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Abstract

The cease-fire in the Iran-Iraq war changed the strategic environment in the Gulf region. It posed a challenge for United States policy towards Iraq. Emerging as a strong regional power from the war, Iraq was determined to play a leading role in regional affairs.

The United States realized that normal relations with Iraq would serve American interests. U.S. policy objective was to moderate Iraqi behavior by proposing economic and political incentives to Baghdad. The policy however failed.

This thesis investigates United States policy towards Iraq in the period from August 1988 to August 1990. It addresses how the United States dealt with Iraq during this period. It is an attempt to reconstruct the logic and behavior of American policy towards Iraq.

The research depends on American sources. Interviews were conducted with State Department officials. American Government documents and press reports constitute the second source. The thesis deals with how the American policy was formulated, implemented, and failed.

It is difficult to pinpoint the reason for the failure of the policy. The public record does not offer much help. The policy of engaging Iraq, rather than isolating it, was correct. However, it is difficult to explain why the policy did not change, when it became apparent, in Spring 1990, that it was not working. A complete answer must wait the first-hand testimony of officials who made the decisions and the unveiling of the complete historical record.
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Introduction

U.S.-Iraqi relations have not been an easy ones. In a period of 32 years, 1958-1990, the United States had formal diplomatic relations with Iraq for 15 years only (1958-67, and 1984-90). Even during these short periods relations were tense. The U.S. always recognized the strategic importance of Iraq in the Middle East in general and the Gulf region in particular. In the 1950s, Iraq, being one of the "northern tire" states, played an important role in Western designs for the "defense" of the Middle East. Radical Iraqi regimes after the Revolution of 1958 pursued policies that were in contradiction with U.S. interests in the region. The two sources of friction in U.S.-Iraqi relations, from the American perspective, were the Iraqi role in the Gulf and Iraq's stand toward the settlement of the Arab-Israeli conflict.

The change in the strategic environment, due to the Iranian revolution and the eruption of the Iran-Iraq war, led to the improvement of U.S.-Iraqi relations and eventually to a U.S. tilt towards Iraq. Iraq played a "constructive" role in the Gulf by containing Iran, at the same time, it was apparently moderating its stand towards Israel. American policymakers and scholars believed that they were dealing with a "new" Iraq- an Iraq that, on way or another, was serving American strategic interests in the Gulf. Iraq became the state defending the status quo in the region against Iranian expansionism.

Despite the shared strategic interests, their relations were never intimate. The inconsistency of U.S. policy towards the Iran-Iraq war left the Iraqis were great suspicion of American intentions. The Americans, from the other side, never felt comfortable with the brutality of the Iraqi regime.

The cease-fire in the Iran-Iraq war posed a challenge for the U.S. policy towards the Gulf and Iraq. This thesis will investigate American policy towards Iraq in the period from August 1988 to August 1990. Simply stated, the question that this thesis will address is how the United States dealt with Iraq after the end of the war in 1988. A different Iraq, more confident
of its capabilities, more stronger militarily, and more eager to play a dominant role in the region. The thesis is an attempt to reconstruct the logic and behavior of U.S. policy towards Iraq.

The importance of this question took new dimensions during the 1992 presidential elections. The policy has been called by the American press "Iraqgate." The Bush administration was accused of appeasing Saddam Hussein. Critics believes that the Gulf War could have been avoided, had the administration pursued a different policy towards Iraq. Probably the Iraqis are the ones who can answer that. I think the policy of engaging Iraq, not to isolate it, was right. What is difficult to explain, or to understand, is why the policy did not change when it became apparent, in Spring 1990, that it was not working.

The research depends exclusively on American primary and secondary sources. I interviewed four State Department officials, who at the period under study were monitoring Iraq. They asked not to be named. The interviews were conducted in late June and early July 1992 in Washington. U.S. official statements, documents, and press reports is the second source. The bulk of the research ended in August 1992.

The thesis will be divided into the following chapters:

-Chapter I will cover the final months of the Reagan administration, from August 1988 to January 1989. This will be an introductory chapter that gives a general overview of U.S. policy towards the war and Iraq. It will also discuss the beginning of tensions in the relations due to the Iraqi use of chemical weapons after the cease-fire.

-Chapter II will with elements of change and continuity in American policy in the Gulf after the inauguration of the Bush administration. Its purpose is to show how the policy towards Iraq was formulated and what were the policy objectives, tools, and problems regarding the policy toward Iraq.

-Chapter III will show how the policy unfolded. It will focus on the November 1989 decision to grant Iraq $1 billion in credit guarantees to buy grains.
Chapter IV will cover the events of 1990. The focus here will be the American reaction to Iraq's confrontational behavior and threats.
Chapter I  The U.S., Iraq and the War: An Overview

United States policy towards the Iran-Iraq war was inconsistent and contradictory. Interested in seeing no victor, no vanquished, American policy tilted towards Iraq, covertly sold arms to Iran, and finally sided with Iraq in the last two years of the war. The United States and Iraq shared a common strategic objective: the "containment" of Iran. However, days after the guns fell silent in the Gulf, U.S.-Iraqi relations started to deteriorate.

The Cease-fire in the Iran-Iraq War

In a decision that surprised the world, Iran, on July 18, 1988, accepted UN Security Council Resolution 598, passed July 20, 1987, which called for an immediate cease-fire in the Iran-Iraq war and withdrawal to internationally recognized borders. The Iranian leader Ayatollah Khomeini said the decision to end the war "was more deadly than taking poison." When Iraq agreed to the cease-fire, on August 8, millions of Iraqis celebrated in the streets for days; the mood in Iran, however, was gloomy.¹

The reaction among the Arab Gulf states was one of relief. Given their military weakness, a clear victory by either Iran or Iraq would have been a threat to their security. In their perception, both Iran and Iraq now had to turn inward to solve the problems of 8 years of

war. The cease-fire also meant the end of the rationale behind the flow of billions of dollars for Iraq.2

In Israel, political leaders took a cautious line. Shimon Peres remarked that, "The ending of the Iran-Iraq war marks a change in the overall strategic situation in the region."3 Prime Minister Shamir explained that, "This is an extremely important event, which may open a new era...in all this wide area. I think it's too early to make judgments and assumptions. We must take care even in what we say."4 Defense Minister Rabin said that, "In the immediate future, namely the next year or two..., I cannot anticipate Iraq gleefully rushing into another war adventure at once."5


5. "Interview with Defense Minister Yitzahaq Rabin," Tel Aviv Educational Television, 1400 GMT, 19 July, 1988, in FBIS-NES, July 20, 1988, p. 25. The Iran-Iraq war had a significant strategic and political implications for Israel. The war reduced the regional threat to Israel, diverted the attention from the Arab-Israeli conflict, thus giving Israel a "strategic breather." The Israeli attitude towards the war, up until 1987, was one of support for Iran. Due to the lessons of the Iran-Contra affair and the new American policy following the reflagging decision, Israel moved gradually to take a neutral stand with an interest in ending the war. This was due to risks raised by the Iraqi military successes in 1988, and most importantly, the new arms race, accelerated by the war, that involved chemical weapons and ballistic missiles. Simply, Israeli decision makers concluded that the war had outlived its usefulness for Israel. See Joseph Alpher, "Israel and the Iran-Iraq War," in Efrim Karsh, ed., The Iran-Iraq War: Impact and Implications (New York: St Martin's Press, 1989), pp. 154-70; Bernard Reich, "Israel and the Iran-Iraq War," in Christopher C. Joyner, ed., The Persian Gulf War: Lessons for Strategy, Law and Diplomacy (New York: Greenwood Press, 1990), pp. 75-90; and Mylroie, op.cit., pp. 51-67.
For the United States, Iran's acceptance of Resolution 598 was a welcomed decision. The U.S. saw the decision as the successful outcome of the policy it pursued since 1987, after the revelations of the covert arms sales fiasco to Iran. The so-called "two track" policy was based on an active diplomatic effort in the United Nations aimed at ending the war. This effort culminated in adopting the UN Security Council Resolution 598 of July 20, 1987. The second track of US policy was the reflagging and convoying operation of the Kuwaiti oil tankers. Richard Murphy, Assistant Secretary of State for Near Eastern and South Asian Affairs, submitted, "That U.S. steadfastness and toughness, in combination with pressures brought to bear on Iran by many countries, played a significant role in creating an environment in which the top Iranian leadership decided to opt for negotiated peace."6 Acting Secretary of State Whitehead said that, "Iran's decision is not solely attributable to U.S. policy. But our firmness of our military presence in the Gulf, our indication that we plan to stay there as long as it was necessary, and at the same time our diplomatic track, principally at the United Nations, have finally achieved success."7

The United States and the War

The main U.S. strategic objective, regarding the war, was to see no victor, no vanquished. At the same time, the US determination to contain Iran made Iraq important. The United States officially took a neutral stand towards the war. In practice, however, the policy was contradictory and inconsistent.

Initially the U.S. was concerned with the possible "dismemberment" of Iran. While the regime in Iran was not at all friendly to the US, such an outcome of the Iraqi offensive was

not desired. The collapse of Iran might create an opportunity for the Soviet Union to intervene, and at the same time create a 'hegemonic' Iraq in the Gulf. After Iranian counter-attacks of 1982, that resulted in an Iraqi withdrawal to the international border, the possibility of an Iraqi defeat was alarming. Thus begun the US tilt towards Iraq that was based on the conviction that "the defeat of Iraq would constitute a major blow to Western interest in the Gulf region."8

By 1986, this tilt comprised the restoration of diplomatic relations in 1984, a US-led campaign for reducing the international flow of arms to Iran called "Operation Staunch," efforts in the UN to bring an end to the war, increased trade with Iraq, and supplying Baghdad with battlefield intelligence from satellites and AWACS reconnaissance.9 In 1985, however, in an effort to release American hostages in Lebanon and achieve a "strategic opening" to Iran, the US and Israel began covertly supplying arms to Iran.10

After the exposure of the covert arms sales to Iran in December 1986, the Iraqi Government took a surprisingly restrained position. The Iraqis concluded correctly that Washington had to act to overcome the negative effects of the Iranescam.11 The new US policy, the so-called "two-track" policy, formulated in Spring 1987, was more than a tilt toward Iraq, it was actually taking sides.12

The first track of US policy was to take the initiative at the UN to bring about yet another resolution on the Iran-Iraq war. The UN was ready for such an initiative. By January 1987, large numbers of states were alarmed by the escalation in the "tanker war". Both superpowers also came to realize the destabilizing effects of this war on the Gulf region.

In mid 1987, the US presented a draft resolution that not only demanded a cease-fire but also contained a provision for mandatory sanctions against the countries that rejected it. It was obvious that the target was Iran, to build pressure on it to end the war. Iraq and the US coordinated their efforts at the UN on the wording of the resolution. Iraq wanted the resolution to demand the withdrawal of both parties to the international border immediately after the cease-fire, and the US supported that. By this they were sure that Iran would reject the resolution, since Iran was the one occupying Iraqi territory. During June 1987, the discussions in the Security Council continued, and some changes were made, including the provision favored by Iran to establish a committee to investigate the origins of the war. But the Council failed to reach an agreement on sanctions.¹³

The second track of US policy was the reflagging and convoying operation.¹⁴ In a highly controversial operation, eleven Kuwaiti oil tankers were registered under American flag, and US forces in the Gulf were increased to provide convoy protection against Iranian attacks.¹⁵

¹⁵ The Reagan administration was initially reluctant to reflag the tankers. After Kuwait asked for Moscow's help, the administration's reaction was vigorous (to protect all the 11 tankers) and requested Kuwait to minimize the Soviet role. See Casper Weinberger, Fighting for Peace: Seven Critical Years in the Pentagon (new York: Warner Books, 1990), pp. 389-391.
The reflagging operations led to military clashes\textsuperscript{16} between the United States and Iran that further isolated the latter, but calmed Iraq.

The fighting continued because of the differences between the parties over the order of implementation of the paragraphs of Resolution 598. Iran offered to observe a cease-fire if, first, in accordance with paragraph six of the resolution, a commission was formed to determine who started the war. Iraq rejected this, insisting that the resolution be implemented in the order of the paragraphs, meaning first a full Iranian withdrawal. The United States was more concerned with the arms embargo against Iran.\textsuperscript{17}

By Spring 1988, Iraq took the military initiative on the ground. Iraq succeeded in launching some 150 modified SCUD missiles targeting Tehran for the first time. On April 18, 1988, in a stunning and complex attack, Iraq recaptured the Faw peninsula, occupied by Iran since 1986. This was the start of a campaign that lasted four months and resulted in the destruction of Iran's military machine.\textsuperscript{18} On July 18, 1988, Iran formally accepted Resolution 598. This came after the tragic downing of the Iranian Airbus by the USS Vincennes on July 3, 1988, killing all 290 passengers and crew. The incident, coming after the major setbacks on the battlefield, left no alternative to Iran but to end the war. Iraq declared victory.\textsuperscript{19}

\textsuperscript{16} For a detailed account of these clashes see, Anthony H. Cordesman, \textit{The Gulf and the West, Strategic Relations and Military Realities} (Boulder: Westview Press, 1988), pp. 361-455.

\textsuperscript{17} Sick, "Trial by Error," op. cit., pp. 240-41.


\textsuperscript{19} In the US the end of the war was not perceived as a victory for Iraq. As one State Department official, I interviewed, put it, "the Iraqis merely survived, this is no victory." This view made the Iraqis angry, since the regime needed to portray it to the Iraqi people as a victory.
It was clear that the United States lacked a coherent policy toward the Iran-Iraq war prior to 1987. U.S. policy shifted from ignoring the war for the first two years, to a tilt toward Iraq and then covertly supplying arms to Iran and finally taking sides in the war.

On the whole, the United States policy toward Iraq was benign. They shared a common strategic objective: to restore the status quo ante to the region. The United States, in pursuing a "containment" policy against Iran, became the de facto ally of Iraq. The American perceptions of Iraq changed gradually. Saddam Hussein was perceived as a moderate (i.e., willing to accommodate American interests in the region). Iraq aligned itself with the moderate Arab regimes, Egypt, Jordan, Saudi Arabia and Kuwait, all friends of the US in the region. Iraq took a moderate stand toward the settlement of the Arab-Israeli conflict. Iraq supported any agreement approved by the Palestinians. Iraq also distanced itself from the Soviet Union, and expressed great interest in expanding its relations with the West. Western scholars believed that they were dealing with a "New Iraq."20

Chemical Weapons and Sanctions: Beginning of Tension

Shortly after the cease-fire of 20 August 1988, the United States-Iraqi relations started to deteriorate. This was the start of the decline in relations that two years later led to the Gulf war.

The tension was because of the Iraqi use of chemical weapons against the Kurds of Northern Iraq. Hours before Secretary of State Shultz were to meet Saadoun Hammadi, the

Iraqi Minister for State, the State Department issued a statement that condemned Iraq's use of chemical weapons. The statement said that, "The U.S. Government is convinced Iraq has used chemical weapons in its military campaign against Kurdish guerrillas...We condemn this use of chemical weapons...[and] the Secretary will be raising this issue with Mr. Hammadi during his meeting this afternoon." The Iraqis denied that any gassing had occurred.

Shultz's statement triggered the Congress. Within 24 hours the Senate voted to impose sanctions on Iraq, including the cut of some $800 million in credits. The Senate bill

21. "Iraq's Use of Chemical Weapons," Department Statement September 8, 1988, Department of State Bulletin, December 1988, p. 44. Shultz announced he had proof of the attacks. US officials said radio messages between Iraqi aircraft and to radio installations about the use of gas were monitored in the course of routine electronic surveillance in the area, see James Bruce and Tony Banks, "Growing Concern Over Iraqi Use of CW," Jane's Defence Weekly, 24 September 1988, p. 715. While the authors of a study by the U.S. Army War College's Strategic Studies Institute recognize that there are observers who do not share their view, they stated that, "Having looked at all of the evidence that was available to us, we find it impossible to confirm the State Department's claim that gas was used in this instance. To begin with there were never any victims produced....The claims rests solely on testimony of the Kurds who had crossed the borders into Turkey, where they were interviewed by the staffers of the Senate Foreign Relations Committee." Pelletiere et. al., op. cit., p. 52. For the opposite view see, "Chemical Weapons Use in Kurdistan: Iraq's Final Offensive," A Staff Report to the Senate Foreign Relations Committee, October 1988 (Washington: US GPO, 1988).

22. The Iraqis were stunned. Saadoun Hammadi, few days later, said, "I do not understand the true motives behind this campaign. Why at this particular time and on this scale? There seems to be a desire to punish Iraq because it emerged victorious from the war." Quoted in Pelletiere et. al., op. cit., p. 90. Iraq allowed foreign correspondents to visit the Kurdish region, the assertion was difficult to confirm or refute, see Milton Virost, "Poison Gas and 'Genocide': The Shaky Case Against Iraq," Washington Post, 5 October, 1988.

23. It is worth noting the interesting coincidence in the increasing amount of concern, in the Congress, for the rise of Iraq's power and Israel's perception of Iraq as its most threatening foe. See, "Gulf War's End Worries Israelis," Washington Post, 12 August, 1988.

(S 2763) and a similar House measure (HR 5271) introduced by Rep. Tom Lantos (D-Calif.) and John Edward Porter (R-Ill.) would have imposed four sanctions:25

* A ban on all foreign aid, arms sales and U.S. government credits to Iraq.26

* A prohibition on sales or transfers to Iraq of any items subject to U.S. government export controls, such as high-technology computers.

* A ban on importation into the United States of Iraqi oil and petroleum products.27

* A requirement that U.S. representatives to international financial institutions, such as the World Bank, vote against all loans to Iraq.

The Senate vote forced the issue to the forefront. The State Department, while denouncing Iraq, five days later called the Senate bill "premature". Peter Burleigh, Deputy Assistant Secretary, Bureau of Near Eastern Affairs, said the bill was premature because the United States was attempting to persuade Iraq through diplomatic channels to renounce the use of chemical weapons. Burleigh said, "We are in the process of trying to stop this kind of activity. and we believe that enacting the sanctions now will inhibit our influence, will lessen our influence."28 Burleigh also said the September 17 statement by Iraqi Foreign Minster Tariq Aziz in which he, "Reaffirmed that Iraq respects and abides by all provisions of international law and international agreements accepted by the international community including the Geneva Protocol of 1925, and other agreements within the framework of


26. In FY 1988 Iraq bought $1,100 million worth of US agricultural commodities on credit. See Middle East Economic Digest (MEED), 18 November, 1988, p. 17.

27. The average of US oil imports, in the first six months of 1988, was 323,000 barrels a day (b/d), compared with an average of 56,000 b/d during the same period in 1987, see MEED, 26 August, 1988, p. 14.

international humanitarian law,"29 was a positive step that should not be discouraged by imposing sanctions.

The sanctions bill had gone through the Senate too quickly for the administration to block it, so it turned its attention to the House to water down the bill.

Its job was not that difficult because House opposition to cutting off agricultural credits was strong. So the bans on agriculture credits were removed from the House version of the bill,30 but the bill required the president to impose further sanctions unless he had assurances that Iraq would no longer use chemical weapons. The House approved the legislation on September 27, by a vote of 388-16.31

The Congress, however, failed to pass the legislation before its adjournment because of delays and demands by members for special deals on other bills. A senior State Department official said that "we escaped rather well" from the last-minute legislative quagmire.32

The State Department rationale was simple. First, US unilateral action would not be effective, because there was no prospect for coordination with the European allies on imposing sanctions. The Iraqis would simply go to shop elsewhere. Second, sanctions would reduce American influence, and would not effect Iraqi behavior. What State wanted to do was to modify Iraqi future behavior with regard to the use of chemical weapons by making Iraq renounce the use of these weapons, and to attend the conference on chemical weapons that was held later in Paris in January 1989, which the Iraq did attend as an observer.33 It is

30. Rep. Toby Roth (R-Wis.) said, for example, "we are not doing anything to Iraq; we are shooting our exporters in the foot." Quoted in John Felton, "House Panels Advance Bill Imposing Sanctions on Iraq," *CQ*, September 24, 1988, p. 2634.
33. Interview with State Department officials, June 1992.
important to note that this rationale behind the administration's opposition to the attempt by the Congress to impose sanctions on Iraq would continue up to the Iraqi invasion of Kuwait.

In the State Department, however, there were some voices that raised alarms, urging a change in US Gulf policy away from the tilt toward Iraq. Zalamy Khalilzad, a Columbia professor who served as a member of the policy planning staff (1986-1988), wrote a memo in which he concluded that, "Iraq had replaced Iran as the foremost threat to American interests in the region." In an article he published after leaving the State Department, Khalilzad explained his geopolitical logic:

The end of the Iran-Iraq war removed the major strategic source of conflict between the United States and Iran—i.e., the southern concern [to prevent Iran from exporting its revolution to weaker Gulf states or dominating the region by defeating Iraq]. At present there is no fundamental strategic conflict of interest between Iran and the U.S. In fact, geostrategically Iran and the U.S. have important common interests.

Iran and Iraq together hold the balance of power in the Gulf. If either gains the upper hand, it is likely to seek to expel the United States and other outside powers from the region....Unless Iran builds up its military and economic capability, it will not be able to balance Iraq's enormous military advantage. In time, Baghdad is likely to use its military advantage to dominate the region and push for our exclusion from the region.

Khalilzad was calling on the United States to end both its trade embargo and Operation Staunch and consider a containment strategy against Iraq. The memo, however, did not have any effect. As the Reagan administration was coming to an end, there was no way for such a drastic change in American policy, as proposed in the memo, to take place. The Reagan

36. One senior State Department official I interviewed said he does not recall that memo.
administration did not conduct any review of U.S. policy options in the Gulf, leaving it to the next administration. In fact, it took more than year after the end of the Iran-Iraq war for such a review to take place.
Chapter II  The Formulation of U.S. Policy

The cease-fire in the Iran-Iraq war created a new strategic environment in the Gulf region. Iraq had emerged from the war as a strong regional power, while Iran was devastated. The Bush administration formulated its policy towards Iraq on the basis that normal relations with Baghdad would serve American interests. The U.S. sought to moderate Iraqi behavior through economic and political incentives. Iraqi regional behavior, weapons proliferation, and human rights abuses were issues of concern for the U.S. However, these issues did not restrain Washington from seeking closer relations with Baghdad.

The New Environment in the Gulf

The Bush administration inherited a long-standing set of United States policy objectives in the Gulf region. These objectives were:37

* Containing the expansion and influence of the Soviet Union.

* Protecting Western economic interests in the region, i.e., maintaining the free flow of oil.

* Maintaining the security of the conservative Arab Gulf regimes.

* Maintaining the security of Israel, by making sure that developments in the region do not affect Israel's security.

The Bush administration, however, faced a new strategic environment in the Gulf region. First, Iran's acceptance of Resolution 598 ensured a reshaping of the regional security setting in the Gulf. Second, the Soviet withdrawal from Afghanistan, as part of the new Soviet foreign policy, undermined largely the primacy of the perceived Soviet 'threat' to the Gulf region. Iraq emerged from the war as a regional power. With a battle tested million man army and 5500 main battle tanks (MBT) and over 600 aircraft, Iraq was the most powerful state in the Gulf and the Middle East.\textsuperscript{38} The war also had left Iraq with a shattered economy and an estimated foreign debt of $80 billion.\textsuperscript{39} But Iraq "perceived itself as victorious and felt it should be treated that way."\textsuperscript{40}

How the new administration was going to deal with the new environment in the Gulf? It is useful to point out the recommendations presented by the Washington Institute for Near East Policy in its report entitled "Building for Peace."\textsuperscript{41} The Washington Institute, one of the most influential, and pro-Israel "think tanks" on the Middle East in Washington, formed a bipartisan study group on U.S. policy in the Middle East to recommend policy options for the new administration taking office in 1989.

The importance of the report also lies in the fact that three of its participants joined the Bush administration in policymaking positions. Lawrence Eagleburger, former Undersecretary of State for Political Affairs and President of Kissinger Associates, became Deputy Secretary


\textsuperscript{40} Interview with Eric Hooglund, Washington D.C., June 29, 1992.

of State. Dennis Ross, Director of Near East and South Asian Affairs at the National Security Council (NSC) in the second Reagan term before leaving to join the Bush campaign as a foreign affairs advisor, became the head of the State Department's Policy Planning Staff, and one of James Baker's most trusted aides. Richard N. Haass, served in the Defense and State Departments and was a foreign policy advisor for the Bush campaign, became the Director of Near East Affairs in the NSC.

The report acknowledged that the cease-fire in the Iran-Iraq had reduced the threat to US interests, but nevertheless, the "war's end has given rise to a set of problems, challenges and opportunities new and different from those policymakers have faced over the past eight years." Among the obstacles were, an anti-American Iran opposing American influence in the region, a reversion by Iraq to its former radical polices, and a stepped-up regional arms race. Therefore the report pointed out that US policy should concentrate on six operational goals:

* Leading an international diplomatic and political effort to curb the regional arms race.
* Promoting the stability of the Gulf states.
* Encouraging the emergence of postwar Iran that is free from Soviet influence, non-aligned and non-threatening to its neighbors.
* Maintaining relations with Iraq conditioned on continued political moderation by Baghdad.
* Containing the expansion of Soviet influence in the region.
* Maintaining the free flow of Gulf oil.

On advancing relations with Iraq, it is worth quoting at length what the report recommended. The report stated that:

During the course of the war, Iraqi foreign policy exhibited elements of moderation that the U.S. has an interest in encouraging—improved relations

42. Ibid., p. 86.
43. Ibid., pp. 86-87.
with pro-Western Arab states including Egypt, better relations with the West, less reliance on the Soviet Union, and reduced support for international terrorism and Arab radicalism. In the postwar environment, a more moderate Iraq could be a positive factor for promoting regional stability, acting as a bulwark to shield the Gulf states from Iranian ambitions and possibly making a marginal contribution toward a solution of the Arab-Israeli dispute.

Washington has an interest in maintaining an active dialogue with Baghdad to ensure that these trends continue. At the same time, our willingness to build closer ties is constrained by the still distasteful policies of the Saddam Hussein regime, most notably (though not exclusively) the use of chemical weapons on civilian populations. Iraq must understand that relations with the U.S. are dependent on its pursuit of a more moderate foreign policy, abandonment of its use of chemical weapons, and continued distancing from its former pro-Soviet, pro-terrorist positions.\textsuperscript{44}

What was basically required from Iraq was to continue playing its 'containment' role against Iran. But closer Iraqi relations with the US depended on pursuing more moderate policies.

\textbf{The Bush Approach: What New Elements?}

Shortly after taking office the Bush administration ordered a large number of policy reviews, one of which was on the Gulf. It was a normal request made by any new administrations to examine policy options and decide the course of action it will pursue. The policy review was not particularly on Iraq, but on the Gulf as a tri-polar region (Iraq, Iran, and the Arab Gulf led by Saudi Arabia).\textsuperscript{45}

The Gulf region was not a high priority for the Bush administration. The administration was more concerned with developments in Eastern Europe, Soviet Union, and Germany. If there was any concern for the Middle East it was the Arab-Israeli peace process. What also gave the Gulf a low priority was the perception in Washington that the war was simply over.

\textsuperscript{44} Ibid., pp. 96-97.

\textsuperscript{45} Interviews with State Department officials.
Thus the US should not be concerned much about it. As a White House official put it, after the Iran-Iraq war "there was a sense that the Gulf had come out of a difficult period and was getting better."\(^{46}\) Although Iraq emerged as the 'winner' of the war, both Iran and Iraq were economically devastated, they had to get back to development, reconstruct their economies, increase oil production. Therefore, debates within the administration were along the same line pursued by the Reagan administration: to 'contain' Iran, and at the same time to explore possible 'normalization' in the relations,\(^ {47}\) and to improve existing relations with Iraq to "keep" it in the moderate camp. It was a policy on "automatic pilot."\(^ {48}\)

An interagency working group was formed to formulate the policy directive on the Gulf, under the direction of Paul Hare, Acting Assistant Secretary of State for Near East and Asian Affairs. The draft prepared by the working group spoke of "the new political, military and economic importance of Iraq," and stressed "the need for a cautious step-by-step approach to broadening and deepening our bilateral relations."\(^ {49}\) The final outlines of the directive were decided at a meeting of the administration's "deputies committee" on April 12, 1989. The committee was composed of senior officials from the State, Defense, and Commerce Departments, under the chairmanship of then-deputy national security adviser and later CIA Director Robert Gates. President Bush met with the National Security Council to approve the directive on June 26, but it languished at the White House for more than three months, reflecting the low importance of the Gulf and the preoccupation of the administration with

\(^{46}\) Quoted in Gigot, op. cit., p. 7.


other foreign policy issues. Bush finally signed the directive, known as National Security Decision Directive 26 (NSD-26), just four days before an October 6 visit to Washington by Iraqi Foreign Minister Tariq Aziz.50

Policy Objectives and Options

NSD-26 stated that:

Access to the Persian Gulf oil and the security of key friendly states in the area are vital to U.S. national security. The United States remains committed to defend its vital interests in the region, if necessary and appropriate through the use of U.S. military force, against the Soviet Union or any other regional power with interests inimical to our own.51 This statement was the basic element of U.S. strategy toward the Gulf since the Soviet invasion of Afghanistan and a re-statement of the "Carter Doctrine.52

On U.S. policy towards Iraq the document stressed that:

Normal relations between the United States and Iraq would serve our longer-term interests and promote stability in both the Gulf and the Middle East. The United States Government should propose economic and political incentives for Iraq to moderate its behavior and to increase our influence with Iraq.

Administration officials based their analysis53 on the fact that Iraq was a power to be reckoned with, the state with the most formidable military power in the Gulf, while Iran was devastated and still anti-American. Iraq also was a major oil power. With an estimated 100 billion barrels of recoverable reserves, second only to Saudi Arabia's 169.5 billion barrels, Iraq

50. Ibid.


52. President Carter, in his State of the Union Address of January 23, 1980, stated that "Any attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force." Cited in Sick, op. cit., pp. 73-74.

53. Interviews with State Department officials.
was the "new petroleum powerhouse." In such a situation the U.S. could not afford to isolate Iraq, rather, the officials thought it was more beneficial to work with Iraq. They assumed that Iraq would respond favorably to rewards by Washington. This assumption was based on the analysis of Iraq's economic situation after the war and its need for Western technology and credit for reconstruction programs. As one State Department official put it, "With an estimated debt of $70-80 billion, there was no way for Iraq to continue spending on the military and economic development which the Iraqi people needed after the long war. We did not think that he [Saddam] had a choice, especially if you know that he had to spent 30% of his income to service the debt. We assumed he would concentrate on reconstruction." American officials knew of Iraq's ferocious appetite for Western technology, and it was regarded primarily as a potential lever for the US to wean Iraq from the Soviet Union. In fact, ever since the boom in oil prices after 1973, Iraq used its exponentially growing oil revenues to expand trade with the West, almost to the exclusion of the 'Eastern bloc' countries.

"Trade is the best key to political influence in Iraq, and we should begin a major effort to free up licensing requests often blocked by [the Commerce and Defense Departments], to enable our firms to participate in developments projects...Such an incentive, more than anything else, can result in Iraqi efforts to improve ties. To Iraq, technology is our most important asset," said a secret 1988 State Department document entitled "Guidelines for U.S.-Iraqi Policy". Thus trade was the only policy tool.

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55. Interview with the author.
56. In 1978, for example, Japan was Iraq's first trading partner, West Germany the second and France the fourth. The value of Iraqi-Japanese trade alone exceeded the value of Iraq's trade with all the socialist countries. See Ahmad Yousef Ahmad, "The Dialectics of Domestic Environment and Role Performance: The Foreign Policy of Iraq," in Bahgat Korany and Ali E. Dessouki, eds., The Foreign Policies of Arab States (Cairo: AUC Press, 1984), p. 163.
57. Quoted in Smith and Goshko, op. cit.
Were there any other policy tools? The answer is simply No. There was no way for the administration, even if it wanted, to supply Iraq with arms, the practical foreign policy tool to gain influence in Third World countries. The Congress would have never allowed it. During the Iran-Iraq war, apart from the short period of the 'Iran initiative,' the US officially took the position of not supplying any of the belligerents with arms.

The United States, however, encouraged it allies to supply Iraq with arms to face the Iranian threat. In this regard France, West Germany, Brazil, Jordan, and Egypt played a major role. The policy did not change with the end of the war. Deputy Secretary of State Lawrence Eagleburger said in a November 1989 cable that, "Although the U.S. severely limits the sale of our own munitions list items to Iraq, we have not had a policy of discouraging other countries' arms sales to Iraq, such policy is in effect with Iran."58

Iraqi Behavior, Weapons Proliferation and Human Rights

NSD-26 acknowledged that the United States and Iraq had important differences that could constrain improving the relations. The document stated that:

The Iraqi leadership must understand that any illegal use of chemical and/or biological weapons will lead to economic and political sanctions, which we would seek the broadest possible support from our allies and friends. Any breach by Iraq of IAEA safeguards in its nuclear program will result in a similar response. Human rights considerations should continue to be an important element in our policy toward Iraq. In addition, Iraq should be urged to cease its meddling in external affairs, such as in Lebanon.

58 Douglas Frantz and Murray Waas, "Allies' Iraq Arms Sales Unopposed in '89," Los Angeles Times, June 11, 1992. There were also reports that the US informally approved the sale of American made weapons by to Iraq during the war. One such sale was the transfer by Saudi Arabia of undisclosed number of the one-ton MK-84 bomb to the Iraqis in 1986, after the Iranian breakthrough in Faw. Congress was not informed. See Frantz and Waas, "Saudi Arms Link to Iraq Allowed," Los Angeles Times, April 18, 1992.
State Department officials stressed that they had "no rosy expectations about a drastic modification of Iraqi behavior." The administration was worried about three aspects of Iraqi behavior: Iraq's regional role after the cease-fire, the military build-up in unconventional weapons, and human rights abuses.

**Iraq's Regional Behavior**

Eric Hooglund identified two different views of Iraq within the Bush administration. The first view called for maintaining relations. Iraq, these officials argued, was a moderate state in the region despite its domestic policies. Its close association with America's friends in the Middle East would help achieve American policy goals in the region. The second view was more skeptical. Officials who shared this view argued that Iraq's moderation was for tactical reasons, to overcome the difficulties of the Iran-Iraq war. As evidence that Iraq had reverted to its old radical policies, these officials cited Iraq's intervention in Lebanon, and the mistreatment of the Kurds. They called for a firm stand by the US, even at the expense of harming relations. The language of NSD-26 was a compromise of the two views. Normal relations with Iraq should be pursued, and elements of Iraqi moderation should be encouraged. At the same time, the Iraqis should know that they will face sanctions if they pursue unacceptable policies by the United States.

"Whither Iraq" was a critical question. The question was also raised by scholars of Iraq. Western scholars were concerned with the changes in Iraqi foreign policy that occurred in the war, and whether these changes would end with the war. In other words, was

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59. Interview with the author.
the reorientation of the Iraqi foreign policy a tactical ploy for the duration of the Iran-Iraq war, or a strategic change that would continue after the war ended?

One of the key changes in Iraqi policy was the pattern of its regional alliances. Iraq's war with Iran produced a new regional realignment. Iraq's allies became the moderate Arab states, Saudi Arabia, Kuwait, Egypt, and Jordan all friends of the United States. While the Iraqi rapprochement with the Gulf states had its origin in the 1970s, the common Iranian threat drove them even closer. The war also improved Iraqi-Egyptian relations. The Iraqis, who had led the campaign to expel Egypt from the Arab League, came to realize the strategic importance of Egypt during the war. Egypt provided ammunition for Soviet arms; but most importantly, it was Egyptian labor that kept the Iraqi economy going. Jordan also played a crucial role in the war. It provided the strategic depth that Iraq lacked. The Jordanian port of Aqaba was Iraq's only outlet to the sea.62

Would the end of the Iran-Iraq war change the Iraqi alliances? The answer given by scholars was no. After the cease-fire Iraq moved directly to take revenge on Syria. Iraqi-Syrian relations deteriorated to new depths, and Iraq pledged to fight against the Syrian presence in Lebanon and to make great efforts to expel Syria from the Arab League for its eight years long support for Iran against a member country. Thus Iraq was in conflict with the leader of the radical camp of Arab states. But the main reason, for the continuation of Iraqi alliances, remained the tensions with Iran. Baram, an expert on Iraq at Haifa University, mentioned that, "Given the probability that the tensions with Iran will persist for a few years, preservation of close ties with Jordan and the Gulf states will probably remain a supreme Iraqi Interest. Similarly, good relations with Egypt will be required as a counterweight to Iran and Syria alike." He concluded by saying that, "it is unlikely that the termination of the Gulf war will produce a dramatic shift in Iraq's Arab or international orientation. There was nothing to

indicate that Iraq will revoke the normalization, even friendship with Jordan, Saudi Arabia and
the Gulf states which began in 1974, in favor of a return to the radical Arab camp. 63

Iraq's regional behavior in early 1989 suggested that Baram's analysis was correct. Iraq
along with Egypt, Jordan and North Yemen formed the Arab Cooperation Council (ACC) in
February 1989. The ACC was a continuation of the Iran-Iraq war alliance that supported Iraq.
While the objective of ACC was to promote economic cooperation, it nevertheless raised the
suspicions of the Arab Gulf states. The Saudis were alarmed when they knew that North
Yemen was invited, by Iraq, to join the ACC at the last moment. Since the 1960s, Saudi-
Yemeni relations had always been tense. The Saudis felt that they are being surrounded from
the North and South. The Saudis were assured by Egypt and Jordan that there were no bad
intentions behind the formation of the ACC. The same message was sent to the United States.
"The ACC did not make sense, I could not make out what it was all about," one State
Department official said, "but I guess it seemed at the time to fit the pattern of moderate
regional polices by Iraq. Besides, we had the assurances of Egypt and Jordan." 64

The Iraqis also assured the Saudis. During a visit by King Fahd to Baghdad in March
1989, the two countries signed a non-aggression pact. The Iraqis also proposed a similar offer
to Kuwait. The Kuwaitis, however, totally refused. The Kuwaitis wanted first to reach an
agreement on the borders. 65

The other main issue of concern, for both American officials and scholars, was the
possibility of reviving the "Eastern Front", a war coalition involving Syria, Iraq, and possibly
Jordan against Israel. This raised the issue of Iraq's stand toward the settlement of the Arab-
Israeli conflict.

63 Baram, "After the Iran-Iraq War," op. cit., p. 89.
64 Interview with the author.
65 The information was provided by State Department officials.
Since 1982, the Iraqi regime had consistently supported peace negotiations between Jordan, the Palestinians and Israel. In a meeting with Congressman Stephen Solarz (D- N.Y.) in August 1982, Saddam Hussein, for the first time, had publicly recognized Israel's need for a secure existence. Saddam said that, "There is not a single Arab official who considers in his policy the so-called destruction of Israel and its obliteration from existence." Scholars clearly saw this as a change in Iraq's policy. But they also made clear that, "there is no substantive change in its [Iraq] ideological stance rejecting Israel right to exist. Thus the Iraqi stand is characterized by duality or an internal contradiction," in Baram's words.66

Iraqi spokesmen, when they referred to the Palestinian problem, stressed that Iraq empowers the PLO to arrive at any solution it wished. This was a position different from the one Iraq took before the war, when it stressed that Palestine was an all-Arab issue. This new Iraqi position derived from the friendship with Egypt and Jordan, and the hostility toward Syria. Mylroie noted that, "Iraq has long refrained from criticizing their [Egypt and Jordan] efforts to reach an agreement with Israel and generally has supported them."67 Moreover, the Iraqis, after their military situation deteriorated in 1982, were clearly making a bid for the support of the United States.

After the cease-fire, what was the prospect for a new war against Israel involving Iraq? Scholars and officials recognized the great impact of the Iran-Iraq war on the Iraqi people, and their need for peace. Baram mentioned that, "The Iraqi leadership, aware of the hardships, assures the population that after the war Iraq will devote itself to building, rehabilitation and raising the general living standard to its former level."68 Baram concluded that, "As far as intentions go, it is suggested that for a long time after the Gulf war Iraq will prefer to stay out

66 Baram, op. cit., p. 89.
67 Mylroie, op. cit., p. 63.
68 Baram, op. cit., p. 89.
of new war on a new front." Nizar Hamdoon, Iraq's deputy foreign minister and former Ambassador to Washington, said that, "Iraq desperately needs peace and security. It can't be a country that calls for troubles."70

The unresolved dispute with Iran, even after the cease-fire, forced Iraq to keep the main bulk of its army ready for any future round with Iran. Even if there was a possibility of reaching an agreement with Iran, the formation of the "Eastern Front" was not realistic. The animosity between Syria and Iraq went back to the 1960s. There is a personal mistrust and hate between Syrian President Asad and Saddam Hussein. The idea of sending Iraqi divisions to help Syria in a war was unlikely, as one Israeli put it, "They might try to liberate Damascus before the Golan."71 Furthermore, the strategic reality in the Middle East conflict also indicates clearly that Syria alone can never initiate a war against Israel.

Thus it was "questionable whether Iraq would seek to participate in a major way in another Arab-Israeli war, or at least one in which its interests were not directly at stake--unless Jordan was threatened, or it seemed Israel would attack Iraq itself."72

The idea that, "Israel is bent on liquidating the Iraqi state is a recent development, since in the years prior to the war, Israel was perceived [in Baghdad] as a threat to the great Arab nation as a whole but not to Iraq specifically."73 Mylroie pointed out that, "The greatest danger lies in miscalculation. Iraq's official position is that it is not a confrontation state. Yet changes wrought by the war—long range missiles, an experienced air force and a chemical

69. Ibid., p. 91.
71. Cited in Mylroie, op. cit., p. 60.
72. Ibid.
73. Baram, op. cit., p. 92. This Iraqi perception developed after the Israeli raid on Iraq's nuclear reactor in 1981. Since then, there was a persistent Iraqi fear that Israel might destroy their strategic military and industrial installations.
arsenal—suggest that Israel could consider Iraq as a confrontational state. To avoid such a clash, scholars suggested a role for third parties, Egypt, Jordan and especially the United States to minimize the risk of unintended clash.

**Weapons of Mass Destruction**

The United States had a long standing position against the spread of unconventional weapons and their delivery systems in the Middle East. Specifically, the United States is against the Arabs acquiring such weapons, for this simply undercuts Israel's military and technological superiority.

The Iraqis developed ballistic missiles to be able to achieve strategic depth against Iran. Major Iraqi cities were in the range of Iranian ballistic missiles, including Baghdad. With the modification of the Scud-B missile, the Iraqis were able to hit Tehran in 1988. Without this capability the Iraqis felt vulnerable.

In the aftermath of the war, the Iraqis pursued vigorously their program for acquiring weapons of mass destruction. Without going into details of the Iraqi efforts, or into the

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mess of speculations about how close was Iraq to develop a nuclear bomb, the strategic significance of the Iraqi efforts meant one thing: Iraq could achieve a state of mutual deterrence with Israel. Such a development would end Israel's hegemony over the Middle East. This would be contrary to the basic objective of United States policy in the region: maintaining the security of Israel.

What is relevant to our discussion of American decision making is the question related to the state of US knowledge about Iraqi efforts to acquire nuclear weapons, and the effect this had on US policy.

Available information is still limited, nevertheless, it indicates that American intelligence community had broad knowledge of Iraq's arms network in the West. A June 1989 Pentagon report described more than a dozen companies in Western Europe as owned or controlled by Iraq. The report also showed that US intelligence knew that British tool-maker Matrix Churchill Corporation (MCC), which had a branch in Ohio, played a major role in Iraq's weapons buying program. The report said the secret procurement networks would help Iraq acquire weapons of mass destruction. Such weapons in the hands of Iraq, the report


80. MCC was owned by an Iraqi holding company. The Ohio branch was closed after the Iraqi invasion of Kuwait. During October 1992, a trial in London revealed that the British Government knowingly allowed MCC to buy arms-making equipment because two of the company's British executives were secretly informing British intelligence about Iraq's arms buildup. Needless to say, intelligence sharing with the British would have given the Americans the full picture.
concluded, would pose a threat to American forces in the Middle East and disrupt the balance of power in the region.81

A November 1989 CIA report also detailed secret Iraqi efforts to buy U.S. and European equipment for weapons of mass destruction.82 U.S. intelligence agencies have identified 48 companies engaged in Iraqi weapons procurement worldwide. A senior American intelligence official said that, "There was no letup at all in our reporting on his procurement efforts in Europe and elsewhere."83

Richard J. Kerr, former Deputy Director of CIA, recalled that he told policy makers, including President Bush, during a 1989 NSC meeting called to discuss the policy towards Iraq,84 that Iraq maintained its million-man army after the cease-fire, and that its meddling with other countries in the region. "I tried to give the sense that this guy [Saddam] was dangerous, that he had not changed his spots," Kerr said. "I also said that he had ambitions and that he was going to be dangerous. I don't think his military buildup was ever an issue. No one ever disagreed that he was involved in these weapons programs."85

How was the U.S. going to deal with that? NSD-26 stated that Iraq would face economic and political sanctions if it breached IAEA safeguards in its nuclear program. State Department officials said that the U.S. informed the Iraqis about its concerns regarding proliferation issues. Through offering economic and political incentives, these officials hoped

84. Kerr is probably referring to the NSC meeting on June 26, 1989, that approved the draft of NSD-26.
85. Quoted in Baquet, *op. cit.*
that Iraq would adhere to the NPT regime.\textsuperscript{86} Obviously Iraq had its own agenda, and was not ready to listen.

\textbf{Human Rights}

The State Department's Bureau of Human Rights and Humanitarian Affairs published throughout the 1980s grim accounts of human rights abuses by the Iraqi regime. In 1988, for example, the department's annual public human rights report told of "grave human rights violations that occurred when Iraqi armed forces moved to crush a long-standing Kurdish rebellion."\textsuperscript{87}

NSD-26 stated that, "Human rights considerations should continue to be an important element in our policy toward Iraq." State Department officials acknowledged that the Bureau of Human Rights wanted, during the drafting of NSD-26, a stronger stand against Iraqi human rights abuses.\textsuperscript{88} But U.S. concerns about such Iraqi behavior did not constrain Washington's desire for normal relations with Baghdad.

As Sciolino correctly pointed out, "Human rights was generally the lowest priority of U.S. foreign policymaking...it became a device that successive administrations used when bilateral relationships deteriorated so much that there was no risk in raising subjects as executions and torture."\textsuperscript{89}

\textsuperscript{86} Interviews with the author. The answers were very general and vague. They did not say specifically how the U.S. coped with this issue.
\textsuperscript{87} Cited in Smith and Goshko, \textit{op. cit.}
\textsuperscript{88} Interview with the author.
\textsuperscript{89} Sciolino, \textit{op. cit.}, p. 174.
Chapter III  The Policy Unfolds

NSD-26 urged a normalization in U.S.-Iraqi relations to serve American interests in the region. To achieve that the document emphasized the need for Washington to "propose economic and political incentives for Iraq to moderate its behavior," and to increase American influence with Baghdad. Signed on October 2, 1989, NSD-26 was the 'mandate' for the bureaucracy to pursue the incentives for Iraq. The November 1989 decision to extend agricultural credits for Iraq was a clear example of how "economic incentives" were implemented.

The CCC, BNL and Iraq

The Reagan administration's decision in 1982 to remove Iraq from the list of states supporting terrorism, opened the door for expanding U.S.-Iraqi trade. Since 1983, the United States provided credit guarantees for Iraq to buy American agricultural commodities. There was a fear that food shortage in Iraq would increase the problems faced by the regime. The sale of grains was one way to help Iraq to face the Iranian threat. It increased dramatically over the years to become the single most important element in U.S. policy toward Iraq. The total amount, from 1983-1990, was $5 billion.
The CCC Program\textsuperscript{90}

The sale of American grains to Iraq was administered under the U.S. Department of Agriculture's (USDA) Commodity Credit Corporation (CCC) export credit guarantee programs. Set up to help American farmers, the CCC provides government guaranteed repayment of bank loans to foreign governments for purchases of American rice, wheat and other commodities.

The CCC devised two main credit guarantee programs to accomplish its mission; the GSM-102 (which covers financing terms up to three years) and GSM-103 (3-10 years). These programs target countries that have potential for additional food purchases, but are short on cash and need credit. The CCC looks at a potential participant country's long-term food needs, market development opportunities for American commodities, as well as the ability of a country to repay credit extended under the program.

Transactions under CCC programs must be covered by an irrevocable letter of credit issued by a CCC approved bank located in the importing country. In the case of Iraq this was the Rafidain Bank. American exporters assign the guarantee to a U.S. or foreign bank which then provides the financing of the export transaction.

In FY 1983, CCC started business in Iraq with $365 million in credits. By FY 1988 it offered $1.1 billion, the same amount was also allocated for FY 1989.

\textsuperscript{90} The information that follows depends on the statements of Congressman Henry B. Gonzalez (D.- Tex.), Chairman of the House Committee on Banking, Finance and Urban Affairs, \textit{Congressional Record} (hereinafter CR), February 4, 1991, pp. H847-848. Congressman Gonzalez is a leading critic of the Bush administration's policy toward Iraq prior to the invasion.
Background on BNL

The Banca Nazionale del Lavoro (BNL) is a 96% Italian government owned bank. The BNL is the largest Italian bank in terms of deposits, with over $100 billion in assets worldwide. The BNL commands $8 billion in assets in the United States with offices in New York (head office), Atlanta, Chicago, Los Angeles and Miami. BNL was the largest participant in the CCC program that Iraq used to purchase American commodities. In 1986, Iraq used only two banks to finance the transactions; the BNL branch in Atlanta, Georgia, and the Central Cooperative Bank of Denver. In 1987, all the financing was done by BNL. In 1987, BNL charged the Iraqis just 1/16 per cent above the London interbank offered rate (Libor) for financing the import transactions. The rate was considered, by U.S. banking circles, to be too generous. BNL was unable to resell any of it, leaving it highly exposed to Iraqi risk. BNL's relation with Iraq dates back to the early 1980s. The Central Bank of Iraq had a cash collateral deposit of several tens of millions of dollars with BNL in Italy. The bank offered Iraq credits for the import of all sorts of goods, not only grain commodities. The Atlanta branch of BNL came to play a major role in extending credits for Iraq. The Rome headquarters of BNL referred clients wishing to do business with Iraq to the bank's Atlanta branch because of the "branch's expertise in handling Iraqi credits."
The Raid on BNL U.S. Operations

In July 1989, the Federal Reserve Bank of Atlanta was notified by the FBI of a substantial off-book operation at the Atlanta branch of BNL. On August 4, 1989, the Federal Reserve, accompanied by the FBI and U.S. attorney in Atlanta, raided the branch. They found out that the bank was lending and raising billions of dollars that it did report on its financial statements or in its bank regulatory statements.94 A BNL spokesman in Rome said that, "The bank's own internal investigation had turned up as many as 2500 transactions in the Atlanta branch that hadn't been authorized by the bank's North American management or by the head office in Rome."95 The off-book loans to Iraq were over $4 billion between 1985 and 1989. The loans for Iraq were split just about evenly between agricultural and industrial loans. Iraq used about $2 billion to purchase agricultural products and to pay for the shipping charges. Over $900 million of the agricultural-related loans were guaranteed by the CCC program.96

Iraq's Financial Problems97

It is important to understand the role played by BNL in the Iraqi reconstruction efforts after the cease-fire. In other words, why did Iraq need unauthorized loans?

Before its war with Iran, Iraq had accumulated around $35 billion in cash reserves. But its long eight years war with Iran, and the drop in oil prices in 1986, depleted all this and left Iraq with $80 billion in debts. Half of this debt, an estimated $30-40 billion, was to the Gulf states, mainly Saudi Arabia and Kuwait, who supported Iraq in its war.

Even though Iraq emerged from its war in poor financial conditions, there was still some optimism regarding the reconstruction program. Iraq's oil reserves and its educated work force led many to believe that if Iraq could manage its economy properly, it could fulfill the promises of the reconstruction program. The reconstruction program was ambitious. Iraqi officials talked about building power plants, automobile plants, oil refineries, petrochemical complexes, and other manufacturing facilities.

However, with oil revenues growing only modestly, military spending increasing since the cease-fire, and foreign exchange expenditure for consumer goods increasing dramatically, Iraq was not able to undertake civilian investment projects using its own resources.

A good portion of Iraq's external debt was owed to Western banks ($30-40 billion), and it had to be repaid in foreign exchange earned from oil exports. Iraq was not able to commit sufficient resources for foreign debt service because of its increasing military and civilian expenditures. Moreover, Saudi and Kuwaiti financial aid stopped after the cease-fire, and West European export credit agencies stopped offering medium-term credits demanding repayments of debts before extending new credits.

Iraq reacted to this problem by calling on many foreign countries to reschedule and spread out the loans that had been extended to Iraq. The Iraqis made it clear that they would repay those who offered large new credits. Iraq employed default and the threat of default to obtain the best possible rescheduling deals. Iraq refused to reschedule loans with nations in a multilateral forum, a process referred to as the Paris Club. This was a violation of the American Government policy on debt rescheduling. But this issue was not raised with the
Iraqis because Iraq was for the most part current on its U.S. debt, mainly the CCC credits. Thus Iraq's critical financial problems can explain its need for BNL's loans.

**Baker-Aziz Meeting**

Secretary of State James Baker met with Iraqi Foreign Minister Tariq Aziz in Washington on October 6, 1989. It was the first high level meeting between the two countries since the Bush administration took office.

The Iraqis came to the meeting with many concerns. Aziz stated that, "Iraq wants good relations with the U.S. on the basis of mutual respect and understanding," for this would be "in the best interests of the U.S. and of the region." But Aziz also stressed that, "Iraq has not seen enough improvement in the relations since the cease-fire." The Iraqis pointed out a number of 'disturbing signals' they had received from the United States. First, Iraq had received reports from Gulf capitals that American diplomats were raising suspicions regarding the Iraqi intentions in the region. Second, Aziz pointed out that the U.S. seemed to have a negative understanding of the objectives of the Iraqi post-war reconstruction programs. Aziz emphasized that these efforts were not directed toward any country. Third, the Iraqis complained of a campaign against Iraq, especially by the Congress. Finally, and most importantly, Aziz cited unspecified Iraqi reports that "some American agencies" were working to destabilize Iraq. Aziz then discussed bilateral commercial relations. He asked Baker to approve the credit guarantees for agricultural commodities' purchases. Aziz said that, "Food

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98. A State Department official pointed out that Iraq was careful to pay its American debts, so as not to endanger its credit relations with the U.S. The payment of American debt was at the expense of the Europeans. Interview with the author.

was a particularly explosive area because the Government must feed the people." He denied that Iraq was involved in any illegal action involving the credit program. He stressed that the U.S. decision to cut the credits to half was not a sign for the American desire for improved relations.100

Baker, on the other hand, said that the, "U.S. values its relationship with Iraq and wants to see it strengthen and broaden." He asked Aziz to give him details on the reports he cited about effort to destabilize Iraq, repeating American desire for good relations with Iraq. Baker also asked Iraq to cooperate with the American Federal investigation in the bank scandal. Baker also pointed out that the U.S. concern for proliferation was global. He suggested the two countries work together for the mutual understanding of each side concerns in this matter. Baker restated the administration's objection to impose sanctions on Iraq by the Congress.

The two sides also discussed the Middle East peace process. Baker asked for Iraqi support for the Egyptian efforts at the time. Aziz said that Iraq endorsed the peace efforts in the region, however, it was, "Iraqi policy to refrain from public statements on the peace process-- a policy Iraq would maintain. Talk, particularly from parties not directly involved, may complicate the issue."

Regarding Lebanon, Iraq confirmed that it stopped sending arms to General Aoun, and supported the Arab League efforts to achieve a national reconciliation agreement. The Iraqi position was welcomed by the U.S.

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100 Concerned with what appeared to be major irregularities in the Iraqi credit program, CCC, on October 3, 1989, proposed an interim $400 million in credits for Iraq. This issue will be discussed in page 41.
The Decision to Extend New CCC Credits

Despite concerns within some of the Bush administration's departments about Iraq's misuse of CCC credits, even to the extent of a possible Iraqi "diversion" of these credits to buy arms, the U.S. decided in November 1989 to extend new CCC credits for Iraq. The $1 billion in credits were divided in two equal installments, the second to be released after the investigation of the BNL scandal was finished. Administration critics point out that the new loans, pushed through at the time when American intelligence reports indicated that Iraq was spending heavily on developing weapons of mass destruction, were used by a credit-starved Iraq to feed its people, freeing up its cash reserves to finance its massive arms buildup. To follow how the decision was taken would help us understand how the "economic incentives", that NSD-26 spoke about, were implemented.

The decisions to allocate foreign loan is the responsibility of the National Advisory Council on International Monetary and Financial Policies (NAC). NAC is responsible for the policies and practices of agencies that make or participate in making foreign loans, such as the Export-Import Bank (Eximbank) and the USDA's CCC. The members of the NAC include the Secretary of Treasury (chairman), Secretary of State, Commerce, U.S. Trade Representative, Chairman of the Federal Reserve, and Chairman of Eximbank. These high level officials rarely meet, instead the "deputies committee" has been empowered to take decisions.101

After the raid on BNL, officials in the USDA were alerted to what appeared to be irregularities in the BNL/Iraqi CCC program. The CCC investigated several irregularities which included:102

- First, unusually high prices obtained by exporters in connection with sales to Iraq involving BNL.

- Second, shifting of some freight and freight financing costs to CCC.
- Third, utilization of after-sales-services in violations of CCC regulations.
- Fourth, Iraq requiring exporters to pay a stamp tax, a policy that is supposed to be prohibited under the program.

The CCC understood that it would be difficult in such a situation to ask for the entire $1 billion for the FY 1990. So CCC proposed to the NAC an interim $400 million in credits for Iraq. At the NAC meeting on October 3, 1989, the Treasury and Federal Reserve officials voted to stop the program entirely. The two agencies lost and the $400 million was approved because, according to a confidential Treasury memo, the State Department was "particularly forceful in arguing that programming should go forward."103

In his meeting with Baker, on October 6, Tariq Aziz expressed concerns that Iraq would get less than $1 billion. The relation between the two countries, Aziz said, would sour without the full billion in credits. The Iraqis considered the $400 million offer an insult. A November State Department memo explained the Iraqi position. The memo stated that, "The Iraqis rejected [the offer] because they believed so drastic a cut from the $1.1 billion fiscal year 1989 program would be viewed as a United States vote of no confidence in Iraqi debt policy."104 Baker said he would look into the matter immediately.105

Baker had been cautioned personally about alleged irregularities in the CCC program in an October 11 memo, which stated that, "The unfolding BNL scandal is directly involved with the Iraqi CCC program and cannot be separated from it. Of the $4 billion of unauthorized loans involved, about $1 billion were CCC guaranteed. Treasury and Fed, however, find it hard to believe that Iraqi Central Bank officials and others were not aware of kickbacks and other gross irregularities." The memo also pointed out that, "Hard information is difficult to

105. See Appendix 2.
obtain, but apparently there has been substantial overpricing of some commodities (double and triple wholesale prices), diversion and trans-shipment of commodities outside Iraq and financing of non-U.S. origin goods. There is even one report that the Iraqis used the proceeds for arms purchases." No options were included in the memo, but it called for the situation to be kept under close policy review because "stakes are big."

An October 13, 1989, State Department memo contained an explicit warning that Iraq apparently had spent part of the CCC loans to buy arms. The memo was written by Frank Lemay, Special Assistant to the Under Secretary for Economic Affairs, Richard McCormack. In the memo, Lemay recounted a conversation with four USDA officials on the BNL scandal:

Although additional research needs to be done, it appears more and more likely that CCC guaranteed funds and or commodities may have been diverted from Iraq to third parties in exchange for military hardware. Where documents indicate shipments arrived in Baghdad, the timing appears improbable, shipments arrived in Baghdad prior to arriving at interim ports. McElavin [Director of Export Credits, CCC] and the USDA Inspector General are concerned that commodities were bartered in Jordan and Turkey for military hardware. BNL paperwork is so sloppy on this point that it may be months (or never) that we can reach a firm conclusion on the diversion issue. 107

On October 23, Baker sent a message to Tariq Aziz responding to Aziz's charge that the United States was trying to destabilize Iraq. "The president has asked me to say to you and through you to President Saddam Hussein in the most direct way possible that the United States is not involved in any effort to weaken or destabilize Iraq," said Baker's message delivered through the embassy in Baghdad. "Having looked into the matter and discussed it with the President, I can tell you this with the highest authority, such an action would be

completely contrary to the President's policy, which is to work to strengthen the relationship between the United States and Iraq whenever possible."

On October 26, 1989, Robert Kimmitt, Under Secretary of State for Political Affairs wrote a memo for Baker to decide whether to push for a full CCC program for Iraq. Kimmitt mentioned the mandate of NSD-26 to improve economic and political ties with Iraq. He said that, "Our ability to influence Iraqi policies in areas important to us, from Lebanon to the Middle East peace process, will be heavily influenced by the outcome of the CCC negotiations." Kimmitt argued that it was sufficient to exact Iraq's promise to cooperate in the investigation into past practices and to cooperate with USDA in establishing monitoring procedures and safeguards for future deliveries. Thus Kimmitt recommended that Baker should telephone Clayton Yeutter, Secretary of Agriculture, "to urge that we go forward rapidly with a CCC program, with safeguards and to be made available in tranches, that could go up to the full $1 billion, provided that the review process turns up no evidence of Iraqi wrong doing."

The talking points for Baker's call to Yeutter, on October 31, said that, "The CCC program is crucially important to our bilateral relations with Iraq. On foreign policy grounds, we support a program of up to one billion, released in tranches, with periodic compliance reviews." Yeutter responded: "I think we are seeing it the same way you guys are. I'll get back into it."

The USDA was convinced to support the allocation of the full $1 billion program despite the concern about the Iraqi misuse of the program. The USDA went along with the State Department's position in approving the full program "on foreign policy grounds".

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110. Ibid.
111. Ibid. and Waas, op. cit.
Persuading the USDA to support a full billion program to Iraq was an easy job. The next step was to convince the Department of Treasury and the Office of Management and Budget (OMB) to drop their opposition to the program. This task was left to Deputy Secretary of State, Lawrence Eagleburger. Treasury and OMB based their opposition on Iraq's precarious financial situation and its failure to make payments to other foreign creditors, and because "allegations of Iraqi wrongdoing in the BNL case, though not backed by evidence at this time, might embarrass the administration." But the State Department pushed ahead.

Eagleburger telephoned his counterpart at the Treasury, John Robson, requesting Treasury's support for the full program. Robson asked Eagleburger to put the request in writing. The same day, Eagleburger sent the letter stating that, "On foreign policy grounds we support the USDA's proposal for a full billion dollar program for Iraq." In early November, the CIA circulated its National Intelligence Estimate (NIE) report on Iraq. The NIE, the most authoritative intelligence report reflecting the views of the American intelligence community, was the first such document on Iraq in the Bush administration. The report warned administration's officials that the failure to approve the $1 billion loan guarantees to Iraq would further create tensions in American-Iraqi relations. The report also noted that there were "possible illegal transactions" involving the loan program through the BNL. But "the warning was reportedly buried in a single paragraph in a 25 page report and may have not caught the attention of Mr. Bush or senior policy makers."

On November 8, 1989, the NAC deputies committee met to discuss the proposed program for Iraq. Among the participants were Robert Kimmitt (State); John Robson (Treasury); Steve Danzansky (White House); Jack Parnell (No. 2 at USDA).

112. See the memo for Eagleburger on how to expedite approval of a full CCC program for Iraq in, Gonzalez, CR, March 2, 1992, p. H867.
113. Frantz and Waas, op. cit.
According to the minute of the meeting Kimmitt opened his statement by stating that his "comments reflected the views of Secretary Baker who believed that the CCC program in Iraq was crucial to U.S. bilateral relations with Iraq. He noted that in NSD-26 the President called for improvement of United States-Iraq relations and bilateral trade offered the best means to achieve that goal."\(^{116}\)

Other NAC participants indicated that they had reservations about the program, but noting foreign policy and trade interests, they offered no objections. The NAC voted to approve the $1 billion for Iraq to be released in two $500 million tranches. Several safeguards were added to ensure that the integrity of the CCC program. Before the release of the second tranche, USDA was to submit to the NAC a report indicating the measures taken to monitor the program and the developments in the investigations of the BNL scandal.\(^{117}\)

In a memo, dated November 9, Kimmitt told Baker, "Your call to Yeutter and our subsequent efforts with OMB and Treasury paid off." Kimmitt suggested that Baker "break the good news to Aziz."\(^{118}\) On November 9, Baker instructed April Glaspie, American ambassador in Baghdad, to tell Aziz that, "This decision by the administration reflects the importance we attach to our relations with Iraq."\(^{119}\)

President Bush defended his administration decision to extend the loans guarantee to Iraq, despite the reports on possible Iraqi diversion of money to buy weapons. Bush said, "We didn't know that, the State Department didn't know it. You can talk about one State Department employee [i.e., Frank Lemay], and if we had known it wouldn't have happened."\(^{120}\)


\(^{117}\) Ibid.

\(^{118}\) Frantz and Waas, op. cit.

\(^{119}\) Ibid.

It is important to note that the suspicion of diversion is still unproved. But nevertheless, administration critics are looking for the motivation to ignore the warnings and extend the loan guarantee. William Safire quotes a well placed-source as saying:

At the time, this was Saddam's only ready source of major cash. And it was the only string we had on him. That's extremely classified. All I can say is we were asked by foreign officials at the highest levels for help on a particular matter. There was a task we wanted Iraq to accomplish and this CCC program was the only way we had to pay for it. Our goal was honorable; may be it was a fool's errand, but it was worth a try.121

A recently disclosed document showed that the U.S. wanted something in return for the credit guarantees. In his November 9 message to Aziz, informing him that the U.S. had just approved the loan guarantees, Baker sought Iraq's influence in persuading Palestinians to take part in peace talks with Israel. Baker said:

We are at a critical point in our diplomacy. The Government of Egypt is working closely with Palestinians to respond positively to our five-point framework, enabling us to get an Israeli-Palestinian dialogue launched. It would be useful if you could weigh in with them and urge them to give a positive response to Egypt's suggestions.122

Could this be the "task" that Safire's source spoke about?

During the Fall of 1989, the United States was actively engaged in the Middle east peace process. The Baker Plan123 was a formula, worked out in collaboration with Egypt, to start

123 The Baker Plan contained five points (released publicly on December 6, 1989): (1) Israel will meet a Palestinian delegation in Cairo; (2) Egypt will consult with, but not act for, the Palestinians, and Egypt will consult with the United States and Israel; (3) Israel will attend a dialogue with the Palestinian delegation; (4) Israel and Palestinians will discuss elections and future negotiations; and (5) the Egyptian, Israeli, and American foreign ministers will meet in Washington to facilitate the process. Cited in Clyde Mark, "Middle East Peace Proposals," CRS Issue Brief, December 27, 1991, p. 13.
negotiations between Israelis and Palestinians in Cairo. The Israeli Government was divided on the issue, the Labor in favor and the Likud against. The Palestinians were hesitant, but they finally signed on. By May 1990, American efforts failed, because of the Israeli rejection.\footnote{For an analysis of the peace process at the time, see William Quandt, "The Middle East in 1990," \textit{Foreign Affairs}, Vol. 70, No. 1 (America and the World 1990/91), p. 54-59.}

It is not clear what role did Iraq play. Aziz, in his October 6 meeting with Baker, told the Americans that it was "Iraqi policy to refrain from public statements on the peace process." Since our interest is American decision making, Baker's request to the Iraqis for help with the Palestinians partly explains why he became personally involved in lobbying for the credit program.
Chapter IV  The Failure of the Policy

By the Spring of 1990 there was growing disquiet within the Bush administration that the policy toward Iraq was not working as expected. Iraq was gradually taking a confrontational stand toward the United States. How the United States reacted to Iraq's behavior is the subject of this chapter. The available information does not give the full picture. In fact many questions remain unanswered.

Disturbing Signals

In the early weeks of 1990, Richard Haass, the NSC staff director for Middle East Affairs, called for interagency meetings to discuss U.S. policy toward Iraq. The purpose was not to change policy, but to pay more attention to developments in Iraq. However, in the Policy Planning Staff at State Department there were two aides calling for a change of policy. Richard Herrmann and Stephen Grummon, junior aides to Dennis Ross, wrote a paper on "Containing Iraq". It was basically a repetition of Khalilzad's arguments. Iraq had emerged from the war as a strong military power, much more than Iran, and Iraq was the main threat to the stability in the region and should be contained. This was contrary to the prevailing view within the administration that saw Iran as the major threat. Ross was sympathetic and found the arguments persuasive, but he did not act on it. Ross was preoccupied with other foreign policy issues, Germany and the Soviet Union.125

On February 12, 1990, John Kelly, Assistant Secretary of State for Near East Affairs, met Saddam Hussein. It was Kelly's first visit to Iraq. In the meeting, the Iraqi President discussed the implications of the decline of Soviet power on the Middle East. He wondered whether the United States would use its position of unchallenged preeminence in the region for "constructive purposes" or just blindly follow Israel. Kelly informed the Iraqis about the soon to be published State Department's annual Human Rights Report. The report was strongly criticizing Iraq's human rights record, which it termed "abysmal". 126

On February 24, Saddam Hussein gave a speech to the summit of the Arab Cooperation Council (ACC) in Jordan. Hussein gave a presentation of the changes in international politics and its implications for the Arab World. He argued that the United States would have a free hand as the sole superpower for at least five years, until a new global balance of power emerges. In this time, however, he saw the possibility that Israel would embark on "new stupidities" in the region as a result of American encouragement. He called for the withdrawal of American Navy from the Gulf, now that the Iran-Iraq war was over. He called the Arabs to use their financial assets in American banks to influence U.S. policies in the Middle East. He also called for the diversion of some of these assets for investment in the Soviet Union and Eastern Europe. 127 This was the beginning of a series of speeches and statements by the Iraqi leadership in which it criticized the United States and attacked Israel.

During March the tension between Iraq and the West escalated. The execution of Farzad Bazoft, the Iranian-born journalist for the London Observer, earned the Iraqi regime wide condemnation. Bazoft was arrested in September 1989 while investigating an explosion in an Iraqi missile plant, and was charged with spying for Israel. He was sentenced to death on March 9, and despite appeals by Western leaders, was executed within a week. 128

126. Oberdorfer, op. cit., p. 20.
128. Newsweek, March 26, 1990, p. 27.
Early in March the CIA detected that Iraq had completed the construction of six fixed launchers for modified Scud missiles at its H-2 airfield in Western Iraq.\(^{129}\) This information was released two days after British and American officials seized triggering devices for nuclear weapons being smuggled to Iraq.\(^{130}\) Furthermore, there was an intensive media campaign against the Iraqi president in the West describing him as the "Butcher of Baghdad."\(^{131}\)

On April 1, 1990, came the Iraqi reaction. In a speech before military officers, Saddam Hussein issued a warning to Israel, noting that Iraq had developed advanced chemical weapons, he said, "I swear to God, we will let our fire eat up half of Israel, if it tries to do anything against Iraq. We don't need an atomic bomb, because we have binary chemicals."\(^{132}\)

Saddam's threat was intended to be deterrent to Israel. The Iraqis genuinely believed that Israel was preparing an attack on their military installations, similar to 1981 raid on their nuclear reactor. They interpreted the events of March, the media campaign because of Bazoft's execution and their human rights record, the triggers case, and Israeli statement on a possible preemptive attack, as a prelude for an Israeli strike. As Phebe Marr, an expert on Iraq with the National Defense University, pointed out that,

> The idea has surfaced [in Iraq] that Israel, the United States and now Britain are somehow colluding to weaken Iraq now that it has emerged, in its view, as a strong power, to make it weaker, perhaps even to dismember

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\(^{131}\) A State Department official acknowledged that there was a media campaign in the West against Iraq. The reason, in his opinion, was Iraq's human rights record. Interview with the author. While this campaign started with the cease-fire in 1988, because of gas use, it intensified after the execution of Bazoft, and especially Saddam's threats towards Israel. The cover story of *U.S. News & World Report*, on June 4, 1990, spoke about "The World's Most Dangerous Man."

it...The Iraqis have constructed a rather elaborate conspiracy theory to explain this situation. Now, this sounds bizarre to us here; but if you look at the pattern of press attacks they seem to single out Iraq...This fear and suspicion of a conspiracy has taken very deep hold and is going to be very difficult, I think, to undo.133

Mixed Messages

Saddam's threat caught the attention of the United States. Senior policy makers, Congressmen, and the media focused on Iraq. The reaction in Washington was swift. State Department's spokeswomen denounced the speech as "inflammatory, outrageous and irresponsible." A White House statement called it "deplorable and irresponsible." But throughout 1990, The United States continued sending Iraq mixed messages. On the one hand there was the criticism of Iraq's human rights record, nuclear weapons program, and regional behavior, but on the other, there was a strong expressed interest in better relations. Administration critics point out that it was more carrot than stick.

On April 12, five U.S. senators134 met Saddam Hussein in Mosul, in Northern Iraq. The Senate delegation, led by Robert Dole, said that the United States sought improved relations with Iraq but that they had concerns about reports that Iraq was developing biological and nuclear weapons and about its belligerence toward neighboring states, especially Israel. Saddam restated his statement of April 1, he said, "Regardless of how the speech was interpreted by the media, the speech is a follows: if Israel strikes, we will strike at it. If Israel strikes and uses atomic weapons, then we will use the binary chemicals."135

134. They were Ohio Democrat Howard Metzenbaum and Republicans Robert Dole, Kansas, Alan Simpson, Wyoming, James Mclure, Idaho, and Frank Murkowski, Alaska.
135. See the transcript of the meeting, as released by Iraqis, in, "Saddam Hussein Addresses Visiting U.S. Senators," FBIS- NES, April 17, 1990, p. 7.
Before going to Iraq, the delegation phoned President Bush. He asked them to inform Saddam that, "We wanted to improve relations with your country and your government." Saddam bitterly complained of the campaign against him in the West. Senator Simpson responded, "I believe your problem is with the Western media, not with the U.S. Government, because you are isolated from the media and the press."136

On Capitol Hill, pro-Israel Congressmen pushed to legislate sanctions. Several bills imposing varying sanctions were introduced. Congressman Howard Berman (D-Calif.), on April 24, introduced a bill that would bar export of technologies related to nuclear and chemical warfare, Eximbank credits, and arms. Senator Alfonse D'Amato's (R-N.Y.) bill would have ended all U.S. trade benefits to Iraq, directed American representatives to oppose multilateral aid, suspended air travel to Iraq unless it submitted to international inspections of suspected weapons facilities. The most comprehensive bill, introduced by Sen. Daniel Inouye (D-Hawaii) and Bob Kasten (R-Wis.), called for a general trade embargo on Iraq.137 The eagerness to impose sanctions was directly related to Iraq's threats towards Israel. The stated objective of former efforts to impose sanctions, after the cease-fire in 1988, was to punish Iraq for its human rights abuses. After Saddam's April speech, the concern in Congress was the threat posed by Iraq's arsenal of weapons of mass destruction on Israel.

The administration, however, had another view about dealing with Iraq. On April 16, an interagency "deputies committee" headed by Robert Gates, Deputy national Security Adviser, met at the White House for the first time to reconsider U.S. policy toward Iraq. Accounts about what happened are slightly different. Robert Kimmitt, speaking for the State Department, called to terminate the CCC credits, due to Iraq's recent behavior. But at the same time, the administration as a whole opposed the drive to impose sanctions on Iraq.

136. Ibid., p. 11.
because this would tie the executive branch's hands, and limit its options.\textsuperscript{138} Others, mainly Commerce Department officials, argued against cutting the credits because "all we would be doing is hurting U.S. rice producers and U.S. firms looking for business."\textsuperscript{139} Other sources indicated that the State Department did not really present a different position from the other departments. One official said, "My impression was they [State Department] were worried more about public positioning than about policy."\textsuperscript{140} The meeting apparently ended without a decision. The participants, however, asked the State Department to present an options paper on Iraq for the next meeting.

On April 26, John Kelly went to Capitol Hill to testify about U.S.-Iraqi relations. Kelly said, "Iraq is an important and difficult country which poses a challenge to American foreign policy." He stated that, "Our policy towards Iraq has been to attempt to develop gradually a mutually beneficial relationship with Iraq in order to strengthen positive trends in Iraq's foreign and domestic policies." Asked at what point will the administration agree to move forward sanctions, Kelly said, "We believe there is still a possibility for positive alterations in Iraqi behavior. We do not believe that the imposition of economic sanctions now would leave that possibility open." Kelly, however, warned that, "If Iraq should seek to play a spoiler's role in the Middle East peace process, threaten the security of Israel and other countries in the area, and continue to violate human rights on a widespread scale, the United States and Iraq would become increasingly at odds." Kelly was asked about the second $500 million tranche of the CCC credits that Iraq was asking for. Kelly said that question was still open for an

\textsuperscript{138} The administration did not want to give the Congress the initiative to impose sanctions on Iraq, thus tying its hands in dealing with Iraq. If a decision is to be taken to punish Iraq it should be an administration's decision not a decision by Capitol Hill. Interviews with State Department officials.

\textsuperscript{139} Cited in Oberdorfer, \textit{op. cit.}, p. 36. See also Sciolino, \textit{op. cit.}, p. 176.

\textsuperscript{140} Quoted in Gigot, \textit{op. cit.}, p. 7.
administration decision that would put into consideration, among other things, Iraq's recent actions.141

By January 1990, Iraq had used all the first $500 million in grain credits and requested the release of the second tranche. USDA, however, began to seriously doubt the wisdom of releasing the second $500 million installment of CCC credits to Iraq because of growing evidence of Iraqi misuse of the program. The State Department's position is illustrated in January 4, 1990, informational memo which states:

USDA may still be reluctant to proceed with the second tranche. CCC has been criticized heavily for mismanagement in recent months and may not want to risk pushing the second tranche at this time. We want to move ahead with the second tranche this month, as the Iraqis have requested.142

The importance of releasing the second installment increased after Saddam's statement of February which called for the withdrawal of U.S. forces from the Gulf. The State Department was obviously using the CCC program as a foreign policy tool. A February 1990, memo by Kelly illustrates this. Kelly wrote:

Saddam Hussein's recent attacks on the U.S. underline the fragility of our relationship with Iraq. CCC is a key component of the relationship and failure to approve the second [$500 million] tranche will feed Saddam's paranoia and accelerate his swing against us. We need to move quickly to repair the damage to U.S.-Iraqi relationship by getting this critical program back on track.143

143. Ibid.
During his testimony before Congress, on April 26, Kelly, however, stated, "Regarding our agricultural program, U.S. policy in both this administration and the previous one has been not to single out farm exports as a tool of foreign policy."  

By April 1990, USDA completed its review of the misuses of the CCC program by Iraq. It sent its draft report to NSC, State and other departments for review. The draft report concluded that Iraq misused the program by demanding kickbacks from exporters. But the most explosive allegation addressed by the report was that commodities were diverted and sold before they reached Iraq. However, the final report sent to Congress, after having been reviewed by the NSC, concluded that, "There was no evidence that food sent to Iraq under the CCC program were diverted or did not end up in Iraq."  

On May 21, 1990, the USDA drafted a press release and began preparing to brief members of Congress that it planned to suspend the CCC program. The NSC intervened. It seems the administration decided to suspend the program but not to declare that publicly. A May 25, 1990, Treasury Department memo spoke of a meeting attended by NSC, USDA, State and Treasury officials. The memo stated:

The meeting has been initiated by the NSC staff because they want to prevent the CCC program from being canceled as this would exacerbate the already strained foreign policy relations with Iraq. Agriculture had planned to put out a press release on May 21, 1990, that said the program was being suspended until the investigation into improprieties in the program were completed. The NSC prevailed on Agriculture to say only that their investigation showed that improprieties may have occurred and remained silent on the suspension. In fact there is a suspension in effect.  

The suspension of CCC credits was one of the options discussed in the memo entitled "Option Paper on Iraq" prepared by the State Department on May 16, 1990. The paper contained a list of options for responding to recent actions and statements by Iraq. As mentioned earlier, it was prepared at the request of the NSC "deputies committee" in its meeting on April 16. The paper was circulated before the committee's meeting, which took place on May 24, 1990.

The paper did not advocate any policy option, it offered a wide range of options, from the symbolic to the total trade embargo and political break with Iraq. The options were divided into three main categories, economic, political-bilateral, and political-multilateral. It weighed the pros and cons of such options as: a ban on oil purchases, suspending CCC credits, trade licenses, reducing embassy staff, ending intelligence cooperation, supporting Iraqi opposition, and the isolation of Iraq in the region.

On May 17, Richard Haass, Senior Director for Middle East Affairs at NSC, visited Iraq and met Tariq Aziz. Little has been reported about that trip. A White House source said that Haass had a sharp exchange with the foreign minister and that, he "basically said, 'This relationship is up to you,' the administration is fighting off sanctions in Congress, " 'but you are giving us no ammunition." 148

147. See Appendix 3.

148. Ambassador Glaspie must have read the option paper, because in a May 18, 1990, cable to Washington she said, "My own thinking is that unless Agriculture has uncovered a legal hornets nest, we will want to proceed with the second tranche of credits. It remains unclear why we would want to use food as a weapon." Cited in Gonzalez, CR, March 16, 1992, p. H 1277.

149. It was widely believed, before that document became public, that intelligence cooperation with Iraq ended after the cease-fire in the Iran-Iraq war. Members of the Senate Intelligence Committee said they received a number of secret briefings by administration officials which made them believe that intelligence sharing ended in 1988. See Waas and Frantz, "U.S. Gave Data to Iraq 3 Months Before Invasion," Los Angeles Times, March 10, 1992.

150. Quoted in Gigot, op. cit., p. 9.
The Threats Towards Kuwait

In the Arab League Summit meeting in Baghdad on May 28, Iraq complained about some Arab countries who were exceeding their oil production quota thus decreasing oil prices. Saddam Hussein considered this an economic war on Iraq. The decrease in oil prices by $1 meant a loss of $1 billion in oil revenues for Iraq. This had to be stopped, Saddam said. This was the first indication for the U.S. that Iraq's target might be an Arab country not Israel.

It seems Kuwait did not take the Iraqi concerns seriously. The first Iraqi outburst against Kuwait came in a letter sent by Tariq Aziz to the Arab League's Secretary General on July 16, 1990. Aziz accused Kuwait of twofold aggression, first by overproducing oil thus lowering oil prices, and second by stealing Iraqi oil from al-Rumaylah oil field at the Iraqi-Kuwaiti borders.

In his 17 July speech, Saddam Hussein spoke of a conspiracy between the United States, Israel, and unnamed Gulf States against Iraq. He stated that:

The campaign began when imperialism realized that we emerged victorious. This campaign began when imperialism witnessed our economic and scientific achievements and our achievements in the field of military

151. I will focus here on American reaction to these threats.
153. Up to this time, State Department officials thought that the focus of Iraq was Israel. They were afraid that Iraq was going to attack Israel. They said that the summit revealed that Iraq had serious troubles with Kuwait. However, they strongly stressed that no one had thought about an invasion. They also pointed out that Arab leaders told Washington that Iraq would not invade Kuwait, and asked for caution and patience from the U.S. Interview with the author. Sciolino said that, "Even as officials in the administration and some lawmakers grew uneasy with Saddam's behavior, they saw him as a potential threat to Israel, not one of his Arab neighbors." Sciolino, op. cit., p. 174.
industrialization... These achievements have aroused the hostility of imperialist and Zionist circles, who have used every mean to harm Iraq's reputation...It should be clear to imperialism that Iraq of 1990 is not the Iraq of 1981...If words fail to protect us, then we will have no choice but to resort to effective action.155

Saddam accused unnamed Gulf countries of stabbing Iraq "with a poison dagger" by helping the United States "secure the flow of oil...at the cheapest prices." He said that instead of harming Iraq, the unnamed Gulf states should be rewarding it for its war with Iran, in which Iraq sacrificed its youth to keep the Gulf countries wealthy. After this speech U.S.-Iraqi relations deteriorated with great speed.

Beginning with July 18, the U.S. Embassy in Baghdad presented the Iraqi foreign ministry with formal demands for clarification every day for a week. In Washington, State Department spokesman said the U.S. was "strongly committed to supporting the individual and collective self-defense of our friends in the Gulf with whom we have deep and long-standing ties."156 He did not say, however, that the U.S. would provide military help to its allies.

On July 20, Iraqi troops movements towards Kuwait were detected. On July 23, the U.S. responded to a request by the United Arab Emirates to conduct a joint military exercise. The Pentagon dispatched six warships to the Gulf. On July 25, the CIA reached the conclusion that Iraq was not bluffing, and it would probably use force against Kuwait, to take the disputed islands but not the whole country.157

Much had been written about Ambassador Glaspie's meeting with Saddam Hussein on July 25, 1990,158 which makes it difficult to add anything new. Many criticized Glaspie for

156 Cited in Oberdorfer, \textit{op. cit.}, p. 38.
not being tough enough with Saddam, for not saying explicitly that the U.S. is against the use of force by Iraq, or that the U.S. will defend its interests by using force. Others charge that she deliberately misled the Iraqi president about U.S. intentions as part of an effort to trap him. Neither view, I think, is correct. The ambassador was simply following orders in line with U.S. policy toward Iraq, i.e., to raise American concerns, but at the same time to express the desire for good relations. This was confirmed in the message sent by President Bush to Saddam Hussein in response to Saddam's statements in his meeting with Glaspie.

The message was drafted by NSC and State Department officials. These officials gave credence to Iraqi statements that Baghdad was interested in negotiating a resolution of their differences with Kuwait. Pentagon officials objected to the tone of the message saying it was too weak. They favored taking a harder line. But it was too late, the message was sent as drafted by NSC. The presidential response was only three paragraphs long. It read:

I was pleased to learn of the agreement between Iraq and Kuwait to begin negotiations in Jedda to find a peaceful solution to the current tensions between you. The United States and Iraq both have a strong interest in preserving the peace and stability of the Middle East. For this reason, we believe that differences are best resolved by peaceful means and not by threats involving military force or conflict.

I also welcome your statement that Iraq desires friendship, rather than confrontation with the United States. Let me reassure you, as my Ambassador, Senator Dole and others have done, that my administration continues to desire better relations with Iraq. We will also continue to support our other friends in the region with whom we have had long standing ties. We see no necessary inconsistency between those two objectives.

As you know, we still have fundamental concerns about certain Iraqi policies and activities, and we will continue to raise these concerns with you in the spirit of friendship and candor, as we have in the past both to gain a better understanding of your interests and intentions and to ensure that you understand our concerns. I completely agree that both our Governments must
maintain open channels of communication to avoid misunderstanding and in order to build a more durable foundation for improving our relations.\footnote{Cited in Michael Gordon, "Pentagon Objected to a Message Bush Sent Iraq Before Its Invasion," \textit{New York Times}, October 25, 1992.}

To the very end American officials did not expect that Iraq would invade Kuwait. On August 1, the CIA concluded that Iraq would act within 24 hours. By that time it was too late. Could a different policy have deterred Iraq? It is impossible to say.
Conclusion The Unanswerable Questions

The main objective of U.S. policy towards Iraq was to moderate its behavior to serve American interests in the Gulf. This was to be achieved through working with Iraq by offering political and economic incentives. The policy failed.

A number of reasons is being offered, by analysts, to explain that. The administration was guilty of a mind-set about Iraq. This mind-set was developed during the Iran-Iraq war and continued up to the invasion of Kuwait. One element was the belief that Saddam Hussein was a "man you could business with." The second element was perception of Iraq as a counterbalance to Iran. Analysts agree that this was an enough reason to tilt towards Iraq during the war. But, they argue that, the new strategic environment after the cease-fire ended the rationale behind the tilt. There was a need for a new policy toward Iraq, that should have taken the character of the regime and the ambitions of its leader into consideration.

It is easy to understand why such a mind-set developed. But it is difficult to understand why such a mind-set continued after the "disturbing" signals were coming from Baghdad. Critics said that policy makers failed to use those signals to change their hypothesis about Iraq's intentions. That they let the accumulating evidence fit their favored hypothesis, rather than change that hypothesis to fit the new evidence.

The failure to deal with these disturbing signals also raises many questions: Did the Bush administration fail to see the threat posed by Iraq because it was not prepared to deal with a problem that had not yet become a major crisis? The record of the administration in its first two years in office may suggest that. In most foreign policy issues, the Bush administration had generally responded in an ad hoc manner. And could the war have been avoided if the United States made a clear message to Iraq about American intentions if force was used? Most importantly, why the administration pursued a policy that was completely misread by Iraq? While the stated United States objective was normal relations with Iraq, the Iraqis, from
their side, saw it differently. They believed there was a conspiracy designed by the U.S. to weaken Iraq. They said that publicly. Was it then a problem of communications?

The record also suggests that senior policymakers were not paying much attention to Iraq. From the time NSD-26 was signed in October 1989, until the invasion, the NSC never met to discuss Iraq. The deputies committee met only twice. Baker's State Department played the dominant role in offering foreign policy advice in the Bush administration. Furthermore, Baker depended on a small circle of close aides and friends, first among them is Dennis Ross, and not the State Department's bureaucracy. If an issue falls outside the interest of the inner circle, it was dealt with by lower level officials. This assured that no policy change can occur. Ross was Baker's expert on the Middle East, but he was also his main advisor on Soviet policy. Needless to say, the events of 1989 and 1990 in Europe, hardly gave Ross the time to pay attention to the Gulf.

It very difficult to pin point the reason for the failure of the policy. The public record dose not offer much help. Probably it raises more questions then it answers. A complete answer must wait the first-hand testimony of officials who made the decisions and the unveiling of the historical record.
Bibliography

I. U.S. Government Documents


II. Books and Articles


Access to Persian Gulf oil and the security of key friendly states in the area are vital to U.S. national security. The United States remains committed to defend its vital interests in the region, if necessary and appropriate through the use of U.S. military force, against the Soviet Union or any other regional power with interests inimical to our own. The United States also remains committed to support the individual and collective self-defense of friendly countries in the area to enable them to play a more active role in their own defense and thereby reduce the necessity for unilateral U.S. military intervention. The United States also will encourage the effective support and participation of our western allies and Japan to promote our mutual interests in the Persian Gulf region.
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Iraq

Normal relations between the United States and Iraq would serve our longer-term interests and promote stability in both the Gulf and the Middle East. The United States Government should propose economic and political incentives for Iraq to moderate its behavior and to increase our influence with Iraq. At the same time, the Iraqi leadership must understand that any illegal use of chemical and/or biological weapons will lead to economic and political sanctions, for which we would seek the broadest possible support from our allies and friends. Any breach by Iraq of IAEA safeguards in its nuclear program will result in a similar response. Human rights considerations should continue to be an important element in our policy toward Iraq. In addition, Iraq should be urged to cease its meddling in external affairs, such as in Lebanon, and be encouraged to play a constructive role in negotiating a settlement with Iran and cooperating in the Middle East peace process.

We should pursue, and seek to facilitate, opportunities for U.S. firms to participate in the reconstruction of the Iraqi economy, particularly in the energy area, where they do not conflict with our non-proliferation and other significant objectives. Also, as a means of developing access to and influence with the Iraqi defense establishment, the United States should consider sales of non-lethal forms of military assistance, e.g., training courses and medical exchanges, on a case by case basis.
Appendix 2  Baker-Aziz Meeting, October 1989*

Fm : SECSTATE WASH DC.
To : AMEMBASSY Baghdad Immediate
Info : Gulf War Collective Immediate
Subject : Secretary's October 6 Meeting With Iraqi Foreign Minister Tariq Aziz

1. Secret - entire text
2. Summary: On October 6 Secretary Baker met with Iraqi Foreign Minister Tariq Aziz, Aziz Emphasized his government's strong desire for the very best possible relationship with the United States, but said his government had received "signals" that this might not be the U.S. Government attitude. He mentioned, (1) the negative remarks about Iraq intentions in the gulf made to other governments by U.S. officials, (2) USG-placed obstacles to Iraqi efforts to rebuild its economy technology transfer, and (3) congressional actions against Iraq. He also said "some American agencies" are trying to destabilize Iraq. Finally, he complained about a USG decision to cut CCC credits for FY90 from over dols 1 billion to dols 488 million. The Secretary assured the Foreign Minister of our desire for good relations with Iraq. At the same time, the Secretary confirmed U.S. concerns globally about the transfer of sensitive technology related to proliferation. He also observed that while the administration had opposed congressional moves to place sanctions on Iraq, the Congress had been influenced strongly by GOI's use of CW which did have a very negative impact. He asked for more details about alleged U.S. efforts to destabilize Iraq so that he could investigate it fully. Regarding CCC credits the Secretary said he understood the dols 400 million in credits now offered by USG was an interim commitment. The Fed and Treasury are worried about Iraqi involvement in the Atlanta BNL bank scandal and wish to defer commitment on the full level of CCC credits until their investigation is completed. Aziz said this was a banking problem and not one that involved the GOI. Aziz made clear a solution needed to be found quickly. Iraq is particularly worried about the impact of this decision on its ability to meet food import requirements in 1990. The Secretary said he would look into matter immediately. The two sides also discussed briefly the Middle East peace process and Lebanon .End Summary

3. The Secretary warmly welcomed Iraqi Foreign Minister Tariq Aziz to the Department on October 6. We noted their inability to find a mutually acceptable time to meet in New York and said we appreciated Aziz willingness to come to Washington. The Secretary said the U.S. values its relationship with Iraq and wants to see it strengthen and broaden. Our dialogue on human rights will help. We also noted with pleasure Iraq's participation in CW conferences. Regarding the Stark claims, the Secretary welcomed Iraq's payment to

wrongful death compensation and observed that this set the stage for early conclusions of the remaining claims. We ended his introductory remarks to again stress the U.S. desire for good relations saying there was all the potential to move the relationship in a positive direction.

4. Aziz responded with warmth that we had good relations with Secretary Shultz and many other senior American officials. He said we had always conducted his conversations in a friendly and open manner and hoped we could continue to do so with the Secretary. It leads to much better understanding. The Secretary encouraged him to do so. Aziz said we wanted to state clearly and unequivocally that Iraq wants good relations with the U.S. on the basis of mutual respect and understanding. He said he wanted it understood that while this had been stated in time of war when diplomatic relations were restored, he was saying it now after a cease-fire had brought the active fighting in the war to an end. We strongly believe he said, that good relations between us is in the best interests of the U.S. and of the region.

5. Aziz continued that he greatly appreciated the Secretary's assessment of bilateral relations but frankly speaking in the spirit of friendship, Iraq has not seen "enough improvement" in the relationship since the cease-fire. In fact Iraq had received a number of signals, which were rather disturbing. We listed four: (1) After the cease-fire the GOI got a number of reports from several capitals that senior U.S. diplomats were approaching officials in the gulf raising suspicion and fear regarding Iraqi intentions in the region. Aziz said this disturbed the GOI greatly because during the war we had discussed the gulf region in a frank manner. Iraq has said clearly that it wants to maintain the whole region intact - including the individual countries - and that it has no bad intentions against any of them. He stressed that Iraq's objective was and is good relations with them all, particularly Saudi Arabia and Kuwait. Hence he said the GOI is perplexed and concerned about U.S. motivations.

6. Secondly, Aziz said the U.S. seemed to have a negative approach to Iraqi post-war efforts to develop its industry and technological base. Aziz emphasized that the GOI had clearly stated that its current goals and objectives were to reconstruct, and restore the economy. Our desire, he said, is to develop the country for our people - to raise their standard of living. Implying this massive efforts was being misrepresented, Aziz declared that all this was being done for Iraq and her people. No objective directed against any other country in the region lay behind Iraqi development activities. Aziz then complained of a propaganda campaign against Iraq in the U.S. - particularly by the Congress. He noted congressional moves to legislate economic and political sanctions.

7. Finally, and most seriously, Aziz stated that lately there had been reports that "some American agencies" are trying to destabilize Iraq. He said he had no details and had heard only the reports just as he was leaving Baghdad. He said he felt it was important to mention this to the Secretary. The Secretary indicated his surprise at such reports and said he would like more details as quickly as possible so he could look into it immediately. Aziz undertook to try to get more details.

8. Aziz closed with a final point on U.S. Iraqi commercial relations. He noted that up to now this had been a very positive aspect of our bilateral relationship. The USG, he said had allocated CCC credits of over dols 1 billion in FY89, making U.S. Iraq's major supplier of agricultural products. He told the Secretary that he had just learned from the
Iraqi agricultural team, now in Washington to reach agreement on a program of similar size for FY90, that the U.S. was prepared to agree to only dols 400 million in credits at this time. The CCC program was being linked to the BNL Atlanta branch scandal of which Iraq had no part. The minister made it clear this was not a sign that the U.S. wanted improvement in relations. It is in fact a setback and GOI is very unhappy.

9. The Secretary said he wished to respond to the minister's points. He said he heard the desire for better relations and that was the U.S. objective as well. He asked Aziz to note that the U.S. had been in the forefront in focusing on the POW repatriation issue at the UNSC during the meeting on renewing UNIMOG's mandate. As to efforts to destabilize Iraq, the Secretary repeated that our desire is to improve relations with Iraq and he urged Aziz to give him further details as soon as possible. Regarding technology, the Secretary admitted the U.S. does have concerns about proliferation, but they are world wide concerns. He suggested that we work together on specific requests so the U.S. can understand Iraqi needs and objectives and Iraq can hear what concerns us. Regarding Aziz point on congressional criticism. The Secretary noted that the administration never supported sanctions on Iraq and that he personally had so testified. The Secretary added that congressional actions were limited to Iraqi use of CW during war. Our position continues to be that we need to look forward, not backward.

10. Turning to CCC credits, the Secretary said he was aware that a problem existed. It was his understanding that dols 400 million which the USG was now ready to approve is an interim allotment. The balance of the program was being held pending further investigations into the BNL banking scandal. He noted Iraq had received about dols 3 billion out of dols 4 billion of the unauthorized loans. The Fed and Treasury, he explained, want some restraint in further credits to Iraq until this banking problem is more thoroughly investigated. Aziz defended the GOI, arguing that they were not involved in any illegal actions. If the bank had willing to make loans under such good terms, any customer would have said it was the bank not the customer who had the problem. Aziz said he had met with the Italian Minster of Finance who said Iraq was not involved. If the Government of Italy is not taking actions against Iraq, it is strange that the U.S. is. Iraq, he said, was always punctual with its payments to the U.S. He continued that Iraq was relying on U.S. cooperation in a number of areas and such actions to restrict programs called into question whether the U.S. would be a reliable trading partner. Food was a particularly explosive area because the Government must feed the people. We said Iraqi delegations was very concerned that failure to agree to the full program now would force Iraq to search immediately for alternative suppliers and such suppliers may not be available. U.S. actions will sour relations, he concluded.

11. The Secretary asked if GOI is cooperating with the Fed investigation, indicating this was important to do. Acting Assistant Secretary Covey noted there were some concerns that there may have been some wrongdoing traceable to Iraqi officials. Aziz said that Iraqi Central Bank Governor and Minster of Finance had been in Washington, met with U.S. officials, and were told the GOI was not involved. If Iraqi officials were implicated, GOI wanted to know immediately. He stressed Iraqi pride in rooting out corruption and said GOI would surely act on any information available to it. When the Secretary asked if GOI would make available any official implicated in the affair, he said he did not know. It would depend on the information. Aziz again repeated the urgency of solving this matter.
quickly. The Secretary said he wanted to find a way to solve it and the USG may need assurances from GOI that it will aid in the investigation. He assured Aziz that we would immediately look into what could be done and let him know what other U.S. agencies might need from GOI.

12. The Secretary said he had several subjects that he wished to raise. On the search for peace in the Middle East, we asked Iraq to consider supporting the Egyptian ten points. The Secretary said the U.S. is working hard to keep the peace process going. Both Egypt and Jordan are partners with Iraq, had been very helpful. Iraq's endorsement of the Egyptian ten points would be a big help. Aziz said Egypt had discussed the ten points with Iraq and Arafat, too, had recently been in Baghdad. The GOI, he said, was pleased and supported the joint efforts by Egypt and the PLO. Aziz noted that Iraqi support was well known in the region. It was, however, Iraqi policy to refrain from public statements on the peace process. A policy Iraq would maintain. Talk, particularly from parties not directly involved, may complicate the issue.

13. The Secretary raised Lebanon saying we strongly supported the Arab League tripartite committee efforts and understood Iraq did too. He said he wanted to see all foreign forces leave Lebanon. We have supported a role for General Aoun in the process and hope he will stay committed to the AL efforts. The Secretary said we had hopes that Iraq would too. We are encouraged, he concluded, by the initial reports coming out of Taif. Aziz affirmed that Iraq does indeed support the AL effort noting that when they had asked Iraq to stop sending arms to Lebanon Iraq had agreed. Iraq had advised Aoun to support the meeting in Taif. Aziz stressed the historic nature of the meeting - the first time Lebanese members of parliament had been able to discuss their problem under an Arab League umbrella and not under Syrian domination. Syria after all, was a party in Lebanese dispute. Aziz also said Iraq had encouraged the Christians to accept reform (the 50/50 formula). Times had changed and the old systems are no longer valid, we said. The question of the Syrian presence, however, had to be faced and resolved. A new government and new president could not function under Syrian domination. They would be hostages - just as Salim Al-Huss and some other Lebanese officials are now in West Beirut. At a minimum, Aziz argue, there had to be a free environment in the capital. The Syrians, he said, do not have to withdraw immediately and President Hussein had told Asad this in Casablanca. Aziz concluded that Saddam Hussein had, at King Fahd's request, sent a message to Aoun October 5 urging him to cooperate with the AL committees and Saudi Arabia to achieve a successful outcome of the Taif meeting. Aziz said Iraq had great confidence in King Fahd and would give him all support possible.

14. Participants: Iraqi Foreign Minister Tariq Aziz, Iraqi appointed Ambassador in Washington, Mohamed Sadiq Al-Mashat, MFA International Organization Director Riyadh Al-Gaysi, and Aziz Chef Du Cabinet Kamal Issa. The Secretary, Under Secretary Bartholomew, Assistant Secretary Tutwiler, Policy Planning Director Ross. Acting NEA Assistant Secretary Covey, NEA Deputy Assistant Secretary Edward W. Ghenm, Jr. (note mark) comprised the U.S. side, Baker.
Appendix 3 Options Paper on Iraq*

U.S. Department of State,  
Washington, DC, May 16, 1990

Memorandum for Brent Scowcroft, The White House

Subject: Options Paper on Iraq.

Attached is paper containing a list of options for responding to recent actions and statements by the Government of Iraq. It was prepared at the request of the Deputies Committee, which met on April 16, 1990. We ask that you pass this paper to Robert Gates for his review, and circulate it to obtain the views of Deputies Committee members and concerned agencies in advance of further discussion by the Deputies Committee.

J. Stapleton Roy  
Executive Secretary

Iraq: Options Paper

The following list of options for responding to recent actions and statements by Iraq was prepared at the request of the NSC Deputies Committee, which met on April 16, 1990. The only intention is to be comprehensive: the list does not advocate any particular option or group of options. It offers range of choices from the largely symbolic to a virtually total economic embargo and political break with Iraq. (A non-proliferation PCC will develop specific options for steps in the area of export controls and licensing.)

ECONOMIC

Ban Oil Purchases: The largest benefit Iraq receives from the United States is through our Oil purchases, which could total more than $3 billion in 1990. PRO: Oil provides the wherewithal for Iraq's efforts to develop its own non-conventional military production capacity. A total ban on U.S. oil purchases would have some short-term impact. CON: In the

longer run, Iraq would soon find other buyers. Such action might also have an impact on U.S. oil prices.

**CCC Program** : This is the largest program we currently have with Iraq. All the sanctions legislation on the Hill, aside from Inouye-Kasten, exempts CCC, **PRO**: Since Iraq’s record of repayment on CCC-guaranteed loans is good and USDA’s review will probably give Iraq a fairly clean bill of health, suspension of CCC at this point would be a strong political statement. **CON**: It would violate our policy against using food as a political weapon and hit some US agricultural exporters hard. It might also lead Iraq to default on CCC-insured loans. Other countries would sell these commodities to Iraq.

**Exim**: In January the President waived the statutory prohibition on Exim programs with Iraq. The program could be cut off by rescinding or suspending the waiver. **PRO**: It would be a clear relatively easy to accomplish public gesture containing a political message. **CON**: The Exim facility is not essential to the Iraqis, but its suspension would harm some US producers.

**Licensing/Trade**: Current controls on exports to Iraq are already very restrictive but new controls could be added to ban sale of all possible dual use items. Congress is considering new controls to ban such sales to all states in the region, including Iraq. A non-proliferation PCC will look at possible options in this area in the near future.

**Full Trade Embargo**: **PRO**: It would send a strong signal. **CON**: This would mean a virtual end to relations with Iraq. Our allies would not go along and, indeed, would jump in to take our place wherever they could.

**POLITICAL-BILATERAL**

**Reduce Embassy Staff**: **PRO**: Withdrawing our Ambassador or reducing Embassy staff (with parallel reductions at the Iraqi Embassy here) would clearly demonstrate our displeasure to the Iraqis. **CON**: It would further limit our ability to work in Baghdad and strain an Embassy staff that is already short-handed. Removing other Embassy staff (the DATT, for example) would not impress the Iraqis but could seriously reduce mission effectiveness.

**Cultural**: USIS runs several programs including a self-sustaining and very popular English instruction program and a small number of exchanges. It also plans to help establish a Baghdad headquarters for US archeologists working in Iraq. **PRO**: Cutting these programs would be a symbolic gesture. **CON**: Its only substantive impact would be on the persons involved.

**Drug Enforcement**: Iraq had its first-ever consultations with DEA this year and expressed interest in getting DEA training for a small number of police officers. **PRO**: Cancellation of the training would again, have some symbolic importance. **CON**: It would have little practical effect, for the Iraqi Government.

**Intelligence Cooperation**: Intelligence exchanges have waned since the Gulf War cease-fire. **PRO**: They still provide Iraq with limited information on Iranian military activity that would be missed. **CON**: Ending this contact would close off our very limited access to this important segment of the Iraqi establishment.

**Presidential Message**: Saddam Hussein likes the personal touch. **PRO**: A carefully crafted message from the President could be effective if it hit hard on our key concerns,
proliferation and regional tension (conflict through a miscalculation by either Iraq or Israel), but also emphasized a continued desire for improved relations. \textit{CON}: It could be construed here as being soft on Saddam.

\textbf{Iraqi Opposition}: The political opposition to Saddam and the Ba'ath Party, such as it is, is down-at-the-heels, mostly in exile, and (apart from some Kurds) lacks a following in Iraq. We could, nonetheless, find some public way to acknowledge it - the Kurds especially. There is little to recommend this option.

\textbf{POLITICAL-MULTILATERAL}

\textbf{Move Toward Normalization with Iran}: \textit{PRO}: A change in policy toward a more neutral or even pro-Iranian stance in international forums (UNSC, IMF, World Bank, etc..) would be strong signal. \textit{CON}: It also would send paranoia-meters in Baghdad off the end of the scale. It would raise basic questions about our policy in the Gulf and the region as a whole that would have to be addressed here. Iraq's reaction would be unpredictable.

\textbf{Isolate Iraq}: We could use diplomatic pressure with our friends in Cairo, Amman and Sanaa to encourage resistance to Iraq's efforts to make itself a political and military leader to the Arab World. \textit{PRO}: This would help limit Iraq's influence. \textit{CON}: It could bring an unpredictable reaction from Baghdad and could, in fact, backfire in important Arab capitals.

\textbf{Human Rights}: We could sponsor or encourage further action on Iraq's human rights record bilaterally and in a number of International forums. \textit{PRO}: We have already criticized Iraq's human rights policies on the record, and Saddam is clearly sensitive to such criticism. \textit{CON}: It would be difficult to get Nonaligned support for further action on Iraq in International organizations. Saddam has demonstrated time and again that he will not allow public pressure, especially from foreigners, to influence his behavior.

\textbf{Joint Action with Allies}: Possible joint action on Iraq would be an appropriate subject for consultations with our allies and for considerations at the Houston Economic Summit. \textit{PRO}: Concerted steps by the United States, Western Europe and Japan on such issues as technology transfer would be of much greater concern for the Iraqis than anything the US might do unilaterally. \textit{CON}: Consensus on concrete measures would be difficult to achieve, and failure to agree on serious joint action could even encourage the Iraqis to ignore our concerns.