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United States Department of State

Washington, D. C. 20520

ES

September 7, 2001

INFORMATION MEMORANDUM
S/S

RELEASED IN PART
B1, 1.4(C), 1.4(D)

SECRET//ORCON,NOFORN
DECL: 1.6X1

TO: The Secretary

FROM: INR - Carl W. Ford *CF*

SUBJECT: Iraq--Saddam Riding Higher Than Ever (U)

(S) Saddam is buoyed by his gains over the past year. Sanctions have further eroded. His diplomatic isolation has lessened. He has consolidated his hold on power. Emboldened by his increased leverage, Saddam is preparing to push back hard against any efforts by us to restrict him. He views the upcoming UNSC debate over the UK-draft resolution as a critical test in which he can not afford to be seen as bluffing. He is likely to carry through on threats to cut oil exports. He may be prepared to cease all cooperation with the UN.

(S//NF) Saddam no doubt takes great satisfaction in the gains he has made.

- (S) Doubled the Money. Saddam has expanded his illicit trade (most dramatically through Syria) and has resumed his licit oil exports (Iraq is scheduled to ship 2.4 million b/d in September, including 1.4 million b/d to the U.S., its biggest customer.) Earnings from his expanding illicit trade, combined with surcharges and kickbacks under the oil-for-food program, have roughly doubled Saddam's unmonitored revenues. He now has as much as \$3 billion in annual income that he can spend to consolidate further his power base and to rebuild his military (including WMD) programs.
- (S//NF) New Routes, New Leverage. The reopening of the Iraq-Syria pipeline late last year was a major boon for Saddam. Not only did it increase his earnings exponentially, it also increased his leverage on other trading neighbors. Eventually, the pipeline could be used as an avenue for

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E.O. 12958 Reason: 1.5(c) and (d)

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limited oil exports through Lebanon as well as Syria. A second, smaller pipeline also connects Syria and Iraq,

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- (S) Flying High. The flurry of international flights to Iraq that began late last year has evolved into a steady stream of international visitors. A number of airlines now operate routine flights, and Iraqi Airways continues to make headway in increasing its own fleet.
- (S//NF) Expanding Baghdad's Embassy Row. Increases in both illicit and strategically targeted licit trade, coupled with a strong sense of sanctions fatigue, have enabled Saddam to reduce significantly his diplomatic isolation. Iraqi officials tie contracts to diplomatic representation. The list of countries opening some form of diplomatic mission in Baghdad continues to grow. In the past two weeks Brazil and Germany have established an official presence in Baghdad.

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- (S) Al-Aqsa Intifada. Perhaps Saddam's greatest boon over the past year has resulted from circumstances he does not control (though he may claim otherwise). The al-Aqsa Intifada has provided Saddam a cause he can turn to his advantage at home and in the region. Arabs angry and frustrated with the Arab-Israeli issue are increasingly sympathetic to the idea of radical action--something Saddam is known for. The "double standard" argument, though well worn, continues to resonate in the juxtaposition of the UN's "unfair" punishment of the Iraqi people compared to its reluctance to enforce UN resolutions on Israel and the Palestinians. Saddam's formation of an al-Quds volunteer force not only serves Iraq's propaganda machine, it

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also provides a useful outlet for an Iraqi youth who otherwise have few causes to champion.

- (S) Can Keep the Intifada Boiling. Saddam will look for ways to ensure tensions in the region remain high, so he can continue to exploit Arab frustration. He likely will look for ways to expand his ties to and support for radical Palestinian and other terrorist organizations, and he may re-deploy troops to western Iraq as a show of Iraqi "solidarity" for Syria's confrontation with Israel.
- (S//NF) Going for the Gulf. Saddam also is trying to use the Intifada to increase pressure on the Gulf States, particularly Saudi Arabia and Kuwait, by portraying their support for the no-fly zones as support for Israel.

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[REDACTED] Saddam will continue to push hard in the Gulf, hoping that recent Saudi restrictions on OSW operations will lead to an end to Saudi support for the southern no-fly zone. He may also calculate that Riyadh's growing frustration with U.S. Middle East policy will temper Saudi Arabia's willingness to make up for Iraqi supplies should Saddam again suspend oil exports.

- (S) Tucking Into the Arab Fold. As the al-Aqsa Intifada continues, Saddam will look for more opportunities to capitalize on the vulnerabilities of moderate Arab leaders. If radical sentiment continues to grow, Arab leaders will prefer to see Saddam brought back into the fold rather than serve as a radical spokesman for rising public sentiment. Saddam will try to manipulate these concerns (sweetened by promises of economic rewards) to warn regional players away from cooperating with renewed UN efforts to contain him.

- (S//NF) Working His Supporters. [REDACTED]

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[REDACTED] In mid-July, Saddam reportedly revised Iraq's lists of "most favored trading partners," to the apparent dismay of France and China who found their positions had slipped. Saddam can be expected to make use of more such financial rewards and punishments.

- (S//NF) Oil. Saddam may follow through on his threats to cut oil sales if the draft UK UNSCR is passed. [REDACTED]

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[REDACTED] There are signs Baghdad is stockpiling wheat-- perhaps to save on future revenues, or perhaps as a sign that Saddam intends to cut all cooperation under OFF. Saddam will also be ready to use the oil card as leverage to block regional cooperation with any new sanctions regime.

- (S) Can Play UN Hardball. Saddam's recent decision to expel five UN workers on espionage charges could mask an effort to pave the way for expelling the UN from Iraq completely. Baghdad has been clamping down on UN operations in recent months, and a lackluster response to this latest expulsion likely will result in further moves in that direction.
- (S) Doesn't Have to Give on Inspections. Saddam has enjoyed the absence of UN inspectors for the last three years, and he has thus far shown no softening of his position to allow them back in (offering only cooperation under the auspices of a "regional" plan--a non-starter). While his position could change, there is little likelihood of that under current circumstances.
- (S//OC,NF) Can Keep the Home Fires in Check. Though he has faced little serious opposition to his regime over the past year, Saddam remains vigilant. The Iraqi military maintains contingency plans for moving against the Kurds in northern Iraq, and Saddam is likely to implement those plans if he perceives a viable opposition base forming in the north. The Iraqi military also maintains elaborate planning for the prospect of a U.S.-supported opposition move from the south
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- (S//NF) Got a Victory in the No-Fly-Zone (NFZ). The August 27 downing of a U.S. Predator Unmanned Aerial Vehicle (UAV) provided Saddam with a long-awaited, symbolic "victory" in the NFZ. He will seek to use this downing to rejuvenate the efforts of his air defense forces to shoot down additional aircraft [REDACTED]. Saddam B1 continues to view ending the no fly zones as a top priority, and will continue to look for ways to challenge the coalition on the one hand and showcase Iraq as the "innocent victim" of U.S./UK attacks on the other.

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