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Department of State

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ACTION MEMORANDUM Under Secretary has seen

DATE: DEC 24 1983

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22 DEC 1983

TO: P - Mr. Eagleburger
FROM: NEA - Richard W. Murphy
SUBJECT: EXIM Bank Financing for Iraq

Issue:

Whether to sign a letter to EXIM President Draper recommending that EXIM approve financing for Iraq.

Essential Factors:

EXIM currently opposes loans to Iraq because it considers that loans to Iraq lack a reasonable expectation of repayment. EXIM points to Iraq's recent rescheduling of commercial contract payments, large transfers from Gulf governments, decreased oil production and the drop in Iraqi reserves to support its view. In addition, EXIM is concerned about the threat of war damage.

EXIM has virtually no exposure in Iraq because, until recently, EXIM was precluded from doing business with Iraq in light of that country's involvement with terrorists.

Recent analysis of Iraq's economic situation indicates that the crisis situation which prevailed during the early part of 1983 has been alleviated somewhat through imposition of an austerity program which included cutbacks in development projects and major cuts in imports. As a consequence, Iraq's estimated net foreign assets for 1983 are \$11 billion although the current account balance is - \$9 billion for the year. In addition, Iraq has been successful in obtaining supplier credits and deferred payments for ongoing projects. Current payments on these debts are being met. If present policies and external financing are sustained, the current account should be roughly in balance, but further rescheduling is a possibility.

Iraq's financial condition will remain dependent on petroleum export earnings and aid from the Gulf states. Iraq is determined to achieve alternative outlets for its petroleum exports in addition to the pipeline through Turkey (capacity 750,000 b/d). Iraq expects to increase its oil export capacity through Turkey to just over 1 million b/d in the spring of 1984 with a possible additional 50% increase in exports by the end of 1984. Cash transfers from the Gulf states to Iraq, at least \$30 billion since the start of the war, have been and will continue to be important

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to Iraq. For the Gulf States, there appears to be no alternative to a continuation of this aid flow because of their dependence upon Iraq to resist export of the Iranian revolution.

There is the possibility, on the political side, that internal frustrations resulting from economic deprivation and a seemingly endless war may produce problems for the government. On the military front, Iraq has suffered limited setbacks on the northern front. It is uncertain how long the status quo can be maintained by Iraq in its confrontation with a much more populous Iran as long as Iran exports three times as much oil as Iraq.

Discussion:

The U.S./Iraq political relationship could be advanced by EXIM financing which had previously not been possible for political reasons. EXIM financing would benefit U.S. manufacturers and workers and could serve marginally to bolster the Iraqi economy by freeing resources for use elsewhere in the country. Most importantly, EXIM financing would signal our belief in the future viability of the Iraqi economy and secure a U.S. foothold in a potentially large export market. Viewed in combination with CCC credits already granted Iraq, an EXIM gesture would go far to show our support for Iraq in a practical, neutral context. This would be especially important in the absence of other substantial U.S. gestures, to ease the military pressures of the war, and would provide some incentive for Iraq to comply with our urgings that it show restraint in widening the war.

Although Iraq's economy is confronted with significant problems, we are guardedly optimistic regarding Iraq's ability to manage these problems through 1984.

Recommendations:

That you sign the letter attached at Tab 1 recommending that EXIM consider financing for Iraq. Our Interests Section endorses this recommendation. (Baghdad 3134 attached).

Agree DEC 24 1983  Disagree _____

Attachments:

- Tab 1 - Proposed Letter to William Draper
- Tab 2 - Baghdad 3134

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COPIES TO:

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Under Secretary of State
for Political Affairs

Washington, D.C. 20520

December 24, 1983

Dear Bill:

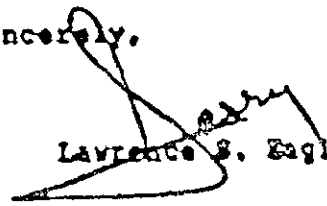
I would like to bring to your attention the important role EXIM can play in furthering long range political and economic interests of the United States by being receptive to financing American sales to and projects in Iraq.

I understand that there were legal constraints on EXIM financing for sales to Iraq arising from Iraq's links to international terrorists. Recently, the President of Iraq announced the termination of all assistance to the principal terrorist group of concern, among others. Iraq then expelled this group and its leader. The terrorism issue, therefore, should no longer be an impediment to EXIM financing for U.S. sales to Iraq.

Although we cannot know when the heavy burden of war will be lifted from the Iraqi economy, the threat of economic crisis has receded. A strict austerity program, supplier credits, foreign government project financing, and continued financial assistance from the Gulf states should continue to sustain the oil export capacity by 30% to one million b/d in the spring of 1984, and has plans well advanced for an additional 50% increase in its oil exports by the end of 1984.

From the political standpoint, EXIM financing would show U.S. interest in the Iraqi economy in a practical, neutral context. It could provide some incentive for Iraq to comply with our urgings that it show restraint in the war. This evidence of our interest in increasing commercial relations also will bring political benefits, as well as balance-of-trade and employment benefits to our economy.

Sincerely,



Lawrence S. Eagleburger

The Honorable
William R. Crager, III,
President and Chairman,
Export-Import Bank of the United States.

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