

Central Intelligence Agency



Washington, D. C. 20505

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28 August 1984

MEMORANDUM

SUBJECT: Iran-Iraq War

The Military Situation

The military balance has shifted overwhelmingly in favor of Iraq during the past year. Iraq now has a 4 to 1 advantage in armored vehicles and an 8 to 1 edge in combat aircraft. Recent major arms deals with the Soviet Union and France will increase Iraqi air and mechanized forces. Iraq's development of chemical weapons also provide its armed forces with an advantage in destructive power that the Iranians cannot match. [redacted]

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Iran has been unable to find major foreign arms suppliers to arrest the steady deterioration in its forces. Much of its equipment is no longer operational because of a lack of spare parts. Although Iran outnumbered Iraq in manpower, Tehran's troops suffer from poor training and declining morale. [redacted]

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In February 1984 Iran attacked in the marshes north of Al Basrah, Iraq's second largest city, its only major offensive this year. Iran suffered at least 40,000 killed and wounded in that attack. [redacted]

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Since then, Iran has continued to position its forces for another offensive at Al Basrah. Tehran has massed a force of about 400,000 men near the city, but has delayed its attack at least twice during the past six months. Many influential clerics and military leaders in Tehran are against launching the attack because they anticipate heavy casualties with little gain. Ayatollah Khomeini, however, apparently remains determined to proceed with what he has called the final offensive. [redacted]

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Unless the Iraqis make a serious tactical error, Iraqi morale collapses, or Iran has many more troops at the front than we estimate, Baghdad's forces should be able to win this battle. Iran may be able to make some tactical gains but is unlikely to achieve a breakthrough. Baghdad has been expecting the Iranian attack at Al Basrah for months and has used the time to improve its already formidable fortifications there. Iraq has at least 200,000 troops in the Al Basrah area. [redacted]

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The War in the Gulf

Iraq's campaign of attacking oil tankers serving Iran is designed to squeeze the Iranian economy, increase international concern over the escalation in the war, and force Tehran to the negotiating table. Baghdad claims its aircraft have hit about 50 ships--at least 12 of them tankers--since late January. Iraq is launching strikes against Gulf shipping about every five to ten days and is likely to maintain this pace as long as it loses no aircraft. [REDACTED]

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Iraq will be able to increase the frequency of its attacks on shipping this fall after a newly delivered squadron of Exocet firing French Mirage F-1 fighter aircraft becomes operational. Iraq is unlikely to launch a sustained attack against facilities on Khark Island, Iran's main oil export terminal, unless Baghdad decides its more intensive campaign against Iranian shipping is having no substantial effect on Iranian oil exports. [REDACTED]

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Since Iraq has not been able to severely reduce Iranian oil exports, Tehran has retaliated with only sporadic attacks on tankers serving Gulf Arab ports. Iran has attacked 8 tankers serving the Arab Gulf states. Iranian leaders have indicated that they will try to reduce Gulf Arab oil exports only in the same proportion as Iran's exports are reduced by Iraqi attacks. Although Iran can sustain its campaign of harassment against Gulf shipping indefinitely, it cannot engage in sustained, large-scale air operations over the Gulf because of shortages of equipment. [REDACTED]

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Impact on Shipping

The attacks so far have had little impact on the willingness of most tanker owners to operate in the Gulf. Even when charter rates were at their peak in mid-June--up nearly three-fold from pre-attack levels--oil flows continued at essentially normal levels. With a substantial worldwide surplus of tankers, we believe some owners will remain willing to take the risk of Gulf voyages as long as insurance is available. At least 50 million deadweight tons (168 ships)--about 20 percent of world tanker tonnage--are idle worldwide and charter rates have been severely depressed, forcing very large tankers to consistently operate at a loss. The higher charter rates available for risky voyages to the northern Gulf offer lucrative profits to shipowners willing to commit their ships to the journey. According to industry press reporting, an oversupply of crewmen from less developed countries virtually guarantees a sufficient number of seamen to man vessels making the trip. [REDACTED]

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As long as most tanker owners are willing to make Gulf voyages, we believe the most important determinant of the level of Gulf exports will be the delivered price of oil. The high charter rates and cargo insurance costs facing crude buyers have to be offset by Gulf producer discounts in some form as long as buyers can find competitive alternatives elsewhere. Kuwait has responded by providing free cargo insurance. Tehran has set up an insurance fund in London in addition to discounting the price of oil. We believe that only if Gulf oil producers become unwilling to offset growing insurance and charter costs--possibly when the net price of Gulf oil is reduced to \$20 per barrel--will Gulf oil exports decline significantly. [REDACTED]

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Iranian Oil Exports

One important indicator of impending Iranian military action in the Gulf will be the level of Iranian oil exports. Tehran is threatening to restrict oil flows from the Gulf if its exports fall dramatically. We believe Iranian oil exports currently are about 1.4 - 1.5 million barrels per day, down about 300,000 barrels per day since July because of excess oil supplies in the world market. Should exports fall to about 500,000 barrels per day for an extended period because of the war from their recent normal levels of 1.6 - 2.0 million barrels per day, we expect Tehran to broaden its attacks on shipping or to retaliate against Iraq's Arab allies. [REDACTED]

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Oil Market Reaction

Market reaction to the increasing frequency and severity of Iraqi and Iranian attacks against shipping has been relatively calm because most market participants appear to believe that a significant, sustained oil supply disruption is unlikely. Spot crude oil prices initially rose following a series of attacks in April and May, but subsided quickly. Most of the increase in spot prices was generated by speculative trading and was not sustainable given underlying weak oil market conditions. Moreover, most of the oil industry believes surplus productive capacity and inventories outside the Persian Gulf would be readily available in the event of a major supply disruption. [REDACTED]

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In our view, the market's muted response rests primarily on present industry perceptions that the combatants are not capable of significantly disrupting Gulf oil supplies. Should these industry perceptions change substantially in response to an escalation of hostilities against oil targets a significant, albeit shortlived, increase in spot oil prices could occur. Severe damage to Gulf export capabilities or, at the extreme, partial closure of the Strait of Hormuz probably would produce a substantial (\$10-15 per barrel) oil price rise. [REDACTED]

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Confidence in Baghdad

Iraqi leaders believe their military and diplomatic strategies will force a weakening Iran to end the fighting. They believe that their airstrikes on Iranian oil shipping have forced Tehran to worry about its finances and that the war-weary Iranian populace will put increasing pressure on the government. The Iraqis see the Iranian clerics as pragmatists who will negotiate when these pressures reach a critical state--by mid-1985 in Baghdad's view. [REDACTED]

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Iraq is eager for a ceasefire, but it has hardened its terms for a final settlement as the military balance has swung in its favor. Iraqi leaders are indicating that they will not be willing to make territorial and political concessions to Iran. [REDACTED]

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There is little chance that Iraqi President Saddam Husayn will be overthrown, despite Iranian insistence that the war can end only if he is ousted. Other influential Iraqis are loathe to take on responsibility for dealing with Iran and Saddam has acted forcefully to strengthen his personal control and popularity. The ruthless and effective security services have cowed most dissidents. [REDACTED]

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The economy is Iraq's weak point. The Iraqis face another year of economic austerity, but their economic situation has stabilized. Baghdad is covering its debts with aid from its Arab allies and trading partners and is arranging new pipelines through Turkey, Jordan, and Saudi Arabia. [redacted]

Iraq's confidence is reflected in Baghdad's relations with the US and USSR. Iraq concluded an economic deal worth billions of dollars with Moscow last April and also got commitments for more sophisticated arms. But Baghdad is also seeking closer ties with the US. The Iraqis think such ties aid their diplomatic efforts to end the war, maintain US help in cutting Western arms sales to Iran, and increase US support for the expansion of Iraqi oil exports. Essentially Baghdad would like to play the superpowers off against each other. [redacted]

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Doubts in Tehran

Failure to win a military breakthrough, high casualties, and Iraqi threats to Iranian shipping in the Gulf have undercut Iranian confidence. Iranian leaders are deeply divided over how to manage the war. Some have concluded that Iran cannot win a military victory and cannot afford to continue diverting revenue from internal development. Their ability to maneuver is limited, however, by Ayatollah Khomeini's close association with the effort to topple Saddam. Moreover, many clerics fear a domestic backlash if the Iranian people come to believe that the high human and material costs of the war have been in vain. [redacted]

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The Iranian economy has deteriorated despite a 73 percent increase in oil revenue over 1981--to \$19 billion--and a 50 percent rise in imports--to \$15 billion--in the same period. Iranian economic difficulties are primarily of the regime's own making. Bureaucratic mismanagement and inefficiencies, Khomeinist ideology and austerity, and factional disputes have prevented the effective use of oil revenue. Massive migration to urban areas and the influx of refugees from the Iran-Iraq war and from Afghanistan tax already limited services. At the same time, the regime has alienated a significant percentage of technocrats and has been unable to convince them to return to Iran. [redacted]

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Despite these signs of stress--and even if Khomeini should die soon--the Iranian regime is in no danger of imminent collapse. Tehran's security forces are effective and remain loyal to clerical rule. The fractious exile community poses no challenge. [redacted]

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The Khomeini regime is trying to limit domestic dissatisfaction by modifying some of its radical social and economic policies. Tehran has, for example, announced a wide-ranging amnesty for political prisoners, put token officials on trial for corruption, and reversed plans to nationalize all foreign trade. [redacted]

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It is also staging a diplomatic offensive to reduce its isolation and to hamper the Iraqi war effort. Tehran quickly accepted a UN-sponsored truce ending attacks on civilian targets and is pressing for agreements banning the use of chemical weapons and attacks on shipping in the Persian Gulf. These

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[REDACTED]

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are all moves to lessen the impact of Iraq's military superiority. The Khomeini regime has not altered its insistence that Iraqi President Saddam Husayn must be removed before peace is possible. [REDACTED]

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Outlook

Iraq's military superiority makes it unlikely that Iran can win a military victory in the war. A major Iranian assault could well result in a 100,000 Iranian casualties with no appreciable gains. The Iranians will need years to rebuild and improve their military capabilities. Nevertheless, we believe Tehran will continue to seek the removal of the Saddam Husayn regime in Iraq. For the foreseeable future we believe Iran will be unwilling to make peace and unable to make war. [REDACTED]

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Because of its military weakness, Iran may now turn to terror as a means to weaken Baghdad's support in the Gulf. The Arab Gulf states have often been subject to claims of Iranian hegemony and have substantial Shia populations that could be receptive to an Iranian appeal for support. We do not believe the Shia groups will be strong enough to take power in any of the Arab Gulf states in the next few years. Even so, Iranian-backed terrorism could cause serious damage and probably would be targeted specifically against Saudi Arabia, Kuwait, and US personnel and installations in the Middle East.

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[REDACTED]

Iraq is likely to increase its attacks on tankers this fall, but short of a direct attack against facilities on Khark Island, we do not believe Iraq will be able to curtail Iranian oil exports significantly. Should Iraq successfully attack Khark we believe the chances are high Tehran would increase terrorist activities in the Gulf, undertake commando raids against Gulf oil facilities, and perhaps launch air strikes against targets inside Kuwait and Saudi Arabia. We believe Iran would only attempt to block the Strait of Hormuz as a last resort. Mining the Strait would result in a cutoff of Iranian shipping and raise the possibility of a Western military response, two developments that Tehran hopes to avoid. [REDACTED]

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Iranian and Iraqi Forces

| | <u>Iraq</u> | <u>Iran</u> |
|------------------|-------------|-------------|
| Troops | 650,000 | 750,000 |
| Armored Vehicles | 8,000 | 2,000 |
| Aircraft | 500 | 60 |

Estimated Military Casualties

(September 1980 to July 1984)

| | | |
|---------|---------|---------|
| Killed | 70,000 | 200,000 |
| Wounded | 150,000 | 350,000 |

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SUBJECT: Iran-Iraq War

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DDI/NESA/PG/ [redacted] (28 Aug 84)

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