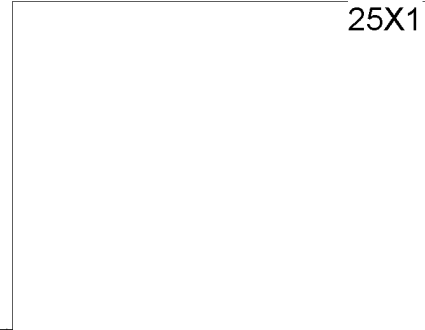




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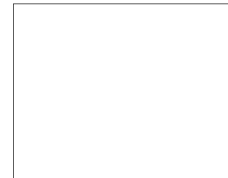
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National Intelligence Daily

**Tuesday
3 November 1987**



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PERSIAN GULF: Situation Report

Iran Plans Anti-US Demonstrations

The Iranian Government is organizing massive anti-US demonstrations for tomorrow, the eighth anniversary of the seizure of the US Embassy in Tehran. Iranian Embassies reportedly are trying to organize demonstrations and propaganda campaigns protesting the US attacks on Iranian ships in the Persian Gulf.



The Gulf was quiet yesterday.

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Comment: It is not clear that Tehran has any specific plans for violence tomorrow but the demonstrations provide a potential cover for anti-US acts. There is no known link between the reported Iranian approach to Pakistani Shias and the planned demonstrations tomorrow.

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Beijing Denies US Arms Sales Charges

China refuted recent US statements accusing Beijing of continued arms sales to Tehran in a radiobroadcast to Iran last Friday. The Farsi-language broadcast charged Washington with "turning the sharp edge of its sword" on Beijing and trying to sow discord between China and the Persian Gulf states in order to shift blame for Gulf tensions onto Beijing. Beijing described the US charges as complete fabrications and argued that any country can find channels to purchase arms for a price.

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Comment: This broadcast is China's first public reaction to stories that appeared in the US press last week on Chinese arms sales to Iran. It was strongly worded but carried no threat of retaliation for the US decision to postpone consideration of liberalization of COCOM restrictions on China. By limiting its response to a broadcast to Iran, Beijing probably hopes to avoid fueling the debate with Washington over the arms sales issue while reassuring Tehran that China is not bending to US pressure.

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Liberia Requests Tanker Protection

Liberia on 30 October requested US protection for Liberian-flagged tankers sailing the Persian Gulf, according to the US Embassy. Monrovia claims its ships in the Gulf have been subject to

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“unprovoked attacks” and because some are US-owned they should be eligible for protection. [Redacted]

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Comment: This is Liberia’s second request for protection in the Gulf. Of the 22 Liberian-flagged ships attacked in the Gulf this year, five are US-owned, including the Sungari, which was hit on 15 October by a Silkworm missile while docked at Kuwait’s Sea Isle Terminal. Of the rest, six are Japanese owned, five British owned, and the remainder are owned by companies located in Norway, Austria, South Korea, and Bermuda. Ship attacks against Liberian-flagged ships represent about 14 percent of the total ship attacks this year. [Redacted]

[Redacted]

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Gorbachev Speaks Out on Soviet History

On Forced Industrialization:

In a single burst industrialization brought the country to a qualitatively new level. . . . Could a course have been chosen in those conditions other than that put forward by the party? . . . No, it could not. At the same time the period also brought losses . . . people were being persuaded of the universal effectiveness of strict centralization . . . bureaucracy increased, a danger that Lenin warned about.

On Collectivization:

In that immense operation, a deviation from Leninist policy was committed. . . . It was carried out by administrative methods . . . and gross violations acquired a ubiquitous character. But, comrades, if we are to assess the importance of collectivization, overall, then in the final analysis it was a turning point of fundamental importance.

On Stalin and the Purges:

Many thousands were subjected to mass repressions. . . . We must see both Stalin's indisputable contribution . . . and the gross political errors and arbitrariness permitted. . . . Sometimes it is said that Stalin did not know about the instances of lawlessness. Documents in our possession say that this is not so. The guilt of Stalin and those closest to him is immense and unpardonable.

On Khrushchev:

It required no little courage to criticize the cult of personality and its consequences and to restore socialist legality. . . . Attempts were made to overcome the bureaucratic methods of management based on command. . . . However, subjectivist errors were committed which hampered socialism's emergence . . . and compromised progressive undertakings.

On Brezhnev:

During his latter years, the search for the way to achieve further progress was to a great extent held back by an adherence to customary formulas. . . . There was a buildup of negative process . . . a precrisis situation was created.

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USSR:**Setback for Reformers**

The cautious approach to controversial historical questions that Soviet leader Gorbachev took in his speech yesterday marking the 70th anniversary of the Bolshevik Revolution apparently reflects the continuing precarious balance between reformers and conservatives in the leadership. Together with the political setback suffered by Moscow party leader Boris Yel'tsin, a close Gorbachev ally and strong advocate of reform, the speech indicates that conservatives led by "Second Secretary" Ligachev have succeeded at least temporarily in setting limits on the reform agenda. [redacted]

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Gorbachev did not question the legitimacy of the main lines of policy under Stalin, although he did sharply criticize excess in carrying out these policies. Gorbachev endorsed Stalin's decision to curtail Lenin's New Economic Policy, which he assessed as appropriate for its time, in favor of rapid industrialization and collectivization of agriculture, claiming that there was no other way. He failed to make dramatic changes in the official evaluation of Stalin's most notable victims—Bukharin, Trotskiy, Zinoviev, and Kamenev. [redacted]

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Comment: Gorbachev's speech does not provide the kind of historical and ideological framework that would legitimize frontal attacks on the political and economic system that Stalin created. One Soviet official noted that the speech represented the line of the Central Committee, not of Gorbachev, or even the Politburo. [redacted]

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Gorbachev did go beyond Khrushchev's criticisms of Stalin in some respects. He charged Stalin with committing a "deviation" from Leninist principles by carrying the attack on "rich" peasants under collectivization so far that many ordinary peasants suffered as well. Moreover, Gorbachev emphasized repeatedly that even though many aspects of the Stalinist system were necessary under the circumstances of the time, it was a mistake to universalize now-inappropriate past social models in an attempt to deal with needs and demands of the country today. [redacted]

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The reassessment of party history will apparently continue, giving reform advocates an opportunity to push for more thorough revisions of historical interpretations and rehabilitation of Stalin's victims. Gorbachev announced that the Politburo has mandated a review of Stalin's purge victims by a special commission and that another commission is drafting an outline of party history. Following the anniversary celebrations, party secretary and Politburo member Aleksandr Yakovlev, the most outspoken radical member of the leadership on historical questions, reportedly will attend a conference of historians and ideologists at the Marxism-Leninism Institute that is expected to debate proposed revisions in the official party history.

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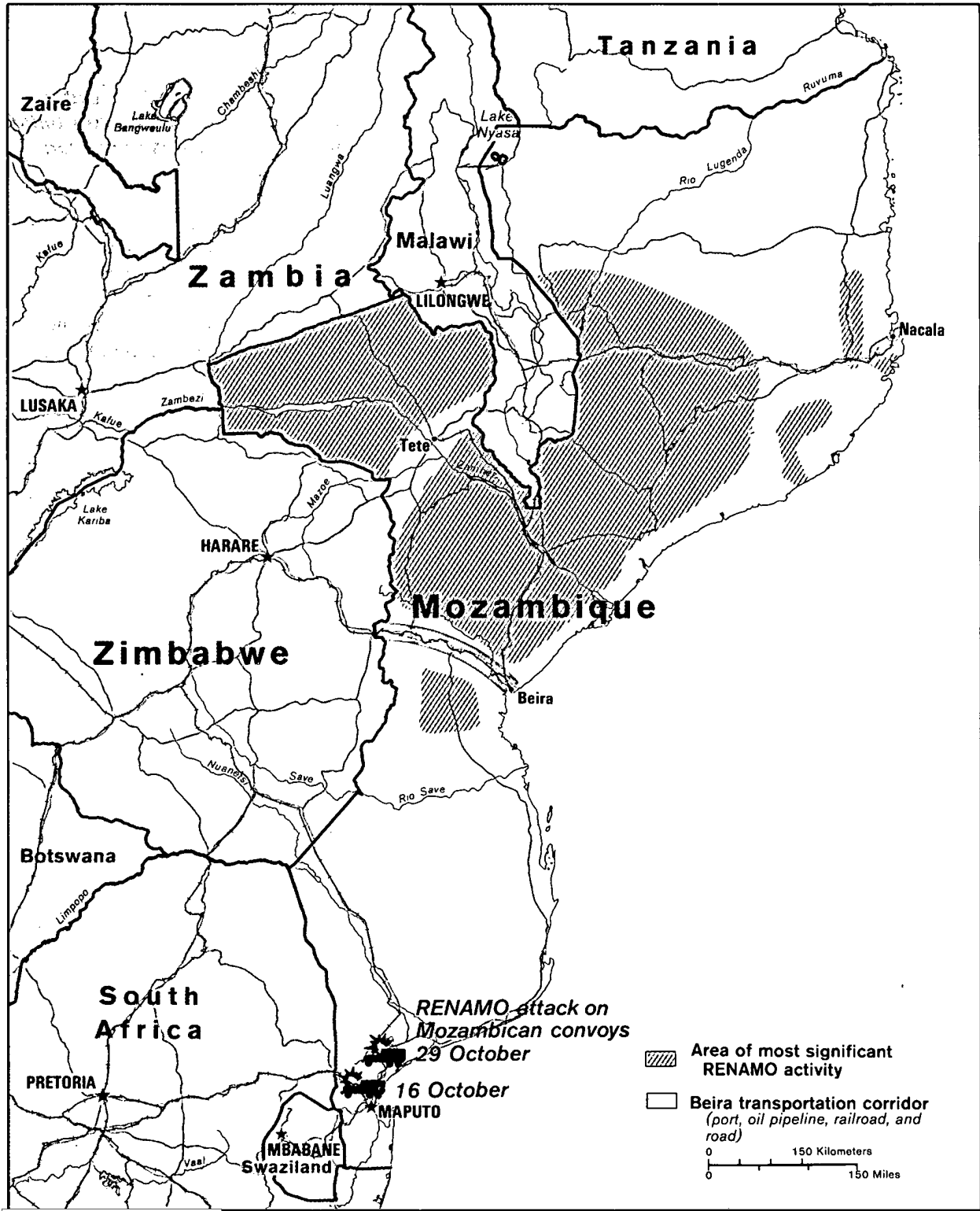
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MOZAMBIQUE: Mounting Civilian Casualties

The most recent attack on a Mozambican convoy last week appears to be part of a RENAMO strategy in southern Mozambique and eastern Zimbabwe to disrupt transport links, create a climate of insecurity, and punish Maputo's military allies. [Redacted]

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Initial press and US Embassy reporting indicates that the insurgents attacked a military convoy escorting civilian vehicles on the country's main north-south highway about 50 miles (80 kilometers) north of Maputo. The US Ambassador, who visited the site, reported that about 80 vehicles had been destroyed and at least 200 civilians had been killed, either directly by RENAMO or in an ensuing firefight between the insurgents and government troops. RENAMO has acknowledged the attack but claims it was a purely military engagement. Earlier this month, a similar ambush on the same road resulted in the deaths of approximately 50 civilians, according to Embassy and press reports. [Redacted]

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Insurgent operations also have taken a heavy toll on Zimbabwean civilians since RENAMO began staging raids into eastern Zimbabwe last June. [Redacted] To bolster border security, Harare is planning to add two new brigades to its 47,000-man Army, [Redacted] Tanzania, Mozambique's other major military ally, recently decided to establish a quick-reaction force in order to respond to RENAMO operations close to its border, [Redacted]

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Comment: Violence by both parties against civilians has long been a part of the 11-year-old insurgency, but the most recent wave of civilian casualties coincides with an intensification of rebel operations in southern Mozambique, where RENAMO enjoys relatively little popular support and is likely to show less restraint. In addition, rebel military objectives, which include disrupting transport in the south, probably contribute to the rising toll of civilian casualties. [Redacted]

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Although Zimbabwe feels compelled to expand its Army because of the RENAMO threat, neither Harare nor Dar es Salaam can easily afford a major buildup of forces. Moreover, an increase in troop strength alone is not likely to improve their ability enough to protect civilians from RENAMO cross-border attacks. [Redacted]

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USSR-CHINA: Trying To Exploit Sino-US Tensions

Soviet media have been defending China's positions on key issues of Sino-US contention as part of the USSR's effort to court Beijing. A Soviet radiobroadcast in Chinese last week denounced US "interference" in Chinese internal affairs, citing the US Senate's recent stand on Tibet. TASS in English on Monday reported a Chinese media commentary accusing the US of "groundlessly" threatening China for selling arms to Iran in order to deflect criticism of US involvement in the Persian Gulf. The Soviet party also sent greetings this week to the Chinese Party Congress for the first time since 1956.

[Redacted]

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Comment: Moscow is trying to take advantage of current tensions in Sino-US relations—in much the same way as it has long tried to exploit US arms sales to Taiwan—by presenting the US as interfering in internal Asian affairs and by playing up Sino-Soviet convergence on issues such as disarmament, economic restructuring, and nuclear-free zones—including space. China has not responded to the USSR's media overtures and will not allow the Soviets to influence its relations with the US.

[Redacted]

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CHINA: Foreign Exchange Reserves Up

China's foreign exchange holdings reached \$14 billion in September, more than \$4 billion above January's record low, according to official Chinese statistics.

[Redacted]

[Redacted]

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Comment: Improved trade performance—exports were up 24 percent and imports down 4 percent—has reduced China's trade deficit during the first nine months of the year to \$2.7 billion, as compared with \$9 billion for the same period in 1986. Trade resulted in a net increase in foreign reserves, however, if imports that did not require payment in foreign exchange are excluded. In addition, Beijing has probably earned additional foreign exchange from gold sales.

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FRANCE: New Armed Forces Chief

President Mitterrand's appointment of new armed forces and army chiefs will help the continuing development of French-US military relations. General Maurice Schmitt, current Army chief, will replace retiring Armed Forces chief General Jean Saulnier this month. General Secretariat for National Defense director General Gilbert Forray—Mitterrand's former military adviser and the organizer of France's Rapid Action Force—will replace Schmitt as Army head.

[Redacted]

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Comment: Schmitt was in line for the promotion and is considered professionally well-rounded and a soldier's soldier. Forray's promotion, however, is a surprise, because he had served only three months at the General Secretariat—the Defense Ministry's analytical and coordinating body. Both men are well disposed toward the US and strongly committed to cooperating with NATO.

[Redacted]

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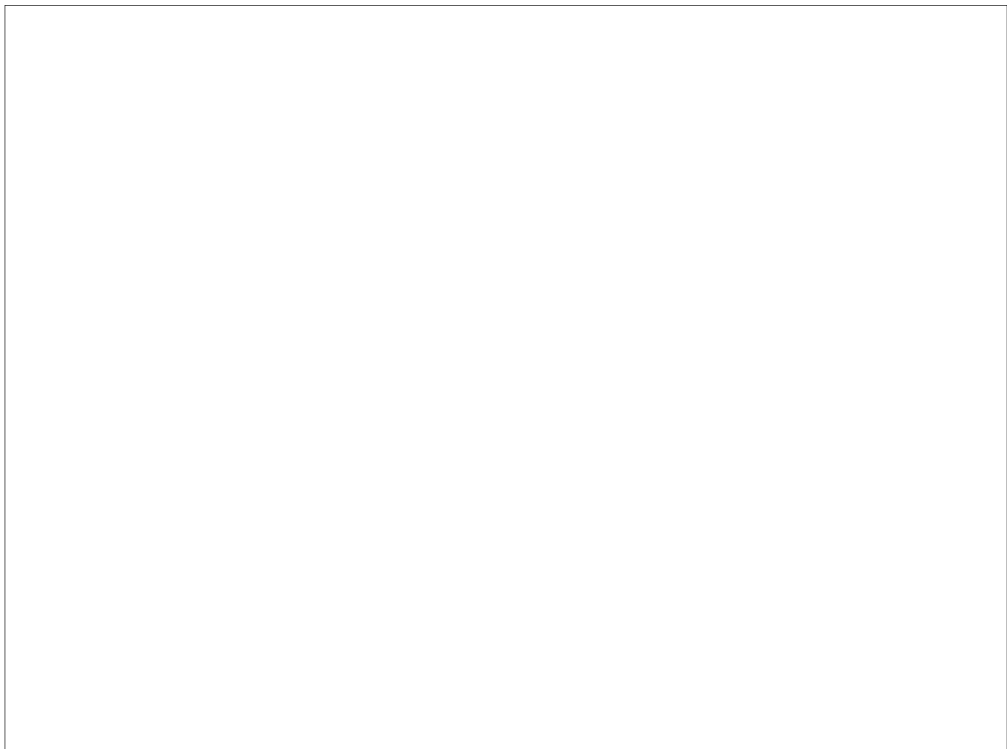
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LEBANON-ISRAEL: Amal-Israeli Accord

Shia Amal leader Nabih Barri has agreed to halt all attacks against Israel in return for a withdrawal of Israeli troops from several locations in southern Lebanon. [Redacted] key members of Amal's southern leadership are charged with enforcing the ban and arresting Amal and Hizballah violators. [Redacted]

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Comment: The agreement is probably intended to reduce immediate tensions between Israel and Amal, but it does not presage a total Israeli withdrawal from southern Lebanon. Amal's internal fragmentation, Israel's continuing occupation, and the growing Hizballah presence in the region undercut Barri's ability to guarantee security along the border with Israel. And without significant improvement in Amal's position—which is not likely—Israel will continue to keep a small military presence in southern Lebanon and to support its surrogate force, the Army of South Lebanon led by General Lahad. In response to the Amal-Israeli agreement, the PLO may shift several positions so that it can attack Israel without Amal interference. [Redacted]

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ROMANIA: President's Son Appointed Governor

President Ceausescu's youngest son Nicu, formerly head of the Communist youth organization, has been named First Secretary of one of Romania's 40 counties, according to press reports. He apparently remains a nonvoting candidate member of the Central Committee's Political Executive Committee. Many Romanians believe that Nicu, despite his reputation as a playboy, is being groomed to succeed his father. [Redacted]

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Comment: Nicu Ceausescu's new position probably is intended to give him administrative experience before he moves to a more important post in Bucharest. Although the President and his ambitious wife are intent on giving their 36-year-old son a high-ranking government sinecure at the very least, his evident lack of ability and his unpopularity within the party probably rule him out as a serious candidate for succession. The President's wife, however, probably hopes to prepare Nicu for a major government position should she manage to succeed her husband. [Redacted]

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SPAIN-FRANCE: ETA Counterfeiting

In recent operations against members of the Basque extremist group ETA living in southern France near the Spanish border, French police seized \$9.6 million in bogus US \$100 notes and 60 printing plates and arrested two ETA suspects. Information obtained as a result of the arrests indicates that the Spanish Basque provinces may be inundated with counterfeit US bills. Police also found plates for producing local French Government stamps and false Spanish and French national identity cards. [Redacted]

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Comment: The apparent size of the counterfeiting activity and the ETA's technical expertise suggest a sophisticated operation. The counterfeiting scheme may support the high priority ETA has recently given to sabotaging the Spanish economy. ETA may also have turned to counterfeiting to make up a loss of extortion-derived revenues. The amount of counterfeit currency seized and the large number of printing plates indicate ETA may also be supplying other groups involved in counterfeiting. [Redacted]

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In Brief

East Asia

— **Taiwan** proposing freeze on 1988 exports to US, higher imports, if US pressure to appreciate currency . . . concerned appreciation will hurt economy . . . export freeze probably more harmful to small businesses than appreciation. [Redacted]

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[Redacted]

[Redacted]

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Europe

— Greek Cypriot parliament doubling defense tax, raising military spending to \$20 million a year, according to US Embassy . . . public support for expanded defense growing . . . arms race on **Cyprus** may accelerate as UN peace process founders. [Redacted]

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— **Bulgaria** announced liberalized foreign investment regulations giving joint ventures tax-exempt status for first three years, other benefits . . . part of larger economic reform program . . . motivated by need for Western technology, increased exports. [Redacted]

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Special Analysis**CHINA:****New Leaders Facing Old Problems**

Deng Xiaoping and his reformist allies gained much of what they wanted at the recent party congress and Central Committee Plenum. However, apparent compromises with orthodox party members and failure to resolve nettlesome questions may dilute Deng's apparent gains. The Politburo Standing Committee is evenly split between the party's reformist and orthodox wings, and the selection of a new premier remains at an impasse. Moreover, the reformers must still convert their gains into concrete policy—historically a more difficult task.

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The 13th National Party Congress that closed Sunday marked a symbolic changing of the guard, as Deng led the Long March generation off the Central Committee and into retirement. Deng, nevertheless, will remain an active player—in deference to his prestige and wisdom, according to a party press spokesman—and will continue as chairman of the party Military Commission. Many of Deng's more prominent rivals also will have a potentially powerful base in the party's Advisory Commission, where they can continue to score the shortcomings of China's reforms.

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The congress endorsed Premier Zhao's work report, which, while underscoring several pet concerns of orthodox party leaders, was strikingly straightforward and free of ideology. In principle, the congress sanctioned some of the most controversial reform experiments—private ownership, the sale of stock and payment of dividends, and the leasing of land. Zhao proposed, and the congress also accepted by its changes to the party constitution, the separation of party affairs from government and economic work in the interest of greater efficiency and productivity.

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The Politburo named at yesterday's Central Committee Plenum has 17 members—three less than its predecessor—and a strong plurality in favor of Deng's reform program. There are 10 holdovers, and the seven additions are seasoned national or provincial leaders. The former General Secretary, Hu Yaobang, stayed on—a rebuff to the traditionalists who forced his ouster in January.

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Unanswered Questions

Deng's reluctance to exit the political stage completely indicates his continuing concern with the fragility of his reforms, personnel arrangements, and his inability to install a younger leader as chairman of the Military Commission. The plenum named Zhao as First Vice Chairman of the Commission, almost certainly to pave the way for the reunification of the top party and military positions for the first time since 1981. It is not clear whether Zhao has a broad enough constituency within the military to sustain a bid for the post. [redacted]

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The five-man Politburo Standing Committee, whose members on average are 14 years younger than their predecessors, poses a problem for reformers. Zhao appears to have only one unequivocal ally—Hu Yaobang's protege Hu Qili—against traditionalist-leaning Vice Premiers Li Peng and Yao Yilin. Vice Premier Qiao Shi, who has ties to both camps, probably will be a swing vote on controversial decisions. [redacted]

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Zhao stays on as Premier but, according to the Chinese press, has asked for a National People's Congress Standing Committee session later this year to name an acting premier. The premier traditionally has been a Politburo Standing Committee member, and Li Peng, the preferred candidate of the orthodox wing, seems well positioned for the job. Should Li get the nod, he and Zhao will have to work out the balance of power between the Politburo and the State Council under a new and ambiguous mandate to separate party and government work. Contention is likely should Li seek to impose a more orthodox stamp on the State Council, its staff, and the reform program. [redacted]

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Outlook

Zhao's work report provides an ambitious reform agenda but is short on specifics of implementation. The need to sort out new political relationships and continuing economic problems—stagnating grain production, a widening budget deficit, industrial waste and inefficiency, and strong inflationary pressures fueled by excessive and often wasteful capital construction—indicate the reformers probably will not be able to move ahead very aggressively with their program. [redacted]

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Special Analysis

ETHIOPIA:

Facing Famine

Ethiopia is threatened again by widespread famine. Although the government has contributed to initial relief efforts, its resources are severely limited. Prospects for averting a food crisis like that during 1984-85 are uncertain as donors' budgetary constraints, transportation shortages, and security problems increase.

[Redacted]

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A food crisis as severe as that two years ago threatens to engulf Ethiopia as early as January. In September the government issued a preliminary request for 950,000 tons of emergency food for drought-stricken areas. Continuing poor rainfall, however, has dashed hopes for substantial crop recovery, and harvest projections for next month in both affected and adjacent areas are bleak. The US Embassy reports that some 1.2 million tons of relief food might be required—as much as at the height of the previous famine. [Redacted]

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Getting food to people in their home districts before they migrate to cities, feeding camps, or across international borders again will be key to managing the crisis. Logistic problems are already appearing, however. A recent UN transport assessment warns of ill-equipped ports and truck shortages, particularly in the north, and Addis Ababa has balked at donor suggestions that it move 200 trucks there from the south, according to diplomatic reporting. The destruction by rebels of 23 trucks in a UN relief convoy in Eritrea late last month will aggravate the problem. [Redacted]

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The Government's Stance

In contrast with its attempt to cover up the famine in 1984, the regime has clearly indicated it intends to deal openly and cooperate in relief efforts, according to diplomatic reporting. Early in August the government acknowledged that the drought had deepened and appealed for international aid. It pledged 50,000 tons of grain for relief feeding, bought another 100,000 tons on the international market, and—for the first time—sent officials into the countryside to appraise the crisis. [Redacted]

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Despite these moves, donors will be wary of abuses similar to those that occurred during the previous famine, when the regime involuntarily resettled hundreds of thousands of peasant farmers from depleted lands in the north to virgin lands in the south and west. The resettlement caused scores of deaths and diverted government resources from the relief effort. The regime halted the program in

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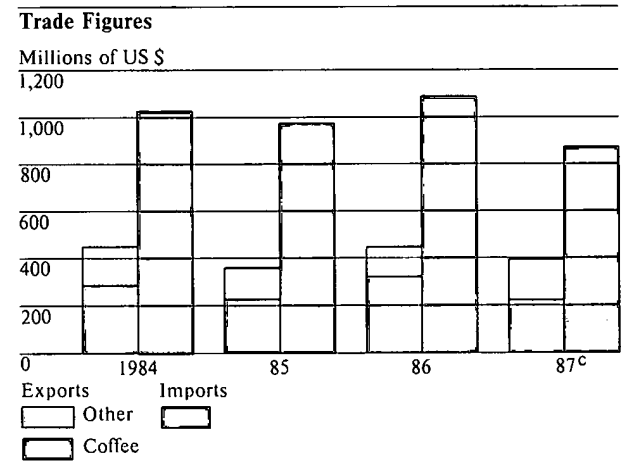
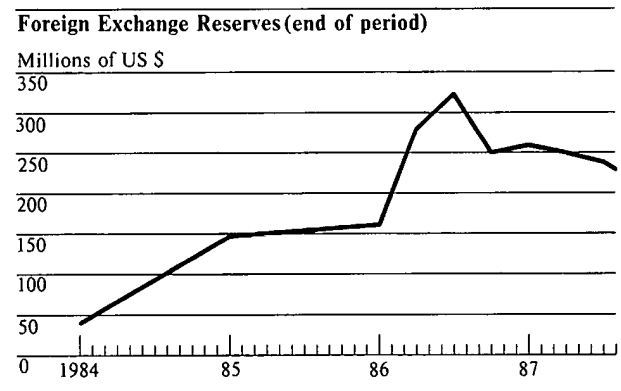
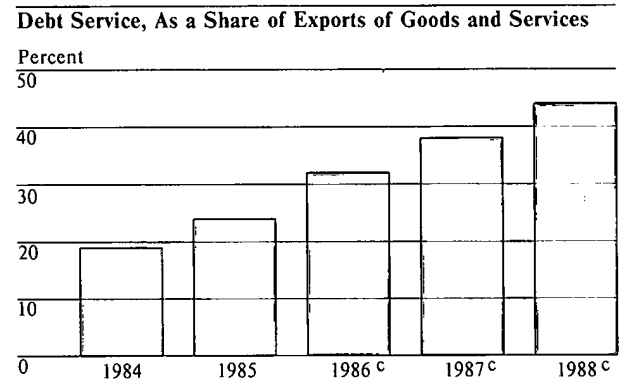
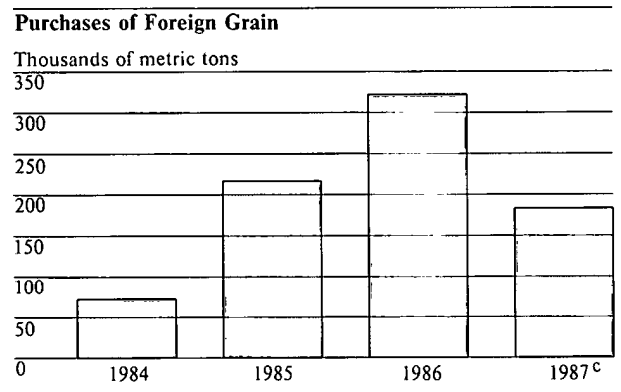
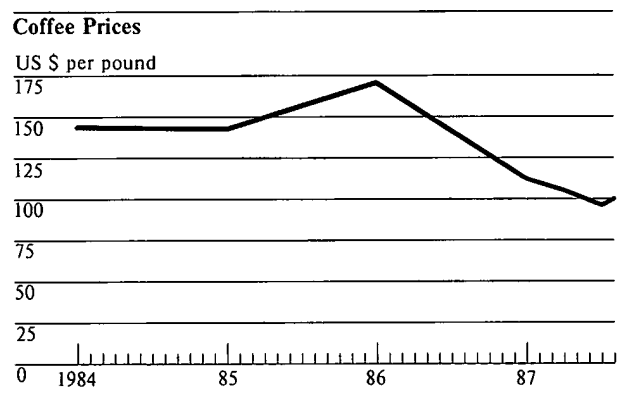
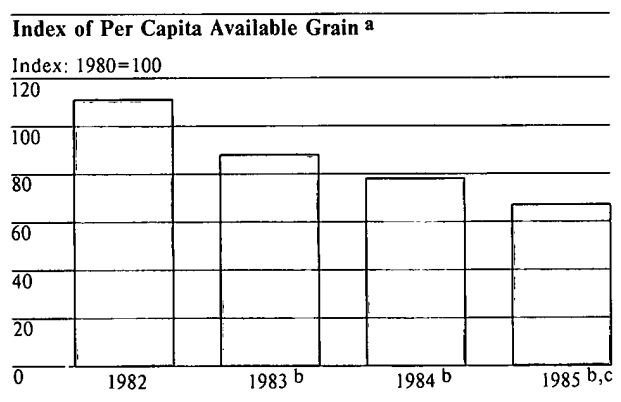
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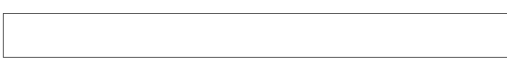
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Ethiopia: Selected Economic Indicators



^a Excludes livestock products and food imports. Planting is from March to July, with harvests from September to December.
^b Excludes Eritrea and Tigray.
^c Preliminary.



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October 1985 following international protests, but President Mengistu recently emphasized that resettlement remains key to his development strategy and hinted at its resumption, according to the Embassy. [Redacted]

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Western donors and international organizations also await regime action on agricultural reforms. The EC and World Bank have proposed reforms to improve Ethiopia's agricultural pricing and marketing structures and to strengthen private markets, but Addis Ababa has stalled for three years; Western donors believe the delay has slowed the recovery and development of the rural sector. Although Ethiopia recently drafted reform plans along the lines suggested by the World Bank, there is no indication of whether or how they will be implemented, according to the Embassy. [Redacted]

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Ethiopia's overall economic malaise severely limits its ability to pay for increased food imports. Rising debt-service payments and lower world prices for coffee, its main export, are draining reserves. As in 1984-85, however, the government probably will maintain the flow of food to the armed forces and urban population in recognition of their importance to regime stability and the counterinsurgency effort. [Redacted]

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Other Stumblingblocks

The unprecedented attack on the unescorted UN relief convoy portends growing security problems for the aid effort in two of the hardest hit provinces, Eritrea and Tigray. [Redacted]

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[Redacted] The UN's refusal to meet rebel demands for advance notification of relief convoys and its reluctance to request government military escorts illustrate the donors' dilemma. Both of these steps would slow the delivery of food aid and risk politicizing relief operations, without reducing the threat to future convoys. Other options, such as airlifting food, would impose higher costs at a time of growing budgetary constraints. [Redacted]

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In 1988, unlike 1984-85, budgetary problems among donor countries are likely to seriously constrain relief efforts. Aid funds are being cut in most Western countries, and some donors have expressed concern about embarking on another protracted and costly relief program in Ethiopia, according to the Embassy. At the same time, humanitarian organizations, which implement most of the relief work in the field, also have reduced funding and are turning to the bilateral donors to make up the deficit. [Redacted]

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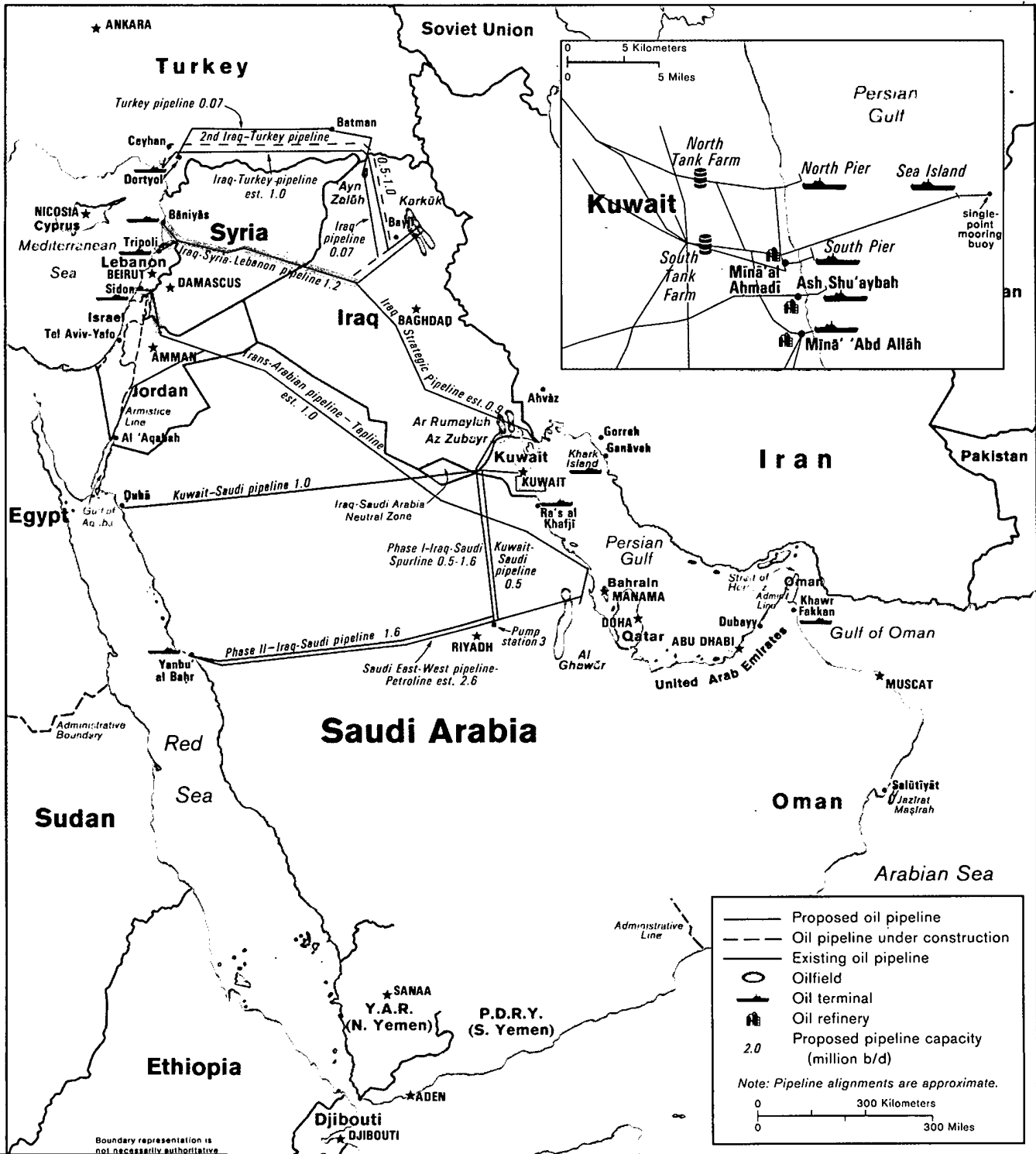
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Selected Middle East Oil Facilities



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Special Analysis

KUWAIT: Oil Export Strategies

Iran's Silkworm attacks on Kuwait's Sea Island oil-loading facility highlight the vulnerability of both the country's oil facilities and the tankers loading in Kuwaiti waters. Kuwait's diversification of its export system, along with its large foreign financial reserves and the steps Kuwait has taken to protect its oil exports reduce the economic impact of the limited Iranian attacks.

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Kuwait has greatly increased the use of oil shuttle operations in response to Iranian ship attacks. Nearly 80 percent of Kuwaiti crude exports—about 1.5 million barrels per day in September—are shuttled to Khawr Fakkan, well above the 20 percent earlier this year. Most petroleum products are shipped directly from Kuwait to their destinations.

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Use of Foreign-Flagged Ships

Foreign flag tankers constitute the majority of the crude oil shuttle fleet. The Kuwait Oil Tanker Company primarily uses UK- and Liberian-flagged supertankers. The temporary loss of the US-reflagged Bridgeton, damaged by an Iranian mine in July, had no impact on Kuwaiti crude exports because of the availability of other tankers.

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The regime plans to increase product exports early next year from 500,000 b/d to more than 600,000 b/d. US-reflagged tankers carry about 100,000 b/d, and Soviet-flagged chartered tankers carry another 30,000 b/d. Nearly 70 percent of Kuwait's liquefied petroleum gas exports of about 70,000 b/d are carried by US-reflagged tankers.

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Options To Increase Protection

If unescorted tankers stop loading at Kuwait, the Kuwait Oil Tanker Company could maintain almost all of its crude and product exports by using US- or UK-flagged tankers in a shuttle operation to Khawr Fakkan. The Bridgeton, along with several UK-reflagged or chartered supertankers, could deliver more than 600,000 b/d of crude to Khawr Fakkan. In addition, the Kuwait Oil Tanker Company could add the Maryland—a chartered, US-flagged supertanker.

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An expanded shuttle system is technically feasible but would create logistic problems if Kuwaiti production continues at current high levels. Loading delays associated with increased use of the North and South Piers would increase costs and put more tankers at risk from Silkworm missiles. Kuwait can continue to export up to 1 million b/d of crude oil from the North Pier facility, although draft restrictions there limit each tanker cargo to 250,000 tons or less.

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Kuwait is considering building an export pipeline to the Red Sea to increase the security of its oil exports. Government officials, however, have been reluctant to make a firm decision because of the cost. Construction would take at least two years and probably could not begin until late 1988.

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Outlook

Kuwait's oil export facilities and refineries will continue to be vulnerable to Iranian missile attacks or sabotage. More than 30 percent of Kuwait's population is Shia, many with strong ties to Tehran. Iranian-backed Kuwaiti Shias planted bombs at domestic oil facilities three times this year. So far, Kuwait has been the target of at least eight Silkworm missiles, and continued successful missile attacks on tankers and key facilities may limit Kuwaiti exports. Moreover, Tehran's unsuccessful attack on the Ra's al Khafji export facilities emphasizes Iranian resolve to strike Kuwaiti interests using a variety of tactics.

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Nonetheless, even the temporary loss of Kuwait's Sea Island export facility will not severely disable the country's export operations or the economy. The duplication built into Kuwait's export system reduces the likelihood of a complete disruption of exports. Other than shifting crude oil loading operations to its North Pier terminal, Kuwait is reactivating a single-mooring export buoy near the Sea Island with a capacity of about 500,000 b/d. Kuwait's three product export refineries have separate loading terminals.

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The regime has sufficient financial reserves to meet domestic expenditures and repair costs. Kuwait can also limit revenue loss by using alternate oil export facilities. In recent years investment income has surpassed oil export receipts as the primary source of government revenues.

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