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I. Assumptions

The course of the conflict in the first three weeks gives a basis for looking at its impact on the region and our interests on the following assumptions:

-- The military outcome will be inconclusive with no significant spreading of the hostilities to other countries. Neither Iraq nor Iran will be humiliated on the field of battle.

-- Iran-Iraq tensions will remain high and flareups of violence are likely to continue and the effort to mediate a permanent solution to their boundary problems will make uncertain and slow progress, if any.

-- The power balance in the region may show some subtle shifts, not now readily identifiable, which could alter intra-regional relationships and relationships with external powers. Iraq can quickly rearm and restore its industrial plant. Iran will have shown more residual military strength than regional states might have assumed it possessed in the wake of the revolution and over the long term Iran will have prospects of again becoming the most powerful nation in the Gulf. In the short term, however, it will be less of a threat to neighbors, but depending on the course of internal developments it may become a tempting target for Soviet intervention. Saudi Arabia and the other Gulf states will still recognize both Iran and Iraq individually as substantially more powerful than all of them put together.

-- In the near future there will be limitations on our ability to play a decisive role in efforts to end the conflict.

The Post-Hostilities Landscape

Under these assumptions and before discussing the implications for our policy toward Iran, Iraq and the Soviets, we might anticipate the following trends in relationships among Middle East and Gulf countries as well as the following impact on Soviet and US relations with them:

Our response to Saudi requests for assistance with air defense has done much to bolster a relationship strained by disagreement over the Middle East peace process and Saudi ambivalence about the US security role in the region. In the wake of the hostilities, Saudi enthusiasm for the US connection may be undermined quickly by need to ease tensions with Iran and Iraq and particularly by Saudi motivation to seek an illusory "Arab consensus". On the basis of past performance the Saudis are

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unlikely to abandon their Syrian connection and will seek somehow to straddle the Iraqi-Syrian split. The Saudis are likely to quickly revert to pushing for controversial equipment, whatever their sustained reaction to cooperation with U.S. forces as the focus of our security relationship. Progress in the Middle East peace process will be essential to managing this problem and sustaining the basic relationship. There will be a short term period in which we need not make oil production and price demands on the Saudis. We will have great need, however, for increased Saudi cooperation on international financial problems. The importance of a leading Saudi role in Gulf cooperation will be underscored by the conflict, but a sustained Saudi response is uncertain.

The Gulf Emirates will feel threatened by both Iraq and Iran. Kuwait will remain particularly vulnerable to tensions between its Iraqi and Iranian communities while Bahrain and the UAE might find both Shia dissidence and Arab nationalist dissatisfaction intensified within the populace. They will be inclined to draw closer to Saudi Arabia but will probably continue to find Saudi leadership inept. While their attitude toward over-the-horizon US military presence may become more receptive, regional and domestic pressures will continue to make them skittish about close military cooperation with us. Their interest in acquiring US and other weapons will intensify.

Oman will press at least initially for a clearer mutual security understanding with us and will want to work with us on coordinated contingency actions to protect the Strait of Hormuz. If Iraq, however, continues its opposition to the US-Omani connection, Oman will have to weigh the costs of isolation from the Arab world against the benefits of continued or increased cooperation with the United States. The ambivalence in Oman's relationships with Saudi Arabia and the Gulf Emirates is likely to remain, complicating Oman's efforts to retain both the US and Arab ties.

Jordan: Hussein has not only declared his backing for "Arab" Iraq, but taken extraordinary measures to expand trans-shipments through Aqaba. He perceives sound policy reasons for his actions. Hussein does not see his closer relationship with Iraq as affecting significantly his ties with the US or inconsistent with US interests in the Middle East. Hussein has been a useful channel for US views to the Iraqi leadership and he has used this intermediary role to advantage. The extent and duration of his close cooperation with Saddam will depend upon his continued perception that Iraq poses no threat to Jordan or like-minded regimes in the Peninsula. This probably includes a questionable assessment that Iraq will support Jordan, and provide protection against the

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opposition of the Arab steadfastness and rejectionist fronts should Jordan decide that association with a peace process will serve Arab interests.

Syria, out of weakness, has enhanced its relationship with the USSR and Libya, thus increasing its isolation in the Arab world and accelerating the deterioration in its Western relationships. The Assad regime's decision to join with the Libyans in siding openly with the Iranians against an Arab state seems likely to undermine its stability further in the mid-term. Nevertheless, the Syrian-Libyan-Iranian axis has substantial capability for mischief as we pursue our political and security objectives in the region, including in Lebanon. Syria will certainly attempt to pressure the PLO to join the new grouping. Although Syria remains a key element in any comprehensive settlement of the Arab-Israeli conflict, the strains with Jordan make a negotiated settlement more difficult.

Israel in one respect will see its position enhanced by an inconclusive outcome that leaves Iraq potentially heavily engaged on the Iranian front for the indefinite future and the Arabs more divided than ever. But Israel will also see potential danger in a closer Jordanian-Iraqi relationship. Part of Israeli concern is genuine; part is laying the groundwork for strong opposition in the U.S. Congress to further heavy military equipment sales to Jordan. These concerns, together with a heightened sense of Israel's strategic importance to the United States, are likely to make the Israelis more cautious than ever in responding to our urgings to move forward in the autonomy negotiations or to make any other gestures toward the Palestinians. The Israelis will be concerned over the possibility that the Soviets may seek to exploit the new situation; they will in particular watch closely for any indications of increased Soviet military presence in Syria. They will argue strongly that the Soviet-Syrian friendship treaty and heightened instability in the area require continued substantial US provision to Israel of advanced weaponry.

In Egypt the conflict has already whetted Sadat's appetite for a larger security connection with the U.S. and a greater regional security role. The fears of Saudi Arabia and other moderate regimes that either Iraq or Iran will emerge from their conflict in stronger positions could conceivably lead them to view such an Egyptian role in the area in a somewhat different light, a possibility strengthened by the widening Syrian-Iraqi split. At the same time, particularly in the event that there is little real progress in the peace process, the U.S.-Egyptian security relationship will lessen the prospects that Egypt could play an active strategic part in the Arab world.

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II. Impact on Major U.S. Policy Objectives

1. Iran

Barring the death of Khomeini the clerical dominated regime is unlikely to be superseded in the short run. A long conflict will, however, sharpen existing political divisions and provide greater opportunity for new political forces and temporary coalitions to emerge out of: (a) the reorganized military forces, (b) the revolutionary guards who have been a major factor in the fighting to date, and (c) the current efforts by Bani Sadr and others to highlight Iranian nationalism rather than Islamic fundamentalism as the nation's rallying point. The population will undergo major hardships this winter which will interplay in the continuing contest for internal power.

The situation could evolve, however, into severe factional struggle and ultimately increase the longer term prospects for the splintering of the country; particularly if Iraq remains in Khuzestan for a long period.

The war has already brought home to Iranian authorities -- both secular and cleric -- a greater appreciation of the costs of holding the hostages: international isolation, economic deprivation, and shortages of spare parts for its military forces. Whether this will lead to early release of the hostages is problematical. If it does not, Iran's posture in the post-war period and international attitudes toward Iran will continue to be heavily influenced by the hostage issue -- although possibly with some significant differences. It may be more difficult to maintain allied sanctions against Iran, as our allies contemplate both the commercial opportunities and the dangers of Iran's turning toward the Soviet Union for economic and military assistance.

If the hostage crisis is resolved in the near term, the outcome of the internal power struggle will be the central factor in determining Iranian receptivity to a new relationship with us. The development of an Iranian-Libyan-Syrian axis is one direction Iran can go if its general isolation were maintained in the post-hostage period. This would be consistent with an Iranian move toward the Soviet Union for military assistance if the U.S.-Iran relationship remains frozen, although Tehran is likely to remain highly suspicious of Moscow. In diplomatic and economic terms, our allies can play a key role in ending Iran's isolation.

The attitude of post-war Iran towards its neighbors and the outside world will depend in large part on the internal political impact of the war. A more secularly oriented authority would probably largely revert over time to more traditional

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Iranian policies towards Pakistan and the Gulf states if the latter states remain neutral. If, however, the clerics come out on top, we can expect Iran to increase its messianic revolutionary pressures.

2. The Iraq Issue

Iraq's war experience will influence its tactical thinking. Animosity toward Iran and Syria will be sharpened and suspicion of Soviet intentions will be heightened by Moscow's effort to straddle the conflict and its new relationship with Syria, and Moscow's performance on arms supply. Since Iraqi arms will have proven less decisive than expected and Baghdad's dependence upon Jordan and other Arab states has been demonstrated, we can expect some temporary accommodation to this new environment.

Without making the judgment that Iraq's long-term objectives are compatible with U.S. security and political goals, including the stability and survival of friendly regimes in the Peninsula, we can foresee that in the short term Baghdad might find it more difficult to act effectively against U.S. policies enjoying Arab support. Iraq might decide that it must bolster its ties with Jordan and the Gulf states and tolerate their relationships with the U.S.

We can deal more easily with an Iraq basing its policies on concrete national interests. There is little we can or should do to force our bilateral relationship. We have felt for some time that Baghdad might see benefits in restoring bilateral relations before it assumes leadership of the NAM. This remains our judgment.

From our standpoint, it is preferable that Iraq emerge from the war neither so humiliated that it feels compelled to lash out wildly and blindly or so successful that its military power is perceived as sufficient to force Iraqi leadership or influence on friendly Arab states. Iraqi recognition of the need for cooperation with and support of moderate Arab regimes -- for economic well-being, for recovery from the damage of war, and for limiting the threat of Soviet encroachment -- will be central to housebreaking any Iraqi regime in the short run. From this perspective, the Iraqi reliance on access through Jordan need not be a negative factor.

We will not be able to tilt in Baghdad's favor in the dispute with Iran, nor should we. We will have to take positions in our own interest that will not necessarily sit well in Baghdad. The possible resumption of an improved relationship

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with Iran following resolution of the hostage issue is one example. While care should be exercised to avoid gratuitous irritation in Iraq, the Iraqis will understand, even if they do not like, a firm pursuit of U.S. objectives. Indeed, they would misinterpret any other course.

From our standpoint, it is preferable that Iraq emerge from the war neither so humiliated that it feels compelled to lash out wildly and blindly or so successful that its military power is perceived as sufficient to force Iraqi leadership or influence on friendly Arab states. Iraqi recognition of the need for cooperation with and support of moderate Arab regimes -- for economic well-being, for recovery from the damage of war, and for limiting the threat of Soviet encroachment -- will be central to housebreaking any Iraqi regime in the short run. From this perspective, the Iraqi reliance on access through Jordan need not be a negative factor.

We will not be able to tilt in Baghdad's favor in the dispute with Iran, nor should we. We will have to take positions in our own interest that will not necessarily sit well in Baghdad. The possible resumption of an improved relationship with Iran following resolution of the hostage issue is one example. While care should be exercised to avoid gratuitous irritation in Iraq, the Iraqis will understand, even if they do not like, a firm pursuit of U.S. objectives. Indeed, they would misinterpret any other course.

Iraq will not regard the USSR as a reliable support. There is much evidence of Iraqi dissatisfaction with Soviet arms and political support. Iraq's active pursuit of alternative Western sources of equipment and technology, military and civilian, will probably be accelerated, both because of the new Soviet relationship with Syria and because of post-war recovery needs. Iraq's concern regarding potential Soviet gains in Iran parallels our own.

The reconstruction of Iraq presents no significant financial problems to Iraq and offers enormous opportunities for Western business. The French will be at a particular advantage as supplier of both arms and technology. This dependence on Western technology could be a further factor moderating tendencies toward radical foreign policies.

Iraq's attitude toward a peaceful settlement of the Arab-Israeli conflict is not likely to be altered fundamentally by the war, although the conflict with Israel will not be the overriding preoccupation for Iraq -- facing hostility from Iran and Syria -- that it is for many of our Arab friends. If Syria successfully employs its geopolitical position to dominate PLO decisions, Baghdad might be inclined to acquiesce in a more active Jordanian role in the West Bank negotiations.

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3. The Soviet Factor

Soviet efforts to seek advantages with both Iraq and Iran will continue, but Moscow will probably wish to avoid being stuck in an unpromising mediator role and will seek to avoid supporting one country to the detriment of relations with the other. Continued quiet U.S. support for Islamic and/or UN efforts to work with Iran and Iraq on a negotiated settlement will help reduce prospects for an unanticipated unilateral Soviet mediation move. In the short run the Iran-Iraq conflict poses more problems than opportunities for Moscow. However a protracted conflict which weakens both Iran and Iraq could yield benefits to the Soviets, particularly if this leads to the disintegration of Iran and greater Tudeh influence in this country.

The Syrian/Libyan connection will somewhat inhibit Soviet relations with Iraq but the Soviets will be reluctant to lose their substantial investment in Iraq. There will be opportunities for military supply and to provide industrial technology for recovery. The Soviets will remain deeply concerned about increased U.S. military presence in the region. Propaganda attacks on the U.S. will remain shrill in this regard. We should continue to take strong exception to their accusations. The Soviets hope to gain some advantage with the belligerents. Thus far their efforts have been unsuccessful. We have made clear to the Soviets our own intention to refrain from intervening in the conflict in expectation they will act similarly.

While the situation may seem to offer little immediate prospect for a fundamental improvement of the Soviet position in the region, we must anticipate opportunistic Soviet initiatives to strengthen their presence and influence in the area and constrain U.S. options. Those could include a campaign for Indian and other support for demilitarization of the Indian Ocean or non-intervention in the Persian Gulf, international guarantees of oil routes, or some Middle East peace proposal that would support rejectionist Arab positions and permit the Soviets to keep working both the Syrian/Libyan and the Iraqi relationships. At a more adventurous extreme, we can not rule out Soviet intervention in a weakened Iran or heightened efforts to subvert areas of U.S. influence.

Sharper cleavage among Islamic countries over the Iran-Iraq conflict will limit the effectiveness of the Islamic Conference and the diversion of attention everywhere will make it more difficult to mobilize international opposition to Soviet actions in Afghanistan. We may, however, still be able to obtain a strong UN resolution with follow-on mechanism. Soviet uncertainty over future developments in the Gulf may lead Moscow to be more cautious in exerting pressure on Pakistan which could have an adverse feedback among other Islamic states.

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Soviet "neutrality" between Iran and Iraq is likely to reduce the short-term prospect of significant new Soviet military developments on the Iran border. Such moves appear to threaten Iran and represent a "tilt" toward Iraq unless a resolution of the hostage issue posed the possibility of significantly improved U.S.-Iran relations or the prospects of major U.S. force deployments in the Gulf region provided the Soviets with other pretexts for building up their forces in the area.

During their September 25 bilateral, Gromyko told the Secretary that Moscow would not intervene in the conflict "as long as others didn't," and Brezhnev made similar public statements on two recent occasions. The limited U.S. assistance already given to Saudi Arabia and the U.S. fleet presence in the area have been portrayed in the Soviet media as the initial stages of a U.S. intervention. A further increase in U.S. involvement in Gulf security would generate a new Soviet propaganda barrage and the Soviets might well respond by accelerating the improvement and perhaps the buildup of their own military forces in the region.

4. Impact on our strategic concept for Southwest Asian security

The Iraq/Iran conflict will not alter the need to continue pursuing the various elements of our strategy for improved Southwest Asian security. We will need however to be alert to new opportunities and problems presented by the altered strategic and political dynamics of the region as these affect the timing, emphasis and prospects for pursuing our strategy of:

- developing the RDF and its sea and airlift capabilities;
- solidifying enroute access, rear basing (Ras Banas and Diego Garcia), and forward access in Somalia, Kenya and Oman;
- seeking additional Saudi cooperation in both regional defense and through overbuilding and pre-positioning in Saudi Arabia itself;
- seeking to increase the variety and scope of peace time deployments in the area; and
- building the self-defense capability of friendly regional states.

The combatants will rearm as rapidly as possible. This will cause heightened security concern in Egypt, Jordan, Israel, Saudi Arabia and the Gulf states and Pakistan as they confront the

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prospect of renewed and possibly widened conflict. Disunity in the Arab world will further complicate Arab strategic and political planning. Egypt and Oman are likely to evidence increased interest in security cooperation with the U.S. Saudi Arabia and the Gulf states, fearing Iran and uncertain about Iraq, are likely to revert to ambivalence about military cooperation with us but will be more insistent than ever that we sell them weapons. Iran will and Iraq may continue to oppose any U.S. military presence in the area, maintaining along with Libya and Syria political pressure on area states who cooperate with us in security.

Pakistan will work cautiously to sustain links with both Iran and Iraq. Pakistan's security cooperation with Saudi Arabia and the Gulf states and their financial and political support of Pakistan may increase. This would benefit our interests in the region by bolstering Pakistan against the Soviet/Afghan threat and by providing the Peninsula with a regional input to balance Iraqi and Iranian pressures. We will continue to want Saudi/Gulf financial support for other strategically important states -- Morocco, Tunisia, Turkey, Somalia and North Yemen.

5) Impact on the Middle East Peace Process

Much depends on how the fighting turns out -- and even more on how Arabs and Israelis perceive the fighting as having turned out. If, as now looks unlikely, there were significant growth in Iraq's relative power, we would be faced with greater receptivity on the part of Jordan, Saudi Arabia and the Palestinians to Iraq's bid for leadership on the Arab-Israel problem, pressures on Sadat to do something dramatic to keep Baghdad from stealing the show, and a generally heightened psychological atmosphere of Arab militancy against Israel. Such an atmosphere on the Arab side, together with the Israeli counterpart of greater concern about an Arab "eastern front", could make our own objective of bringing the two sides to negotiated compromises and pragmatic solutions more difficult.

On the other hand, under present assumptions as to the outcome, there is likely to be even greater disarray and turmoil among the Arabs. In the short term this could have the effect of making the moderates so uncertain and jumpy that they are less disposed to consider pragmatic approaches to the Arab-Israel problem. Over a somewhat longer term, however, the spectacle of two radical regimes trying to bludgeon each other into submission, together with another dismaying demonstration of the Arab' failure to adopt any kind of common or constructive approach to a major regional problem, could strengthen the

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resolve of Arab moderates to explore practical ways of resolving their dispute with Israel.

There are two ways of looking at the problem the US faces in the Arab-Israel arena: one is to determine how we can create regional conditions that will help promote negotiations; the other is to determine what regional conditions will hurt us the least if we fail to make progress in the negotiations. In the short term, the Iraq-Iran war will probably make the former more difficult, at least in the sense of increasing Israeli concern and of bringing the Palestinians aboard. But if the Arab-Israeli negotiations bog down, the present circumstances will make it harder for the Arabs to concentrate on developing concerted action against us. (Or against Sadat, for whom the sight of Saddam and Khomeini bloodying themselves in an indecisive war, with his other Arab enemies dividing themselves on one side or the other, must be a vision of exquisite pleasure. His caravan continues majestically on while the dogs bark.)

In other words, if we have to hunker down with Egypt and Israel and face a hostile Middle East, a sustained, smoldering conflict in the east that keeps Iraq bogged down and the Arabs bickering among themselves may at least provide the easiest circumstances in which to face this prospect. We still, however, must deal with the impact of stalled negotiations on our oil and security interests in Saudi Arabia and the Gulf.

6) Implications for Oil

The Iraq-Iran conflict is likely to have significant effects on the oil market, even though not as severe as what such a war might have caused under other circumstances. Before the war, the two countries were providing about 3.8 million b/d exports plus about 900,000 b/d for their own consumption. The damage which has occurred thus far, further damage during the remaining period of fighting, and uncertainty over the possibility of renewed violence are certain to restrain the pace of the resumption of exports.

The Saudis and other Gulf producers have indicated they will increase output by approximately one million-barrels per day. Kuwait and Abu Dhabi have political constraints on production increases, and the level at which the Saudis can sustain increased production for an extended period has not yet been tested. Production increases in other countries (e.g., Venezuela, Nigeria) are expected to occur within the limits of their capacity, in response to market demand.

The CIA estimates that the total production increase may be between one and three million b/d. If the actual figure

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is in the upper portion of this range, that, combined with the large world oil stocks, means that the "real" supply crisis will not be severe.

However, uncertainty and the uneven distribution of the oil shortfall may nevertheless place significant pressure on spot prices. Pressure is already appearing, with some reported sales this week at \$36.50 for Arabian Light crude, about four dollars over its pre-hostilities trading range. Depending on how the situation develops, a significant further escalation in spot prices could occur fairly quickly. If sustained for any significant time, this would pull contract prices up too.

The impact will be heaviest on certain LDC's with low oil stocks and large normal supply dependence on Iraq or Iran (e.g., Brazil, India, Somalia, Tanzania, Bangladesh).

III Policy Considerations

1) Iran

-- Iran views our "neutrality" as in effect pro-Iraqi; our failure to take the lead in demanding Iraqi total withdrawal feeds Iranian paranoia. Under what conditions should we become more explicit on withdrawal? How should we coordinate with allies on this issue?

2) Iraq - Our policy response should consider:

-- The need to remain open to Iraqi gestures leading to improved political exchanges;

-- What might we do to improve our commercial and technological presence, including the sale of civil aircraft, and to encourage US private involvement in restoring Iraq's petroleum and other industry.

-- What we will do on engine cores for Iraqi frigates.

-- Encouraging a stronger Western presence, primarily French, while restraining European enthusiasm for nuclear projects or relationships which slant their perceptions on a Middle East settlement and further harden Israel's position.

-- Impressing upon Peninsula states and Jordan the long-term subversive threat Iraq poses without obstructing the development, where possible, of constructive relationships between them and Iraq.

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~~SECRET~~3) US-Soviet Relations

-- New major initiatives towards the Soviets to constrain their activity in the Iran-Iraq conflict or lessen their influence in the area are not necessary at this time. We should, however, ensure that any Soviet or Bloc assistance to the parties is made public and that we underscore the inconsistency between such actions and Soviet protestations of neutrality.

--Our efforts to ensure Soviet non-involvement in the conflict should avoid:

- giving the appearance in the region of seeking a U.S.-Soviet condominium there;
 - strengthening the Soviet case against U.S. military presence; and
 - letting the Soviets revive their proposal for for an international conference to discuss the security of oil routes.
- We need to maintain sufficient pace to UN and Islamic efforts to resolve the conflict as to avoid the Soviets grabbing a mediator role.
- We need to avoid letting this conflict divert Islamic states from the Soviet presence in Afghanistan.

4) Strategic Concept for Southwest Asian Security

-- We need specifically to consider the extent of our defense commitment to Saudi Arabia and the Gulf States and the force deployment implications of our commitments.

-- We need to pursue our access and force presence objectives in a manner which will:

- appear responsive to the security needs of friendly states, rather than opportunistic;
 - avoid insofar as possible exacerbating tensions between them and either Iraq or Iran; and
 - solidify the gains of our responses to Saudi requests for air defense help without overreaching to the point of politically jeopardizing those gains.
- build on our security relationship with Egypt and Oman in a way that does not further isolate them from the Arab world

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or undermine our prospects for increased security cooperation with Saudi Arabia and the upper Gulf States.

-- keep Saudi defense thinking focussed on effective use of present equipment rather than immediate pressure for controversial systems -- F-15 enhancement and AWACs; while preparing Congressional and public attitudes in this country for the inevitability of the F-15 and AWACs requests;

-- urge Gulf cooperation, including Saudi receptivity to US participation in efforts to build defense cooperation;

-- be ourselves sufficiently supportive of Pakistan, North Yemen, Somalia, Turkey, Tunisia and Morocco to retain credibility in urging continued Saudi and Gulf State support for these countries.

-- consider ways to encourage Pakistan's links to Saudi Arabia and other Gulf States including perhaps additional arms sales to equip Pakistan units loaned to the Saudis.

5) Impact on the Middle East Peace Process

-- The conflict creates pressures in Middle East relationships which complicate the environment for making progress on the peace process. We will want to try to minimize reactions which will impede the Middle East negotiations.

-- If we cannot in any event make progress, divisions among the Arabs and Iraqi preoccupation with Iran might inhibit concerted action against the U.S., Israel, or Egypt.

-- But progress toward peace will remain important to sustaining our security, oil and financial objectives in Saudi Arabia and the Gulf States.

6) Oil

The need to minimize spot market pressure suggests actions on the following fronts:

-- Considering what we need say to producers about production increases.

-- At the October 21 IEA Governing Board meeting we will want to consider ways to monitor and reinforce our IEA undertaking to discourage spot market purchases and to encourage companies to draw down stocks as needed, such as: setting individual country targets, strengthening measures to discourage spot purchases, and devising a meaningful and rapid system for

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monitoring countries' efforts. While there are ample stocks at the present, if the shortfall endures, we would of course want to be sure that stock draw was not so great as to endanger security.

-- If the producer response is not enough to cover all needs, we will want to consider ways to ensure that replacement oil does go the hardest hit countries, to keep them off the spot market. India, Japan, and France apparently still have major net shortfalls (Brazil has covered its immediate needs), and other LDCs in the aggregate were dependent on Iraq/Iran for substantial oil volumes.

-- We should intensify our review of possible domestic measures to economize oil use by fuel switching or other measures, in order to free up as much oil as possible. We may also want to look at ways to encourage optimal stock developments within the U.S.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

October 14, 1980

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MEMORANDUM FOR:

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por 5/1/07 NSC/HF

EX-102 NARA DATE 5/21/07

The Vice President
The Secretary of State
The Secretary of the Treasury
The Secretary of Defense
The Secretary of Commerce
The Secretary of Energy
The Chairman, Joint Chiefs of Staff
The Director of Central Intelligence

SUBJECT:

PRC Meeting on Iran/Iraq (U)

The attached agenda is for the PRC Meeting on Iran/Iraq which is scheduled for October 16 at 10:00 a.m. in the White House Situation Room. (C) *(P+1)*

Christine Dodson
Christine Dodson
Staff Secretary

Attachment

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Review on October 14, 1981

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PRC MEETING FOR THURSDAY, OCTOBER 16, 1980

AGENDA

The following items will be discussed at the PRC Meeting:

Implications of the Iran-Iraq Conflict

1. Oil/Energy
2. US-Soviet Relations and Soviet Influence in the Region
3. Middle East Peace Negotiations
4. US Strategic Framework and the Persian Gulf/Arabian Peninsula
5. Iran and the Hostages
6. Relations with Iraq (S)

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Review on October 14, 1986

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506CONFIDENTIAL WITH
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October 21, 1980

File: Iran

MEMORANDUM FOR:

THE VICE PRESIDENT ✓
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE CHAIRMAN, JOINT CHIEFS OF STAFF
THE DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: PRC Meeting on Iran/Iraq (U)

Reference the PRC Meeting on Iran/Iraq which was held on October 16. Attached is a copy of the memo which was sent to all the attendees indicating the President's approval of General Jones recommendation. Also attached is a copy of the Summary of Conclusions. This document is very sensitive and should only be given to those in your agency/department with a need to know. (C)


Christine Dodson
Staff Secretary

Attachments

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Review on October 21, 1981

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BY 62 NARA DATE 5/21/07

NATIONAL SECURITY COUNCIL

WASHINGTON, D.C. 20506

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October 22, 1980

MEMORANDUM FOR

THE SECRETARY OF STATE
THE SECRETARY OF DEFENSEALSO: THE CHAIRMAN, JOINT CHIEFS OF STAFF
THE DIRECTOR OF CENTRAL INTELLIGENCE

The President has reviewed the recommendations of the Policy Review Committee meeting on Iraq/Iran, October 16, 1980, and approved the increased level of U.S. presence in Saudi Arabia to approximately 1,200. This addition is to support improvements in Saudi air defense and to broaden our contingency planning for regional air defense, communications, and pre-positioning materiel for a squadron of U.S. TacAir. (S)


Christine Dodson
Staff Secretary

cc: The Vice President
The Secretary of the Treasury
The Secretary of Commerce
The Secretary of Energy
The U.S. Representative to the UN

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Review on October 22, 2000
Extended by Zbigniew Brzezinski
Reason for Extension: NSC 1.13(e)

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SUMMARY OF CONCLUSIONS

Secretary Muskie opened the meeting by noting that this PRC discussion of the long-term implications of our policies in the Persian Gulf region had grown out of earlier discussions in the SCC context. All agreed that this was an on-going problem which would not be resolved in the context of a single meeting. He proposed that this meeting focus on our strategy in the UN, where a Security Council debate on the Iran-Iraq war is underway, and on the issues arising out of the U.S. strategic framework in the Persian Gulf and Indian Ocean. We wish to consider the U.S. posture in the context of our public policy of impartiality, the growing evidence of a long war with dangers of escalation and a widening of the conflict, and the indications that Iraq's war aims may be increasing to include establishment of an independent "Arabistan". We need to consider whether we should shift to use of more direct influence to bring the conflict to an end and the shape of a formula which would induce both sides to accept termination of the conflict. That will inevitably involve the question of Iraqi withdrawal. The President in the past several days has spelled out U.S. policy in opposition to dismemberment of Iran and a more critical attitude toward the Iraqi invasion. How far should the U.S. be prepared to get out in front? (S)

Security Council Debate

Ambassador McHenry said it was still uncertain whether we would end up with a formal SC resolution or whether the members would prefer to avoid taking sides about the rights and wrongs of either side and use the SC as a mediating device. Iranian Prime Minister Rajai will address the SC tomorrow afternoon. If it appears that both parties will continue to be represented in New York for some time, he anticipated that debate would be recessed over the weekend and taken up again on Tuesday or Wednesday of next week. However, if it appears that either of the representatives plan to depart, debate could go through the weekend. (C)

The SC membership will stress the development of principles and a mechanism which would provide the context for working out the dispute. The Secretary General will also be pressing for agreement on freeing the ships which are presently trapped in the Shatt al-Arab. The Iranians have accepted a temporary ceasefire. Iraq has not responded, but informally has indicated that there is no need for a special arrangement since the ships can move to Basra. In any event, the Iraqi position is that the ships should fly the Iraqi--not the UN--flag for transit of the river. The Secretary General is seeking some kind of compromise perhaps involving a convoy in which the lead vessel would fly the UN flag. He may propose formal SC action on the shipping issue in order to pressure the Iraqis. (S)

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The mood at the UN is emerging that Iraq was at fault in the conflict. The cynicism of the Iraqi position and their delaying tactics appear to be increasingly recognized. (S)

The two issues on everyone's mind at the UN are the Iran-Iraq war and the hostages. On the former, our basic position has been stated publicly by the President, and Ambassador McHenry thought we should confine our activities to efforts behind the scenes rather than getting out in front. He did not anticipate that the hostage issue would be addressed formally in any SC action, but he was confident that all members would refer to Iran's disregard for the UN over the past year. That is a point which needs to be made, but we do not let it drive the Iranians away from the SC now that we have finally succeeded in enticing them there. (S)

The USUN Mission is preparing material for the debate which will be provided to Washington. We will probably have no formal role until next week, but we need to have our position clearly in mind for the consultations which will occur over the weekend. (C)

U.S. Policy in the Persian Gulf Region

Secretary Muskie defined the questions as follows: In view of our readiness to hold contingency talks with Saudi Arabia in the present conflict, are we expanding our commitments to Saudi Arabia by assuring defense of that nation in any regional conflict or is this commitment consistent with our regional policy of the past 30 years? Are we fostering increased expectations by the Saudis which will limit our flexibility in future regional conflicts, e.g. as border conflict with North or South Yemen? Do we have sufficient Congressional support for and understanding of what may be viewed as an expanded commitment to Saudi security? The Secretary noted his concern that we may be fostering increased expectations on the part of the Saudis and wondered if we do not risk overloading the Saudi circuit by going beyond what we are doing presently. (S)

General Jones said he did not believe we were overloading the circuit at present. On the basis of his recent trip, he believes the Saudis are aware of the fact that their air defense capability is limited and fragmented. He felt that our involvement gives us more leverage, the ability to work with them, and an opportunity to accomplish something we had wanted for a long time, viz. prepositioning of U.S. equipment in the Kingdom and joint contingency planning. He deferred to others on the congressional reaction, but felt that we would be more subject to criticism for inaction than action. (S)

Secretary Muskie reviewed the recent exchanges which Ambassador West has had with Crown Prince Fahd and Prince Sultan. He noted that the Saudi response has been generally favorable but has not addressed every point of interest to us. He asked specifically what our objectives are in our discussions with the Saudis. (S)

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General Jones said our first objective is to improve the air defense of Saudi Arabia, but we also wish to engage them in consideration of their potential role--and ours--in the event of Soviet involvement in the region. Those considerations extend beyond the Saudi borders. This was raised implicitly with the Saudis in the briefing he provided them on the Soviet threat, and they nodded favorably at mention of the type of problems which would have to be solved. (S)

Secretary Muskie noted that the political dimension had not yet been explored with the Saudis. (C)

Mr. Carswell added that the economic dimension also needed to be considered. Ambassador Owen pointed out that more coordination might be required, but that our efforts in the economic sphere to strengthen relations with the Saudis were totally consistent with our security policy. The interrelationship of the two was demonstrated by the Saudi decision to increase oil production immediately following General Jones' meeting with them on security issues. Mr. Carswell noted that the Saudis are asking us to change our tax policy. We will need to get Congressional action on our proposal in the new session. Secretary Muskie invited Treasury to provide a list of relevant issues on the economic side. He stressed the need to begin to bring at least the Congressional leadership into our thinking on the strategic issues. (S)

The Soviet Reaction

Secretary Muskie asked for views about Soviet options regionally and elsewhere to counter U.S. moves with Saudi Arabia and the Gulf and the constraints on Soviet ability to take advantage of the present conflict between Iran and Iraq. We started with the position of impartiality on both sides. Although we have an opportunity to ride this war with Saudi Arabia in order to acquire facilities and other forms of cooperation, it is possible that the Soviets will perceive that we are using the war as a cover to build up a position beyond the context of the war itself. That may provoke a Soviet reaction if they see that we are taking advantage of the situation. This was of great concern to him. Will this affect their position on Afghanistan? Is it not possible that the restraint which we mutually observe on the Iran-Iraq conflict will spill over into other Soviet intentions in the region? (S)

Mr. Carlucci said the intelligence evaluation paralleled the Secretary's view. The Soviets are uncomfortable with the short term dilemma created by the war. We have very recent intelligence, for example, that Iraq is pressing the Soviets to provide lube oil. It will be hard for them to straddle the issue. The Soviets hope that both countries will be weakened, which may provide opportunities for them. If so, they may try to take advantage of the possibilities. (S)

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Dr. Brzezinski agreed that the Soviets are uncomfortable, as uncomfortable as we might be in the event of a war between Poland and East Germany. We would see it as dangerous and messy, but we would also recognize that it worked to the Soviets' disadvantage far more than ours. We could adopt a position of non-intervention, wait to see what happens, and be prepared to take advantage of developments. A comparable case is the Sino-Soviet conflict, where the costs to the Soviets are far greater than to us. The Iran-Iraq war does indeed give the Soviets short-term problems, but it is debilitating for the region and thus works more to their benefit. They can choose to aid either of the two parties or both, or they can assist through surrogates. At some point they can step in and offer to be the peacemakers, or they can propose a general solution in cooperation with the U.S. and others, which would permit them to emerge as co-guarantors of the regime. The French would reject that, but others might find it attractive. We have done reasonably well thus far. We have maintained a position of mutual non-intervention, we have built on our relations with the Arabs, and we may have an opportunity to develop a relationship with Iran. That is good in the short term. In the longer term, we must build our position with our friends in the region. The Soviets will not like that, just as they did not like our policy of strengthening Western Europe in the 50's. We must ask if the region is vital to us or to the Soviets. It is vital to us and not to the Soviets. We must not accept security arrangements with the Soviets which would enhance their role and influence in the region. We could have lost Berlin and still saved Western Europe, though with greater difficulty. We could have lost South Korea and still preserved Japan also with greater difficulty. But if we lose this region it will undermine both Europe and Japan. It is absolutely vital to us. We need long term initiatives to strengthen our position in the area whether the Soviets like it or not. (S)

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Secretary Muskie said that was not the question. No one disputes the vital nature of our interests there. No one challenges the long-term policies we have been pursuing. The question is, to what extent will our responses to the Iran-Iraq conflict affect Soviet behavior, the Persian Gulf states, add to our commitments, and possibly provoke Soviet actions. Dr. Brzezinski replied that if we continue to do the things we are doing, it will not provoke the Soviets, it will deter them. But they will not like it. (S)

Secretary Muskie recalled the "non-paper" he had handed Gromyko, which had been very carefully worked out in the Government. It established a very clear line across which we did not intend to go, and we made it clear that we expected they would not go across that line. We know they are discussing that paper, and it may have affected the restraint they have shown thus far. We should not be perceived as developing the possibility that we may cross that line. (S)

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Mr. Christopher said he found the Poland-East German analogy flawed since the relative positions of the U.S. and USSR were quite different in the two cases. The question is how we protect our vital interests. (C)

Dr. Brzezinski said that no analogy is exact. However, the discomfort the Soviet are experiencing is tactical discomfort. Strategically, the situation is more to their advantage than ours since regional turmoil has more severe consequences for us. (S)

Mr. Claytor believed that the Soviets will take every possible opportunity to exploit the situation. He did not believe that our actions as proposed give them an excuse or push them into any action which they would not take otherwise. They are now in a watchful waiting mode. We have an opportunity to do something we have wanted for a long time, and we should press on. (S)

Secretary Muskie wondered what would happen if the war drags on, Khomeini is undermined, and Iran collapses into chaos. To what extent would the Soviets go in? (C)

General Jones said the Soviets have a clear military advantage. We will be better off if we have strengthened our military. All our friends in the region applaud what we have done, even including Israel (although they worry about Saudi Arabia developing a long-range capability). We are able to restrain the Soviets better than before. He noted that the initial effect of the war has been to bring Iran together. He wondered if a unified Iran, perhaps under Bani-Sadr, might emerge. (S)

Dr. Brzezinski said a long war will be destructive to our interests. Mr. Komer commented that a long war might be characterized by intermittent conflict separated by lengthy periods of inaction, like the 30 Years War. We should not necessarily assume that our interests would be ill-served in such an event. General Jones said that Iraq has a clear advantage in the balance. Dr. Brzezinski said it would increase instability in the region. Mr. Carlucci said another possibility would be that Saddam Hussein might be undermined politically because he will have been seen to have miscalculated. (S)

Mr. Komer said we can maintain impartiality with regard to the Iran-Iraq conflict, but we should keep that separate from our relations with the Persian Gulf states. Mr. Christopher said we must look at each action we take and calibrate it with respect to the possibility it will make the Soviets do something we do not want. There is a question of the absorptive capacity of the Persian Gulf states. It is not true that everything we do deters the Soviets, for example, we might take some action which would lead the Soviets to take Iran. He was not convinced that the Iran-Iraq war favored the Soviets. He recommended caution, to calibrate our actions with respect to possible Soviet responses. (S)

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New Initiatives

Secretary Muskie asked General Jones to outline what further steps are required. General Jones said there were two general categories:

First, we want to improve Saudi air defense. The Saudis are moving two of their own radars to the Eastern Province. They need help to integrate the Hawk system with the radars. He estimated that about 111 U.S. personnel would be needed to work directly with them on this, from school instruction to on-site training. This number could decrease as Saudis take over certain functions and/or as contractor personnel replace U.S. military. We have succeeded in deflecting them from wanting U.S. equipment by showing them their own capabilities. We are not talking about more U.S. equipment at this point. (S)

Second, we wish to broaden our contingency planning. He proposed about 25 people to augment the USMTM staff for air defense planning. We would hope to graduate to some kind of regional air defense planning and consideration of what would have to be done if the U.S. should have to come in with its own forces. We also need to improve communications at all levels. We want to preposition material for a single squadron of U.S. F-15s. Once that materiel is in place, it will require very few U.S. personnel to maintain it. The total personnel for these tasks is not more than 100. (S)

There are just under 1000 U.S. personnel in Saudi Arabia at present. Half of those are permanent, the other half are associated with AWACS and the other steps we have taken thus far. He would propose raising that to about 1200 to accommodate the two broad objectives above. Of course, if we later decided to preposition army or other types of materiel, that number would have to go up.

General Jones said he thought so. We are going to provide the same F-15 equipment to the Saudis eventually.

(S)

Secretary Muskie said he sensed no difference of views on the immediate actions which had been proposed. All agreed with General Jones' recommendation to raise the level of U.S. presence in Saudi Arabia to approximately 1200. (S)

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Disapprove _____

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