



DECLASSIFIED

United States Department of State

Washington, D. C. 20520

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ACTION MEMORANDUM

S/S 12/5

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DEC 1986

H.I.

SECRET/NODIS

TO: P - Under Secretary Armacost

FROM: NEA - Richard W. Murphy

SUBJECT: U.S.-Iraqi Relations: Picking Up the Pieces

ISSUE FOR DECISION

Whether to authorize certain next steps in U.S.-Iraqi relations.

BACKGROUND

U.S.-Iraqi relations are in crisis, with potentially serious consequences for U.S. standing in the Gulf region and U.S. policy on counterterrorism. Saddam Hussein's letter of November 18 to President Reagan is a measure of the intense anger and sense of betrayal felt by the Iraqis. Unfortunately, though the equipment transferred to Iran from U.S. stocks was limited in type and amount, it is difficult to refute the Iraqis' underlying accusation -- that the U.S. has armed Iran to kill Iraqis, and that the action may well have spurred others to sell to Tehran.

So far, the Iraqis have shown considerable restraint in their public comments on U.S. arms transfers to Iran. They have clearly been waiting to see how the controversy in the U.S. will play out, hoping to turn events to their advantage. However, press commentary in Iraq is becoming shriller, and senior Iraqi officials have begun referring regularly to a "U.S.-Zionist-Persian conspiracy" against the Arabs. We have also received indications that Iraqi officials identified with the reestablishment of relations with the U.S., especially FM Aziz, may be at serious risk inside the regime.

We should move to retrieve our influence with Iraq on terrorism and other crucial issues. We should not -- and given Congressional opposition, we could not -- move away from our policy of neutrality in the Gulf war by providing arms to Iraq. Nevertheless, there are useful options open to us within our established policy.

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DECL: OADR

Exim

Iraq continues to face serious financial difficulties, which have forced it to pressure many official creditors into rescheduling loan payments. Despite that, the Iraqis have singled out debts to the U.S. for payment, keeping their account with USDA current, settling a debt with American Express at our urging, and eliminating arrearages on Exim-insured L/Cs.

We believe Exim should consider resuming short-term insurance cover in recognition of the Iraqis' forthcoming attitude toward U.S. accounts. While these new facilities are likely to be relatively small, they would be a powerful political signal of U.S. confidence in Iraq's future.

B5

Last summer, the Secretary decided not to intervene with Exim to urge a more open credit policy toward Iraq, in part because of concern that the Department might dilute its influence with Exim on other more pressing cases. However, in light of changed circumstances, we suggest that you telephone Exim Board Chairman Bohn to invite him and other interested Exim Directors to the Department for a discussion and briefing chaired by you and including representatives from E, EB, and NEA.

B1

U.S. High-Tech Exports

American high technology is important to the Iraqis, and U.S. companies have sold a few civilian high-tech items to Iraq for civilian use. Unfortunately, despite our stated policy of encouraging U.S. business in Iraq, we have not been reliable suppliers of high-tech equipment.

B5

J talked to EB. This is still an issue. It's a good one to raise early w/ Carlucci.

The NSC informally agreed last summer to review the interagency disputes over specific licenses for Iraq, but has never taken action. We recommend that you press the NSC to review Commerce licenses long pending for Iraq and to mandate a decision on them by the end of the year.

Munitions List Items: Changes Inadvisable for Now

Twice in the last month, King Hussein has resurrected the issue of U.S. counterbattery radar (TPQ-37) for the Iraqis. We reviewed the possibility of authorizing transfer of the TPQ-37 earlier this year and decided against, partly because, in the judgment of the intelligence community, the equipment would make only a very limited contribution to Iraq's military capability.

RECOMMENDATIONS:

1) That you telephone Exim Chairman Bohn to invite him and other interested Exim Directors to the Department for a briefing on Iraq to be chaired by you.

E will now support

WJ Approve

_____ Disapprove

2) That you telephone Dr. Keel to press for an NSC review of the interagency process on Commerce license applications for Iraq, with the goal of resolving long-pending license requests for Iraq by the end of this year.

WJ Approve

_____ Disapprove

3) That you reaffirm our policy of not providing munitions list items to either side in the Gulf war, except in very special circumstances, such as protection of a head of state.

_____ Approve

_____ Disapprove

I would like to see a more thorough analysis of pros & cons of responding to King Hussein's limited proposal

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Drafted: NEA/NGA: GBerry
12/2/86 x75692 #1435Z
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4/1/87

DRAFT FOLLOWS

COB Wednesday, December 3.
United States Department of State (27)

Washington, D. C. 20520

June 1, 1992

DRAFT

27

ACTION MEMORANDUM
S/S

482

TO: The Secretary

THROUGH: P - Under Secretary Armacost
C - CA Derwinski

FROM: NEA - Richard W. Murphy

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BACKGROUND

U.S.-Iraqi relations are in crisis, with potentially serious consequences for U.S. standing in the Gulf region and U.S. policy on counterterrorism. Saddam Hussein's letter of November 18 to President Reagan is a measure of the intense anger and sense of betrayal felt by the Iraqis. Unfortunately, though the equipment transferred to Iran from U.S. stocks was apparently limited in type and amount, it is difficult to refute the Iraqis' underlying accusation -- that the U.S. has armed Iran to kill Iraqis.

So far, the Iraqis have shown considerable restraint in their public comments on U.S. arms transfers to Iran. They have clearly been waiting to see how the controversy in the U.S. will play out, hoping to turn events to their advantage. However, press commentary in Iraq is becoming shriller, and senior Iraqi officials have begun referring regularly to a "U.S.-Israeli-Persian conspiracy" against the Arabs. We have also received indications that Iraqi officials identified with the reestablishment of relations with the U.S., especially FM Aziz, are at serious risk inside the regime.

If we are to retrieve our influence with Iraq on terrorism and other crucial issues, we must act quickly. At the same time, we need to show steadiness of purpose to restore credibility to our policy in the Gulf. We should not -- and given Congressional opposition, we could not -- move away from our policy of neutrality in the Gulf war by providing arms to Iraq. Nevertheless, there are useful options open to us within our established policy.

Exim

Iraq continues to face serious financial difficulties. Despite that, the Iraqis have singled out debts to the U.S. for payment, keeping their account with USDA current, settling a debt with American Express at our urging, and eliminating arrearages on Exim-insured L/Cs.

NEA believes Exim should consider resuming short-term credits in recognition of the Iraqis' forthcoming attitude toward U.S. accounts. Besides their financial value, new credits for Iraq would be a powerful political signal of U.S. confidence in Iraq's future.

Last summer, you decided that you would not intervene with Exim to urge a more open Exim policy toward Iraq, in part because of concern that the Department might dilute its influence with Exim on other more pressing cases. In light of recent developments, NEA suggests that you reconsider that decision, authorizing U/S Armacost to telephone Exim Board Chairman Bohn with a strong recommendation that Exim begin considering at least short-term credit applications from U.S. firms doing business in Iraq.

U.S. High-Tech Exports

American high technology is important to the Iraqis, and U.S. companies have sold a few civilian high-tech items to Iraq for civilian use. Unfortunately, despite our stated policy of encouraging U.S. business in Iraq, we have not been reliable suppliers of high-tech equipment.

The Commerce Department has frequently delayed or blocked licenses for such sales ^{in part} because of pressure from DOD, which has expressed concerns about technology transfer. In the judgment of the intelligence community as a whole, DOD's concerns are exaggerated. In practice, they have meant lost sales for U.S. companies and a constant irritant in U.S.-Iraqi relations. The NSC informally agreed last summer to review this dispute among State, DOD, and Commerce, but has never taken appropriate action. NEA recommends that you authorize U/S Armacost to press the NSC to review Commerce licenses long pending for Iraq and to mandate a decision on them by the end of the year.

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