

file

CONFIDENTIAL
FM BAGHDAD
TO PRIORITY FCO
TELNO 1723
OF 091527Z OCTOBER 90
INFO PRIORITY WASHINGTON, ANKARA, UKMIS NEW YORK, UKMIS GENEVA
INFO PRIORITY UKDEL OECD, MODUK, ESC LONDON, DTI

EMA

SIC I9M

DTI FOR OT4

MY TELNO 1450: EFFECTS OF SANCTIONS - INDUSTRIAL DECLINE

SUMMARY

1. SERIOUS PROBLEMS EXPECTED IN THE IRAQI INDUSTRIAL SECTOR, AS ECONOMIC SANCTIONS AFFECT SUPPLY OF RAW MATERIALS, SPARE PARTS AND FOREIGN EXPERTISE.

DETAIL

2. AT THE OECD COMMERCIAL OFFICERS' MEETING ON 19 SEPTEMBER REPORTED IN TUR, IT WAS GENERALLY THOUGHT THAT A DETERIORATION IN THE STATE OF IRAQ'S INDUSTRY CAUSED BY SANCTIONS WOULD NOT BRING ABOUT CHANGES IN IRAQ'S POLICY TOWARDS KUWAIT IN THE SHORT TERM. WE CONTINUE TO HOLD THIS VIEW, ALTHOUGH (LARGELY ANECDOTAL) REPORTS WE HAVE RECEIVED ABOUT THE DECLINE OF IRAQ'S INDUSTRY SUGGEST THAT SANCTIONS ARE CAUSING INCREASING DAMAGE.

3. ACCORDING TO A REPORT COMPILED FOR THE AUSTRALIAN EMBASSY BY EXPATRIATE AUSTRALIANS PREVIOUSLY WORKING FOR THE AUSTRALIAN WHEAT BOARD (AWB) IN BASRA AND DRAWING ON THE EXPERIENCE OF OTHER EXPATRIATE ENGINEERS, THE ALREADY POORLY MAINTAINED INDUSTRIAL SECTOR WILL FACE ACUTE DIFFICULTIES IN THE FOLLOWING THREE AREAS: (A) WATER - IRAQ'S NATURAL WATER RESOURCES CONTAIN CONSIDERABLE QUANTITIES OF DISSOLVED MINERALS. THIS MEANS THAT ALL WATER FOR INDUSTRIAL USE MUST BE PROCESSED TO AVOID HEAVY ARTERIO-SCLEROSIS. THE TECHNOLOGY AND THE CHEMICALS REQUIRED FOR THIS ARE BOTH IN SHORT SUPPLY. IT IS DIFFICULT TO JUDGE HOW LONG IT WILL BE BEFORE THESE SHORTAGES CAUSE SEVERE PROBLEMS: MANY PLANTS HAVE THEIR OWN PROCESSING UNITS. HOWEVER, EVERY INDUSTRIAL PROCESS REQUIRING TREATED WATER AS WELL AS THOSE INSTALLATIONS THAT ARE STEM

OR WATER-COOLED (IN PRACTICE THE VAST MAJORITY OF THOSE IN IRAQ) WILL BE VULNERABLE.

(B) SPARE PARTS - SPARE PARTS SUCH AS SOLENOIDS, PIPES, WELDING MATERIAL AND FUSES ARE ALREADY IN SHORT SUPPLY. REPORTS OF ATTEMPTS BY IRAQIS TO REPAIR EG BROKEN HEAVY-DUTY FUSING SUGGEST THAT THE USUAL HABIT OF REPLACING RATHER THAN REPAIRING IS BEING ABANDONED. BUT THE EXPERTISE TO DO THIS SAFELY AND SUCCESSFULLY IS NOT GENERALLY AVAILABLE. ONE CATEGORY OF SPARE PARTS OF PARTICULAR IMPORTANCE IS BALL-BEARINGS, WHICH ARE CRUCIAL FOR THE MAJORITY OF INDUSTRIAL PLANTS. IRAQ HAS ONLY A VERY LIMITED CAPACITY TO PRODUCE THESE, AND THE SHORTAGES ARE ALREADY BECOMING APPARENT. THE BREWERY AT MAISAN NEAR BASRA FOR EXAMPLE IS REPORTEDLY 'ONE BEARING AWAY FROM DISASTER' EXCLAM (IT IS FUNCTIONING - JUST - AT ONE THIRD CAPACITY.)

(C) MANPOWER/MANAGEMENT - THE DEPARTURE OF THIRD COUNTRY NATIONALS AND THE CALL-UP OF RESERVISTS FOR THE ARMY HAS LEFT MANY INSTALLATIONS SERIOUSLY SHORT OF LABOUR, SOME OF WHICH IS SKILLED AND CANNOT BE REPLACED LOCALLY. IN ADDITION WHAT LOCAL EXPERTISE EXISTS IS NOW INCREASINGLY BEING EMPLOYED IN THE ARMY.

4. THE AUSTRALIANS CONCLUDED THAT THE CUMULATIVE EFFECT OF THESE THREE FACTORS WOULD BE TO ACCELERATE INDUSTRIAL DECLINE. THE BEGINNINGS OF THIS ARE ALREADY VISIBOE. THE LACK OF ADEQUATE QUANTITIES OF WATER FOR COOLING, FOR EXAMPLE, PLACES AN EXTRA STRAIN ON MACHINE LUBRICANTS, A PROBLEM NORMALLY OVERCOME BY ADDING 'EXTENDERS'. BOTH LUBRICANTS AND EXTENDERS ARE IN SHORT SUPPLY. '(MOTOR OIL, FOR INSTANCE, IS NOW RATIONED.)

5. ACCORDING TO A BRITISH ENGINEER WORKING ON THE NORTHERN OIL FIELDS NEAR KIRKUK THE PROBLEM OF SPARE PARTS IS POTENTIALLY ACUTE IN THE REFINING SECTOR. MANY PARTS NEED REPLACING AS FREQUENTLY AS EVERY TWO WEEKS, AND PROJECTS DO NOT CARRY LARGE STOCKS. MOST OF THE PARTS CANNOT BE MANUFACTURED LOCALLY AND WITH THE EXCEPTION OF

FOR EXAMPLE, NON-SPECIALISED PIPING, THOSE LOOTED FROM KUWAIT ARE NOT GENERALLY COMPATIBLE. A JAPANESE BUSINESSMAN WORKING IN THE OILSECTOR REPORTED THAT THERE WERE ALREADY PROBLEMS AT THE BEIJI REFINERY WHICH WOULD SERIOUSLY AFFECT PRODUCTION.

6. PROBELMS ARE BEING EXPERIENCED ELSEWHERE IN THE OIL INDUSTRY. THE BRITISH ENGINEER REPORTED THAT THE NORTHERN FIELDS HAD BEEN CLOSED AND THAT EXPATRIATES HAD BEEN ORDERED TO MOTH-BALL PUMPING STATIONS. THE ENGINEER ADDED THAT THIS MOTH-BALLING REQUIRED SKILLED MAINTENANCE, WITHOUT WHICH THERE COULD BE CONSIDERABLE

LONG-TERM DAMAGE. THE SOUTHERN FIELDS MAY SUFFER FROM THE LARGE SCALE DEPARTURE OF SOVIET TECHNICIANS JUST NEGOTIATED BY ACADEMICIAN PRIMAKOV (MY TELNO 1706).

7 POWER GENERATION IS A RELATIVELY WELL PROTECTED SECTOR OF THE ECONOMY, AND THEREFORE LESS LIKELY TO BE AFFECTED BY SANCTIONS IN THE NEAR FUTURE. MAJOR OVERHAULS OF THE TWO MAIN POWER STATIONS FOR BASRA AND BAGHDAD WERE COMPLETED IN JULY AND THESE STATIONS SHOULD BE ABLE TO CONTINUE FUNCTIONING FOR ANOTHER 12 MONTHS. A MAJOR ACCIDENT OR BREAKDOWN HOWEVER COULD NOT BE HANDLED WITHOUT IMPORTED SPARE PARTS, AND THERE ARE SIGNS THAT SHORTAGES OF REFINED OIL COULD CAUSE PROBLEMS. AN INDICATION OF CONCERNS OVER ENERGY WAS PROVIDED BY A REPORT IN ATH-THAWRA ON 8 OCTOBER WHICH STATED THAT A SEMINAR HAD BEEN HELD AT THE MINISTRY OF PLANNING THE PREVIOUS DAY TO DISCUSS ENERGY CONSERVATION.

WALKER

YYYY

DISTRIBUTION

272

MAIN 226

IRAQ/KUWAIT
LIMITED

MED

ADDITIONAL 46

IRAQ/KUWAIT
(PASSED TO EMERGENCY UNIT)

MAFF
DTI/OT4, VICTORIA ST

NNNN