [Redacted]

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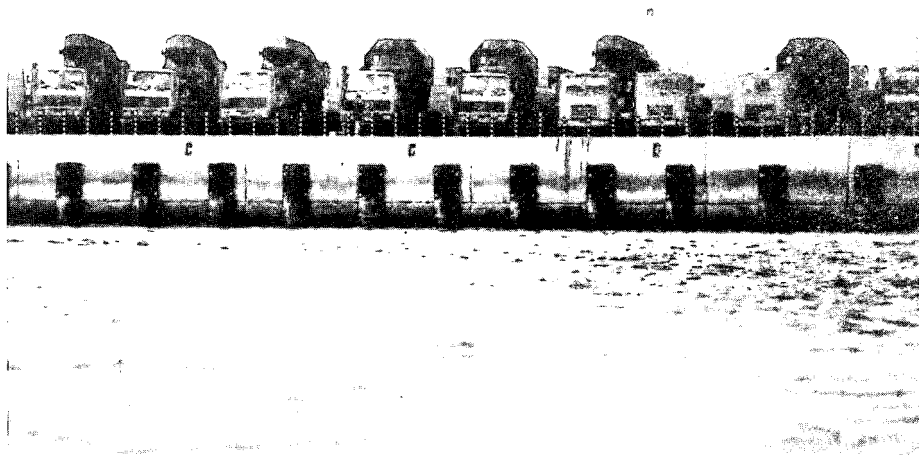
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Figure 2. The pier at Shuaiba, Kuwait with military equipment, including the SA-6, awaiting transport to Iraq.

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Since the war began, *Saudi Arabia* has permitted Iraq to transship goods through its ports—principally Dammam on the Persian Gulf and Qadhima on the Red Sea. With up to 15 percent of its capacity devoted to Iraqi cargo, Saudi Arabia's second-largest port of Dammam has become a major transit point for Iraq's imports. The port's efficiency also has attracted Iraqi shipping, according to the press monitoring the region. Cargo is unloaded in no more than four days, and the Saudis impose no additional restrictions on goods destined for Baghdad. Qadhima is used to a lesser extent, mostly for military equipment. [redacted]

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The Saudis have substantially expanded their capability to haul Iraqi freight on the overland leg of the journey. The press reports that at least 100 companies ranging in size from modern, integrated shippers to single-truck operators transport Iraqi cargo. High truck rates—about twice the charge to carry the same load an equivalent distance within Saudi Arabia — provided the incentive for truckers. [redacted]

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After a booming transit trade in 1981, truck volume through Dammam began to diminish early this year, probably because of Iraq's decision to slow its spending abroad. [redacted]

The Iranian advance on Basrah has sharply curtailed overland traffic carrying Iraqi goods from Dammam.

The major trucking firms have stopped accepting Iraqi cargo, according to the press. The smaller local companies still are willing to risk the trip but are encountering lengthy delays at the border. Trade through Qadhima, which is used in part to take pressure off Aqaba, probably will continue apace because the port also takes shipping diverted from Syria and Dammam. [redacted]

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*Jordan* is Iraq's staunchest supporter in its war with Iran. King Hussein views Iraq as an important ally in protecting Arab interests in the Persian Gulf region. Iraq is a major market for Jordanian exports and has, in the past, provided loans for many development projects in Jordan. [redacted]

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Jordan's Red Sea port of Aqaba was nearly swamped by the initial flood of Iraqi cargo last year, when as many as 100 ships waited in the queue. Congestion, although still a problem, has eased considerably as a result of completion of port expansion begun before the war, new handling equipment, and round-the-clock unloading schedules. At peak capacity, the port can handle 6-8 million tons of cargo annually. [redacted]

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With the slowdown in traffic through Kuwait and Saudi Arabia, Aqaba is becoming Iraq's most important gateway for trade. This year as many as 4 million

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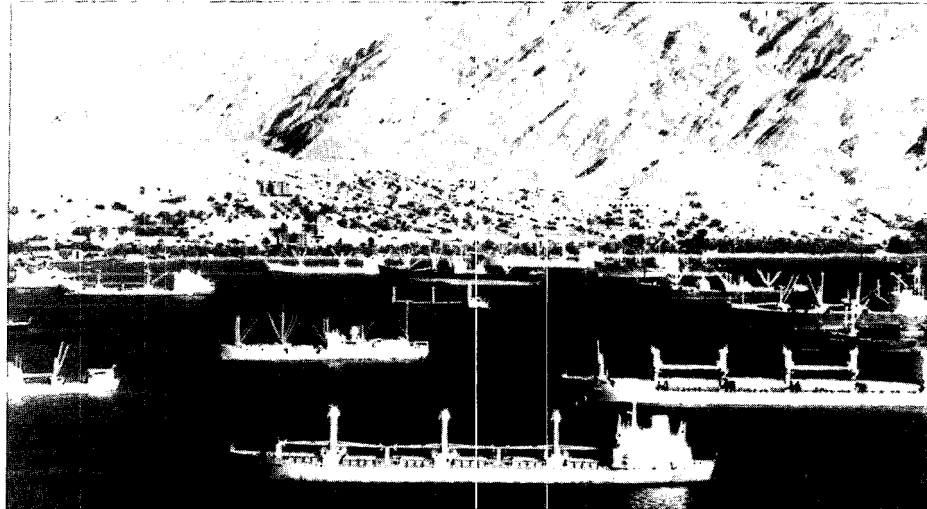
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Figure 3. The harbor at Aqaba Jordan filled with cargo ships, most of them bound for Iraq.

[Redacted]

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Camera Press ©

tons of cargo—one-third of Iraq's projected imports—are likely to be unloaded at the port. This volume would represent about half the cargo port officials expect Aqaba to handle this year. [Redacted]

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judge that the Jordanian port and land transport facilities probably can manage the additional load. Moreover, congestion along the Jordanian route is likely to be ameliorated later this year as Iraq cuts imports and directs some shipping to Turkey. [Redacted]

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Cargo unloaded at Aqaba must be shipped by truck to Iraq. The Jordanian road network can carry the volume of goods leaving Aqaba, although the routes are tortuous; the 1,200-kilometer trip from Aqaba to Baghdad takes several days. The railroad that serves the port does not connect Jordan with Iraq, and cargo must be unloaded at Amman or Al Mafraq for shipment by road to Iraq. [Redacted]

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The routes through *Turkey* are less important to Iraq than those across Kuwait or Jordan. They carry mostly commercial goods from Europe. [Redacted]

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To help eliminate a truck shortage, the media reported that King Hussein initially commandeered all private trucks in the country and placed top priority on the shipment of Iraqi cargo out of Aqaba. The government also permitted foreign carriers to transport Iraq's goods. An Iraqi-Jordanian joint venture purchased 700 trucks from West Germany last year and wants to double its fleet by the end of 1982. The partnership plans to sign contracts later this year for delivery of the additional trailers. When its truck fleet reaches full strength, the joint venture will be able to transport over 3 million tons of Iraqi cargo annually. [Redacted]

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[Redacted] Iraq is Turkey's main Middle Eastern customer and supplies the bulk of Turkey's petroleum needs. Baghdad signed an agreement in August 1981 that guarantees Ankara 170,000 barrels per day of the oil that flows through the pipeline transiting Turkey. [Redacted]

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According to press reports, Turkey's Mediterranean and Black Sea ports are coping well with the sharp increases in Iraqi tonnage. But because of limited storage space, port officials require that onward transportation be guaranteed to immediately clear the ports. To handle the large volume of goods, Iraq has had to contract with drivers from Bulgaria and Hungary who have provided most of the 3,000 trucks that make the overland journey. [Redacted]

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Most of the freight for Iraq that had been scheduled to transit Syria is being diverted to Aqaba for overland shipment, as are the diversions from Kuwait. We

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The crush of Iraq-bound traffic has caused chronic delays on the overland journey; backups at the Bulgaria-Turkey border can last two to three days, and trucks have lined up for several kilometers at the Iraq-Turkey crossing. Fuel shortages, infrequent repair facilities, and weather problems add to the difficulties and costs. [redacted]

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Moreover, the trip from Turkey to Baghdad is hazardous; security along the route is sporadic and repair facilities sparse. In the north, Kurdish insurgents have attacked truck convoys—most recently last September when 14 Turkish trucks were hijacked. Use of the road is restricted at night. [redacted]

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Rail transportation between Turkey and Iraq is not well developed. Even before Syria closed its border with Iraq last April, a shortage of rail capacity forced the temporary closing of the Turkish-Syrian border to Iraq-bound traffic. The railroad was not popular with shippers, probably because the freight still had to be distributed after it reached the railhead in Baghdad. The two countries have discussed building a more direct rail line that avoids Syria, but the project has been delayed because of Baghdad's inability to finance construction. [redacted]

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Since Damascus closed its borders with Iraq, Turkish shipping and trucking officials report that the port at Iskenderun has been receiving Iraqi cargo shunted from the Syrian port at Latakia. Goods at Mersin originally manifested for shipment through Syria—as well as cargo caught at the railcrossings—are now being loaded on trucks for the trip to Iraq. Ankara earlier had promised Baghdad that it would maintain the 3-million-ton-per-year pace for Iraqi goods transiting Turkish ports. [redacted]

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Turkish truckers should have little trouble in handling the extra load; the only apparent serious capacity problem is a shortage of refrigerated trucks. Truck traffic to Iraq, especially from Europe, has been declining since the peak in late 1981, reflecting Iraqi import cutbacks. [redacted]

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The boycott by Turkish truck drivers last month poses a serious threat for fuel shipments to Iraq. According to the press, hundreds of tank truck drivers are refusing to haul petroleum products to Iraq from the

refinery at Mersin until several demands, including higher wages, are met. The Turkish refinery has the capacity to make up an important part of Iraqi production lost to the war. [redacted] 25X1

**Expanding Alternative Routes**

Iraq is pressing ahead with the expansion of most of its overland import routes despite the cost and the war. To give its overland transportation system added flexibility, Iraq is building a \$3 billion, 1,200-km road network that will connect Baghdad with the borders of Kuwait, Jordan, and Syria. Always uneasy about the bottleneck on the Persian Gulf, Iraq began design work on the expressway route in 1979. [redacted] 25X1

[redacted] Last September the Iraqis let the last of the contracts for the construction of the network. [redacted] 25X1

Baghdad also has a massive railroad construction program on the drawing boards. The plan includes a 378-km rail link from Baghdad to Hussaba on the Syrian border. Work on the \$1.2 billion line so far is on schedule. [redacted] In addition, a feasibility study has been completed on a railroad that would link Umm Qasr with Shuaiba and Shuwaikh via a proposed Kuwaiti north-south line. 25X1

Baghdad also plans a major increase in the capacity at Umm Qasr, which will make it Iraq's largest port. [redacted] 25X1

[redacted] Because of the war, the project almost certainly will be delayed beyond its scheduled completion date of 1985. As of August 1981 Umm Qasr had eight berths in operation and 12 under construction. [redacted] 25X1

Countries transshipping Iraqi cargo have their own expansion plans. For example, Kuwait has formed a high-level ministerial committee to explore ways to ease the congestion at its ports caused by Iraq-bound

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**Table 2**  
**Routes Used for Iraqi Oil Exports**

*Thousand barrels per day*

	1973	1979	1980	1981 <sup>a</sup>	1982 <sup>b</sup>
<b>Total</b>	<b>1,900</b>	<b>3,300</b>	<b>2,300</b>	<b>900</b>	<b>800 <sup>c</sup></b>
Persian Gulf terminals <sup>d</sup>	700	2,450	1,575	0	0
Iraq-Mediterranean pipeline	1,200	200	200	300	0 <sup>e</sup>
Baniyas branch	700	200	200	300	0
Tripoli branch	500	0	0	NEGL	0
Iraq-Turkey pipeline	0 <sup>f</sup>	650	525	600	700

<sup>a</sup> Estimated.

<sup>b</sup> Projected.

<sup>c</sup> First-quarter shipments through the Iraq-Mediterranean pipeline raise average total exports for the year to 800,000 barrels per day.

<sup>d</sup> Al Fao, Khor al-Amaya, and Mina al-Bakr.

<sup>e</sup> Pipeline closed in April 1982.

<sup>f</sup> Pipeline completed in 1977.

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shipments. So far, the Kuwaitis are planning a \$400-450 million berth expansion at Shuwaikh. Additional berths are under construction at Shuaiba and are expected to be completed as early as this year.

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To enlarge its shipping routes Jordan is:

- Seeking Western contractors for the extension and reconstruction of the Aqaba-Amman rail line to connect with the Iraqi border.
- Constructing a new 300-km highway from Aqaba to Azrak that will shorten the route to Iraq.
- Expanding the Aqaba port facilities, which will be ready by mid-1983.

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If Syria keeps its border with Iraq closed for an extended period, Jordan probably will speed development of these projects.

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Jordan, Iraq, Saudi Arabia, and Lebanon are participating in plans to construct a factory to build rolling stock for the rail network. Iraq is funding the highway project, the railroad, and most of the railcar plant.

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**Oil Pipelines**

Iraq's need for alternative oil export routes has been made manifest by the war with Iran. Without such alternatives, Iran has a stranglehold over Iraq's economy. Baghdad is proceeding with plans to increase the capacity of the Turkish pipeline to help counter the loss of the oil route across Syria. Iraq intends to raise the volume of the line by 200,000 barrels per day—to 900,000 barrels per day.

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Install-  
ing the pumps probably would take about a year,

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Baghdad is also negotiating with Riyadh for the construction of a 1.6-million-barrel-per-day pipeline to ship Iraqi oil from the Basrah oilfields to a terminal near Yanbu on the Red Sea.

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a feasibility study has been prepared, but the project has been stalled

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Even if the pipeline were built, it would not provide enough additional capacity to permit Iraq to offset the

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loss of its Persian Gulf terminals. Moreover, the line would provide Iraq no near-term alternative since construction would take about four years. Iraq also is considering seeking new pipelines across Jordan and Kuwait. [redacted]

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**Outlook**

Iraq will be forced to rely on its neighbors' trade routes for at least a year even if the war is quickly settled and Iraqi shipping is permitted to use the Shatt al Arab. Although port facilities are relatively undamaged, dredging operations probably will take up to a year to complete, assuming the men and necessary equipment are available and Iraq gives top priority to the project. [redacted]

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If Iran achieved a military breakthrough on the Basrah front, Iraq's major supply link to Kuwait and the Saudi port at Dammam would be threatened as would the flow of Iraqi economic and military imports. The only other feasible route through Kuwait—a service road for oil facilities—could barely handle an estimated one-third to one-half the volume of the main highway, based on analysis of the road surface and assuming a heavy maintenance commitment. Adding the remaining tonnage to the Red Sea ports and Turkish routes would increase the risk of supply breakdowns along these already congested transit routes. [redacted]

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Even if Iran withdraws from the Shatt al Arab, Iraq may not be able to use its Gulf ports until the boundary dispute over the waterway is fully settled. This probably would require a peace accord that almost certainly would involve protracted negotiations. Meanwhile, Iraq probably would be unable to begin reconstructing its ports or clearing the Shatt. Even a settlement may not guarantee Iraq easy access to its ports; an agreement that called for joint monitoring of the Shatt, for example, would create the potential for disputes over use of the approach. In the meantime, Iraqi oil exports are unlikely to exceed 700,000 barrels per day. As long as Iran continues to provide crude to Syria, the Syrians apparently have little incentive to reopen the pipeline from Iraq. [redacted]

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When hostilities cease, Baghdad is ready to install at least four single-point mooring systems (SPMs) in the Gulf. Installation of the SPMs should take four to six

months. Once installed, Iraq's Persian Gulf export capacity would be 1.5-2 million barrels per day, compared to the 3.2 million barrels per day which was the prewar capacity of the two terminals destroyed in the war. The Iraq National Oil Company will use the SPMs at least until the permanent terminals can be reconstructed, a job expected to take up to two years.

[redacted]

In the meantime economic pressures on Iraq will increase. The regime may well have to cut consumer imports further this year, exacerbating the rapid rise in prices. Growing dissatisfaction over shortages and reduced standards of living in Iraq probably will erode Saddam's popularity. [redacted]

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The Gulf states, along with Turkey and Jordan, will try—short of military intervention—to salvage the Saddam regime or at least a government not subservient to Tehran. Above all, the Gulf states fear the emergence of a radical power bloc in the Middle East linked by Islamic fundamentalism. But because of the weak oil market, foreign earnings for Kuwait, the UAE, and Qatar will barely cover their own expenditures this year, and Saudi Arabia will have its smallest current account surplus since 1978. Thus, they will want to hold down additional outlays to Baghdad. Some will also want to hedge their bets against an Iranian victory. [redacted]

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[redacted]

**Long-Term Transport Outlook**

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When reopened, Baghdad's Gulf ports will again become its key import terminals because they are less costly than the alternative routes and give the Iraqis more control over their trade. The alternative routes will supplement the Persian Gulf ports and maintain Baghdad's options. We believe most of the countries transshipping Iraqi goods will continue to do so as long as a friendly government is in power in Baghdad. [redacted]

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To handle the increased import volumes associated with its development program, Baghdad will have to expand its two main ports further. Iraq's short coastline does not offer much room for substantial development of new ports. The existing ports also serve as Iraq's naval bases, a use that competes with handling the import volumes Baghdad will need for reconstruction and development efforts. [redacted]

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Oil buyers in North America and the Far East will continue to prefer deliveries from the Gulf for cost reasons as long as security can be guaranteed. Iraqi deliveries via the Turkish pipeline—and perhaps later the Red Sea—will be cheaper than the Persian Gulf-Suez route only for European customers. [redacted]

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Once the Persian Gulf terminals are repaired, Iraq's ability to sell crude for the remainder of the 1980s will not be constrained by its oil export capability. Export capacity—including the pipelines—will be over 5 million barrels per day. We believe Baghdad probably will increase its oil productive capacity, currently about 3.5 million barrels per day, to about 4-4.5 million barrels per day by the late 1980s, based on prewar development plans [redacted]

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