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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

9 July 1951

Memorandum for the Director of Central Intelligence

Subject: Role of the Haifa Refinery in the Iranian Crisis

If the British evacuate Iran and Iran's oil industry collapses, the loss of crude oil supplies to the West can probably be replaced almost immediately by expanded production in other areas. The loss of Abadan's refining capacity, however, will be far more serious and will take at least six months to make up. Consequently, the UK will probably intensify its efforts to bring the Haifa refinery back into full production.

The Haifa refinery was forced to close down in 1948 during the Palestine War as a result of the refusal of Iraq to permit oil to flow through the pipeline to Israel. Since 1949, the Haifa refinery has been in partial operation and is now producing about 25 percent of capacity. Crude oil obtained from Venezuela must be paid for in dollars and involves high transportation cost.

The UK, in spite of periodic efforts, has been unable to persuade the Iraq Government to relax its oil embargo against Israel. The British also attempted to transport Persian Gulf crude oil to Haifa by tanker, but this plan was frustrated by the refusal of Egypt to permit the tankers to transit the Suez Canal. Egypt, like Iraq, bases its action on the fact that it is still technically at war with Israel, and, therefore, has the

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DOCUMENT NO. 53
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S ©
NEXT REVIEW DATE: 1990
AUTH: HR 70-2

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right to prevent the shipment through its territory of strategic materials to Israel. Although several nations, including the UK, the US, and Norway, have protested Egypt's action, Egypt has shown no inclination to relax its embargo. A third method by which crude oil might get to Haifa is via the Kirkuk-Tripoli (Lebanon) pipelines and thence by tanker to Haifa. However, although Lebanon might conceivably adopt a more liberal attitude on the problem than the other Arab states, Iraq is also in a position to cut off this supply.

It is extremely unlikely that the UK will be able to break the Iraqi and Egyptian embargoes on oil shipments to Haifa. The problem is inextricably bound up with the whole issue of Arab-Israeli relations and probably cannot be solved until peace and normal economic relations are established between the Arabs and Israelis. There is no indication that such a development will occur in the foreseeable future.

Any serious attempt by the UK to break the Iraqi and Egyptian embargoes would almost certainly have serious consequences. In the current contract re-negotiations between Iraq and the Iraq Petroleum Company (IPC), the Iraq Government is resisting extremist pressures to follow Iran's lead and nationalize its oil industry. Such pressure would greatly increase, however, if IPC were suddenly to revive the Haifa pipeline problem. It is an explosive issue and might well lead to the kind of situation that now exists in Iran. Similarly, British pressure on Egypt to permit tankers bound for Haifa to transit the Suez Canal would almost certainly force a showdown in Anglo-Egyptian relations generally.



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