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SMF 9/19/2008

File Folder ENERGY BRIEFING BOOK RE IRAN IRAQ WAR

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M2008-134

Box Number 91354

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| ID | Doc Type | Document Description | No of Pages | Doc Date | Restrictions |
|-------|---------------|---|-------------|------------|--------------|
| 55861 | ROUTING SLIP | NSC ROUTING SLIP | 1 | 11/29/1983 | B1 B3 |
| 55862 | MEMO | MARTIN TO MCFARLANE RE ENERGY BOOK R 11/23/2011 F1996-127/2 #145 | 2 | 11/28/1983 | B1 |
| 55863 | BRIEFING BOOK | RE ENERGY BRIEFING BOOK RE IRAN-IRAQ WAR PAR 11/23/2011 F1996-127/2 #146 | 77 | ND | B1 |

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File Folder: Energy Briefing Book re Iran Iraq War Box 91354

| DOCUMENT NO. & TYPE | SUBJECT/TITLE | DATE | RESTRICTION |
|---------------------|---|----------|----------------------------|
| 1. routing slip | 1p <i>PART. 5/13/03 F96 127/2 #144</i> | 11/29/83 | P1/F1 B3 |
| 2. memo | Martin to McFarlane re Energy Book 2p <i>R 11/22/11 F96-127/2 #145</i> | 11/28/83 | P1/F1 |
| 3. briefing book | Energy Briefing Book re Iran Iraq War 77p <i>PAR 11/22/11 F96-127/2 #146</i> | n.d. | P1/F1 |

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TO MCFARLANE

FROM MARTIN

inf 2/24/00

DOC DATE 28 NOV 83

KEYWORDS. OIL VULNERABILITY IRAQ
IRAN

SUBJECT. ENERGY BRIEFING BOOK RE IRAN IRAQ WAR

ACTION: FOR REDO

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COMMENTS

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The White House**

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| John Poindexter | <u>2</u> | <u>[Signature]</u> | |
| Wilma Hall | <u>3</u> | <u>[Signature]</u> | |
| Bud McFarlane | <u>4</u> | <u>M</u> | <u>I</u> |
| John Poindexter | | | |
| Executive Secretary | | | |
| NSC Secretariat | | | |
| Situation Room | | | |

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DISTRIBUTION

cc: VP Meese Baker Deaver Other _____

COMMENTS

Should be seen by: _____

(Date/Time)

The individual named [redacted] mentioned in the last R is not a CIA detailee. He is a CIA employee working with Bull on a periodic basis, as is the case with [redacted] who showed up at today's (11/29) staff meeting.

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NLS F96-67/2 #144
By CS, NARA, Date 5/13/03

MEMORANDUM

NATIONAL SECURITY COUNCIL

~~SECRET~~

November 28, 1983

MEMORANDUM FOR ROBERT C. McFARLANE

FROM: WILLIAM F. MARTIN *WFM*

SUBJECT: Energy Briefing Book on Iran-Iraq

This is very solid work. We must keep working on it. Both spread mechanism of cooperation

The Problem: The situation in Iran-Iraq war worsens daily and we are increasingly concerned about the possibility of Gulf oil disruptions and the resulting negative impact on the struggling world economy brought about by higher oil prices. Under the worst circumstances, oil prices could triple, triggering a new recession, increased unemployment and higher inflation. Even modest oil prices increases (to say \$35/barrel) could badly cripple efforts to sustain the world financial situation.

Administration Split. Despite the threat, we seem paralyzed as an Administration to deal with the prospects of an energy emergency. If we fumble on this issue, it could ultimately prove very politically embarrassing to the President -- not to mention the high economic costs we would all pay.

Action Plan. Given severe splits in the Administration between the market forces and the national security community, it seems essential that we begin to talk about our differences with a view to finding some common ground. We believe that the NSC can play a major role in this effort. An action plan might include the following:

-- Ed Meese and you should have an initial meeting to discuss the situation in the Iran-Iraq war and possible US responses, nationally and internationally. Our aim would be to move the Meese memo of last month forward to the President. This memo proposes that DOE be put in charge of domestic energy responses and that NSC take the lead on the international front.

--Once we have found some common ground with Ed Meese, it might be useful to expand to a small group setting, including the two of you plus Judge Clark, Don Hodel and Larry Eagleburger in the Situation Room. This group could discuss the relationship of the energy issue to our broader political and military activities in the region.

OK'd
TFP Reminded me bug fix on
ag roll

Good idea. I'm not sure what Ed is up to. Craig & have tried to get him to max the mem

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NLRR F96-127/2*145

BY KML NARA DATE 11/23/11

--Lastly, we might consider an NSPG on the energy issues arising out of the Iran-Iraq war.

--Along the way, we may wish to give the President a five minute overview at a 9:30.

Ben Bonk (our CIA detailee who put together most of this book) and I would be glad to meet with you to discuss both substance and procedure once you've had an opportunity to look through the attached briefing book.

Attachment

cc: Don Fortier
Richard Beal
Charles Tyson
Roger Robinson

*a bulky
brief
could
be
better.
we should
have our
bureaucratic
row.*

ducks in a

*Good
let's do
it later
this
week (12/5)*

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°Iraqi Oil Export Options

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SUMMARY

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Summary

- o Iraq's inability to resolve its severe economic problems has forced Baghdad to seriously consider escalating the war in the Persian Gulf; such an escalation would probably involve an attempt to halt Iranian oil exports.
- o Ayatollah Khomeini and other Iranian officials have threatened to attack oil installations elsewhere in the Persian Gulf and block the Strait of Hormuz if Iranian oil exports are significantly impaired.
- o Under the worst circumstances, oil prices could triple, triggering a new recession, increased unemployment, and higher inflation.
- o In order to minimize the impact, it is necessary to plan policy responses now -- both domestically and internationally.
 - oo The present situation in the oil market is relaxed. Spot market prices are stable at around \$29. There is surplus production capacity of about 8 million barrels per day -- 3 mbd of which is outside the Gulf area. However, commercial stocks are at their lowest level since 1976.
 - oo A pre-crisis plan would establish the ground work needed for a rapid response to a disruption of oil flows. Key elements would include: early consultations with Congress on emergency preparedness; consultations with the Allies on contingency plans for collective response to oil

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market disruptions; establishment of an oil crisis management system in Room 208; discreet consultations with oil companies; contingency planning for U.S. response domestically and internationally in the first week of a crisis.

oo A crisis plan setting out policy options in advance would allow quick decision-making and smooth implementation of policy initiatives, limiting the economic impact of the disruption. Steps might include: early Presidential message aimed to calm the market; early use of the SPR; early Ministerial meeting of IEA; early collective response of Allies to not build stocks and to avoid excessive price bidding on the spot market.

oo Interagency coordination is critical. It is proposed that DOE be responsible for domestic response and that NSC take charge of international coordination.

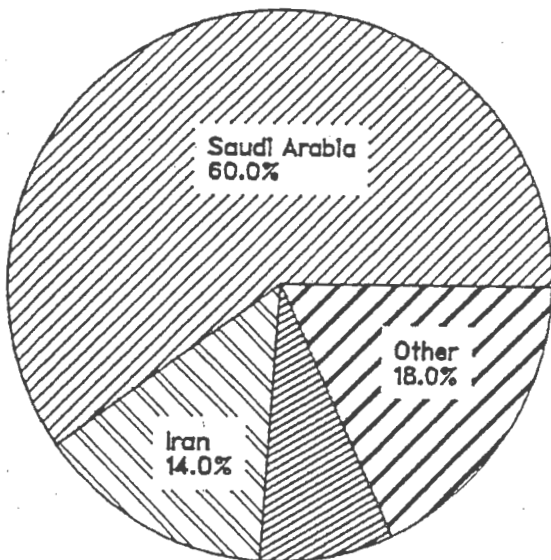
PRESENT OIL SITUATION

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Free World: Surplus Oil Productive Capacity

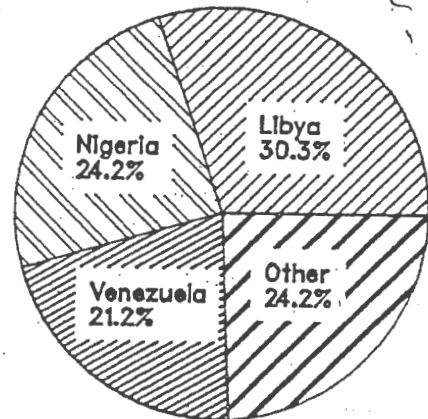
Persian Gulf

Total: 5.0 Million B/D



Non-Persian Gulf

Total: 3.3 Million B/D



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Pre-Disruption World Oil Situation

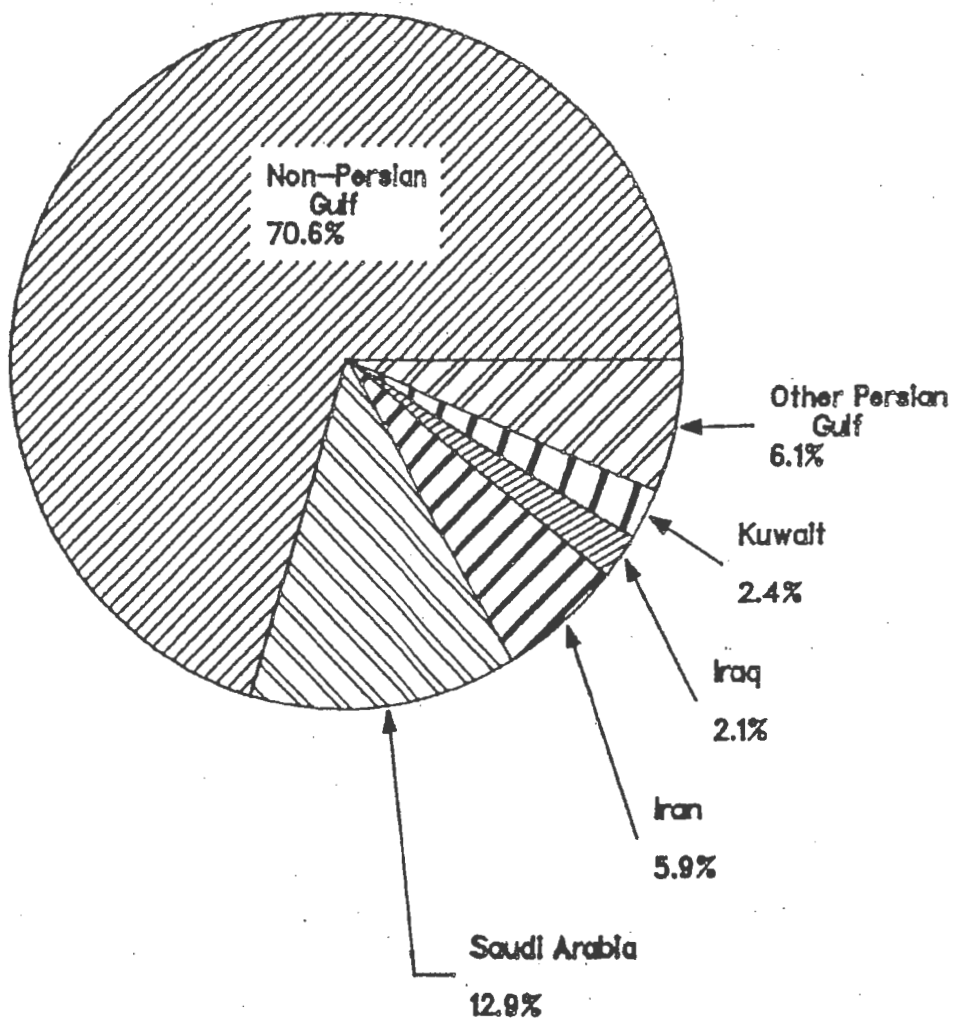
- o Free world oil production currently is averaging about 42.5 million barrels per day (b/d). The Persian Gulf accounts for about 30 percent of the total.
- o Available oil productive capacity in the free world stands at about 50.5 million b/d.
- o Of the 8 million b/d of surplus productive capacity available to help offset a disruption, only 3 million b/d is outside the Persian Gulf -- one-third of which is in Libya.
- o While U.S. dependence on Persian Gulf oil has dropped to only 5 percent of total oil imports and 2 percent of oil consumption, the other countries in the OECD received 8 million b/d from the Gulf last year, about 55 percent of their total oil imports and 40 percent of total consumption.
- o Falling consumption, high interest rates, declining oil prices, and prospects for ample supplies have triggered a sizable reduction in oil stocks. They now stand at the lowest level since 1976.
 - oo Primary commercial stocks in the industrialized countries approximated 2.7 billion barrels or 79 days of forward consumption at the end of September. A large portion of commercial stocks -- about 55 days of consumption -- represent minimum operating levels needed to ensure smooth functioning of the distribution system. Another 15 days represent compulsory stocks. The balance

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Free World: Crude Oil Production

Total: 42.5 Million B/D

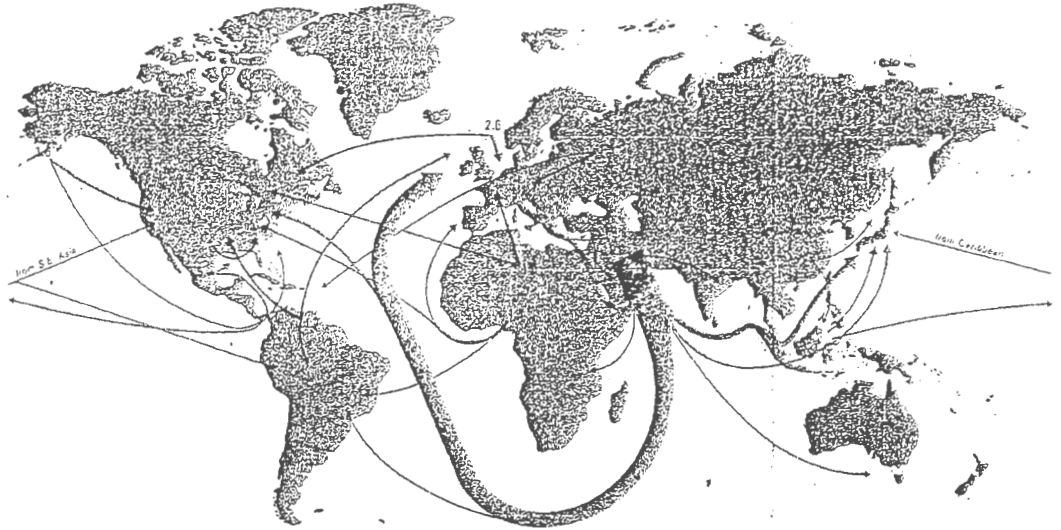


of about 9 days of consumption represent usable commercial stocks.

oo In addition to privately held stocks, government stocks total about 500 million barrels -- about 70 percent are in the U.S. Strategic Petroleum Reserve.

o In conclusion, the U.S. is in relatively good shape to weather a crisis. Oil imports are low and strategic stocks are high. However, Japan, Europe and most LDCs are not in this favored position. They are still highly dependent on Gulf oil supplies, have low commercial stocks and have not seriously built governmental strategic stocks.

Main Oil Movement by Sea—1982*



Unclassified
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1.2 Number indicates oil supply (million b/d) at point of origin.

* First-half 1982 data.

THREAT

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Iraqi Strategy

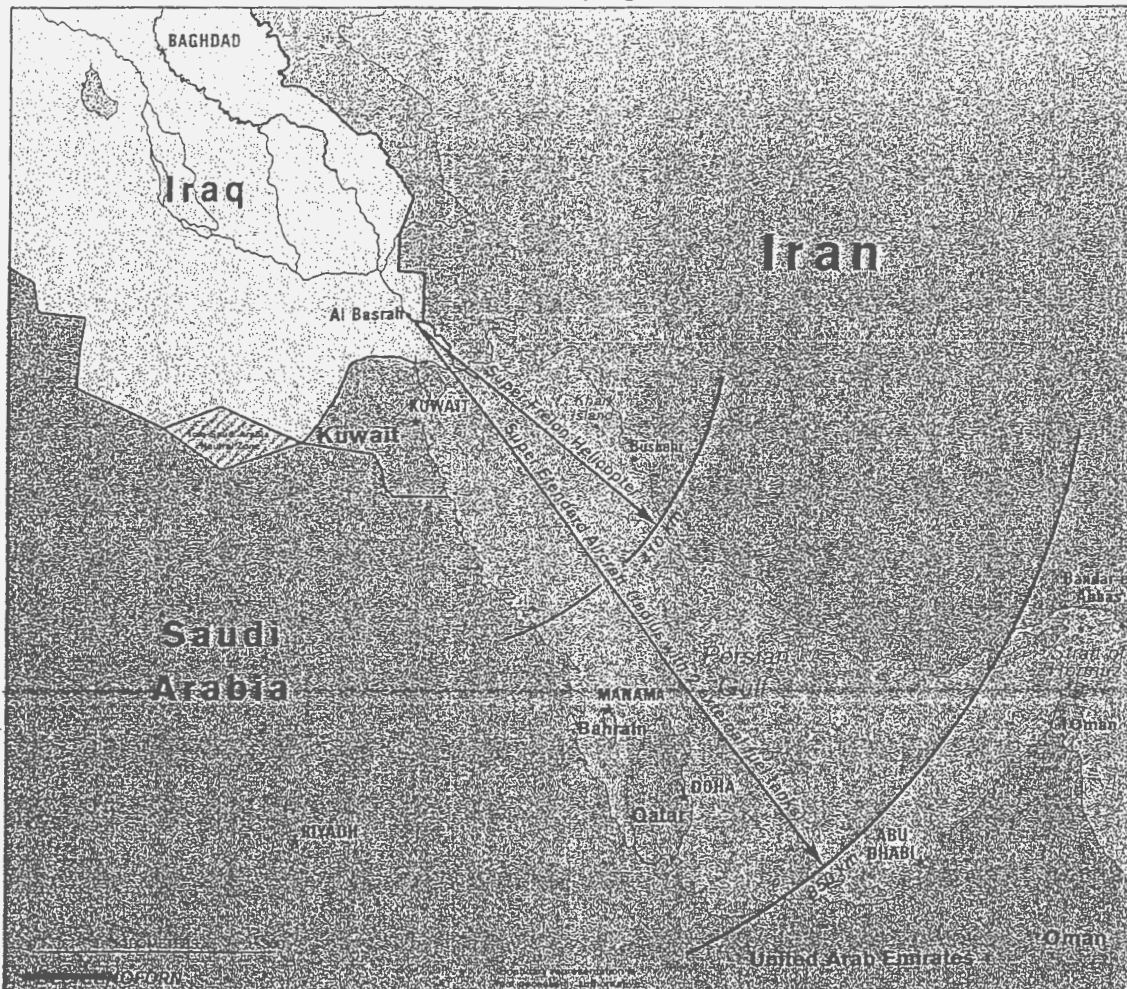
- o Iraq currently is embarked on a diplomatic offensive in order to gain financial relief or to press Iran to end the war.
- o Increases in financial aid, combined with the potential for higher oil revenues over the longer term, could provide Baghdad the necessary financial resources to continue on its present course for a time.
- o If Baghdad's diplomatic moves are unsuccessful, it will likely attack oil tankers calling at Iran's Khark Island Export Terminal.
- o Iraq would have three objectives in attacking Iran's oil lifeline:
 - oo To impair Iran's war-making capacity by denying it revenue.
 - oo To force Iran to begin negotiations to end the war.
 - oo To force the Western powers to intervene, guaranteeing the safety of all oil exports from the Gulf, including those from Iraq.
- o Iraq has moved its five Super Etendard aircraft to southern Iraq, indicating that plans to use the aircraft equipped with Exocet anti-ship missiles are at an advanced stage.

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Radius of French-Built Iraqi Aircraft Carrying Exocet Missiles



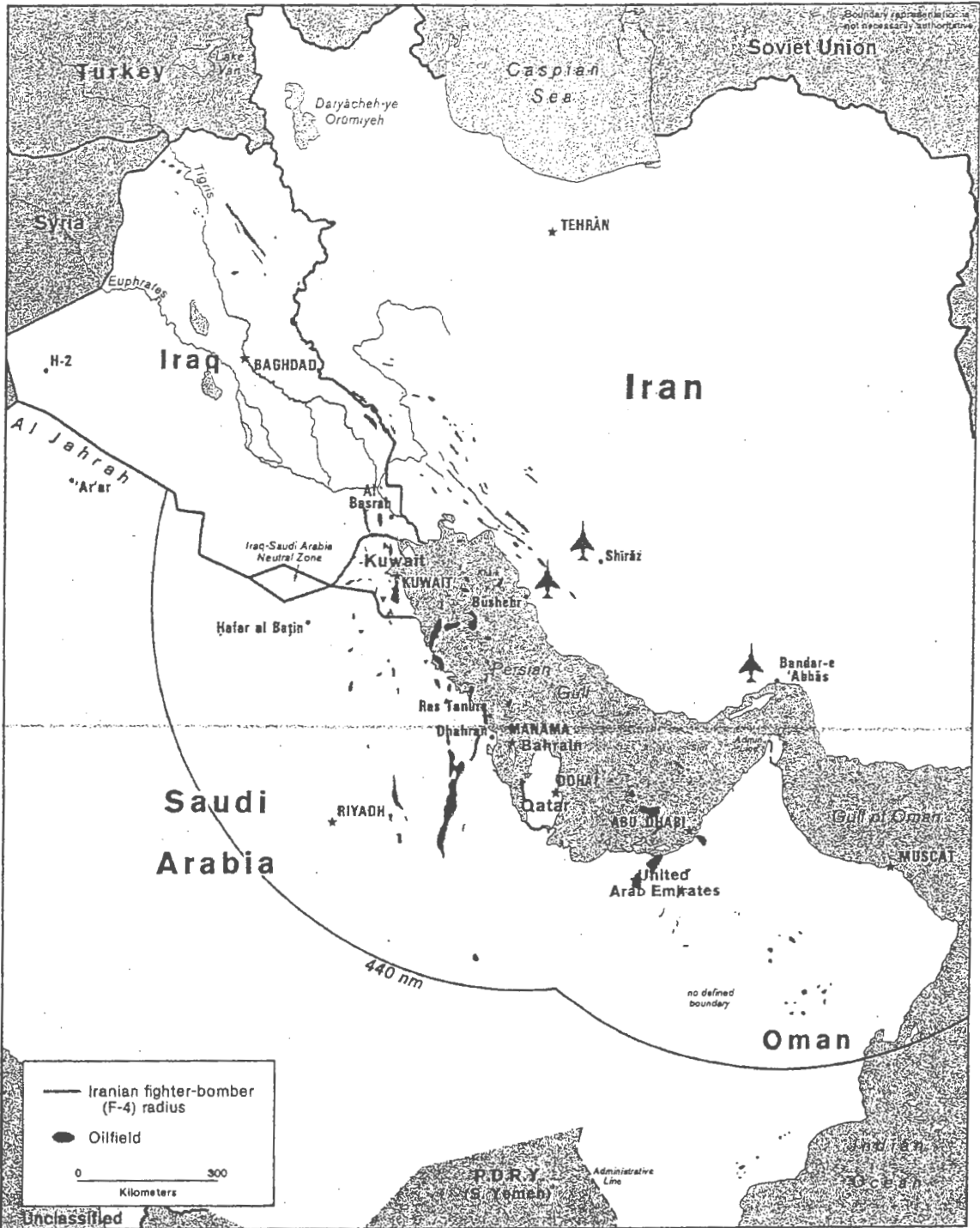
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- o The simplicity and low risk of using the Super Etendards make it the most likely weapons for Iraq to use against Iranian oil exports.
- o Iraq also has Super Frelon helicopters armed with Exocets which have the range to reach Khark Island. Baghdad believes their slow speed makes them too vulnerable.
- o Despite overwhelming air superiority, Iraq has never attempted to conduct a sustained, high intensity conventional bombing campaign against Khark Island. New reporting, however, indicated that Baghdad intends to launch major airstrikes during the next few weeks to destroy the oil loading facilities at Khark Island.
- o Iraq could use its Scud surface-to-surface missiles against Khark, but could not be confident of hitting specific installations.

Figure 2
Persian Gulf Oilfields Vulnerable to Iranian Airstrike



Unclassified

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Iranian Response

- o Some Iranian military response is certain. Tehran has the capability to retaliate by:
 - oo Attacking targets in Iraq.
 - oo Harassing ships in the Persian Gulf.
 - oo Attacking oil facilities of the Gulf states.
 - oo Closing the Strait of Hormuz by using mines or a blockade.
- o In order to avoid a Western military response and keep its own remaining exports and imports moving, Iran's initial military response would probably be at the lower end of the escalatory ladder.
- o Hardliners in Tehran, however, playing on the regime's ideological underpinnings, might force the most extreme military reaction at the outset.

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Oil Disruption Scenarios

- o An escalation of the fighting between Iran and Iraq could initially result in the disruption of relatively insignificant amounts of oil exports because of current excess productive capacity. Should the disruption spread beyond the two belligerents, the oil market might not be able to cope with the loss.

- o Case 1: The complete loss of Iranian and Iraqi exports, totaling less than 3 million b/d, could be covered easily. It if appeared, however, that the conflict might spread, spot oil prices could begin rising.

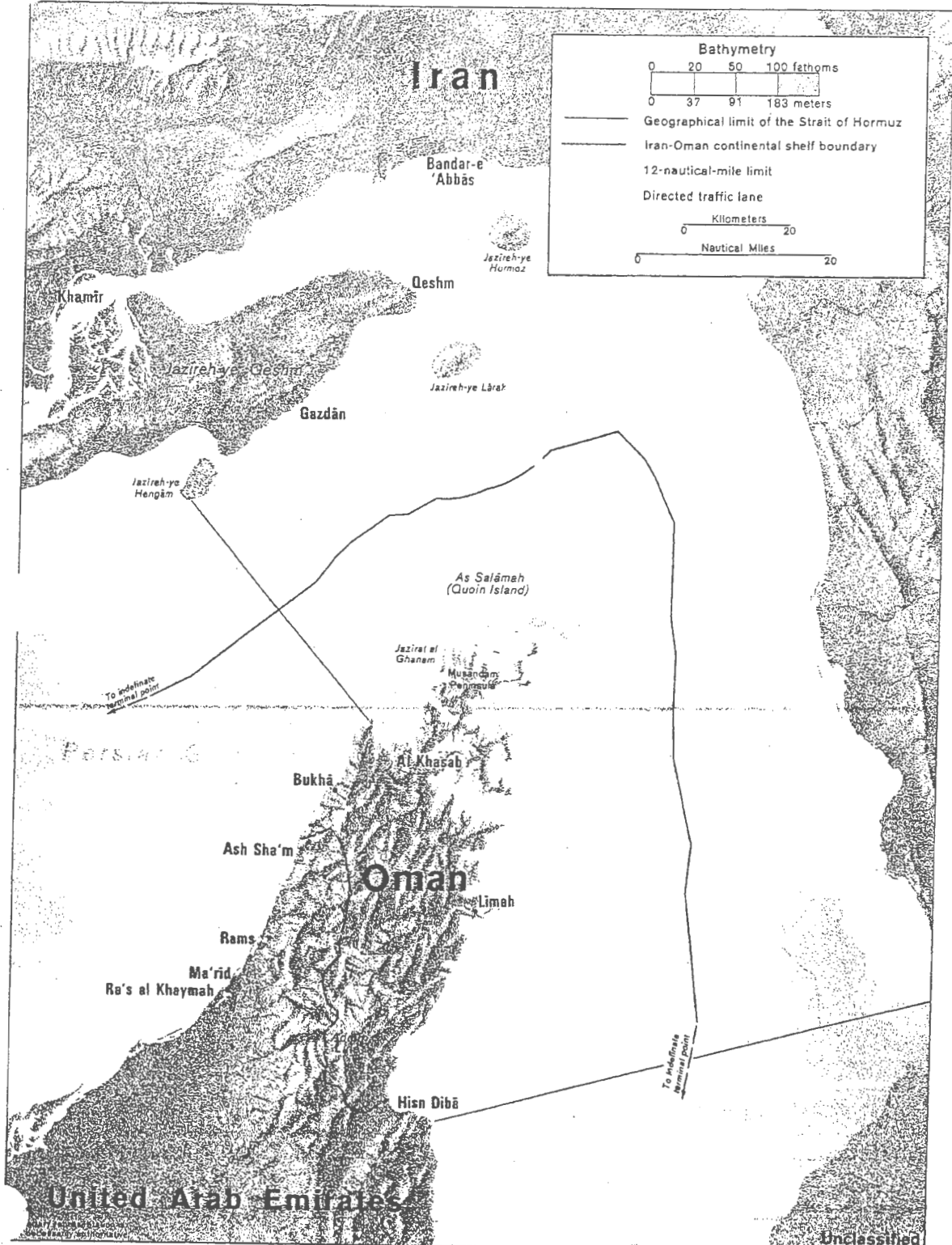
- o Case 2: If Kuwaiti exports of about 700,000 b/d were lost as well, other producers could still make up the shortfall. However, given general increased uncertainty in the Gulf, spot prices would likely increase and the expectation of additional losses might begin to drive official sales prices upward.

- o Case 3: The disruption of Saudi Persian Gulf oil exports in combination with the loss of exports from Iran, Iraq and Kuwait, would lead to physical shortages as well as higher spot and official prices. If assuming optimistically that all available surplus capacity could be brought into production, world oil supplies would fall about 2 million b/d below demand. Precautionary stock increases would make the situation even worse. This scenario also optimistically assumes that Saudi Arabia would be able to maintain exports of about 2 million b/d through its pipeline to the Red Sea if damage were limited to its Persian Gulf export facilities.

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Strait of Hormuz



- o Case 4: A closure of the Strait of Hormuz could result in a net world oil supply shortfall of more than 5 million b/d. Spot prices would rise substantially. Quick action to restore oil flows could restrain official sales price increases.

ECONOMIC IMPACT

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Economic Impact

- o The economic impact of any disruption will depend heavily on a number of factors:
 - oo Expectations of the duration and magnitude of the disruption.
 - oo The actual extent and duration of the disruption.
 - oo The availability of alternative fuels.
 - oo Petroleum stock levels and stockholder response.
 - oo Government initiatives -- nationally and collectively.

- o If it is feared that a disruption might spread or in the face of uncertainty, consumers and oil companies could begin adding to existing inventories. Panic buying could drive prices up significantly even if supply and demand remained in balance. This was the case in 1979 in the wake of the Iranian revolution. Ultimately only 1-2 million b/d were lost from world oil markets, but anticipation of a longer crisis, coupled with low stock levels, resulted in a heavy oil stock build among all OECD nations. This, in turn, resulted in undue pressure on markets which lead to a 170% price increase.

- o Case 4. In the most severe scenario, a prolonged closure of the Strait of Hormuz, official sales prices might have to double or triple from the predisruption level of \$29 per barrel in order to balance supply and demand. At least initially, spot prices would probably exceed even these levels.

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- oo For the United States, this could result in as much as a 5 percentage point reduction in GNP growth, unemployment rates above 10 percent, and a doubling or tripling of energy prices.
 - oo Because of their greater dependence on imported oil, the economic impact in the rest of the OECD would likely be more serious.
- o In Case 3, where physical damage to facilities might prevent an early restoration of oil production, oil prices might have to double in order to balance supply and demand. Prices might initially be bid above this level as companies scramble to line up new supplies.
 - oo Under this scenario, economic recovery in the United States and the rest of the world would be choked-off.
- o Case 2. Even a modest oil price increase to \$35 per barrel, which might be brought about under Case 2 and would certainly take place under circumstances falling short of Case 3, could have severe repercussions on many less-developed countries (LDCs) and the international financial system. If the price were maintained over several months, heavily indebted oil-importing LDCs would be unable to finance higher oil import bills and, barring new reschedulings, could be forced to delay repayments.
- o To the extent that there is effective collective response by OECD governments nationally and collectively to the disruption (i.e. IEA emergency allocation system, stock draw, discouragement of high-priced bidding in the spot market), the oil price

can be contained at lower levels which would result in a less severe economic impact.

PRE-CRISIS PLANNING

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Pre-Crisis Energy Planning

- o In order to minimize the impact of an oil disruption, there are a number of steps that can be taken now to streamline the decision-making process.

- o Establishment of an interagency group co-chaired by DOE (handling the domestic aspects of the crisis) and NSC (coordinating the international response) to develop contingency plans which would cover the following issues.
 - oo Definition of a clear decision-making process and lines of authority.

 - oo Completion of the Oil Crisis Management System for Room 208 (NSC).

 - oo Completion of work program identified in NSDD-87, particularly on securing military energy requirements in times of disruption.

 - oo Completion of domestic energy emergency preparedness plan (DOE).

 - oo Advance consultations with Congress and key State energy offices on the nature of situation and possible domestic and international responses.

 - oo Development of a first week response scenario outlining policy options and plans.

 - oo Advance consultations with Allies (bilaterally and within the IEA as well as with key oil producing countries) (DOE/State).

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- oo Resolve IEA anti-trust immunity (EPCA 252).
- oo Designation of a public diplomacy coordinator to organize press and public guidance -- preferably situated in the White House.
- oo Activation of domestic and international energy data information systems -- Energy Information Agency (domestically), IEA (internationally).
- oo Preparation of a common briefing book for key Cabinet members (to be updated on a regular basis).

CRISIS PLANNING

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Energy Contingency Planning -- A Response Outline

Any energy crisis response will involve the following basic steps:

- A) Assessment of the nature and likely duration of the crisis.
- B) Consultation with our allies and a decision whether or not to activate IEA emergency measures.
- C) Consultation with Congress on US response measures including:
 - o SPR drawdown
 - o Other domestic measures
- D) Coordination with U.S. oil companies to assure international and domestic objectives are being met.
- E) High-level diplomatic consultations to ensure oil exporting countries produce at maximum levels.
- F) A public relations effort to calm fears.

Possible Sequence of Action

Day 1-3

+Seek all available information from diplomatic posts, intelligence sources, companies, etc. on extent of crisis

+Assess likely extent and duration of crisis

Day 4-6

+Schedule Presidential TV appearance to provide information and urge calm

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+Initiate diplomatic efforts with Saudis, Kuwaitis, etc. aimed at halting hostile action in the Gulf.

+Request oil producers to produce at full capacity

+Begin coordination in the Congress on response measures

+Suspend new additions to Strategic Petroleum Reserve

Day 7-10

+Summon oil industry executives to discuss and assess action in Gulf as well as domestic response

+Convene emergency meeting of the IEA Governing Board to decide with allies whether to activate emergency sharing procedures

+Make definite decision on whether or not to draw down the Strategic Petroleum Reserve

+Propose emergency domestic revenue recycling measures to Congress to counteract expected effects of rising oil prices and ward off pressure for domestic allocation measures

Day 11-13

+Consider activation of Defense Production Act to provide added fuel for military forces

+Offer US assistance in repairing damage/clearing sunken vessels from PG area/removing mines

+Airlift material to repair vital facilities and make use of pre-positioned material in Gulf area

+Begin SPR distribution

+Authorize surge production from Defense Petroleum Reserves

Day 14-17

+Direct oil company participation in IEA sharing system so as to assure equitable sharing of burden, i.e. assure voluntary offer system works adequately

+Assure 10% directed sales of SPR are being used at least in part in support of IEA sharing system

+Consider imposition of US oil import quota if necessary to avoid inequitable world distribution of oil because of higher US prices

Day 18-21

+Undertake high-level bilateral diplomatic consultation with Saudi Arabia as well as multilateral consultations through the IEA at ministerial level

+Consider emergency financial measures to assist LDCs in coping with sudden price hikes

+Provide emergency financial assistance to IEA members less able to support increased prices

OIL CRISIS MANAGEMENT
SYSTEM (RM 208)

~~SECRET~~

MEMORANDUM FOR: Robert McFarlane
FROM : Ben Bonk *[Signature]*
Bill Martin *[Signature]*
SUBJECT : Oil Crisis Management System

1. Purpose. The purpose of the Oil Crisis Management System being developed for Room 208 is to allow for a quick, concise and understandable presentation of the facts and policy options surrounding any future oil disruption. This advance preparation will allow everyone involved to focus on the policy decisions needed to reduce the impact on the domestic and international economies. Of immediate concern, the arrival of the French Super Etendards in Iraq could provide the spark which will cause a disruption of oil flows from the Persian Gulf--an area that provides 30 percent of the oil used in the Non-Communist world. Under the worst circumstances--a prolonged closure of the Gulf--oil prices could double or triple from the current level of about \$30 per barrel and OECD growth could decline by four percentage points.
2. Elements of the System. The Crisis Management System will consist of a series of modules covering those topics essential to the formulation and implementation of policy. Most of this information is already known. The attached outline provides a listing of what we currently believe to be the most useful subject areas. Each module will consist of a set of talking points supported by graphics/photos which will be stored in Room 208. All of the modules will be periodically reviewed and updated. Because of the evolving situation in the Iran-Iraq war, the system will initially focus on the Persian Gulf region. Attachment 2 provides an example of one such module.
3. System Utilization. The modular form of the system allows great flexibility. By combining appropriate modules a briefing can be quickly assembled. Modules not used in the actual briefing would be available to answer questions. All of the content would be reinforced by appropriate visual displays. Two types of briefings are likely to be needed.
 - o Pre-disruption briefing. This briefing would be used to bring people quickly up to speed prior to the onset of any disruption. Since it would cover conditions as they exist, it can be assembled now.
 - o Post-disruption briefing. This briefing would cover the nature of the disruption and policy options available to counter it. While much of the preparatory work can be done now, this briefing would have to be tailored to meet the conditions associated with an actual disruption.

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SUBJECT: Oil Crisis Management System

4. Timetable. Barring unforeseen events, most of the individual modules dealing with the international aspects of a disruption should be built within the next two weeks. Modules dealing with domestic issues will take about two weeks to prepare once they are initiated. The pre-disruption briefing and an outline of the post-disruption briefing will be completed a few days later. Entry of the supporting graphics/photos into the Room 208 data base will be dependent on conflicting priorities at the time.
5. Coordination. Inputs for the system are being drawn from appropriate government agencies. CIA and DOE are expected to continue as the biggest contributors to the system. The final product will be coordinated on an interagency basis. - -

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Attachment 1: Outline Of Module Topics

INTERNATIONAL OIL CRISIS MANAGEMENT FACTORS

- I. Pre-Disruption Conditions
 - A. Supply Conditions
 1. Recent oil production
 2. Available productive capacity
 - a. Capacity immediately available
 - b. Additions to productive capacity
 3. Transport routes and oil flows
 - a. Pipeline capacities and flows
 - 1) Current pipelines
 - 2) Proposed Pipelines
 - b. Sea routes
 4. Producing countries' domestic oil requirements
 - B. Demand Factors
 1. Current and projected demand levels
 2. Destination of exports
 - C. Dependence on Persian Gulf Oil
 1. Sources of imported oil
 - a. By importing country
 - b. By major company
 2. Producing country vulnerabilities
 - a. Surface facilities in major exporters (by country)
 - b. Transport routes
- II. Post-Disruption Conditions
 - A. Assessing the Supply Loss
 1. Physical damage to facilities
 - a. Repair time estimates
 - b. Possibilities for temporary fixes
 2. Blockade/Embargo
 - a. Tanker movements/Insurance rates
 - b. Military actions/reactions
 - B. Redistribution of Available Supplies
 1. Due to free market forces
 2. IEA sharing agreement
- III. Supply Offsets to Disruptions
 - A. IEA Sharing Agreement
 1. Emergency Reporting System
 2. General and Selective triggers
 3. Voting procedures
 - B. Oil Inventories
 1. Commercial -- land and sea
 2. Strategic
 - C. Demand Restraint Measures
 - D. Alternative Fuels (Ability to substitute natural gas, coal, etc.)

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IV. Monitoring Reactions

A. Prices

1. Spot market
2. Official sales prices
3. Refined product prices and price controls in consuming countries

B. Direct and Government-to-Government Oil Purchase Contracts

C. Export Controls

V. Policy Options

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DOMESTIC OIL CRISIS MANAGEMENT FACTORS

I. Supply Conditions

A. Domestic Supplies

1. Oil Production
 - a. Current production levels and capacity
 - i. state prorationing policies
 - b. Domestic surge capacity
 - i. short-term
 - ii. long-term
2. Natural Gas
 - a. Current production and capacity
 - i. state prorationing policies
 - b. Surge capacity
3. Other Energy Supplies
 - a. Coal production
 - b. Nuclear/hydroelectric

B. Domestic Stocks

1. Crude Oil
 - a. Public (SPR)
 - b. Private
2. Petroleum Products
 - a. refinery
 - b. secondary
 - c. tertiary
3. Natural Gas
4. Coal

C. Imports

1. Crude oil and petroleum products
 - a. Non-OPEC
 - b. OPEC
 - c. Persian Gulf
2. Natural Gas Imports

D. Imports in a Disruption

1. Readjustments of world oil distribution patterns

II. Petroleum Processing and Transportation

A. Refineries

1. capacity
2. configuration
3. flexibility

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B. Transportation

1. crude pipelines
 - a. Alaska
 - b. Lower-48
2. product pipelines
3. crude tankers
 - a. domestic trade
 - b. international trade
4. inland waterways
5. natural gas pipelines

III. Domestic Demand Factors

- A. Crude runs to refineries
- B. Production consumption levels
 1. Seasonal characteristics (gasoline-distillates)
- C. Product demand characteristics and uses
 1. Light products
 2. Medium products
 3. High products
- D. Fuel switching capabilities

IV. Monitoring Market Reaction

- A. Prices
 1. Spot market
 2. Posted prices
 3. Futures market prices
 - a. Petroleum products
 - b. crude oil
- B. Transactions
 1. Spot market volumes
 2. Crude oil liftings

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Attachment 2

NOT RELEASABLE TO
FOREIGN NATIONALS

-SAMPLE MODULE-

OIL TRANSPORT FROM THE PERSIAN GULF

- o Currently operating pipelines would allow less than 20 percent of Persian Gulf productive capacity -- about 3 million barrels per day -- to reach the market if the Strait of Hormuz were closed.
- o Only 2 countries -- Saudi Arabia and Iraq -- have export pipelines that bypass the Strait.

IRAQI PIPELINES

- o The Iraq - Turkey pipeline currently is operating at its maximum level:
 - oo Drag reducing chemicals have allowed throughput to increase to 800,000 b/d.
 - oo The capacity of the pipeline is being expanded to 980,000 b/d. Completion of the expansion is scheduled for early 1984.
- o The Iraq - Syria pipeline has a capacity of 1.2 million b/d.
 - oo Export terminals for the line are located in Baniyas, Syria and Tripoli, Lebanon.
 - oo The line was closed by Syria in April 1982.

SAUDI PIPELINES

- o Petroline, the Saudi East-West pipeline, has a capacity of 1.85 million b/d.
 - oo In an emergency throughput could probably be increased to about 2 million b/d.
 - oo Petroline is currently pumping only about 700,000 b/d.
- o The Trans - Arabian Pipeline (TAPLINE) has a capacity of about 250,000 b/d.
 - oo Fighting in Lebanon damaged both the line and the export terminal.
 - oo Tapline has abandoned the Lebanese portion of the line.
 - oo Tapline continues to be used to supply a 30,000 b/d refinery in Jordan.

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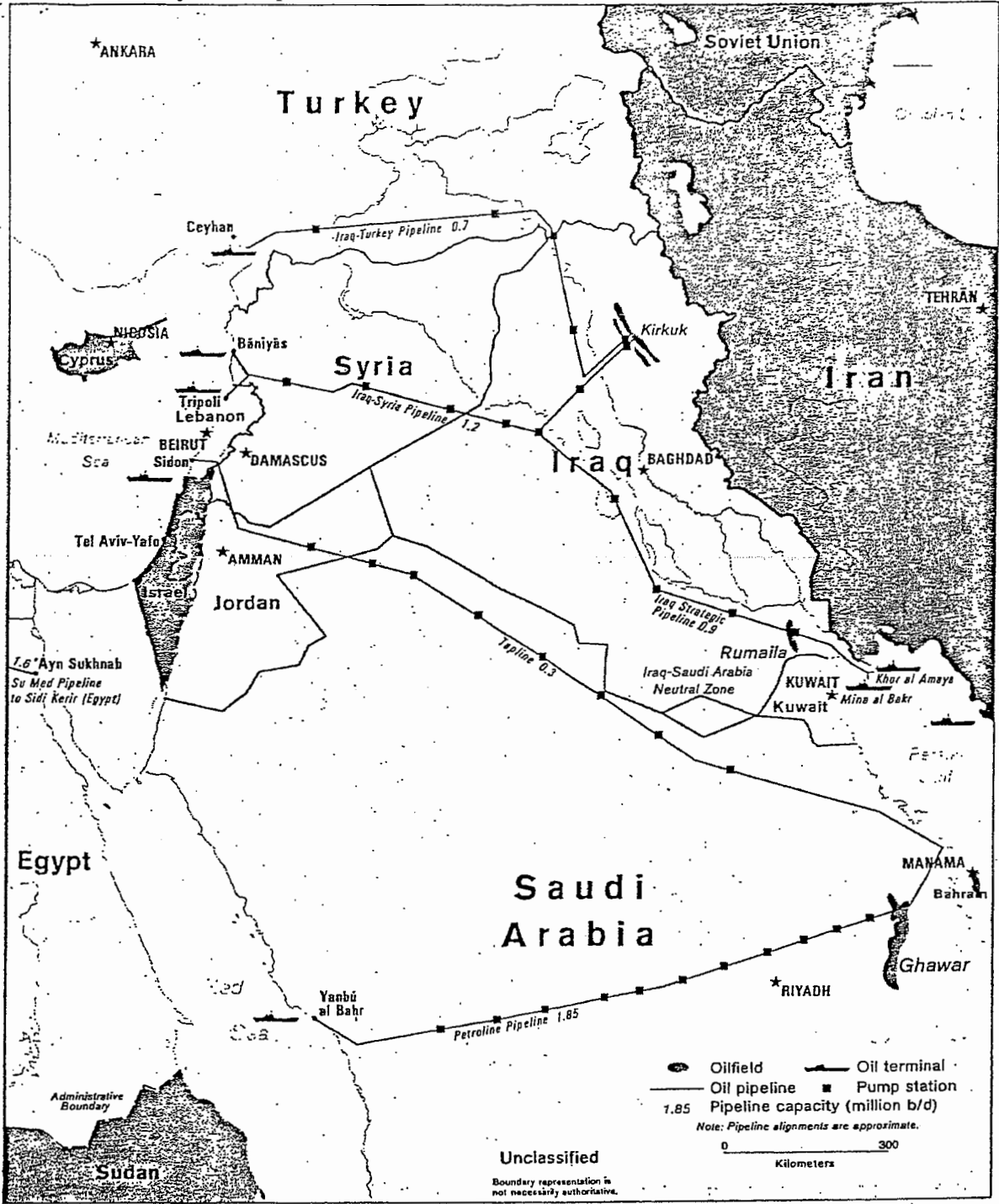
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| | <u>MILLION BARRELS PER DAY</u> | <u>PERCENT TOTAL</u> |
|---------------------------------|--------------------------------|----------------------|
| AVAILABLE PERSIAN GULF CAPACITY | 17 | 100 |
| PIPELINE EXPORT CAPACITY | 3 | 18 |
| SAUDI ARABIA | 2 | 12 |
| IRAQ | 1 | 6 |
| LOCAL USE | 2 | 12 |
| STRAIT OF HORMUZ | 12 | 70 |

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Middle East: Major Oil Pipelines



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FOR EB/ERP-WENDT
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WHITE HOUSE FOR NSC-MARTIN
E.O. 12356: DECL: OADR
TAGS: ENERG, OECD, IEA
SUBJECT: INTERNATIONAL ENERGY AGENCY SECRETARIAT
THINKING ON HYPOTHETICAL IEA EMERGENCY RESPONSE TO
MODERATE AND SEVERE SUPPLY DISRUPTION

1. ~~SECRET~~ - ENTIRE TEXT.
2. IEA SECRETARIAT (LANTZKE, HOPKINS) HAVE GIVEN US AN OVERVIEW OF THEIR THINKING OF HOW THE IEA WOULD RESPOND TO A SUPPLY DISRUPTION OF MODERATE SEVERITY (3 TO 5 PERCENT) AND A SEVERE DISRUPTION (IN THE RANGE OF 7 PERCENT OR MORE OF SUPPLY). THE 3 TO 5 PERCENT DISRUPTION WOULD BE ANALOGOUS TO THE 2.5 MILLION BARRELS A DAY (MBD) LOST IN THE 1979 CRISIS.
3. IN EITHER DISRUPTION, LANTZKE WOULD IMMEDIATELY ACTIVATE IEA'S FUEL INFORMATION SYSTEM (QUESTIONNAIRES A AND B) AND WOULD SEEK TO CONSULT WITH THE "MAJOR PLAYERS" AS QUICKLY AS POSSIBLE. HE WOULD ALSO EXPECT THAT OIL MINISTERS OF MAJOR COUNTRIES WOULD BE IN CLOSE CONTACT WITH EACH OTHER AS THE SITUATION UNFOLDED.
4. LANTZKE WOULD ENVISAGE CONSULTING WITH INTERNATIONAL OIL COMPANIES IN NEW YORK AND THEN GOING TO WASHINGTON TO CONSULT WITH USG OFFICIALS AND AMBASSADORS OF "MAJOR" (I. E., SUMMIT) COUNTRIES. THESE WOULD BE THE FORMAL CONSULTATIONS WHICH THE INTERNATIONAL ENERGY PROGRAM (IEP) FORESEES THAT THE EXECUTIVE DIRECTOR HAS TO TAKE IN ORDER TO ARRIVE AT A POSITIVE OR NEGATIVE FINDING ON WHETHER THE IEA MEMBERS HAVE SUSTAINED OR CAN BE REASONABLY EXPECTED TO SUSTAIN A LOSS OF AT LEAST SEVEN PERCENT OF OIL SUPPLIES. THESE CONSULTATIONS COULD TAKE PLACE IN PARIS BUT U. S. WOULD BE MORE PRACTICAL VENUE.
5. LANTZKE WOULD EXPECT THAT OUT OF "WASHINGTON CONSULTATIONS" WOULD EMERGE SOME POLICY DIRECTIONS AND INITIAL GUIDELINES. THESE WOULD RESULT IN BALANCED, HIGH-LEVEL POLITICAL STATEMENTS BY GOVERNMENT LEADERS AND WOULD BE DESIGNED TO PUT THE ISSUE IN PROPER PERSPECTIVE. LANTZKE WOULD FAVOR STATEMENTS EMPHASIZING

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"CALMING REASSURANCES" IF POTENTIAL MILITARY SITUATION INVOLVED IN CRISIS SEEMED MANAGEABLE AND WOULD FAVOR MORE "ATTENTION-GETTING" LANGUAGE ONLY IF POLITICALLY HIGH RISK ACTIONS SUCH AS PROTRACTED MILITARY CONFLICT SEEMED LIKELY TO DISRUPT OIL SUPPLIES FOR A SUSTAINED PERIOD.) LANTZKE WOULD ANNOUNCE PUBLICLY THAT IEA MINISTERIAL-LEVEL MEETING WOULD BE HELD WITHIN THREE WEEKS. PUBLIC WOULD BE ASSURED THAT STOCKS AT SEA AND ON LAND WERE ADEQUATE TO HANDLE THE SITUATION IN THE INTERVENING PERIOD BEFORE THE MINISTERIAL MEETING.

6. MINISTERIAL MEETING WOULD BE PRECEDED 3 OR 5 DAYS BEFORE BY A GOVERNING BOARD MEETING AT THE OFFICIAL LEVEL IN ORDER TO FURTHER EXCHANGE INFORMATION, TO INCLUDE OTHER IEA MEMBERS IN THE PROCESS AND TO PREPARE FOR THE MINISTERIAL MEETING. DURING THE INTERIM BETWEEN THE WASHINGTON CONSULTATIONS AND THE MINISTERIAL MEETING, THE SECRETARIAT WOULD WORK ON FACTUAL ASSESSMENTS OF THE SITUATION AND POSSIBLE OPTIONS.

7. THE MINISTERIAL MEETING OUTCOMES FORSEEN BY LANTZKE ARE:

- (A) IN THE LESS-THAN-SEVERE DISRUPTION, A MINISTERIAL PACKAGE OF CONCLUSIONS COULD RANGE FROM "PUBLIC MASSAGING" TO ANY OF THE MARKET SUPPORTING MEASURES NOTED IN THE 1982 IEA MINISTERIAL COMMUNIQUE.
- (B) IN A SOMEWHAT MORE SERIOUS SITUATION, SOME IEA MEMBERS (MEDITERRANEAN PRINCIPALLY) MIGHT EXPERIENCE A 7 PERCENT SUPPLY SHORTFALL AND WISH THE EMERGENCY SHARING SYSTEM TO BE SELECTIVELY TRIGGERED. LANTZKE INTENDS TO AVOID PULLING THE TRIGGER IF THE MAGNITUDES INVOLVED ARE MANAGEABLE AND IF THE USG SAYS THAT IT WILL TALK TO U.S. COMPANIES TO ENCOURAGE PRACTICAL MOVEMENT OF SUPPLIES TO AFFECTED COUNTRIES.

- (C) IN THE CLEAR-CUT CASE OF A SEVERE DISRUPTION, LANTZKE WOULD FOLLOW THE IEP PROCEDURES THROUGH TO A FINDING. (IN THIS OPTION, HE IS ASSUMING THAT THE LAPSE OF ANTI-TRUST PROTECTION FOR THE OIL COMPANIES HAS BEEN OVERCOME BY SOME PRACTICAL USG STEPS.)
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E.O. 12356: DECL: OADR
TAGS: ENERG, OECB, IEA
SUBJECT: INTERNATIONAL ENERGY AGENCY SECRETARIAT

8. IN REGARD TO THE LAPSE OF ANTI-TRUST EXEMPTION FOR U.S. COMPANIES TO PARTICIPATE IN VOLUNTARY OFFER SYSTEM, LANTZKE MADE TWO POINTS:
- (A) HE ASSUMES THAT THE USG IS WORKING INTENSIVELY AND SERIOUSLY BEHIND THE SCENES TO FIND PRACTICAL WAYS TO OVERCOME PROBLEMS FOR OIL COMPANY PARTICIPATION CAUSED BY THE LAPSE. WE ASSURED HIM THAT ADMINISTRATION HAD SUFFICIENT LEGAL AUTHORITY TO MAKE SURE THAT THE U.S. DID NOT IMPORT MORE THAN ITS FAIR SHARE OF OIL AS CALCULATED BY THE IEP AND THAT SOME MEANS COULD BE FOUND TO GIVE THE SECRETARIAT ADEQUATE INFORMATION ON INTERNATIONAL OIL MOVEMENTS OF U.S. COMPANIES.
- (B) HE URGES US NOT TO GIVE TOO HIGH AN INTERNATIONAL PROFILE TO THE PROBLEMS CAUSED BY THE ANTI-TRUST LAPSE. LANTZKE HAS DEFLECTED BRITISH CONCERNS HERE ABOUT IMPLICATIONS FOR THE IEA SYSTEM OF THE ANTI-TRUST LAPSE. LANTZKE IS TELLING INTERLOCUTORS THAT THIS WAS A "PROCEDURAL ACCIDENT" IN CONGRESS AND DOES NOT REFLECT USG POLICY TOWARD INTERNATIONAL ENERGY COOPERATION. BRUNGART
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The growing need for international co-operation in energy led to the establishment of the International Energy Agency (IEA) in 1974 as a forum for the 21 participating countries to co-ordinate their energy planning. The IEA provides a framework within which the co-operative efforts of its participating countries will reinforce one another to improve the overall energy situation. The Agency carries out the International Energy Programme and a Long-Term Co-operation Agreement and works:

- to mould a better world energy supply and demand structure, now and for the future;
- to prepare participating countries against risk of oil supply disruptions and to share remaining oil supplies in a period of severe supply disruption;
- to develop alternative energy sources and to increase the efficiency of energy use through co-operative research and development programmes;
- to promote co-operative relations with oil-producing nations and other oil consuming countries.

The countries co-operating in the IEA are: Australia, Austria, Belgium, Canada, Denmark, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States. The Commission of the European Communities also participates in work of the IEA.

The IEA is an autonomous agency within the Organisation for Economic Co-operation and Development (OECD)*. Its principal decision-making body is the Governing Board, composed of senior level representatives from each participating country. The Governing Board also meets at Ministerial Level from time

* See Annex 2

to time. A Secretariat, headquartered in Paris, with a permanent staff of energy experts drawn from Member countries, supports the work of the Governing Board and subordinate bodies.

The IEA Secretariat collects and analyses energy data, reviews Member countries' domestic energy policies and programmes, makes forecasts, undertakes and publishes special studies. (A list of recent publications can be found on page 37)

The IEA Secretariat is headed by the Executive Director who is appointed by the Governing Board.

The Governing Board directs the activities and makes the major policy decisions of the IEA. In most cases, issues are decided by consensus; where a vote is required, a system of weighted voting would apply.

The Governing Board regularly reviews the world energy situation as well as domestic energy policies in order to assess future energy supply and demand patterns, and to formulate appropriate policies to meet changing conditions.



A meeting in Paris of the IEA Governing Board at Ministerial level (photo OECD)

3

The Standing Group on Emergency Questions (SEQ) is responsible for the Emergency Management System of the International Energy Programme (IEP). The IEP commits the 21 IEA countries to reduce demand and to share available oil in the event of any significant disruption of the world oil supply system. The IEP agreement requires that each participating country maintain adequate emergency reserves to sustain consumption for at least 90 days with no net oil imports.

The Industry Advisory Board (IAB) composed of senior supply experts from oil companies, advises the SEQ on emergency oil sharing and related questions. All countries provide the SEQ with detailed oil statistics which are used to prepare historical and forecast data.

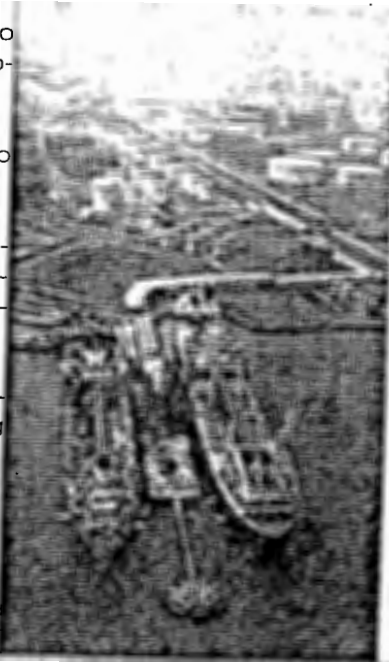
The IEA's emergency oil sharing system could be activated if one or more of the 21 participating countries suffered a loss of 7 percent or more of their normal oil supply. The oil allocation procedure involves sharing the oil available within the Group, according to an agreed formula based on past consumption.

In an oil supply emergency, the international allocation process is managed by the Executive Director as IEA Allocation Co-ordinator responsible to the SEQ and ultimately the Governing Board. The Co-ordinator is assisted by the IEA Secretariat and by the Industry Supply Advisory Group (ISAG), which provides technical expertise. Disputes between buyers and sellers of oil under the Programme may be submitted to binding arbitration under the auspices of the IEA Dispute Settlement Centre.

In each country, a National Emergency Sharing Organisation (NESO) would supervise the internal distribution of oil supplies including emergency reserves.

Operational features of the system are periodically tested to ensure its readiness and efficiency. These tests aim to:

- adjust the system to changes in the international oil market;
- identify areas that need to be improved;
- train IEA, government officials and oil industry personnel to operate the sharing system;
- test Member countries' national emergency sharing organisations.



In an emergency oil would be moved in the world oil system, through co-operation of the world's oil companies (photo Sygma)

In times of smaller disturbances not quickly resolved by market forces and which may cause significant price rises, the IEA may consider alternative measures. These could include:

- discouragement of abnormal spot market purchases or other undesirable purchases;
- lowered consumption;
- short-term fuel switching
- high levels of indigenous production;
- stocks and stock policies, through government consultation with oil companies;
- informal efforts to minimize and contain the effects of supply imbalances.

The IEA monitors on a monthly basis the oil supply, demand and stock situation in IEA countries and world-wide to permit an accurate and timely assessment of the nature, extent and possible impact of all supply disruptions.

Oil Stocks and Government Policies

Falling consumption, high interest rates, declining oil prices, and prospects for ample supplies have triggered a sizable reduction in oil stocks. Since 1980 total oil stocks in the industrialized countries have declined by about 500 million barrels as increases in government-owned stockpiles have only partly offset the decline in commercial stocks. Measured in days of forward consumption, commercial inventories at the end of third-quarter 1983 have dropped to near the levels recorded in the 1978-1979 period. Moreover, world market conditions and budgetary constraints have caused a slowdown in purchases for government stockpiles and a relaxation in the level of compulsory stockpiles required in some countries. Although oil inventories remain adequate for projected consumption needs, uncertainties regarding the disposal of government-owned stocks and erosion of the commercial stock cushion over the past few years increase the market's vulnerability to a major supply cutoff. (C)

The Role of Oil Stocks

Oil consumers hold stocks for two primary reasons: (1) to meet operating requirements including the need to balance seasonal fluctuations in consumption, and (2) for speculative purposes such as insuring against unexpected delivery shortfalls or surges in demand. Primary inventories are stocks held by

major companies and refiners. Government-owned stocks are also included in primary stocks although they are outside normal commercial channels. Along with expectations of a decline in oil prices, lower oil consumption, high interest rates, and surplus productive capacity have provided incentives for oil companies to reduce inventory levels in recent months. (U)

The exact level of stocks held by companies is a function of their intentions as well as a result of miscalculations in balancing supply and demand. In addition to minimum operating levels, compulsory stocks, and government-owned stocks, inventory levels include a residual that cannot easily be fine tuned to match companies' financial objectives. Factors influencing decisions on the level of stocks to be held include:

- o Expectations about future supply availability, particularly stability in certain key oil-producing nations.
- o Estimates of future consumption levels including the strength of economic recovery.
- o The level of interest rates.
- o Expectations about future price movements.
- o Government policies that dictate the maintenance of mandatory stock levels. (U)

The Present Stock Situation

Although inventory accumulation resumed in third-quarter 1983 at about 1 million b/d, the build-up was only half the normal historical rate for the period. We estimate that total

primary oil stocks including government-owned stocks in the industrialized countries stood at about 3.2 billion barrels-- about 93 days of forward consumption at the end of September.¹ Commercial stocks including compulsory stocks approximated 2.7 billion barrels or 79 days of forward consumption and government-owned stocks in West Germany, Japan, and the United States of approximately 500 million barrels accounted for the other 14 days of forward consumption. In the 1978-1979 period, commercial inventories averaged about 3.1 billion barrels or 73 days of forward consumption while government-owned stocks averaged about 100 million barrels or 3 days of consumption. (C NF)

According to industry sources, a large portion of commercial stocks--about 55 days of consumption--represent minimum operating stocks needed to ensure a smooth functioning of the distribution system. Another 15 days represent compulsory stocks that companies maintain to meet government requirements. The balance of about 9 days of consumption represents usable commercial stocks that provide industry the flexibility to meet seasonal and unexpected changes in demand and to help cope with a supply cutoff. (C NF)

Stockpile Goals

Following the 1973 oil embargo, member countries of the International Energy Agency (IEA) agreed to an emergency stockpiling program that would require stocks (including

¹ OECD countries excluding Australia and New Zealand.

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Oil Stocks in Industrialized Countries

| | end of third quarter (million barrels) | | | | | | days of forward consumption | | | | | |
|-----------------------------------|---|-------|-------|-------|-------|-------|-----------------------------|------|------|------|------|------|
| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
| Stocks Including Government Owned | | | | | | | | | | | | |
| United States ¹ | 1,263 | 1,369 | 1,507 | 1,513 | 1,446 | 1,490 | 66 | 74 | 87 | 95 | 96 | 97 |
| Canada | 153 | 147 | 172 | 173 | 131 | 102 | 79 | 75 | 90 | 101 | 84 | 64 |
| Japan | 392 | 437 | 509 | 491 | 467 | 423 | 69 | 78 | 97 | 103 | 98 | 87 |
| WE | 1,215 | 1,339 | 1,515 | 1,410 | 1,293 | 1,162 | 79 | 90 | 110 | 106 | 107 | 94 |
| France | 214 | 229 | 269 | 229 | 205 | 157 | 78 | 92 | 103 | 104 | 106 | 80 |
| Italy | 158 | 166 | 196 | 188 | 180 | 156 | 73 | 77 | 94 | 94 | 101 | 85 |
| United Kingdom | 152 | 168 | 170 | 147 | 134 | 116 | 75 | 87 | 107 | 93 | 84 | 71 |
| West Germany | 227 | 226 | 299 | 302 | 276 | 268 | 77 | 91 | 124 | 128 | 126 | 120 |
| Total OECD ² | 3,023 | 3,292 | 3,703 | 3,587 | 3,337 | 3,177 | 72 | 81 | 99 | 95 | 100 | 93 |
| Government-Owned Stocks | | | | | | | | | | | | |
| United States | 47 | 91 | 93 | 199 | 278 | 352 | 2 | 5 | 5 | 12 | 18 | 23 |
| Japan | — | 33 | 33 | 54 | 70 | 79 | 0 | 6 | 6 | 11 | 15 | 16 |
| West Germany | 44 | 44 | 53 | 55 | 55 | 55 | 15 | 15 | 22 | 23 | 25 | 25 |
| Total OECD | 92 | 168 | 179 | 309 | 402 | 486 | 2 | 4 | 5 | 8 | 12 | 14 |
| Stocks Excluding Government-Owned | | | | | | | | | | | | |
| United States | 1,216 | 1,278 | 1,414 | 1,314 | 1,168 | 1,138 | 64 | 69 | 82 | 82 | 77 | 74 |
| Canada | 153 | 147 | 172 | 173 | 131 | 102 | 79 | 75 | 90 | 101 | 84 | 64 |
| Japan | 392 | 404 | 476 | 437 | 397 | 344 | 69 | 72 | 91 | 92 | 83 | 71 |
| West Europe | 1,171 | 1,295 | 1,462 | 1,355 | 1,238 | 1,107 | 64 | 75 | 88 | 83 | 82 | 69 |
| France | 214 | 229 | 269 | 229 | 205 | 157 | 78 | 92 | 103 | 104 | 106 | 80 |
| Italy | 158 | 166 | 196 | 188 | 180 | 156 | 73 | 77 | 94 | 94 | 101 | 85 |
| United Kingdom | 152 | 168 | 170 | 147 | 134 | 116 | 75 | 87 | 107 | 93 | 84 | 71 |
| West Germany | 183 | 222 | 246 | 247 | 221 | 213 | 62 | 76 | 102 | 105 | 101 | 95 |
| Total OECD | 2,931 | 3,124 | 3,524 | 3,278 | 2,935 | 2,691 | 70 | 76 | 92 | 87 | 88 | 79 |

¹ Data revised to reflect increased number of respondents.
² Excluding Australia and New Zealand.

This Table is Unclassified

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commercial inventories) to reach a 90-day level by 1 January 1980. Emergency stocks are defined as total oil stocks (crude and products) minus a 10-percent allowance for stocks unavailable for use. The number of days of emergency reserves is equal to physical stocks divided by the previous year's level of net imports. Procurement and storage of the stockpile are left to the discretion of individual countries. (U)

According to press reports, the continued decline in net imports in member countries caused the IEA to become concerned that the volumetric reduction in mandatory stock requirements could result in inadequate emergency reserves once demand increased. As a result, the IEA Governing Board agreed in December 1981 that IEA members should not let stocks fall below the equivalent of 90 days of 1980 net imports, except where lower oil consumption reflected long-term structural changes. In December 1982, the Governing Board revised the calculation of net imports to include the average net imports of the preceding three years. (U)

According to the IEA, oil stocks for the 21 members reached 2.8 billion barrels at the end of second-quarter 1983, about 12 percent below 1980 levels. At midyear total IEA stocks equalled 153 days measured in days of net imports during the previous three years. Among member countries Spain, Portugal, Turkey, Belgium, Luxembourg, and Ireland recorded stock levels below the 90 day commitment. Preliminary third-quarter data indicate these countries still remained below the 90 day commitment. (C)

In addition to requirements imposed by the IEA, the European Economic Community (EEC) also requires its member countries to maintain stocks equivalent to 90 days of inland oil consumption in the previous year. Reductions of up to 15 percent in minimum stock requirements are allowed in countries with high indigenous production. The EC Commission's concern that compulsory stocks may be inadequate and difficult to use in a crisis prompted a complete review of the group's stockpile system earlier this year. One outcome of the study reportedly may be the establishment of a Europe-wide stock reporting system in 1984 that would monitor stocks in individual countries on a more timely basis. (U)

Major Government-Owned Stockpiles

Although oil inventory policies have been set up by the IEA and EEC for member countries, individual governments have also instituted separate stockpile policies. There are three basic forms of stockpile programs in the industrialized countries.

- o Government-owned stockpiles intended for civilian use.
- o Public storage corporations set up with government assistance to finance or administer energy reserves.
- o Government requirements that the oil industry maintain emergency reserves. (U)

Some governments have adopted more than one of these programs. The responsibility for procuring and storing oil stocks has been given to commercial firms in most industrialized countries. These firms maintain physical control over stocks and

carry the financial burden of storage although concessions are granted in some countries. Despite the lack of direct government control over stocks in most countries, all member governments can exercise control over stocks during an emergency either by law or as a result of "gentlemen's agreements" with the oil companies. In three countries--the United States, Japan, and West Germany-- however, the government itself has become a major stockholder through the purchase and storage of crude oil. (U)

Stocks: IEA Member Countries

| | <u>1 July 1980</u> | | <u>1 July 1983</u> | |
|----------------|--------------------|--------------------------------|--------------------|--|
| | Million barrels | Days of net imports 1979 | Million barrels | Days of net imports 1980-1982 ^a |
| United States | 1372 | 178 | 1308 | 255 |
| Canada | 163 | 1105 | 99 | 742 |
| Japan | 466 | 93 | 425 | 96 |
| Western Europe | 1196 | 128 | 97 | 106 |
| of which | | | | |
| Austria | 26 | 126 | 23 | 118 |
| Belgium | 50 | 99 | 34 | 81 |
| Denmark | 45 | 152 | 36 | 170 |
| West Germany | 348 | 121 | 282 | 123 |
| Greece | 32 | 122 | 26 | 106 |
| Ireland | 12 | 93 | 7 | 69 |
| Italy | 17 | 92 | 159 | 91 |
| Luxembourg | 2 | 84 | 1 | 80 |
| Netherland | 93 | 230 | 65 | 173 |
| Norway | 20 | - | 17 | - |
| Portugal | 20 | 93 | 18 | 74 |
| Spain | 91 | 92 | 84 | 80 |
| Sweden | 66 | 119 | 44 | 96 |
| Switzerland | 42 | 149 | 43 | 166 |
| Turkey | 9 | 38 | 14 | 47 |
| United Kingdon | 170 | 614 | 117 | - |
| Australia | 34 | 173 | 37 | 219 |
| New Zealand | 9 | 136 | 7 | 93 |
| IEA Total | 3073 | 145 | 2842 | 153 |

^a IEA data stock levels and net imports adjusted according to appropriate emergency reserve procedures. Net imports are the average for 1980 through 1982.

This table is Unclassified.

Major Industrialized Countries

| <u>Country</u> | <u>Government Reserve</u> | <u>Public corporation</u> | <u>Industry minimum storage</u> | <u>No program</u> |
|----------------|---------------------------|---------------------------|---------------------------------|-------------------|
| Australia | | | | |
| Austria | | | x | |
| Belgium | | | x | |
| Canada | | | x | |
| Denmark | | | | x |
| West Germany | x | | x | |
| Greece | | x | x | |
| Ireland | | | x | |
| Italy | | | x | |
| France | | | x | |
| Japan | x | | x | |
| Luxembourg | | | x | |
| Netherlands | | | x | |
| New Zealand | | x | x | |
| Spain | | | | x |
| Sweden | x | | x | |
| Switzerland | | | x | |
| United States | x | x | x | |

Government Storage Programs

| <u>Country</u> | <u>Present Size 30 Sep 1983 (million bbl)</u> | <u>Ultimate Size (million bbl)</u> | <u>Target Date</u> | <u>Type of Oil Held</u> | <u>Storage Sites</u> |
|---------------------------|---|------------------------------------|--------------------|-------------------------|--------------------------------------|
| United States | 361 | 750 | 1991 | crude | salt dome |
| West Germany ¹ | 55 | 73 | NA | crude | salt dome |
| Sweden ² | 45 | unknown | 1983 | crude & products | rock caverns and tanks |
| Japan | 79 | 189 | 1988 | crude | VLCCs and onshore sites ³ |

¹ Target date flexible. Government buys oil when budgetary circumstances allow.

² Size of stockpile is an estimate.

³ Very large crude carriers; the oil will be moved to on-land storage tanks or special floating storage islands during the 1980s.

This table is Unclassified.

United States

Until 1975, all oil stocks in the United States except military requirements were controlled by commercial firms with no government involvement. As a result of the Arab oil embargo in 1973-4, the government decided to establish a Strategic Petroleum Reserve (SPR) to procure oil stocks that would be wholly government-owned and funded. The SPR totalled 361.0 million barrels at the end of September 1983 and is expected to increase by 186,000 b/d in 1984. The current objective of the program is to accumulate 750 million barrels by 1991. The crude oil is stored underground in salt domes or mines and is in addition to reserves maintained by commercial firms. (U)

Japan

Tokyo's stockpile program requires the petroleum industry to maintain 90 days of product equivalent of the previous year's consumption with the Ministry of Trade and Industry (MITI) responsible for setting annual objectives. In 1977 the government decided to develop its own stockpile with the objective of acquiring an additional 63 million barrels of oil stocks by early 1983. The next year the goal was expanded to acquire 189 million barrels by 1988. Purchases began in 1978 and by September 1983, the government-owned stockpile held 79 million barrels. In late October, the government announced plans to buy an additional 7.86 million barrels for its oil stockpile by year-end, with perhaps a similar purchase early next year if financing can be arranged. (U)

West Germany

Bonn initially required refiners/importers to meet the IEA stockpile objective even though the government had been accumulating a separate strategic stockpile since 1970. In 1978 responsibility for compulsory stocks was shifted to the Compulsory Storage Corporation (EBV), a state corporation. EBV was required to purchase a 65-day supply of oil based on the previous year's consumption and acquire sufficient storage capacity for these supplies. In early 1983, EBV stocks stood at about 117 million barrels. The government also requires refiners to hold an additional 25 days of stocks as working stocks. In addition to these compulsory stocks, the government-owned stockpile presently contains 55 million barrels with an ultimate goal of 73 million barrels. Budgetary constraints have prevented Bonn from adding to the strategic stockpile since 1981. (U)

Stockpile Programs in Other Countries

Companies operating in France must maintain stocks equivalent to 90 days of the previous 12 months inland sales. A new French government rule which took effect on 1 September eliminated a seasonal factor in calculating mandatory middle distillate stocks. According to industry sources, this rule change, combined with industry annoyance at recent government moves to hold down product prices, led to a 120,000 b/d inventory drawdown in September. The government has expressed no interest in maintaining a separate strategic reserve. (U)

Increasing domestic production has enabled the United Kingdom to reduce stock requirements and still maintain a high level of self-sufficiency. Oil companies maintain the bulk of oil reserves. There are no announced stockpile programs in two other major oil producers, Canada and Norway, due to the high degree of self-sufficiency from domestic production. (U)

The Italian government requires oil companies to maintain 90 days of emergency oil stocks and recently suspended a law passed last year requiring companies to raise this level to 100 days by October 1984. After introducing legislation in 1981 to build a government-owned stockpile of 7-15 million barrels, interest in the program has waned as a result of soft market conditions. (U)

Belgium relies on oil companies to meet IEA objectives. Pursuant to a 1965 law, private petroleum companies are obliged to hold stocks equivalent to 90 days consumption at the previous years consumption rate. Stock requirements are specified for gasoline, diesel, and residual fuel oil but companies retain the option of varying the mix of these stocks based on conditions set forth by the government. In a crisis, control of Belgian stocks would pass to the National Emergency Sharing Organization (NESO). The government presently has no plans to build a government-owned stockpile. (U)

In Sweden industry is required to hold stocks at the equivalent of 110 days of the previous year's consumption. Government-owned stockpiles are a closely guarded secret. According to one industry estimate, however, the government is

building its own stockpile, scheduled to reach about 45 million barrels or 90 days of consumption by 1984. (U)

In Switzerland, compulsory stocks are equivalent to 180 days of the previous year's consumption and are held by industry. Stockpiling is supervised by Carbura, an association of oil importers. Importers pay a levy to Carbura as an insurance premium to protect against price declines and the fee is recouped through higher retail prices. (U)

Oil companies in the Netherlands are required to hold stocks equivalent to 90 days of the previous year's consumption; oil traders are required to hold 70 days of stocks. According to industry sources, a central corporation ICOVA has taken over a large portion of the stock obligation and has acquired 30 days of supplies from the private sector including a mix of crude and products. (U)

Outlook

Commercial stocks have declined sharply since 1981 and may decline further in the coming year, given the prospects for continued weakness in oil prices and ample surplus productive capacity. Commercial stocks as measured in days of forward consumption are now approaching levels reached before the outbreak of the Iranian revolution which precipitated the most recent runup in oil prices. Should another major supply disruption occur, we believe companies will have little cushion available in the form of usable stocks to offset an unexpected loss in the flow of oil. (C)

Despite budgetary constraints, we believe government-owned oil stocks will continue to grow. As a result government-owned stocks could play an important role in offsetting future oil supply disruption. Under present conditions, however, no government has formulated specific plans to drawdown strategic stocks during an emergency. Indeed, a West German official has stated that the German stockpile is intended to be used only a last resort. One senior planning official in a major oil company has stated that he views government stockpiles as inaccessible and that his company would react as if these stockpiles did not exist. Without a commitment to use government stocks, we believe the relatively large volume of such stocks probably will do little to calm market fears during a major supply disruption.

(C NF)

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IRAQI OIL EXPORT OPTIONS

1. In order to solve its pressing economic situation, Baghdad must increase oil revenues or obtain more financial aid. Over the short term, there is little that can be done to increase Iraqi oil exports. Increases in financial aid combined with commitments allowing Iraq to boost exports over the longer term could provide Baghdad the necessary financial resources to continue on its present course for a time. (C)
2. If Iraq can establish a new oil export route, the \$8-9 billion in additional annual oil income which Baghdad could obtain from an extra 1 million b/d of exports would take much of the financial pressure off Iraq's economy. Imports, however, would still have to remain at reduced levels if Baghdad were to avoid additional foreign borrowing. The extra income would allow Iraq to afford imports worth only about \$11 billion--compared with a projected \$14 billion for 1983 and a 1981 peak of \$20 billion--without running a current account deficit. (C)
3. For non-economic reasons, however, Baghdad cannot indefinitely fight a war of attrition with Iran. As a result, even a solution to its economic problems does not guarantee that Iraq will not at some future date attempt a dramatic military strike in the hope of bringing about a resolution of the conflict with Iran. Only an end to hostilities or a diminution of Iran's ability to carry the war into Iraq can be expected to improve the long-term security of oil flows from the Persian Gulf. (S/NF)
4. Background--Iraq's Predicament. The war is straining Iraq's economy. Two of Iraq's three prewar oil export routes have been severed, reducing annual revenue by almost three-fourths. In addition, the economy must bear war-related costs that may reach \$1 billion per month. We estimate that Iraq's foreign exchange reserves will fall to \$4-5 billion by the end of 1983, as compared with \$35 billion before the war. Baghdad has been forced to defer some \$4 billion owed this year to foreign suppliers. Iraq's current account deficit this year will reach an estimated \$14 billion, its ambitious development program has been substantially cut back, and imports have been sharply reduced. (S/NF)
5. The primary cause of Iraq's financial bind is insufficient oil exports. The loss of its Persian Gulf oil terminals at the beginning of the war and the closure of its pipeline across Syria have reduced Iraqi oil export potential by almost 80 percent. Iraq now has only one oil export route, a pipeline across Turkey. Reduced oil revenues in the other oil exporting states resulting from the weak market have also forced Baghdad's Arab supporters to cut back on financial aid--down about 50 percent since the peak year of 1981. (S/NF)

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6. Evidence of Iraq's need to increase oil exports can be seen in Baghdad's efforts to truck oil out of the country. Reportedly as much as 50,000-75,000 b/d of oil may be transported currently by truck through Jordan and Turkey. It would be difficult to significantly increase these volumes since the road system is already taxed as a result of Iraq's need to bring in all of its imports overland. (S/NF/NC/OC)

7. Baghdad has few realistic military options for ending the war. Despite its overwhelming superiority in equipment, the Iraqi Army lacks the capability to conduct a major offensive that would decisively defeat the Iranians. Sporadic air attacks on Iranian economic targets have not pushed Tehran closer to a settlement, and the current war of attrition shows no sign of ending. Iraqi President Saddam Husayn undoubtedly fears that the war of attrition will increase unrest and worsen his internal security problems. (S/NF)

8. The New Threat. The delivery of five French Super Etendard aircraft armed with Exocet antiship missiles significantly increases the possibility of a disruption of Persian Gulf oil exports. Iraq currently is embarked on a diplomatic offensive to exploit the threat posed by the Super Etendards in order to gain financial relief, encourage the construction of new oil export pipelines, and pressure Iran to end the war. If its diplomatic moves are unsuccessful, we believe Baghdad will attack oil tankers calling at Iran's Kharg Island. (S/NF)

9. Iraq would have two objectives in attacking Iran's oil lifeline: to force Iran to begin negotiations to end the war or, failing that, to force the Western powers to intervene in the Gulf. Saddam, according to a generally reliable source, is convinced that only a cutoff of Iran's oil exports will force Tehran to the negotiating table. If Iran still refused to negotiate and instead made good on its threats to retaliate against other Gulf oil exporters, Baghdad apparently expects Western powers to intervene militarily to ensure the safety of all oil exports from the Gulf, including those from Iraq. (S/NF/NC/OC)

10. Existing Oil Export Routes. Prior to the war, Iraq's crude oil export system was the most flexible in the Middle East. Total capacity of the system was more than 5 million b/d-- well in excess of Iraq's prewar productive capacity of about 4 million b/d:

- o Iraq's two Persian Gulf sea-island export terminals at Mina al Bakr and Khor al Amaya each had a capacity of 1.6 million b/d.
- o The Iraq-Mediterranean pipeline system through Syria and Lebanon has a total potential capacity of 1.2 million b/d.

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- o The Iraq-Turkey pipeline which has a capacity of about 700,000 b/d. (C)

11. Both of Iraq's major Persian Gulf export facilities were heavily damaged by Iranian gunboat attacks early in the war. Industry sources report that the Iraqis believe the Mina al Bakr terminal eventually can be restored, but the Khor al Amaya facility may have to be completely rebuilt. (S/NF)

12. The Iraq-Mediterranean pipeline system was closed in April 1982 by Syria in a move to support Iran. The effective export capacity of the system may currently be limited by its two tanker loading terminals--one at Baniyas, Syria, and the other at Tripoli, Lebanon. The nominal export capacity of the port of Baniyas is 830,000 b/d; reconfiguration of berths in 1976-77 to enable Syria to import refined petroleum products reduced this to an estimated 400,000 b/d, and it is unclear if this port constraint has been lifted. Before the closure of the pipeline last year, Iraqi exports through Baniyas between 1979 and 1982 never exceeded 400,000 b/d. (C)

13. The port at Tripoli has the capacity to export about 650,00 b/d. Even if Syria were to open the main pipeline, however, unsettled conditions in Lebanon could continue to keep the Tripoli spur closed. Indeed, press reports have indicated some damage to the refinery in Tripoli, and nearby fighting could pose a threat to the line. (C)

14. Syria and Iraq reportedly agreed in principle in early October to reopen the Iraq-Mediterranean system. Negotiations, however, have apparently broken down. There is a longstanding animosity between Syrian President Assad and Saddam Husayn, and Damascus has been supporting Tehran in the Iran-Iraq war. Syria is now receiving oil from Iran worth \$1.8 billion annually to compensate for the loss of Iraqi oil. Nonetheless, the Gulf states continue to try to mediate between Syria and Iraq and a sudden change in the Syrian position cannot be ruled out. (S/NF)

15. The Iraq-Turkey pipeline is in the midst of an expansion which will increase its capacity by almost 300,000 b/d to just under 1.0 million b/d by mid-1984. Installation of new pumps at the existing 5 pumping stations is close to completion, and these, along with drag-reducing chemicals, reportedly allowed Iraq to push as much as 850,000 b/d of oil through the pipeline in late summer. According to the Interests Section in Baghdad, however, increased pressure caused leaks which led to a fire and brief closure of the line this past September. This source reports that throughput for the pipeline is now back to a little above 700,000 b/d. The Interests Section also indicates problems have been encountered in the quality of pipe for the 75-km of "loop" pipelines to be constructed, although completion of the project is still expected near the middle of next year. (S/NF/NC/PR/OC)

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16. New Export Options. Since the outbreak of the war several proposals which would allow Iraq to increase its oil exports have surfaced. The proposals most frequently mentioned involve the construction of new export pipelines through Saudi Arabia. (U)

17. Iraq-Saudi Pipelines. Two senior Iraqi petroleum officials recently requested a rush analysis of a proposed pipeline from the Basra oilfields in Iraq to Saudi Arabia's Yanbu terminal on the Red Sea. The proposed pipeline would be built in two phases. The first phase--requiring 10 to 14 months--would tie into Saudi Arabia's existing Petroline pipeline at one of three pump stations and utilize its excess capacity, currently estimated at over 1 million b/d.* Phase two would involve building a line in Saudi Arabia parallel to the Petroline pipeline which would terminate at a separate Iraqi export terminal near Yanbu. The second phase is viewed as a long-term project, and no projected completion date was even discussed. (C/NF/NC/PR/OC)

Iraq-Saudi Arabia: Industry Capacity Estimates of
Proposed Iraq-Petroline Link* (million b/d)

| <u>Pipeline Diameter (Inches)</u> | <u>Connection Point With Petroline</u> | | |
|---|--|----------------------------|----------------------------|
| | <u>Pump Station #1</u> | <u>Pump Station #3</u> | <u>Pump Station #6</u> |
| 56 | 1.2 | 0.7 | 0.3 |
| 48 | 0.7 | 0.4 | NA |

*. Volumes assume no intermediate pumping. (C/NF/PR/OC)

18. The Petroline link is viewed by Baghdad as its best short-term option for substantially increasing oil exports. According to industry analysis, the 10 month timeline for construction is very optimistic. The original estimate for the project was 2 years. No further compression of the ten-month schedule is believed to be possible. Indeed, just to meet the compressed timetable will require:

*The need to mobilize for a project and the logistics involved in procuring and transporting needed material, equipment, and personnel adds to project length. Since the advance preparation for these activities has not yet been done for the projects under consideration, a total project timetable should not be estimated from any single yardstick such as time needed for crews physically to lay pipe. (U)

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- o A single firm to serve as project manager and engineer to allow design and engineering work to be conducted as construction proceeds.
- o Pipe orders to be made one week after contract award and the beginning of project mobilization.
- o Two to three mills to make and deliver pipe concurrently.
- o Early ordering of long lead-time items, primarily valves, where delivery might take up to 8 months.
- o The simultaneous laying of pipe in three to four areas.
- o Timely Iraqi decisions on design issues.
(C/NF/NC/PR/OC)

19. Financing the proposed Petroline link remains a stumbling block. The cost of the project is expected to increase to roughly \$700 million as a result of the requirement that the project be completed quickly, according to one industry analysis. Iraq has repeatedly intimated that Saudi Arabia would finance construction of the first phase. We do not believe, however, that Riyadh has agreed to pay for the project. Given Baghdad's past problems in finding non-Saudi backers for a pipeline, Riyadh may feel relatively secure that this project also will not get past the talking stage. (S/NF/NC/PR/OC)

20. Even if financing is ultimately arranged, Iraq may still have to overcome considerable political resistance within Saudi Arabia before the pipeline has a viable chance for completion. Indeed market considerations could further cause Riyadh to move slowly on the project. It is unlikely other OPEC members, with the exception perhaps of Kuwait, would agree to reduce their production quotas in order to allow Iraq to increase exports. As a result, in order to maintain market stability Saudi Arabia might have to reduce exports by as much as 20 percent--a move Riyadh would probably prefer to avoid given current depressed export levels. If producers refused to cut output to make room for increased Iraqi production, downward price pressure could reappear. (C/NF)

21. The idea for building a completely new export pipeline from Iraq to the Saudi Red Sea coast first surfaced after the outbreak of the war. A preliminary study on a crude oil pipeline running from Basra to the Red Sea was completed in 1981. Of four alternative routes across Saudi Arabia, the most desirable was a 48-inch diameter line with a crude oil capacity of 1.6 million b/d. The cost was estimated at \$3.6 billion in 1981 dollars with construction taking about four and one-half years. The route runs southwestward across Saudi Arabia, joining the Petroline right-of-way across mountainous terrain in the western section of

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the country. The line itself would be 770 miles long--the shortest of the 4 alternatives--require 10 pump stations and end at a new export terminal to be built about 15 miles south of the existing port of Yanbu. (S/NF/NC/OC)

22. Originally, financing was to be provided by Saudi Arabia, an arrangement preferred by Riyadh since it would allow the Saudis to retain complete control over the project. Despite Baghdad's eagerness to proceed, Saudi footdragging delayed authorization until late 1982, when King Fahd finally gave his approval for the pipeline. By that time, however, Saudi Arabia's revenue position had deteriorated, and Iraq was told it could proceed only if alternate financing was found. Baghdad's efforts to arrange outside financial support from foreign firms that would be involved in the construction failed, however, effectively killing the project. (C/NF/NC/PR)

23. Several aspects of the 1981 proposal have reappeared in the current two-phase Iraqi scheme to link-up with Petroline. One of the alternative routes studied in 1981 ran from southern Iraq to the Petroline right-of-way east of Riyadh, and then paralleled the Saudi line to the Red Sea. The proposed line was 48-inches in diameter, with a capacity of 1.6 million b/d, and would have cost an estimated \$4.5 billion. The extra \$900 million was due primarily to 300 miles of additional length and 4 more pumping stations. Operating costs were also about 30 percent higher than the shorter route--this particular option being the most expensive of the 4 alternatives studied in 1981. (S/NF/NC/OC)

24. The possibility of Iraq linking into Tapline has also been raised. As an export route to the Mediterranean the line is essentially unusable due to damage to sections along the Golan Heights and at the Sidon, Lebanon, export terminal. In addition, industry sources indicate that lack of maintenance and removal of pumps at some stations may have cut the line's original 500,000 b/d capacity in half. Conceivably Iraq could link into Tapline near Qaysumah, the initial pumping station, and run crude south into the Saudi pipeline network at the Qatif junction. This section of line is reported to need refurbishment, however, if it is to carry a volume of 500,000 b/d. Also, Aramco can be expected to oppose this option since the company intends to use the lower portions of Tapline to feed crude oil to its 250,000-b/d refinery at Jubail, due for completion late next year. (C/NF/NC/PR/OC)

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As Amended
Sec. 3.3(b)(1)

25. Iraq-Jordan Pipeline. Under mounting pressure to increase oil exports and apparently concluding earlier this year that the Saudi Red Sea line was a dead issue, Baghdad turned to Jordan as a possible route for a new oil pipeline. Few details of the project--which is still in preliminary study--are available. [REDACTED] Jordan's King Hussein has agreed to the project in principle. The trans-Jordan pipeline apparently would run from the vicinity of Baghdad

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and terminate at the port of Aqaba, a distance of about 450 miles. We believe its capacity most likely would be in the 1.0 to 1.5 million b/d range, similar to that of the proposed Saudi line to the Red Sea and approximating the 1.2 million b/d capacity of the now closed Iraq-Mediterranean pipeline. In order to handle crude volumes of this magnitude an export terminal would also need to be built. Although no detailed design work has been done on this proposal, an Embassy source estimated it would cost at least \$1 billion and take about 3 years to complete. We believe some compression of this work schedule might be possible, albeit at a higher cost. (C/NF/NC/PR/OC)

26. As with the other proposals under consideration, financing will be a major problem for Baghdad. With the improved outlook for a pipeline across Saudi Arabia, Iraq is apparently not pushing the Jordanian proposal at this time. As a result, prospects for an Iraq-Jordan line remain dim. (C)

27. Gulf Cooperation Council (GCC) Pipeline. Earlier this year the heads of state of the GCC endorsed the study of an oil pipeline linking all 6 members to an export terminal on the coast of Oman, bypassing the Strait of Hormuz. [REDACTED]

[REDACTED] the proposed line would have a capacity of 2.5 million b/d, but no estimate of cost or construction time was put forward. While the threat of renewed hostilities in the Iran-Iraq war spurred the GCC to seek alternate export routes around the Strait of Hormuz, objections raised by several members so far have kept the plan from being presented formally to the council. Baghdad--which is not a GCC member--has expressed an interest in tying into the pipeline system, and this too is causing doubts among some members about the scheme. Given these problems, along with the probable enormous expense of the project and the fate of previous proposals to build a "trans-Oman" oil pipeline, we believe there is little hope for this project going beyond the preliminary study phase. (C/NF/NC/PR/OC)

28. Iraq-Turkey LPG Pipeline. In October Baghdad signed a protocol with Ankara covering construction of a 95,000 b/d, 18-inch liquefied petroleum gas (LPG) line to run parallel to the existing crude oil pipeline. Feasibility studies for the line are currently underway. The Embassy in Ankara reports that Iraq is footing the cost of the feasibility study and will also be responsible for arranging financing for the pipeline, which is estimated to cost \$300-400 million according to an industry estimate. The Embassy cautions, however, that at this time the project is still very tentative and much will depend on the results of the feasibility study. If a decision is made to proceed the project is expected to take 3 years. Given the small volumes and the long lead time involved, this line will not provide Baghdad with any substantial relief from its current economic problems. (C/NF/PR/OC)

29. Persian Gulf Exports. When the war ends, we expect that Iraq will immediately begin repair of its Persian Gulf

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terminals and install the four single-point mooring buoys (SPMs) it has stored in Singapore. According to industry sources, the SPMs will be installed near the existing Khor al Amaya and Mina al Bakr terminals at a cost of about \$90 million. Installation of the first two buoys should allow export of 1 million b/d within four to six months. The remaining two buoys should be installed within eight to 12 months of war's end. Once all four SPMs are installed, Iraq's Persian Gulf export capacity will increase to 2-2.5 million b/d. (S/NF/NC/PR/OC)

30. There has been a great deal of speculation in recent weeks that Baghdad would use the Super Etendards primarily to dissuade the Iranians from interfering with a resumption of Iraqi oil exports from the Gulf. Baghdad, however, has not yet moved any of the repair equipment stored in Bahrain to Iraq. In any event, it is unlikely that the foreign contractors needed to restore Persian Gulf exports would be willing to risk their personnel and equipment as long as hostilities continue. Repair activity at the Iraqi terminals would be conspicuous and invite Iranian attack. The Iraqis may believe they can now better defend the terminals, but they probably could not prevent the Iranians from damaging them. Baghdad, however, recently has asked the U.S. Interests Section to share any intelligence related to Iran's likely reaction to an Iraqi attempt to resume oil exports through the Gulf. (S/NF)

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IN-TEXT TABLE

Cost Estimates for the Iraq-Petroline Link

It is not surprising that current cost estimates for the Iraq-Petroline link vary significantly since detailed design and price estimates have not yet been prepared. All projected costs so far have been calculated using rough rules of thumb based on historical experience in similar environments. According to one US government estimate prepared in this manner, the cost of the pipeline, including pumping facilities, would be roughly \$360 million. This estimate assumes the project is completed in an 18-month timeframe. (S)

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[REDACTED] based on historical costs and a business as usual construction approach, the entire project would probably cost between \$350-400 million. This source, however, believes that the total cost would more closely approximate \$700 million if an accelerated timetable is established in order to meet a 10 month completion target. Factors which would drive up costs under these circumstances include:

- o The need to purchase equipment and material without going through an extended bidding procedure.
- o The need to pay delivery premiums.
- o The need to pay overtime for labor. (C/NF/PR/OC)

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IN-TEXT TABLE

Financing Through Barter

Given the past difficulty Iraq has experienced in obtaining financing for its proposed pipeline projects, Baghdad could consider some type of barter arrangement--a guaranteed future oil supply in exchange for construction funding. In the Iraq-Petroline Link project, for example, Baghdad might be able to find someone interested in prepaying for \$700 million worth of crude, money that would in turn be used to finance the construction project. In order to make the deal attractive Iraq would have to discount the implicit sales price of its oil. Barter deals are frequently used to hide price discounts. Even at as low a price as \$20 per barrel--more than \$8 below the official sales price--it would only take 35 days to pay back the cost of the pipeline at a 1 million b/d throughput. This assumes all oil shipped through the line initially would go to cover the barter arrangement. Since it would be difficult to find anyone who could handle such large volumes, the actual payback period would probably have to be spread over a much longer time, enabling Iraq to earn some revenue initially. The large amount of money involved in this project, however, might preclude oil company involvement. In this case, only those governments which could accept delivery for strategic petroleum reserves might be able to supply the necessary up-front money as part of a government-to-government deal. (C)

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Iraq: Petroleum Export Options*

| <u>Export Option</u> | <u>Volume (thousand b/d)</u> | <u>Leadtime (months)</u> | <u>Cost (\$US million)</u> | <u>Remarks</u> |
|-----------------------|----------------------------------|------------------------------|--------------------------------|--|
| Saudi Petroline Link | up to 1,200 | 10 | 700 | Throughput volume depends on where the connection with Petroline is made. Cost estimate is based on an accelerated construction schedule. |
| Iraq-Red Sea Pipeline | 1,600 | 54 | 3,600-4,500 | Based on a 1981 feasibility study. |
| Tapline Link | 500 | 10 | NA | Would require Iraqi crude be commingled with Saudi crude. |
| Jordan Pipeline | 1,000-1,500 | 36 | 1,000+ | Line is still in preliminary study stage. |
| GCC Pipeline | 2,500 | NA | NA | GCC has endorsed a study to examine the possibility for a line bypassing the Strait of Hormuz. |
| Persian Gulf SPMs | | | | |
| First two buoys | 1,000 | 4-6 | 90 | Based on current plans which assume no further damage and sufficient onshore pumping capacity. |
| Second two buoys | 1,000-1,500 | 4-6 | | |

* Detailed design work on all projects still needs to be either initiated or completed. As a result cost and construction schedules are subject to change.