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## **Clinton Presidential Records Mandatory Declassification Review**

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NATIONAL SECURITY COUNCIL

May 3, 1993

~~TO:~~ Sandy Berger

THRU: Martin Indyk *MI*  
Dan Poneman *DP*

FROM: Richard Barth *RB*

Attached is the Principals' paper on Iran with the changes you requested. Also attached at the back of this package is

1.4c you requested

EO 13526 1.4c

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**Oil Swap Options with Iran**

Swap deals, whereby Iran consumes Caspian crude in its refineries and exports a like amount from its Khark Island terminal, are being examined, especially by Azerbaijan and Kazakhstan.

- o Initial quantities of up to 200,000 b/d are under consideration.
- o If long-term export routes through Russia, Georgia, or Turkey fail to materialize, however, because of regional fighting, Iran's infrastructure could be modified to permit swaps of up to 800,000 b/d.

All of Iran's refineries are fed by a pipeline system that receives crude from its southern oilfields. Reversing the flow of these pipelines would be a relatively simple process. Iranian refineries that could be supplied from northern routes include:

Rey (Tehran)	250,000 b/d
Tabriz	100,000 b/d
Arak	150,000 b/d
<u>Esfahan</u>	<u>300,000 b/d</u>
Total	800,000 b/d

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Initially, Caspian oil could be imported into Iran by tanker at its ports of Anzali, Nowshahr, or Torkeman, and then moved onto Iran's refineries by pipeline. Alternatively, crude could be moved entirely by pipeline from Caspian oilfields to a point in Iran where pipelines would intersect Iran's existing infrastructure.

- To facilitate initial imports, Iran would need to expand its port facilities. Importing via tanker would probably require the installation of an offshore Single-Point-Mooring (SPM) buoy (used to offload tankers in deep water), a pipeline to shore, and new onshore storage tanks.
- Up to \$150 million in infrastructure would be needed in Iran to facilitate initial imports of up to 200,000 b/d; most investment would be in Iranian currency with little foreign assistance needed.
- If imports were later increased to 800,000 b/d, more infrastructure modifications would be needed, but the majority of these modifications would be from the Caspian oilfields to Iran's northern most refinery at Tehran. Iran's existing infrastructure need only be reversed--a process that could be completed in the time it took to add the pipeline capacity from the north.

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**The Oils in Question**

**Azeri Oil.** Iranian export routes are the shortest of all proposed routes and are an attractive and economically feasible alternative to other options such as those through Russia, Turkey or Georgia.

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**Kazakh Oil.** Although technically feasible, importing crude from Kazakhstan for refining in Iran would be more difficult. Tengiz oil is more sulfurous than Azeri crude and Iran would need to make major modifications to its refineries to be able to process this crude--increasing Iran's cost. For this reason, Tehran would probably agree to import far less oil from Kazakhstan.

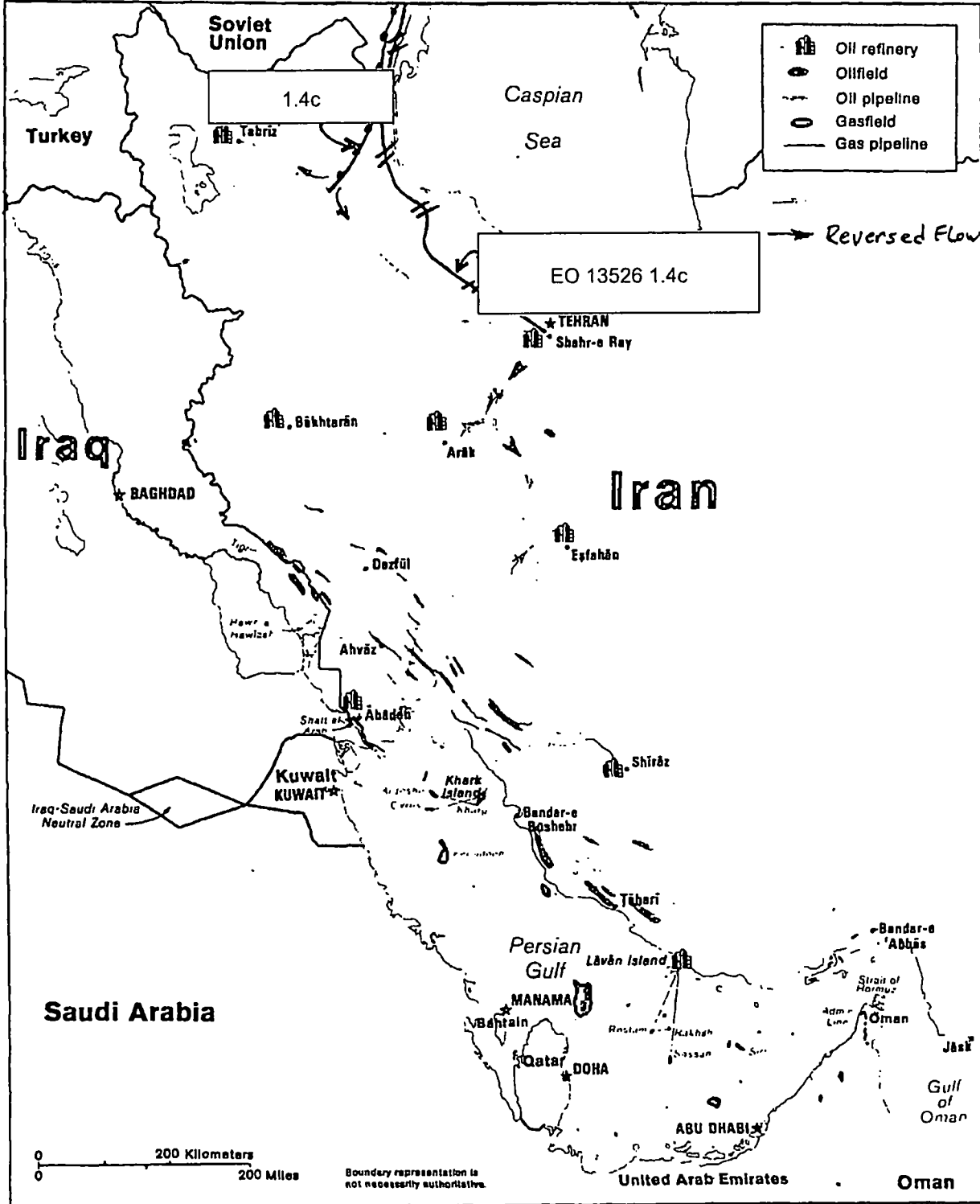
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**Turkmen Oil.** Iran and Turkmenistan have agreed to establish a company--to be collocated with the National Iranian Oil Company offices in London--to facilitate oil cooperation between the two countries. As a first step Iran has agreed to purchase 250,000 tonnes annually--1.8 million barrels--of oil for re-export.

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Figure 1  
Selected Major Energy Facilities and Producing Fields



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## Intelligence Report

*Office of Resources, Trade, and Technology*

# The 1995 Oil Market: Prices Likely To Hold Steady

3.5c

*A Research Paper*

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*February 1995*

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# Intelligence Report

*Office of Resources, Trade, and Technology*

## The 1995 Oil Market: Prices Likely To Hold Steady

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*A Research Paper*

This paper was prepared by [3.5c]  
 [3.5c] Office of Resources, Trade, and Technol-  
 ogy, with contributions from [3.5c]  
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 American Analysis; and [3.5c] Office of  
 European Analysis. Comments and queries are wel-  
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**The 1995 Oil Market: Prices  
Likely To Hold Steady** 3.5c

**Key Findings**

Information available  
as of 31 December 1994  
was used in this report.

*In 1995 rising global oil consumption, a modest increase in non-OPEC output, and higher OPEC production should combine to support average oil prices of \$16 to \$17 per barrel, the level prevailing at the end of 1994. Oil prices averaged roughly \$15 per barrel over the course of 1994.* 3.5c

EO 13526 1.4c

- World oil consumption will increase in 1995 to reach nearly 68.3 million barrels per day (b/d), up by about 800,000 b/d from 1994, reflecting strong growth in non-OECD countries, especially in Asia.
- Non-OPEC production will most likely rise by roughly 300,000 b/d to about 40.3 million b/d as increased production from both existing and new fields in Africa, Asia, Latin America, the Middle East, and the North Sea outweighs continued reductions in US and newly independent states (NIS) output. 3.5c

*Against this backdrop OPEC members have the production flexibility to effectively determine 1995 oil price levels.* Although all OPEC members favor higher prices, several developments most likely will moderate any upward pressure:

- OPEC production capacity probably will rise to about 31.4 million b/d from 30.7 million b/d this year as Venezuela, Kuwait, and the United Arab Emirates EO 13526 1.4d add capacity.
- Key OPEC members are experiencing rising budget deficits and mounting debts, intensifying pressure to boost oil production.

EO 13526 1.4c key Gulf members—especially Saudi Arabia and Kuwait—are prepared to raise production to prevent prices from rising too sharply.

*Under the most likely scenario, OPEC production will most likely average about 28 million b/d—including roughly 2.2 million b/d of natural gas liquids—approximately 700,000 b/d above 1994 OPEC production of 27.3 million b/d. OPEC's surplus capacity would most likely remain near 1994 levels of about 3.5 million b/d.* 3.5c

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Several developments could cause prices to differ from our baseline forecast. Resumption of Iraqi exports, higher-than-expected non-OPEC production, and further erosion of OPEC discipline would exert downward pressure on prices. Prices would move higher with more robust consumption growth, principally in Asia; supply disruptions resulting from conflict or labor strife in key producing countries; lower-than-expected OIS exports; or improved OPEC member discipline on production quotas:

- [redacted] 1.4c [redacted] the combination of cheating on quotas by OPEC members, higher-than-expected non-OPEC output, and the prospects for Iraq's return to the market are collectively more likely than developments that would restrict output. Moreover, Iraq's return would have the most sizable impact on oil availability [redacted] EO 13526 1.4c [redacted] accordingly, we believe that there is greater likelihood that 1995 average prices could move below our baseline forecast level than move above it.

- [redacted] 1.4c [redacted] OPEC's recent decision to freeze quotas at current levels could be the beginning of a strategy to deal with returning Iraqi supplies. OPEC members—especially Saudi Arabia and Kuwait—could reduce output to their quota levels without appearing to accommodate Baghdad, which probably would limit price reductions to \$1 to \$3 below our baseline forecast. Prices could easily fall by at least \$5 per barrel if OPEC members were unwilling or slow to accommodate resumed Iraqi exports [redacted] 3.5c [redacted]

*Although another year of relatively low oil prices is generally good news for [redacted] 1.4c [redacted] world economies, there are some downside risks:*

- *Investment in the oil sector could slow and reduce future production capacity* [redacted] EO 13526 1.4c [redacted]
- *Widespread unrest would be more likely to occur in key oil-producing countries with weak economies that are hard pressed to sustain living standards.* [redacted] 3.5c [redacted]

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**Scope Note**

This paper assesses prospects for the oil market in 1995. After examining recent trends in the oil market, the paper projects oil supply and demand and associated policy changes for 1995 that will influence oil prices. The paper develops a base case scenario for oil prices and outlines developments that could cause prices to be lower or higher than our best estimate.

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It is intended for policymakers at the National Economic Council, National Security Council, Department of State, and the Department of Energy who are concerned about energy policy.

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**The 1995 Oil Market: Prices Likely To Hold Steady** 3.5c

**Background**

OPEC countries' production decisions are the key determinant of short-run fluctuations in oil prices. Following the Persian Gulf crisis in 1990-91, weak oil demand put downward pressure on oil prices, resulting in a decision by OPEC to set a new production quota of 22.982 million barrels per day (b/d) in February of 1992. OPEC's agreement to cut production by more than 1 million b/d boosted average prices from about \$16.50 per barrel early in 1992 to over \$18 by yearend. Similarly, OPEC's decision in September of 1993 to raise members' quotas contributed to a price decline through the fourth quarter of 1993. 3.5c

After falling to \$13 per barrel in March of 1994, oil prices trended upward through spring and summer due to consumption growth, OPEC production discipline, and supply disruptions in Yemen and Nigeria. Prices peaked at just over \$18 per barrel in August and, for the year, averaged about \$15 per barrel—the lowest in real terms since 1973. Due to a unanimous desire for higher prices, according to press 1.4c reporting, OPEC members agreed in November to retain through 1995 their current crude oil production ceiling of 24.52 million b/d—first adopted in September of 1993. Indeed, OPEC discipline through spring and summer was a driving force behind higher prices as production exceeded the ceiling by an average of only 350,000 b/d, a modest level by OPEC standards. In late 1994, however, higher prices and domestic financial pressures led several OPEC members 1.4d to increase production, weakening prices somewhat. 3.5c

**The Base Case Outlook for 1995**

Our baseline price forecast is founded on the interaction of likely trends in oil consumption, non-OPEC oil production, and OPEC production. Demand for oil is driven by trends in global economic activity, which is

**Table 1** *Million b/d*  
**OPEC Production Versus Quotas, November 1994**

	Estimated Production*	Quota
OPEC	25.5	24.520
Algeria	0.7	0.750
Gabon	0.3	0.287
Indonesia	1.3	1.330
Iran	3.7	3.600
Iraq <sup>b</sup>	0.6	0.400
Kuwait <sup>c</sup>	2.1	2.000
Libya	1.4	1.390
Nigeria	1.9	1.865
Qatar	0.4	0.378
Saudi Arabia <sup>c</sup>	8.2	8.000
United Arab Emirates	2.2	2.161
Venezuela	2.5	2.359

Note. Estimated production figures do not add to totals shown due to rounding

\* Excludes natural gas liquids (NGLs) because OPEC omits NGLs in setting and monitoring its quotas.

<sup>b</sup> Iraqi crude production is constrained by UN sanctions.

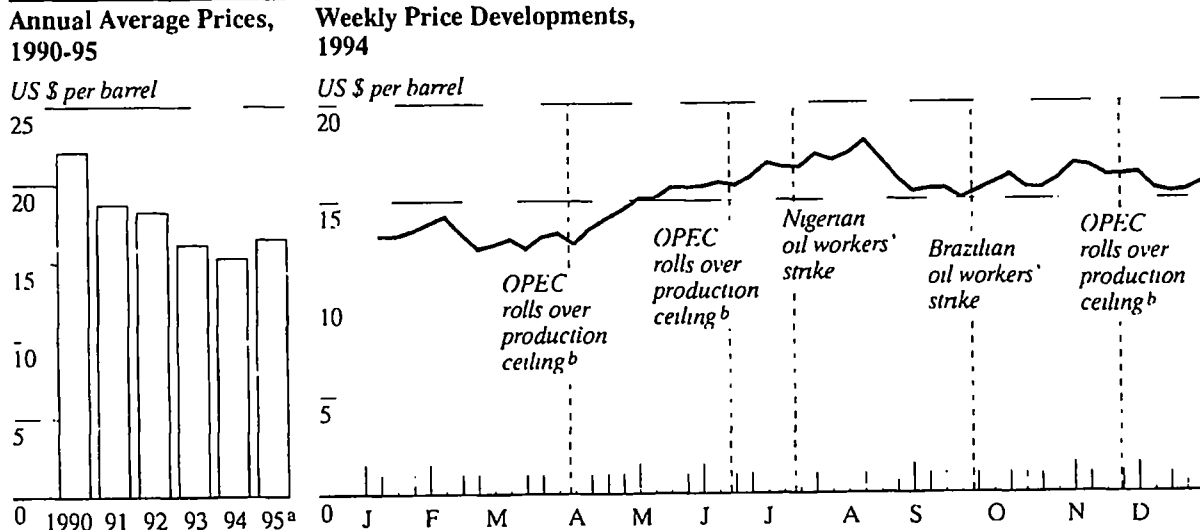
<sup>c</sup> Includes Neutral Zone.

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affected—but not substantially—by oil price changes. Non-OPEC production—operating near capacity—has very limited ability to respond to rising oil prices because investments to expand capacity take at least one to two years to yield new oil. Non-OPEC producers are not members of the cartel and have little incentive to produce below capacity. Most of the production in these countries is relatively high cost and handled by many individual and competing companies, which makes their share of the market small and effective collusion difficult. Moreover, a number of countries

**Figure 1**  
**World Crude Oil Prices**

Note scale change



<sup>a</sup> Projected.  
<sup>b</sup> 24.52 million barrels per day set in September 1993

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produce primarily for domestic markets. Accordingly, OPEC production decisions will drive 1995 oil price levels, since OPEC—with relatively low-cost oil and the bulk of global surplus capacity—has the ability to significantly alter production. EO 13526 3.5c

In 1995 the combination of rising global oil consumption, a modest increase in non-OPEC production, and higher OPEC production should sustain average oil prices of \$16 to \$17 per barrel. In 1994 oil prices averaged roughly \$15 per barrel but rose to about \$16 per barrel by the end of the year. OPEC production in 1995 is likely to increase gradually, driven by financial pressures in most member countries and capacity expansion in a few countries, but tempered by the desire of key members—especially Saudi Arabia—to maintain price stability. 3.5c

**Consumption Growing**

At prices averaging \$16 to \$17 per barrel, world oil consumption probably will increase slightly in 1995 to reach nearly 68.3 million b/d, up from about 67.5 million b/d in 1994—an increase of just over 1 percent—

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1.4c Slower growth in OECD demand will be more than offset by stronger growth outside the industrialized countries, in a reversal of last year's pattern. Meanwhile, the decline in newly independent states (NIS) oil consumption probably will slow considerably. 3.5c

A consensus of industry 1.4c and press reporting suggests that OECD consumption probably will rise by only 300,000 b/d to reach

**Baseline Price Forecast: Key Assumptions** 1.4c

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Our baseline price forecast is founded on several key assumptions 1.4c

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- Global economic growth equals 3.9 percent in 1995 and 1996; OECD growth equals 3.0 and 2.9 percent, respectively; and US economic growth equals 3.1 and 2.0 percent, respectively.
- There are no major supply disruptions—disruptions of at least 500,000 b/d and lasting a minimum of three months—due to war, accidents, labor strikes, or terrorism.
- There are no major policy or technological changes that substantially affect supply or demand, given the relatively short forecast period.
- Iraq stays off the market through 1995. 3.5c

EO 13526 1.4c, 3.5c

39.7 million b/d. The US Department of Energy (DOE) foresees only a 60,000-b/d rise in US demand—to roughly 17.7 million b/d—and several factors will constrain growth in other developed markets. Demand in Western Europe probably will rise slowly to about 13.9 million b/d—up by about 1 percent from year-earlier levels—because of expected higher taxes on oil and increased substitution of natural gas for oil. Japanese demand probably will remain near 1994 levels of about 5.5 million b/d, barring any weather-driven spike, like that which occurred in the summer of 1994. 3.5c

Non-OECD consumption is likely to grow by about 500,000 b/d, or nearly 2 percent, to reach just over 28.5 million b/d, spearheaded by strong growth in a number of major Asian markets:

- In Asia, Chinese consumption will equal just over 3.4 million b/d—up by about 6 percent—while Indian consumption most likely will rise by about 3 percent to almost 1.4 million b/d. South Korean and Thai consumption will rise by 6 and 8 percent, respectively, to nearly 1.9 million b/d and 0.6 million b/d, respectively.
- The decline in NIS oil consumption is likely to slow considerably as the deep slide in Russian industrial production moderates. Consumption probably will fall by only about 7 percent in 1995 to roughly 4.6 million b/d, as compared with a 14-percent drop in 1994.
- The rest of the world probably will see demand grow by about 2 percent in 1995. Oil consumption in several regions—Africa, Latin America, and the Middle East—probably will rise modestly. 1.4c however, expect a continued fall in East European consumption. 3.5c

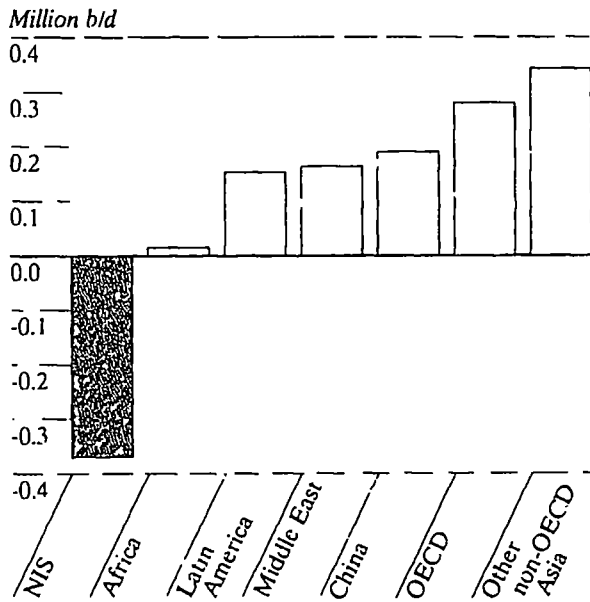
**Non-OPEC Production Up Slightly**

After rising by nearly 150,000 b/d to about 40 million b/d in 1994, non-OPEC oil production will most likely rise by almost 300,000 b/d in 1995 to just over 40.3 million b/d in 1995.<sup>1</sup> Increased production from both existing and new fields in Africa, Asia, Latin America, the Middle East, and the North Sea will exceed continued reductions in US and NIS output. 1.4c

1.4c

<sup>1</sup> Production figures include natural gas liquids (NGLs) unless noted. Non-OPEC production estimates include nearly 1.7 million b/d of refinery gain and synthetic fuels production. 3.5c

**Figure 2**  
**Expected Changes in World**  
**Oil Consumption, 1995<sup>a</sup>**



<sup>a</sup> Compared to 1994 levels.

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OECD countries are likely to produce about 17.2 million b/d, up by roughly 250,000 b/d from 1994. Rising output in Western Europe—particularly the North Sea—Australia and Canada will offset US declines:

- UK output should exceed 2.6 million b/d, up by roughly 150,000 b/d from 1994, as fields brought on line this year reach peak production and new fields in the West of Shetlands area begin production, according to industry and press reports.
- Norwegian production should rise by about 150,000 b/d to reach just over 2.7 million b/d.
- In Australia, the startup of new fields and enhanced recovery at existing fields on the Northwest Shelf and in the Bass Straits should boost production by about 50,000 b/d to about 650,000 b/d, according to industry press.

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According to DOE estimates, US production will fall—by just over 100,000 b/d—to levels of roughly 8.3 million b/d.

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Non-OECD production should remain roughly constant at 21.5 million b/d as rising production in Asia, Africa, Latin America, and the Middle East offsets declining NIS production:

- Asian production will rise to about 4.9 million b/d—up by roughly 100,000 b/d—due to output growth in China, India, Malaysia, Papua New Guinea, Vietnam, the Philippines, and Taiwan, based on industry and press reports.
- The Middle East will produce almost 1.9 million b/d in 1995—as compared to about 1.8 million b/d this year—reflecting production growth in Syria, Oman, and Yemen, according to industry reports.
- African production will increase by roughly 80,000 b/d to nearly 2 million b/d as Angola, Congo, and, to a lesser extent, Tunisia expand output, based on industry reporting.
- Latin American production will rise by roughly 125,000 b/d to reach almost 5.9 million b/d, reflecting growth in Colombia, Brazil, Ecuador, and Peru. On the downside, Mexican production is likely to fall by roughly 60,000 b/d to 3.1 million b/d.

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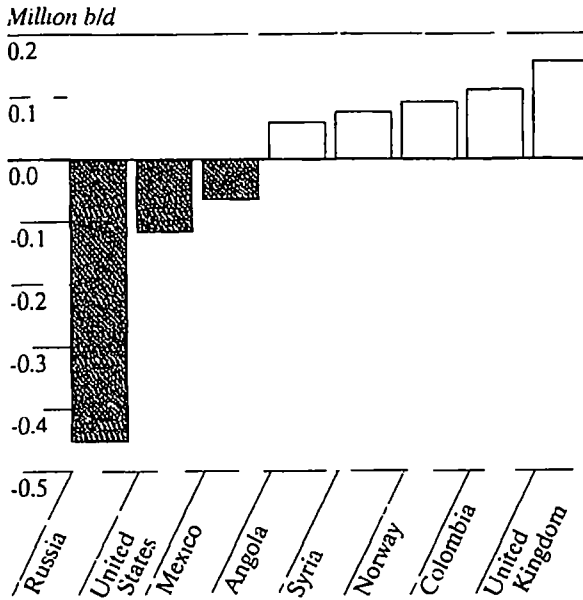
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Eurasian production should fall to roughly 6.9 million b/d, down from about 7.3 million b/d in 1994. NIS output is expected to decrease by just over 400,000 b/d—to about 6.7 million b/d—as compared to a drop of roughly 900,000 b/d in 1994. On the basis of industry and Russian Government projections, the decline in Russian output should slow as idle wells are reactivated, oilfield production equipment is repaired, and joint-venture producers add capacity. East European production will hold steady at roughly 250,000 b/d.

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**Figure 3**  
**Expected Key Changes in Non-OPEC**  
**Oil Production, 1995<sup>a</sup>**



<sup>a</sup> Compared to 1994 levels.

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**Factors Affecting OPEC Production**

OPEC production is the key determinant of oil prices in 1995. How OPEC—and especially members in the Persian Gulf—responds to rising demand for oil in concert with non-OPEC production capacity constraints depends on OPEC member capacity expansion and financial pressures 3.5c

Although all OPEC members favor higher prices, key members vary on the size of the desired increase and thus on the amount of oil that should be produced:

- 1.4c Riyadh would prefer a modest price increase to at least \$18 per barrel but—to preserve the long-run demand for its oil—is prepared to raise output to keep prices from rising much beyond that level.

- Kuwait—along with the United Arab Emirates (UAE)—might raise production if prices climb above \$20 per barrel. 1.4c

- Price hawks in Iran, on the other hand, want prices to rise to the cartel's official \$21-target level, according to press 1.4c reports.

As in past years, OPEC member discipline in observing production quotas will tend to moderate price swings. Surging prices will tend to stimulate overproduction, while falling prices will tend to promote greater discipline. 3.5c

**Capacity Expansion.** A number of OPEC members will add production capacity in 1995, raising the potential for greater overproduction relative to quotas.

1.4c  
1.4c overall  
production capacity will most likely rise to about 31.4 million b/d, as compared to 30.7 million b/d in 1994. Most notably, Venezuela, Kuwait, and the UAE 1.4d will add capacity this year:

- Kuwaiti production capacity—including the Neutral Zone—is likely to increase to 3 million b/d, up from roughly 2.8 million b/d this year. Expansion projects include an extensive drilling program and implementation of enhanced recovery systems to further develop existing fields, especially Kuwait's northern and western fields. 3.5c

- Caracas will most likely boost capacity to roughly 3 million b/d in 1995 from 2.8 million b/d this year, in pursuit of its goal to reach 4 million b/d by 2002, through reactivation of shut-in fields and planned expansion projects.

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**Table 2**  
**World Oil Consumption and Production, 1993-95**

Million b/d

	1993	1994				1995*					
	Annual	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
<b>Consumption</b>	<b>67.0</b>	<b>68.5</b>	<b>66.2</b>	<b>67.2</b>	<b>68.2</b>	<b>67.5</b>	<b>69.4</b>	<b>66.8</b>	<b>67.9</b>	<b>69.2</b>	<b>68.3</b>
OECD	38.8	40.4	38.2	39.1	40.2	39.5	40.8	38.2	39.3	40.6	39.7
United States	17.2	17.8	17.4	17.5	17.9	17.7	17.8	17.3	17.8	18.0	17.7
Canada	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Japan	5.4	6.3	4.9	5.4	5.6	5.5	6.4	5.0	5.2	5.7	5.5
Western Europe	13.6	13.8	13.4	13.5	14.2	13.7	14.1	13.5	13.7	14.4	13.9
Australia/New Zealand	0.8	0.8	0.8	0.9	0.9	0.8	0.8	0.8	0.9	0.9	0.8
Non-OECD	28.3	28.1	28.0	28.0	28.0	28.0	28.6	28.5	28.5	28.5	28.5
Africa	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Asia	9.6	10.0	10.0	10.0	10.0	10.0	10.6	10.6	10.6	10.6	10.6
China	3.1	2.9	3.1	3.2	3.7	3.2	3.4	3.4	3.4	3.4	3.4
Eurasia	7.0	6.2	6.1	6.1	6.1	6.1	5.8	5.7	5.7	5.7	5.7
NIS	5.8	5.0	5.0	5.0	5.0	5.0	4.6	4.6	4.6	4.6	4.6
Latin America	5.7	5.9	5.9	5.9	5.9	5.9	6.0	6.0	6.0	6.0	6.0
Middle East	3.4	3.5	3.5	3.5	3.5	3.5	3.7	3.7	3.7	3.7	3.7
Other	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
<b>Production</b>	<b>66.9</b>	<b>67.4</b>	<b>66.9</b>	<b>67.0</b>	<b>68.0</b>	<b>67.3</b>	<b>68.3</b>	<b>68.0</b>	<b>68.3</b>	<b>68.9</b>	<b>68.4</b>
Non-OPEC	39.9	39.9	39.8	39.7	40.7	40.0	40.4	40.3	40.1	40.5	40.3
OECD	16.3	16.8	16.8	16.6	17.5	16.9	17.3	17.2	17.0	17.3	17.2
United States	8.6	8.4	8.3	8.3	8.5	8.4	8.4	8.2	8.2	8.2	8.2
Western Europe	5.0	5.6	5.7	5.5	6.0	5.7	5.9	6.0	5.8	6.1	6.0
Canada	2.2	2.2	2.2	2.2	2.4	2.2	2.3	2.3	2.3	2.3	2.3
Other	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Non-OECD	22.0	21.5	21.4	21.5	21.6	21.5	21.5	21.5	21.5	21.5	21.5
Africa	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Asia	4.7	4.8	4.8	4.8	4.8	4.8	4.9	4.9	4.9	4.9	4.9
China	2.9	2.9	2.9	2.9	2.9	2.9	3.0	3.0	3.0	3.0	3.0
Eurasia	8.3	7.4	7.3	7.3	7.3	7.3	6.9	6.9	6.9	6.9	6.9
NIS	8.0	7.2	7.1	7.1	7.0	7.1	6.7	6.7	6.7	6.7	6.7
Latin America	5.6	5.7	5.7	5.8	5.9	5.8	5.9	5.9	5.9	5.9	5.9
Middle East	1.6	1.7	1.7	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9
Refinery gain/synfuels <sup>b</sup>	1.6	1.6	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.7
OPEC	27.0	27.5	27.1	27.3	27.5	27.3	27.9	27.7	28.2	28.5	28.0
Gulf	17.9	18.2	17.7	18.1	17.8	18.0	18.3	18.2	18.6	18.8	18.5
Non-Gulf	9.1	9.3	9.4	9.2	9.5	9.3	9.6	9.4	9.6	9.7	9.6

Note: Figures may not add to the totals shown due to rounding.

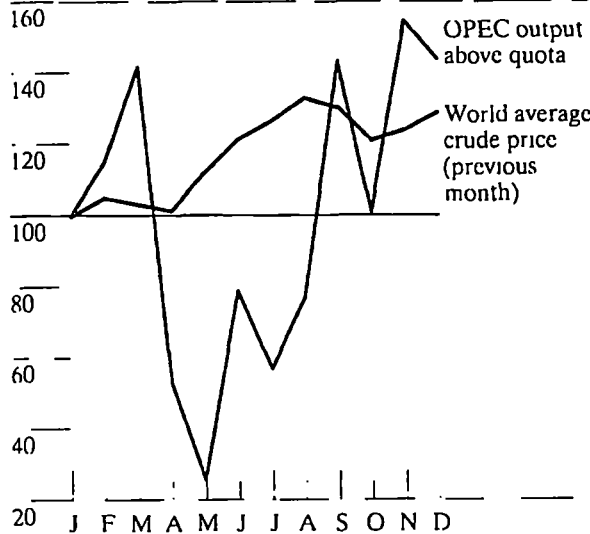
\* Estimated

<sup>b</sup> When refined, 1 barrel of crude oil typically yields more than 1 barrel of products.

EO 13526 3.5c

**Figure 4**  
**OPEC Overproduction**  
**and Oil Prices, 1994**

Index: January 1994=100



deficit of \$8-9 billion in 1995, assuming oil prices average about \$17 per barrel. 1.4c

EO 13526 3.5c, 1.4c

• 1.4c Kuwait's budget deficit will increase to about \$5.4 billion in 1995, up from roughly \$4.7 billion in 1994, reflecting continued expenditure growth. The deficit could decline, however, if a 25-percent budget cut is implemented as Kuwait's finance minister has promised.

EO 13526 1.4c, 3.5c

In contrast, for some countries—especially Nigeria and Iran—debt problems threaten to curtail capacity and production:

EO 13526 3.5c 3473680G 7-95

- The UAE initiated in 1992 a \$5-6 billion plan to increase production capacity. Although several projects have been delayed, UAE capacity should reach 2.7 million b/d by the end of 1995, as compared to about 2.6 million b/d in 1994.

Saudi capacity will reach 11.1 million b/d, up slightly from 11 million b/d in 1994—including Saudi's share of Neutral Zone capacity. This figure reflects expansion projects completed during the latter part of 1994 in the Az Zuluf and Hawtah fields. 3.5c

**Financial Pressures.** A number of OPEC countries are experiencing rising budget deficits and mounting debts, intensifying pressure to boost oil production and revenues:

- 1.4c Saudi Arabia will run a fiscal deficit of about \$9 billion in 1994—roughly 20 percent of the government's budget—and a likely

- Iran's inability to repay its debts has considerably hampered efforts to obtain funding for gas reinjection projects, necessary to sustain production capacity at or near Tehran's 3.6-million-b/d quota. On the basis of export and production statistics, we estimate Iranian oil export revenues approximated \$12.6 billion in 1994—nearly 90 percent of total export earnings—which is insufficient to cover debt service, all planned projects to maintain and expand production capacity, and other needs for hard currency, including sustaining arms purchases at 1993 levels of roughly \$1.1 billion.

- Nigerian output could fall below 1994 levels of about 2.2 million b/d if the government fails to redress payment arrearages of over \$800 million to

EO 13526 1.4c, 3.5c

**Table 3**  
**OPEC Oil Production Capacity and Surplus Capacity, 1993-95**

	1993			1994			1995*		
	Production	MSC <sup>b</sup>	Surplus MSC	Production	MSC <sup>b</sup>	Surplus MSC	Production	MSC <sup>b</sup>	Surplus MSC
<b>Total OPEC</b>	<b>27.0</b>	<b>29.1</b>	<b>2.2</b>	<b>27.3</b>	<b>30.7</b>	<b>3.5</b>	<b>28.0</b>	<b>31.4</b>	<b>3.5</b>
Persian Gulf	17.9	19.6	1.7	18.0	21.0	3.1	18.5	21.5	3.1
Saudi Arabia	8.7	10	1.3	8.6	10.8	2.1	8.8	10.9	2.1
Iran	3.6	3.6	0	3.6	3.8	0.2	3.7	3.8	0.1
United Arab Emirates	2.4	2.5	0	2.4	2.6	0.1	2.6	2.7	0.2
Qatar	0.4	0.4	0	0.4	0.4	0	0.4	0.4	0
Neutral Zone	0.4	0.4	0	0.4	0.4	0	0.4	0.4	0
Iraq <sup>c</sup>	0.5	0.5	0	0.5	0.5	0	0.6	0.5	0
Kuwait	1.9	2.1	0.2	1.9	2.6	0.6	2.1	2.8	0.7
Non-Gulf	9.1	9.6	0.5	9.3	9.7	0.4	9.6	9.9	0.4
Venezuela	2.6	2.8	0.2	2.7	2.8	0.1	2.8	3.0	0.2
Nigeria	2.0	2.1	0	2.1	2.2	0.1	2.1	2.1	0
Libya	1.4	1.5	0.1	1.4	1.5	0.1	1.5	1.5	0
Indonesia	1.5	1.6	0.1	1.5	1.6	0.1	1.6	1.7	0.1
Algeria	1.2	1.3	0	1.2	1.3	0.1	1.3	1.3	0.1
Gabon	0.3	0.3	0	0.3	0.3	0	0.3	0.3	0

Note. Figures may not add to the totals shown due to rounding.

\*Estimated.

<sup>b</sup>Maximum sustainable capacity (MSC) is the maximum production rate than can be sustained for one year. The capacity assumes prudent operation of facilities within system design rates and production practices that avoid damage to the reservoirs.

<sup>c</sup>Iraqi capacity is constrained by UN sanctions.

EO 13526 3.5c

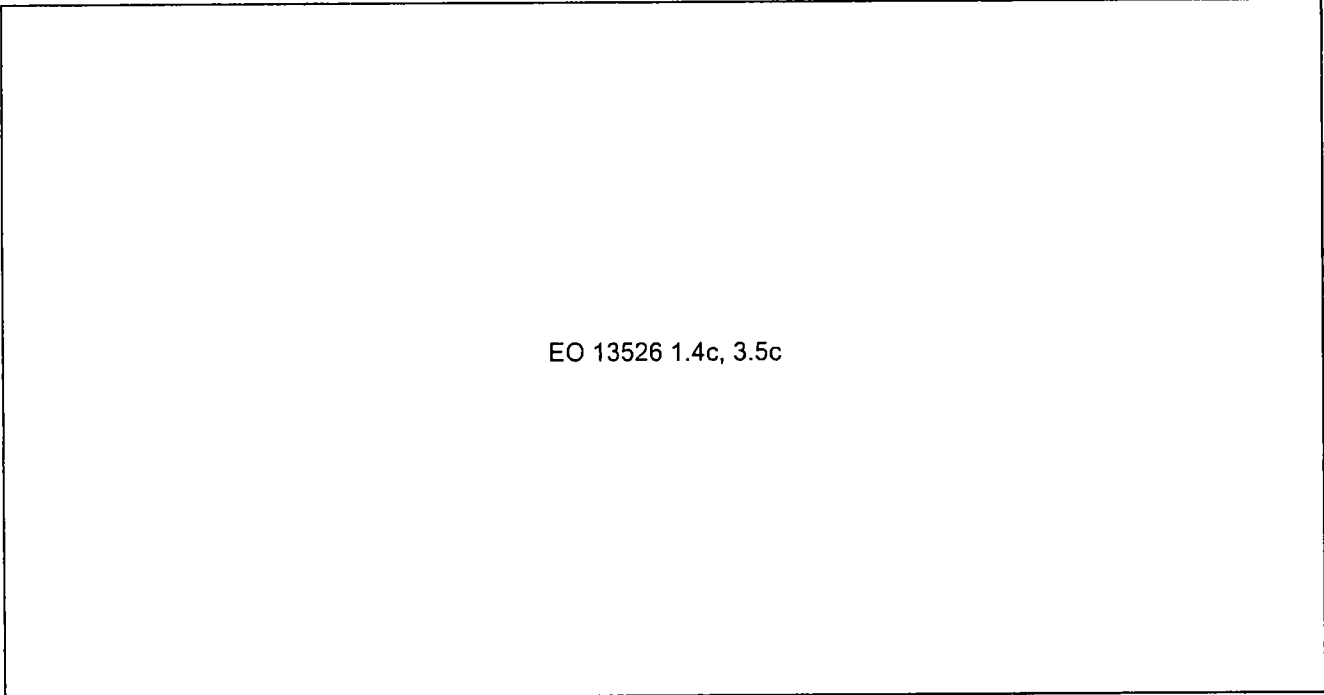
oil firms—the brunt of which falls on Shell, Nigeria's largest operator—and increase its oil sector investment budget, according to [redacted] 1.4c industry reports. Shell's productive capacity probably declined slightly in 1994 as a result of government arrearages [redacted] 1.4c and is likely to fall more precipitously over the next one to two years if its budget is not increased [redacted] 3.5c

match the increase in production capacity, keeping surplus capacity within OPEC—around 3.5 million b/d—steady, relative to 1994. This would mark the first time since the Persian Gulf war that OPEC surplus capacity has not risen. Under these circumstances, prices for the year would average about \$16 to \$17 per barrel, as compared with the 1994 average of about \$15. [redacted]

EO 13526 1.4c, 3.5c

**Base Case Outlook for OPEC Output**

We believe that OPEC production will average roughly 28 million b/d in 1995, up by about 700,000 b/d from 1994. Growth in OPEC production should closely



EO 13526 1.4c, 3.5c

**Key Market Uncertainties**

Several developments affecting consumption or production could cause prices to be higher or lower than our baseline forecast. Resumption of Iraqi exports, higher-than-expected non-OPEC production, and further erosion of OPEC discipline would create pressure for lower prices. More robust consumption growth, supply disruptions, below-expected NIS export levels, or increased OPEC restraint would create pressure for higher prices. [redacted] 3.5c

The combination of cheating on quotas by OPEC members, higher-than-expected non-OPEC output, and the prospects for Iraq's return to the market are collectively more likely than developments that would restrict output and would have the most sizable impact on oil availability. Accordingly, we believe there is greater likelihood that 1995 average prices will be below our baseline forecast level than above it. [redacted]

[redacted] 1.4c, 3.5c

**Factors Causing Lower Prices**

**Resumption of Iraqi Oil Exports.** The key uncertainty for 1995 is whether Iraqi oil returns to the market, which could cause prices to fall substantially below our baseline forecast. Indeed, pressure to ease or remove sanctions in 1995 could increase in light of Baghdad's recent recognition of Kuwaiti sovereignty. Market reaction to Iraq's return would depend on the demand for OPEC oil, OPEC members' willingness to make corresponding cuts in production, and the level of Baghdad's shipments. [redacted]

[redacted] 1.4c

[redacted] II. for example, sanctions were lifted in mid-1995, Iraqi oil exports would average about 1.8 million b/d over the second half of 1995—more than the expected growth in the demand for OPEC oil—forcing OPEC to either accommodate Iraq with production cuts or to face sharply lower prices. [redacted] 3.5c

Although OPEC apparently has no comprehensive strategy for dealing with the resumption of Iraqi exports, enforcing current OPEC member quotas would help to moderate the impact of Iraqi exports on prices. Under our base case scenario, we believe that OPEC members [redacted] 1.4d will continue producing above quota to meet rising demand. If sanctions against Iraq were lifted, OPEC members could cut production to quota levels without appearing to accommodate Baghdad. According to [redacted] 1.4c press reporting, Kuwait and Saudi Arabia both prefer enforcing quotas and allowing Iraqi supplies to absorb rising demand for OPEC oil. Under such a scenario, prices would probably average \$1 to \$3 below the base case because some cheating most likely would continue. [redacted] 3.5c

If stringent OPEC discipline were not maintained, however, prices could fall by at least \$5 per barrel as total OPEC production rose:

[redacted] 1.4c

- Iran has argued publicly that Saudi Arabia—which boosted output sharply following the Iraqi embargo—should reduce output to make room for Iraq.

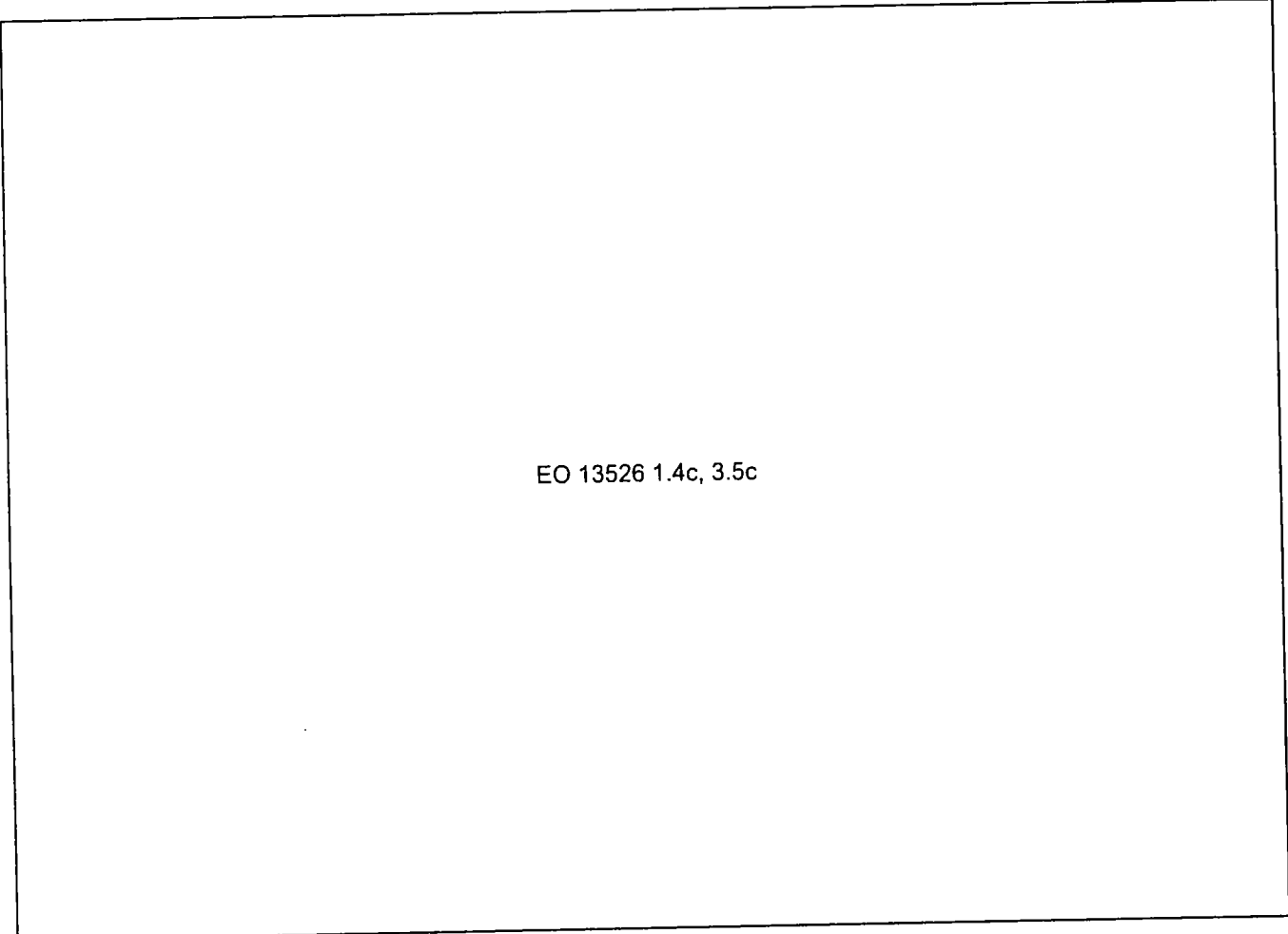
[redacted] 1.4c

Past OPEC behavior suggests, however, that the threat of extremely low oil prices would prompt OPEC to reduce output, especially given the budgetary and financial pressures many OPEC nations are experiencing. Moreover, over a period of several months, increased consumption and reduced non-OPEC production would mitigate the initial impact [redacted] 3.5c

[redacted] EO 13526 1.4c, 3.5c

**Higher-Than-Expected Non-OPEC Output or NIS Exports.** Tax changes, improved production technologies, or changes in Russian policies could prompt larger increases in non-OPEC output than we expect:

- Lower tax rates in the United Kingdom and the increased use of new production technologies boosted 1994 North Sea output about 200,000 b/d over the 1993 forecast, and the same factors could boost 1995 production to higher levels than anticipated.



EO 13526 1.4c, 3.5c

- NIS oil exports could rise above forecasted levels of about 2.3 million b/d<sup>6</sup> if significant economic reforms are implemented next year and an improved investment climate attracts Western oil companies. Moreover, domestic consumption could fall if the Russian Government cuts price subsidies for oil and oil products, thus freeing up more oil for deliveries outside the NIS.

If non-OPEC output increased by several hundred thousand b/d above our base case, prices would probably fall by \$1 to \$2. 3.5c

<sup>6</sup> Transportation capacity constraints will limit NIS oil exports to an increase of several hundred thousand barrels per day, at most.

EO 13526 3.5c

**Withering OPEC Discipline.** OPEC members holding the majority of OPEC surplus capacity—Saudi Arabia, Kuwait, and the UAE—could raise production above levels underpinning our baseline forecast.  

1.4c

  During the 1980s, Riyadh caused prices to fall sharply by raising production unilaterally, a tactic intended ultimately to promote greater OPEC discipline. If Riyadh produced at capacity, prices would probably fall by at least \$5 per barrel, which most likely again would be sufficient to restore greater discipline. 3.5c

EO 13526 1.4c, 1.4d, 3.5c

**Factors Causing Higher Prices**

**More Robust Consumption Growth.** Average oil prices could rise further in 1995 if the world economy grows more rapidly [redacted] 1.4c

[redacted] 1.4c an additional percentage point of global economic growth would boost consumption by about 500,000 b/d, which could cause prices to rise by roughly \$2 to \$3 per barrel if not offset by higher production. Several recent policy decisions by major consumers may also bring more robust consumption growth. For example, Chinese consumption may pick up if Beijing proceeds with a liberalization of oil imports, according to Chinese press reports. [redacted] 3.5c

**Declining NIS Exports.** Although it is likely that Russia's need for hard currency will keep exports steady at about 2.3 million b/d, several developments could reduce NIS exports in 1995. For example, exports could drop if:

- Significant economic reforms are not implemented, which could limit capital necessary for well repair programs and new exploration and development activity, allowing the natural decline of maturing oilfields and falling well productivity to drive Russia's production even lower.

- Russian consumption rises above the base case level due to the failure to sustain a price decontrol program. For political and economic reasons, moreover, Russian deliveries to its NIS neighbors could rise above our base case estimate of 500,000 b/d, forcing reduced exports to the West, particularly to European customers.

Given the Russian need for hard currency, however, we anticipate that Russia will work aggressively to sustain exports at the levels we forecast in our baseline 3.5c

**Supply Disruptions.** Political instability, wars, labor disputes, accidents, or terrorism could significantly reduce output for some key producers. In 1994, for example, civil war in Angola and Yemen and labor strikes in Nigeria and Brazil caused output to decline and boosted prices temporarily by several dollars:

- Civil war in Yemen reduced output from about 345,000 b/d to 150,000 b/d for several weeks during the summer, and recent border clashes with Saudi Arabia suggest a possible recurrence of supply disruptions in 1995.
- An oil workers' strike in Nigeria reduced average August output to less than 1.5 million b/d, as compared to normal output levels of roughly 2 million b/d. 1.4c

EO 13526 1.4c

- In Algeria, 1994's upsurge of attacks against foreigners by Islamic insurgents led several European firms to reduce their exposure. 1.4c 1.4c jeopardizing future flows of oil and natural gas. 3.5c

**Greater OPEC Discipline.** The desire by key OPEC members for higher prices could strengthen OPEC cohesion and encourage discipline, as happened through the spring and summer of 1994. The threat

of higher non-OPEC production, anticipation of Iraq's return, and less-than-expected increases in the demand for OPEC oil could lead to greater quota compliance, especially if prices stay relatively low. Since Saudi Arabia and Kuwait together account for more than three-fourths of OPEC surplus capacity, their production decisions will be crucial in this regard. If these countries fail to boost output as assumed under the base case, prices could rise by \$2 to \$4 per barrel.

3.5c

1.4c

Another year of effectively stable oil prices bodes well for the health of 1.4c world economies. Anticipating stable oil prices, the OECD projects that GDP in 1995 will grow by 3.0 1.4c in OECD countries. 1.4c

1.4c, 3.5c

At the same time, relatively low prices will constrain investment and, hence, future production by high-cost non-OPEC producers. 1.4c and financially strapped OPEC producers. 1.4c

1.4c

Weak prices, in turn, increase the likelihood of unrest or revolution in countries with economies highly dependent on oil production. 3.5c

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NESA 070-95  
21 April 1995

MEMORANDUM FOR:

EO 13526 3.5c

Office of Congressional Affairs

VIA:

Associate Deputy Director for Intelligence

FROM:

(b)(3)

Director of Near Eastern and South Asian  
Analysis, DI

SUBJECT:

Economic Data on Iran

3.5c

1. Attached are economic data on Iran for the House International Relations Committee. As requested, in most cases we provided unclassified and classified data. In some cases we provided one or the other, either because classified data does not add much, if anything, or because unclassified data lacks detail.

3.5c

EO 13526 1.4c, 3.5c

3. If we can be of any further assistance, please let us know.

3.5c

EO 13526 3.5c

Attachments:

- A. Iran: Trade With Top 20 Partners, 1993(a)
- B. Iran: Imports by Comodity, 1993(a)
- C. Official Credits to Iran

EO 13526 3.5c

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EO 13526 3.5c

Iran: Trade With Top 20 Partners, 1993(a)  
 Million US \$

	Iranian Imports, f.o.b.	Iranian Exports, f.o.b.	TOTAL TRADE
Japan	1460	2211	3671
Germany	2488	723	3211
Italy	1295	1255	2550
France	727	1306	2033
South Korea	431	994	1425
Netherlands	324	1077	1401
United Arab Emirates	992	174	1166
United Kingdom	746	335	1081
Turkey	290	606	896
Greece	13	887	900
China	403	282	685
Singapore	96	591	687
United States(b)	616	0	616
Spain	110	534	644
Romania	134	490	624
Brazil	258	267	525
India	160	345	505
Poland	117	386	503
Indonesia	15	457	472
Canada	196	187	383

Sources: UN and IMF Direction of Trade statistics.

(a) Latest year for which the most complete data are available.

(b) Entities who quote larger figures for US-Iran trade do not use internationally accepted methods of calculating bilateral trade. Their figures include, for example, purchases of Iranian oil by US firms outside the United States, sales to Iran by foreign subsidiaries of US firms, and reexports of US goods to Iran by third countries.

Iran: Imports by Commodity, 1993(a)(b)  
Million US \$

Manufactures		9539
Of which:	Machinery	5308
	Semi-finished goods	1602
	Transportation goods	1146
	Chemicals	1055
	Consumer goods	428
Foodstuffs		1085
Raw materials		279
Fuels		159
Other and uncategorized		3135
TOTAL		14197

Sources: UN and IMF Direction of Trade statistics.

Note: Figures may not add because of rounding.

(a) Latest year for which the most complete data are available.

(b) Figures should be considered minimums because UN and IMF Direction of Trade statistics are incomplete.

**Iran: Exports by Commodity, 1993(a)**

*Million US \$*

Fuels	10384
Manufactures	1024
Foodstuffs	482
Raw materials	285
Other and uncategorized	2715
<b>TOTAL</b>	<b>14890</b>

Sources: UN and IMF Direction of Trade statistics.

(a) Latest year for which the most complete data are available.

(b) Figures should be considered minimums because UN and IMF Direction of Trade statistics are incomplete.

**Iran: Foreign Debt Reschedulings with Official and Commerical Creditors,  
1994 to Present**

*Million US \$*

Completed: (a)

Germany	2710
Japan	2000
Italy	1400
Germany (unsecured)	640
Austria	466
South Korea	430
Netherlands (unsecured)	420
Switzerland	312
France	300
Denmark	210
Netherlands	200
Spain	150
Turkey	150
Belgium	140
Sweden	140
United Kingdom (unsecured)	75
Total	9743

Pending:

United Kingdom	200
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Source: Press reports

(a) Most of the rescheduling agreements have a two-year grace period and a four-year repayment period.

**Iran: Foreign Assets**

*Million US \$*

Foreign exchange reserves(a)	5400
Other(b)	NA

(a) Source: Bank for International Settlements (BIS) statistics on Iranian deposits in area financial institutions as of June 1994. BIS reporting banks include banks residing in Austria, the Bahamas, Bahrain, Belgium, Canada, the Cayman Islands, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Luxembourg, Netherlands, the Netherlands Antilles, Norway, Singapore, Spain, Sweden, Switzerland, the United Kingdom, the United States, and the offshore branches of US banks in Panama.

(b) Any nonbank assets, accounts at banks in non-BIS countries, assets and accounts of subsidiaries incorporated overseas, and secret accounts.

**Iran: Sources of Foreign Exchange Receipts, 1992(a)**  
*Million US \$*

Exports	19279
Oil	16343
Nonoil	2936
Services	1081
Passenger services	53
Travel	38
Investment income	340
Other public	126
Other private(b)	524
Transfers	2000
Official	0
Private(b)	2000
TOTAL	22360

Source: Preliminary Iranian statistics reported to the IMF.

(a) Latest year for which complete data are available; data on services and transfers for more recent years are not available.

(b) Although private, these receipts benefit the government by increasing the amount of foreign exchange available in the country for imports, investment, etc.

### Foreign Aid to Iran

Iran is currently receiving some foreign official development assistance both bilaterally and from multilateral organizations, although US pressure has prevented new multilateral aid projects from being approved over the last two years. The only significant bilateral aid package of which we are aware is Japan's \$1 billion OECF loan for the Karun 4 dam

EO 13526 1.4d	
1.4d	Other aid in the pipeline
to Iran includes \$847 million in World Bank loans approved during 1991-1993. These funds are slowly being disbursed.	
EO 13526 1.4d	
1.4d	

### World Bank Projects Approved for Iran, 1991-1993

	(\$ million)
<u>Earthquake recovery project</u>	\$250.0
<u>Sistan region flood control project</u>	\$57.0
<u>Reconstruction of Tehran drainage system</u>	\$77.0
<u>Irrigation improvement projects</u>	\$157.0
<u>Power plant improvement, Qom</u>	\$165.0
<u>Health and Family planning project</u>	\$141.4

Total approved projects: \$847.4

Source: World Bank

EO 13526 1.4c, 3.5c

EO 13526 1.4c, 3.5c

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EO 13526 1.4c, 3.5c

EO 13526 1.4c, 3.5c

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EO 13526 1.4c, 3.5c