

Docu-
ment

Y
4

F76/1
0i5/4

ress }
ion }

COMMITTEE PRINT

DOCUMENTS

JAN 9 1974

THE LIBRARY
KANSAS STATE UNIVERSITY

GOVERNMENT

Storage

THE UNITED STATES OIL SHORTAGE AND THE ARAB-ISRAELI CONFLICT

REPORT OF A STUDY MISSION TO THE MIDDLE
EAST FROM OCTOBER 22 TO
NOVEMBER 3, 1973

PURSUANT TO

H. Res. 267

AUTHORIZING THE COMMITTEE ON FOREIGN AFFAIRS
TO CONDUCT THOROUGH STUDIES AND INVESTIGA-
TIONS OF ALL MATTERS COMING WITHIN THE JURIS-
DICTION OF THE COMMITTEE



DECEMBER 20, 1973

Printed for the use of the Committee on Foreign Affairs

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1973

25-724 O

KSU LIBRARIES



✓
A11900 911819

KANSAS STATE
UNIVERSITY
LIBRARY
MANHATTAN

COMMITTEE ON FOREIGN AFFAIRS

THOMAS E. MORGAN, Pennsylvania, *Chairman*

CLEMENT J. ZABLOCKI, Wisconsin
WAYNE L. HAYS, Ohio
L. H. FOUNTAIN, North Carolina
DANTE B. FASCELL, Florida
CHARLES C. DIGGS, JR., Michigan
ROBERT N. C. NIX, Pennsylvania
DONALD M. FRASER, Minnesota
BENJAMIN S. ROSENTHAL, New York
JOHN C. CULVER, Iowa
LEE H. HAMILTON, Indiana
ABRAHAM KAZEN, JR., Texas
LESTER L. WOLFF, New York
JONATHAN B. BINGHAM, New York
GUS YATRON, Pennsylvania
ROY A. TAYLOR, North Carolina
JOHN W. DAVIS, Georgia
OGDEN R. REID, New York
MICHAEL HARRINGTON, Massachusetts
LEO J. RYAN, California
CHARLES WILSON, Texas
DONALD W. RIEGLE, JR., Michigan

WILLIAM S. MAILLIARD, California
PETER H. B. FRELINGHUYSEN, New Jersey
WILLIAM S. BROOMFIELD, Michigan
H. R. GROSS, Iowa
EDWARD J. DERWINSKI, Illinois
VERNON W. THOMSON, Wisconsin
PAUL FINDLEY, Illinois
JOHN H. BUCHANAN, JR., Alabama
J. HERBERT BURKE, Florida
GUY VANDER JAGT, Michigan
ROBERT H. STEELE, Connecticut
PIERRE S. (PETE) DU PONT, Delaware
CHARLES W. WHALEN, JR., Ohio
ROBERT B. (BOB) MATHIAS, California
EDWARD G. BIESTER, JR., Pennsylvania
LARRY WINN, JR., Kansas
BENJAMIN A. GILMAN, New York
TENNYSON GUYER, Ohio

MARIAN A. CZARNECKI, *Chief of Staff*
ROBERT K. BOYER, *Staff Consultant*
JOAN C. SULLIVAN, *Staff Assistant*

(II)

Docu-
ment

Y

4

F76/1

O: 5/4

FOREWORD

Docs.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D.C., December 20, 1973.

This report has been submitted to the Committee on Foreign Affairs by a special study mission conducted by Representative Leo J. Ryan, of California, between October 22 and November 3, 1973.

The findings in this report are those of Representative Ryan and do not necessarily reflect the views of the membership of the full Committee on Foreign Affairs.

THOMAS E. MORGAN, *Chairman.*

(III)

LETTER OF TRANSMITTAL

WASHINGTON, D.C., *December 20, 1973.*

HON. THOMAS E. MORGAN,
Chairman, Committee on Foreign Affairs,
Washington, D.C.

DEAR MR. CHAIRMAN: There is transmitted herewith my report of a special study mission conducted between October 22 and November 3, 1973. I was accompanied by Rep. Robert H. Steele of Connecticut, Robert K. Boyer, staff consultant, Committee on Foreign Affairs, and E. H. Steven Berg, administrative assistant to Representative Steele. In Saudi Arabia the study mission was joined by Dr. William A. Johnson, Adviser to the Deputy Secretary of the Treasury on Energy Matters. Mr. Steele has submitted a separate report to the Committee of his findings, conclusions, and recommendations resulting from the mission. His report was published separately in the Congressional Record. The oil section of this report is partially based on a text submitted by Mr. Steele. The findings, conclusions, and recommendations in this report, however, are mine.

The primary purpose of the study mission was to gather information pertaining to the impact of the Arab-Israeli conflict on U.S. oil imports from Arab countries.

The study mission also examined the political, economic, and military implications of the October, 1973 Arab-Israeli war and the prospects for a peace settlement in the Middle East. The results of this portion of the study appear in part II of the report.

In the field, the study mission conferred with a wide range of individuals, including U.S. diplomatic and military officials, high-ranking representatives of foreign governments, oil company officials and private citizens with expertise on the subject of oil.

Our study was highlighted by a tour of Northern Israel into the Golan Heights and audiences with King Hussein of Jordan and King Faisal of Saudi Arabia.

I would like to express my thanks and appreciation for the assistance, cooperation and hospitality extended to the members of the study mission by officials of the Department of State, the Department of the Treasury, and the U.S. missions in the countries visited.

It is hoped that the information contained in this report will be helpful to the members of the Committee on Foreign Affairs and the Congress in their deliberations both on the energy crisis and the United States role in the Middle East.

LEO J. RYAN.

CONTENTS

	Page
Foreword.....	III
Letter of transmittal.....	V
Digest of report.....	IX
The oil problem.....	IX
Findings, and conclusions.....	XII
Recommendations.....	XIII
The October war and peace prospects.....	XV
Findings and conclusions.....	XV
Recommendations.....	XVI
Maps:	
Middle East oil facilities.....	XVIII
A. Territory captured by Israel from Egypt in the June 1967 War....	31
B. Israeli positions on the Egyptian front after the October 1973 War	32
C. Israeli-Syrian positions in the Golan Heights after the June 1967 War	33
D. Israeli position in Syria after October 1973 War.....	34
PART I—THE OIL SITUATION	
Dimensions of U.S. Dependence on Arab oil.....	1
Impact of Arab embargo on U.S. oil supply.....	1
Direct imports of Arab oil.....	2
Indirect imports of Arab oil.....	4
The situation in Italy.....	5
The situation in the Netherlands.....	7
The situation in Spain.....	8
Economic effect of the embargo.....	9
The Arab oil producers—a new solidarity.....	11
Background.....	11
Recent events.....	11
The Kuwait agreement to embargo oil.....	12
The embargo and the escalation of production cuts.....	13
Enforcement of the embargo.....	15
The second Kuwait meeting—November 4.....	16
The crucial role of Saudi Arabia.....	17
The role of the major oil companies.....	20
Dealing with the embargo—alternatives.....	22
Self-sufficiency in energy.....	22
Conservation of available oil supplies.....	24
Availability of non-Arab oil.....	25
Prospects for a counterembargo.....	25
Military occupation of Arab oil fields.....	27
Reconciliation with the Arab oil producers.....	27

VIII

PART II—POLITICAL-MILITARY ISSUES

	Page
The October 1973 war.....	29
The military situation.....	29
Political-economic implications of the war.....	35
Israel:	
Political problems.....	35
Economic problems.....	35
The Arabs:	
Diplomatic advances.....	36
Sadat and Faisal—emerging leaders.....	36
Hussein—man in the middle.....	37
Framework for peace negotiations.....	39
The Sinai and the Golan Heights.....	40
The Palestinian refugees.....	41
Jerusalem.....	42
Cooperation between the United States and the Soviet Union.....	42

APPENDIXES

1. Schedule of meetings, interviews and discussions.....	45
2. Text of the October 17, 1973 communique of a meeting of the Organization of Arab Petroleum Exporting Countries in Kuwait.....	48
3. Text of the November 4, 1973 communique of a meeting of the Organization of Arab Petroleum Exporting Countries in Kuwait.....	49
4. Minutes of study mission interview with H. E. Sheikh Ahmad Zaki Yamani, Saudi Arabian Minister of Petroleum and Mineral Wealth.....	50
5. A National Energy Plan of Action.....	53
6. Data and Analysis Concerning the Possibility of a U.S. Food Embargo as a Response to the Present Arab Oil Boycott.....	61
7. Summary of UNRWA annual report showing services to Palestinian refugees jeopardized by financial crisis.....	68
8. A chronology of events in the Middle East, October 6 to November 26, 1973.....	71

DIGEST

The burgeoning U.S. energy crisis has dealt our Nation the most serious threat to its national security since World War II. Although world petroleum shortages have been increasing in recent years, the latest Arab-Israeli war has dangerously impeded our country's ability to obtain the amount of oil necessary for its security and well-being.

In addition to aggravating the worldwide petroleum squeeze, the October Arab-Israeli war imposed unspeakable human losses on both sides, destroyed materiel and infrastructure to the extent that the economies of the warring parties were dealt serious setbacks, and precipitated a potentially deadly United States-Soviet confrontation reminiscent of the Berlin wall and Cuban missile crisis.

THE OIL PROBLEM

The United States has only recently become aware of the scope of its dependence on oil produced in the Arab nations of the Middle East. As late as the second week of the October Arab-Israeli war, certain White House spokesmen, as well as some Members of the House and the Senate, were asserting that the United States was only 5 to 6 percent dependent on petroleum from Arab oil-producing countries. The American public was in for a "crude" shock—for the inaccuracy of such estimates has not only slowed the response of our Government to the oil embargo, but it has also done a great disservice to the American consumers who were led to believe that the embargo would not affect them severely.

The study mission's research and inquiries into the dimensions of our Nation's dependence on Arab oil revealed four factors which must be taken into consideration when the full amount of Arab oil finding its way to the United States is measured. These factors are: (1) crude oil imported directly from Arab countries; (2) Arab crude oil exports transshipped through other countries to the United States; (3) refined petroleum products from Arab refineries and from refineries of other countries such as the Netherlands which process Arab crude oil for U.S. markets; and (4) imports which represent trades of oil with countries like Canada, which finds it profitable to engage in such a transaction due to its own Arab oil imports. Taking all four factors into consideration, one finds that the United States is currently dependent on Arab oil for 14 to 18 percent of its total petroleum requirements, the significance of which the executive branch has recognized belatedly.

Putting U.S. dependence on Arab oil into the perspective of our total energy requirement, one finds that it was necessary for Americans to import one-third of its daily consumption of oil (averaging 17.3 million barrels in 1973) with at least one-third of those imports

related to Arab production. The significance of U.S. imports of Arab oil looms even larger when one considers that oil furnishes at least 50 percent of the total U.S. energy requirement, and, had the embargo not been imposed, U.S. imports of Arab oil were scheduled to increase greatly in coming months.

While it is too early to forecast the medium- to long-term effects of the Arab embargo on the United States, it is clear that if the embargo is prolonged, the economic consequences will be serious, notwithstanding efforts to conserve available energy and to develop new and alternative sources. Already, some executive branch estimates put the unemployment rate at 8 to 9 percent by 1975 (8 million people) if the embargo continues. Moreover, to borrow an economic term, a continuing critical shortfall of oil could have an adverse "multiplier" effect on the economy. Industries, businesses, and offices will be forced to cut back operations, resulting in a retardation of our economic growth and a new round of inflation.

In addition to causing long-term economic dislocations, the Arab oil embargo will have an immediate effect on two areas of the Nation—New England and the upper Midwest. For example, one-fourth of the residual oil (used to produce electricity) and 80 percent of the distillate fuel (heating oil) imported by the east coast States is refined from Arab oil.

Even more critically affected by the Arab embargo and production cuts are the countries of Western Europe which depend on Arab countries for 87 percent of their petroleum requirements and Japan with a 40 percent dependence. Thus, the Arab actions have produced a worldwide oil squeeze which will sharply increase competition for the limited supplies of other producing countries, such as Venezuela, Nigeria, and Iran.

The Arab oil states have been able to inflict a serious oil shortage on the industrialized nations of the non-Communist world due to their ability to present a united front to a disorganized group of oil-consuming nations. That united front derives its power and cohesiveness from two organizations—the Organization of Petroleum Exporting Countries (OPEC), which includes the world's principal oil exporting countries and its sister group, the Organization of Arab Petroleum Exporting Countries (OAPEC).

In 1971 the OPEC countries first showed their muscle when they concluded an agreement in Teheran with the major oil companies which gained them a major price increase and participation in oil company assets and profits. It was this agreement which saw the balance of power tip in favor of the producers.

In the first week of October 1973, coinciding with the opening guns of the October Arab-Israeli war, OPEC again presented the major oil companies with a set of price increase demands in Vienna. When the Vienna meeting failed to produce a compromise, the six Persian Gulf State members of OPEC met in Kuwait on October 16 and unilaterally announced a 17-percent increase in the base market price of a barrel of oil (\$3.65). This action enabled producing countries to greatly increase the amount of money made on each barrel of crude oil and paved the way for the Arab producers' subsequent embargo and production cuts.

Meeting again in Kuwait, the oil ministers of OAPEC imposed a total embargo on the United States and the Netherlands for their support of Israel. South Africa, Rhodesia, and Portugal were added later. In addition, the Arab oil states also announced a cut in production totaling 25 percent of their September 1973 output.

To enforce the embargo, the OAPEC countries instituted a sophisticated plan which has enabled them to keep detailed information on every barrel of oil leaving their borders. In addition, the Arab oil producers have been receiving the cooperation of recipient countries who, for fear of being included in the embargo, have discontinued both transshipments of crude oil and refined products to the United States.

Thus far, the only cracks in OAPEC's solidarity on the embargo appear to be Libya and Iraq, who reportedly are exporting crude oil in amounts exceeding the OAPEC 25 percent reduction level. In the case of Libya, it is believed that some of its crude oil exports are still going to Caribbean refineries for final shipments to U.S. markets, but not in enough amounts to have a beneficial effect on the shortfall caused by the embargo.

The role of Saudi Arabia has been crucial to the effectiveness of OAPEC's actions. The study mission found that Saudi Arabia originally supported the production cut policy but opposed embargoing the United States and the Netherlands. However, when the President's \$2.2 billion military assistance request for Israel was made public, Saudi Arabia changed its position and the embargo went into effect.

What allows Saudi Arabia its position as the most influential and powerful member of OAPEC? First, its soil contains the largest known oil reserves in the world—150 billion barrels. Second, it is the world's largest exporter of crude oil. Third, its revenue from oil sales far exceeds its expenditure requirements. The latter attribute has led Saudi Arabia to embrace a policy which has already had a profound effect on the oil market. Recognizing that even their enormous reserves are finite, they have opted to reduce production, maximize income through increased prices, and let as much oil as possible "appreciate" in the ground. With few exceptions, major oil producers around the world have followed suit in this policy as a hedge against the future.

In summary of the oil problem, the following observations can be made. With some exceptions (Libya and Iraq), the embargo and production cuts are being faithfully applied by the Arab oil states. The embargo is being enforced. Coupled with the production cuts, the embargo is causing serious shortfalls in the oil supplies in the United States, Western Europe, and Japan. As a result, most of the nations of Western Europe and Japan have altered their Middle East policies, which was the purpose of the Arab oil states actions.

Given the impact of the embargo on the United States what can be done to deal with it? For the long term, it is imperative that the United States become less dependent on foreign sources of energy, especially such politically unstable sources as the Middle East. To do so will require a crash research and development program similar to the Manhattan and Apollo projects in which America achieved seemingly impossible goals in relatively short-time frames. In the short

run, it will be necessary to stringently conserve existing energy supplies while doing what can be done within reason to convince the Arab producers to lift the embargo.

Findings and Conclusions

Current dependence on Arab oil

The United States is currently dependent on Arab sources of oil for between 14 and 18 percent of its total petroleum use.

Future dependence

Barring an indefinite application of the Arab embargo and the rapid development of alternative sources of energy, U.S. importation of Arab oil, both direct and indirect, will increase dramatically by 1980. The National Petroleum Council estimates that, without effective conservation measures or other restraints on demand, U.S. consumption by 1980 could reach 24 million barrels per day. At least one-fourth of that total would have to be imported from Arab sources.

The embargo

Saudi Arabia only agreed to participate in the embargo after the President's \$2.2 billion military aid request for Israel was made public. The study mission learned that the U.S. Embassy in Saudi Arabia was not consulted on the timing or possible effect of the request. Failure to consult adequately with appropriate Department of State personnel may have contributed to our present crisis.

As long as the embargo is in effect, the United States will not be able to import essential refined products from the Netherlands, Italy, or Spain, all three of which are normally sellers to U.S. markets.

The embargo has forced U.S. naval fleets normally reliant on Arab oil to dip into domestic supplies.

Importance of Saudi Arabia

Experts believe that Saudi Arabia's estimate of its oil reserves (150 billion barrels) is low. Therefore, it is believed that Saudi Arabia could easily increase its production. If the embargo were lifted, availability of Saudi Arabian oil would not solve the U.S. energy crisis but it could fill much of the current gap between supply and demand for oil.

Because of Saudi Arabia's leadership among the Arab oil states and its strong financial position, it is in the interest of the United States to maintain good relations there. Last year alone, American firms and contractors in Saudi Arabia repatriated over \$1 billion in profits to the United States.

Alternative sources of oil

According to the Department of State's Office of Fuels and Energy, the possibility for compensating for the Arab embargo by increasing imports from non-Arab producers is virtually nil.

Production of U.S. oils can be raised but only to a small extent. Any significant jump could permanently damage the wells.

Increased off-shore drilling within the Continental Shelf would not be of any significant relief in the petroleum shortage in the immediate future nor in the long range.

Counterembargo

To be effective, a counterembargo against the Arab oil states would have to be a multilateral effort involving a majority of the industrialized nations. The lack of cooperation among the countries of Western Europe in face of the embargo and production cuts makes such a response unlikely in the immediate future.

Nevertheless, in spite of the present disunity among the nations dependent on Arab oil, the industrialized countries must recognize that international cooperation is imperative if they are to effectively confront such energy cartels as OPEC and OAPEC. Therefore, the study mission believes that the United States should promote the formation of an "International Organization of Energy Importing Nations" under the auspices of the 24-member Organization for Economic Cooperation and Development (OECD).

Recommendations

To increase domestic production

Congress should approve the executive branch's request to open up the Elk Hills Naval Petroleum Reserve. This reserve can produce, almost immediately, 160,000 barrels per day, and after a year and some improvements, 300,000 barrels per day.

To conserve available fuel

In order to deal with the immediate crisis, we must conserve our available fuel supplies. The best conservation measure is to allow fuel prices to rise to a level sufficient to induce consumers to limit their nonessential use of energy.

In addition to the voluntary and mandatory gasoline conservation measures already being applied, the study mission recommends that consideration be given to an indefinite exemption from emission control devices for four-cylinder automobiles. Such a measure would encourage both the manufacturer and the buyer to turn to more economical private automobiles.

The United States should, as a general policy, encourage people to live nearer their jobs. We should also make better utilization of our high-rise office buildings. The present 40-hour-per-week use of these buildings is one of the most inefficient uses of energy.

Long term measures

The United States should encourage the acceleration of the development of energy resources in the deep seabed.

One of the reasons which forces the United States to rely on so much imported refined oil, is the shortage of domestic refineries. A major cause of the reluctance to build new refineries is the feared environmental danger inherent in such projects. Therefore, we must seek to develop a technology which will minimize the environmental effect of much needed new oil refineries.

Consideration should be given to those actions that would immediately stimulate a maximum feasible effort by the oil companies in exploring new oil and gas wells. Such incentives could include, but not be limited to: Allowing the price of gas at the wellhead to rise to a level that would induce increased production and increased exploratory efforts; and providing tax incentives which would permit an accelerated depreciation of capitalization on a short-term basis.

Regulatory procedures should be revised to discourage the switch from coal to oil by electric utilities.

One of the most abundant resources of energy available to this country are our domestic reserves of anthracite coal. This is a hard, clean-burning coal. The initial capital investment necessary to extract this coal, however, precludes profitable extraction of this resource. Therefore, consideration should be given to providing financial incentives to the extractive industry that would encourage the immediate opening of mines. These incentives could be in the form of either preferential tax incentives or a direct subsidy of the initial capitalization.

We must undertake a massive program of research and development aimed at freeing ourselves from excessive dependence on oil. This should include, in addition to undersea exploration, research into solar, thermal and hydrogen fusion energy. However, it should be well understood that such an effort will not bear fruit soon enough to deal with the immediate effects of the embargo.

THE OCTOBER WAR AND PEACE PROPOSALS

Hopefully, the fourth Arab-Israeli war will serve as a watershed in the history of the Middle East conflict.

For both sides, the results of the latest war changed nothing in the basic dispute. The principal Arab combatants, Egypt and Syria, ostensibly began the war to regain lands lost in the June 1967 war. Yet when the cease-fire took hold, Israeli forces had forged even deeper into Egyptian and Syrian territories. While in a narrow sense, it can be said that Israel won a military victory, it was a pyrrhic victory in other respects. Their casualties (the U.S. equivalent would be 155,000 dead and 500,000 wounded) were the worst since the 1948 war of independence. The initial successes of the Arab forces shattered Israel's image of invincibility and shed doubt in the minds of many Israelis on the effectiveness of the occupied territories as buffer zones in defense of Israel's real borders.

Although the Arabs failed in their military objectives, they made considerable diplomatic advances and achieved greater solidarity among Arab countries than ever before. Israel emerged from the war diplomatically isolated except for the United States, the Netherlands, South Africa, Rhodesia, and Portugal, all of whom have been embargoed by the Arab oil states.

On the positive side, the study mission was given a strong impression that the principal parties involved in the Middle East conflict now are willing to make a serious effort to resolve the territorial disputes and to attempt to find a solution to the Palestinian issue. Finally, the study mission received indications that the thorniest issue, Jerusalem, can be separated from other issues more amenable to compromise.

Findings and Conclusions

Israel's ability to turn back the Arab forces on two fronts shows that the Israeli Defense Force remains the single most effective military establishment in the Middle East.

However, Arab forces have improved to the extent that they are capable of inflicting serious-to-unacceptable losses on Israel.

The Golan Heights region is Israel's most vulnerable point. The study mission learned that, at one point, Syria could have invaded the Jordan Valley of northern Israel but did not due to logistical problems.

The war has shaken Israel's economy but has not severely dislocated it. However, if negotiations do not allow for an Israeli pullback on the two contested fronts and demobilization in the near future, severe economic dislocations may begin to develop.

President Sadat of Egypt and King Faisal of Saudi Arabia have emerged from the war as coleaders of the Arab world. Sadat's leadership is based on his political ability to forge an unprecedented state of unity among traditionally factional Arab nations. King Faisal's ascendancy has resulted from his leadership in the oil embargo, his economic support for the Arab combatants, and his insistence on the return of the Old City of Jerusalem to Arab control.

King Hussein represents a moderating influence in the Middle East. His adroitness kept Jordan in a minor role during the October war and his willingness to permit a plebiscite in the West Bank may offer the best opportunity to resolve the Palestinian issue.

Recommendations

In the opinion of the study mission, a negotiated settlement of the disposition of the Golan Heights and the Sinai is the most urgent requirement of the forthcoming peace conference. There are strong indications that such a settlement would convince the Arab oil states to ease the oil embargo. It is clear that Israel will agree to a return of large areas of the Sinai and the Golan Heights only if it can be assured of defensible borders and a credible external guarantee of security. Therefore, in order to encourage Israel to negotiate a territorial settlement, the United States should consider supporting the following provisions:

(1) In the event of an agreement involving a phased Israeli pullback in the Sinai and the Golan region, a buffer zone should be maintained by U.N. observers with the possible Israeli and Arab participation. Such a provision is essential in the Golan Heights where Israel is particularly vulnerable.

(2) In order to encourage a permanent boundary settlement, the Sinai and Golan areas should be demilitarized under the auspices of the United Nations.

(3) The United States should consider entering into a formal bilateral agreement to guarantee Israel's territorial integrity. Such a guarantee should meet the following criteria: (a) It should seek to give Israel reliable assurance of physical security in territory defined by borders accepted by all sides of the conflict; (b) it should be entered into only parallel to a general territorial settlement; (c) it should seek to avoid any further polarization of United States and Soviet roles in the Middle East.

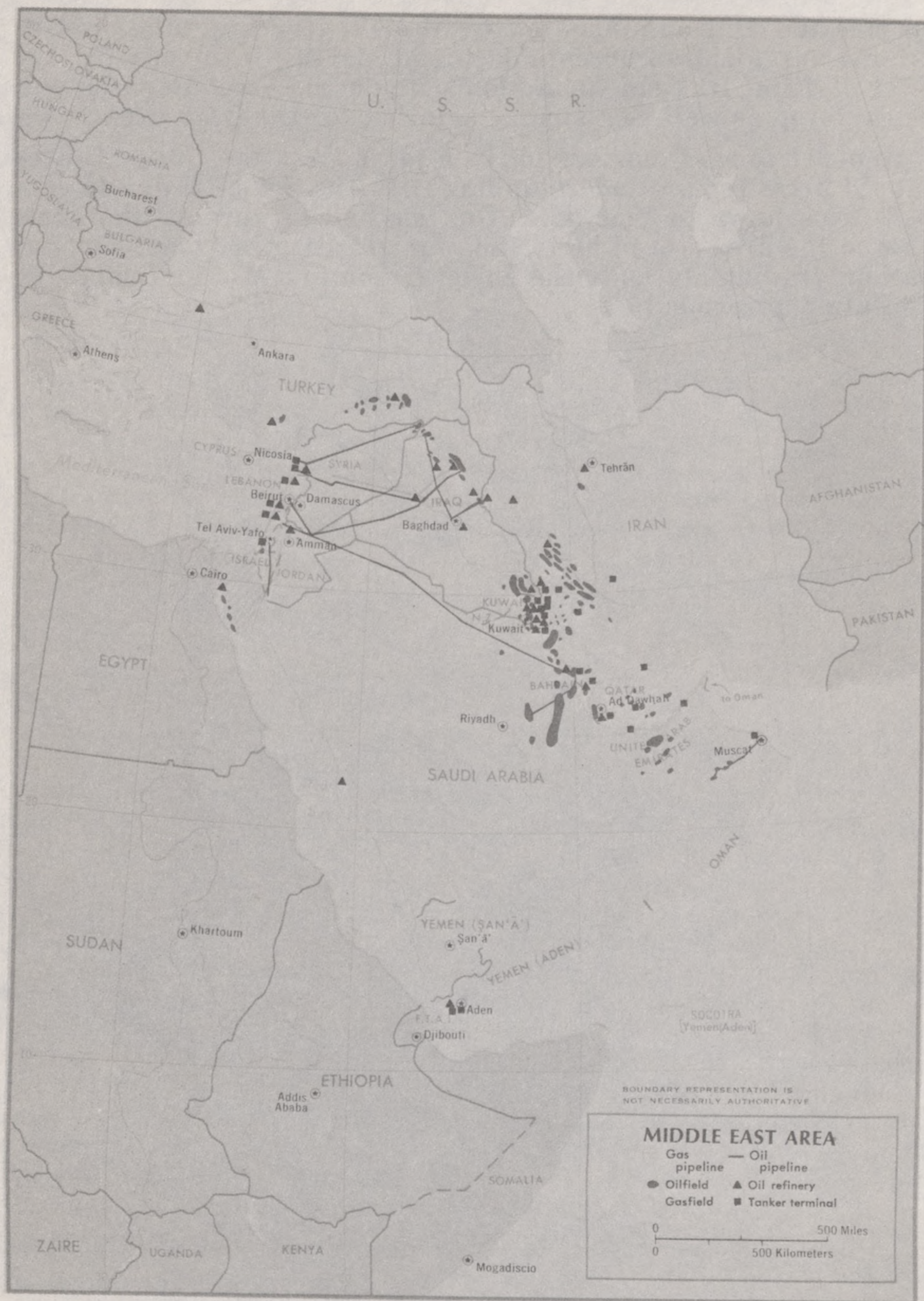
However, in the absence of a territorial settlement, a military balance between Israel and its adversaries must be maintained. Anything less could severely endanger Israel's security and chances for successful peace negotiations.

In order to facilitate negotiations on the Palestinian issue, the study mission believes the following steps should be taken: (1) Coinciding with peace negotiations, the United States should encourage U.N. members to increase the funding of UNRWA to alleviate the plight of the refugees; (2) because a major repatriation of the refugees inside Israel proper is not a viable alternative, an indemnity program for those who lost property, jobs, and businesses should be considered. Such a program could be

XVII

formulated and administered by the U.N. or any other multilateral organization acceptable to the parties involved; (3) the offer of King Hussein for a plebiscite on the West Bank should be explored as well as a similar solution for the Gaza area.

In order to ease tensions in the Middle East, the United States should press for an understanding with the Soviet Union to control arms flows to that area. One method of curbing the arms flow to the area would be to link our granting of "most favored nation" trading status to the Soviet Union to a Middle East arms limitation agreement.



PART I—THE OIL SITUATION

THE DIMENSIONS OF U.S. DEPENDENCE ON ARAB OIL

IMPACT OF EMBARGO ON U.S. OIL SUPPLY

Only since November has the Nation discovered the full dimensions of U.S. increasing dependence on oil from the Arab oil states. Even during the second week of the latest Arab-Israeli conflict, certain White House spokesmen were quoting a figure which showed the United States only 5 to 6 percent dependent on petroleum from the Arab oil producing countries. The study mission found that the inaccuracy of their reports has not only slowed the response of our Government to the oil cutoffs, but has done a great disservice to the American people who were led to believe that the cutoffs would not severely affect them.

Even during the preliminary study for the study mission's trip, it found that the United States was more than 10 percent dependent on Arab oil. After further inquiry, it was learned that the true proportion of dependence is not measured by the shipments of crude oil to the United States alone. The extent of that dependence is established by combining four factors: (1) the direct crude shipments to the United States; (2) the indirect shipments of crude which are transshipped through other countries; (3) the imports of refined petroleum products from both Arab refineries and refineries of countries which process Arab crude for U.S. markets; (4) and finally by adding the barter shipments which represent trades of oil with countries like Canada which is able to engage in such transactions due to its Arab imports. The addition of all four shows that the United States is dependent on Arab sources for between 14 and 18 percent of its total petroleum use. The percentage could be larger if one takes into account that several of the Arab countries were scheduled to greatly increase their shipments to the United States during November, December, and future months, in order to meet a tremendous increase in U.S. demand and declining U.S. domestic crude oil production. In direct shipments alone, the United States was taking as much as 300 percent more oil per day in months preceding the cutoff than it had in 1972.

In all, the United States currently must import more than 30 percent of the petroleum it needs for domestic consumption. During the shortages last winter, it became apparent that our domestic oil industry no longer had the capability of increasing production to match peak domestic demand. In fact, some analysts were not even sure that the United States could import enough crude oil and finished product to satisfy demand for this winter. Domestic production of petroleum for 1973 has been estimated by the U.S. Bureau of Mines to be 10,961,000 barrels per day, compared to a demand of 17,455,000 barrels per day.

Of the 6,494,000 barrels per day shortfall between domestic demand and supply, 6,251,000 barrels per day were to be made up by imports, leaving a shortage of 223,000 barrels per day.

The full effects of the cutoff have not and will not be felt for several months. The world trade in oil is based upon a myriad of factors including: tanker availability, refining capacity, types of crude oil available, the actions of major oil companies and actions of individual governments—to name only a few. Some oil is still heading to the United States in tankers that were loaded prior to the embargo. Small additional amounts of oil can probably be purchased from other countries such as Iran and Indonesia, both of which have stepped up production. But one fact remains unpleasantly clear—the oil shortage we will experience this winter will be one of the most severe ever faced by our Nation. To clearly understand the dimensions of the cutback, both past and present direct and indirect shipments were analyzed in detail.

DIRECT IMPORTS OF ARAB OIL

Today the countries of the non-Communist world have proven reserves of crude oil which will last a little more than 30 years at current rates of consumption. By a quirk of geography, 65 percent of these known reserves are found in the Middle East. When North Africa is included with the Middle East, the figure expands to 71 percent. The Western Hemisphere accounts for only 12 percent of the total proven world reserves.

These figures make it evident that, in terms of oil, the Western industrialized nations and Japan must look to the Middle East and north Africa for their increased requirements of oil as fields in other parts of the world begin to peak out. In fact, Western Europe now gets 87.8 percent of its oil from Arab States while Japan depends on Arab sources for more than 40 percent of its oil.

The importance of the Middle East/North African countries is not only established by the fact that they account for almost one-half of the average daily production of petroleum by non-Communist nations, but also that consuming nations are actually dependent on a very few of them.

For instance, Saudi Arabia, with estimated reserves at over 150 billion barrels, has roughly 21 percent of the total reserves of the world. Algeria, Iran, Iraq, Kuwait, and Libya together have an additional 236 billion barrels. By comparison, the Soviet Union has 75 billion barrels, China has 19 billion barrels, Indonesia 10 billion barrels, the United States 37 billion barrels, and Canada 10 billion barrels. For the United States, these figures have become important only in recent years.

Up until 1967 the United States was largely self-sufficient in energy, especially in oil. For instance, in 1950, America imported only 8 percent of the crude oil required for domestic consumption. By 1973 we were importing more than one-third of our oil requirements. Moreover, until recently, the overwhelming amount of our oil imports came from the Western Hemisphere. But in recent years, the source of incremental crude oil imports has been the Middle Eastern and North African oil producing countries.

Since the mid-1960's, sources such as the Caribbean, South America, and Canada have been peaking out in rates of production, or have been requiring more of their output for domestic consumption because of increasing internal demand. At the same time, the United States has been increasing its annual consumption of oil by more than 5 percent each year, and its volume of imports by more than 13 percent each year. During the period of 1967-72, U.S. domestic production of crude oil was increasing by a slight 1.8 percent per year.

For Americans, the conflicting trends of downward domestic production and skyrocketing domestic consumption were not fully appreciated until the major oil companies announced in 1969 that some of the richest oil fields in America had been overestimated in terms of reserve capacity. The oil fields of southern Louisiana and west Texas had been some of the richest in the North American Continent. However, they were very old fields which began declining when they were opened to full production capacity. This discovery pushed Americans to import large supplies of oil in order to satisfy their increasing consumption.

The only logical source of this oil was the Middle East and North Africa. Furthermore, major American oil companies were the principal producers in countries with the richest fields and the largest reserves. These countries were willing to ship increasing amounts of oil to the United States. In addition, some Middle East crude oil was selling for as little as \$1.25 per barrel in 1970, at a time when some U.S. crude oil was triple that price. The trend was augmented because oil had become the most desired fuel for environmental purposes, cost, and convenience in the United States.

The following chart illustrates the importance of Arab crude oil imports in relation to other suppliers:

U.S. CRUDE OIL IMPORTS: 1973

[In thousands of barrels per day]

	1st half 1973	July	August
Arab suppliers:			
Saudi Arabia.....	322.8	349.7	638.5
Libya.....	164.8	81.6	197.6
Algeria.....	143.9	65.7	162.5
United Arab Emirates.....	87.2	46.4	100.1
Kuwait.....	48.1	.1	86.7
Tunisia.....	21.6	30.2	32.0
Egypt.....	16.3	-----	36.8
Oman.....	12.2	52.2	14.5
Iraq.....	5.7	-----	11.1
Syria.....	3.4	-----	-----
Qatar.....	3.1	-----	5.3
Subtotal.....	819.1	625.9	1,285.1
Non-Arab suppliers:			
Iran.....	160.3	135.5	230.5
Nigeria.....	370.1	303.3	605.8
Other Eastern Hemisphere.....	252.4	250.4	348.5
Canada.....	1,176.1	1,194.3	908.6
Venezuela.....	503.1	465.7	704.4
Other Western Hemisphere.....	110.2	66.8	181.5
Subtotal.....	2,572.2	2,416.0	2,979.3
Total.....	3,391.3	3,041.9	4,264.4

INDIRECT IMPORTS OF ARAB OIL

Underestimates of the impact of the Arab embargo on the United States are largely due to a failure to recognize the extent to which the United States is dependent on foreign refineries for essential refined petroleum products. The study mission found that many refined petroleum products which are most essential to the United States have been produced abroad and, to a great extent, from Arab crude oil.

With the onset of the winter heating season in the United States, the loss of foreign sources leaves the United States particularly vulnerable to shortages of two basic fuels, residual and distillate oil. Residual oil is used mainly as a boiler fuel in industrial processes and for generating electricity. Distillate oil is used for space (home) heating and as a fuel for diesel engines.

Even before the Arab embargo, the United States was facing a serious shortfall in its supply of distillate fuel. Stocks of distillate fuel in the first week of November (203,656,000 barrels), for instance, were only slightly higher than stocks a year before (197,750,000 barrels).

Furthermore, prior to the Arab embargo, the U.S. Department of the Interior was predicting that a cold winter in the United States would force us to import 800,000 barrels per day of distillate oil to meet the demand for heating. During the shortages last winter, distillates were imported at an average rate of 400,000 barrels per day and most of the distillate, 80-85 percent, came from refineries in the Caribbean, with the remainder coming from Europe. Nearly all of the European distillate and more than one-half of the Caribbean distillate were based on crude oil from the Middle East or North Africa.

For this heating season, oil marketers in the United States were planning to increase their imports of distillates from several countries in Europe that were thought to have excess refining capacity. These plans were spurred by the President's announcement in April that companies in the United States would be free to import unlimited amounts of the crude oil, residual and distillate oil with only minimal license fees on imported oil.

Several factors led to the increased U.S. dependency on imported residual oil and distillate oil in recent years. Among these factors were:

- The increasing demand for diesel fuel by trucking, farming, shipping, and public transportation users;

- The use of distillate oil as a backup fuel during periods of natural gas interruptions which have been occurring with greater frequency during colder months;

- The growing use of both residual oil and distillate oil by electric utilities;

- The total emphasis by U.S. refiners on more profitable products such as gasoline;

- The switch by several heavy industries such as the steel industry from coal to oil for environmental considerations;

- The overall convenience and relatively low cost of oil as a feedstock for many chemical processes;

- The April 18, 1974, exemption of residual oil from import quotas; and

- The lack of sufficient new refining capacity in the United States.

From a practical standpoint, the study mission was concerned about the dependence on imports of refined oil because any disruption in a tight market could leave certain areas of the country drastically short of basic energy sources.

Although it was difficult to gage the exact effects of the Arab threats during the mission, subsequent events have shown that the threats have been very effective and have broken down the cooperation between members of the European Common Market. It seems that many of the nations of Europe live in fear of each new Arab request and will react to almost any demand the Arabs make of them in terms of restricting movement of either crude oil or refined products.

Even Canada, one of the previously supposed secure sources of crude oil and refined products, has announced that it is placing strict controls on oil exports. Until the Arab embargo Canada found it expedient to sell the surplus oil produced in Western Canada to the United States, rather than transport it to Eastern Canada. In turn, the Canadians bought large quantities of Middle East oil, part of which has been shipped through a pipeline which starts at Portland, Maine, and carries imported oil to Montreal. The United States could lose up to 500,000 barrels per day of oil as Canada tries to stabilize its oil situation in face of the embargo.

Finally, all of the cutoffs of indirect shipments will increase the competition on limited supplies from other producing areas such as Venezuela, Nigeria, Iran, and Indonesia. To measure some of the effects of the embargo and cuts in production, we spoke with governmental leaders and oil industry officials in three European countries, which would have been principal sources of imported refined products this winter.

The situation in Italy

Faced with cutbacks of oil which provide Italians with 74 percent of their energy, the Italian Government responded to warnings from the National Independent Petroleum Distributors Association (Assopetroli) and put all heating oils under export licensing restrictions. The restrictions, as they now stand, will allow oil to be exported to other Common Market countries (excluding Holland) but not to the United States. Assopetroli is also calling for the government to compel oil companies to market a set percentage of their refined products in Italy to meet domestic demands. It has urged further that the government discipline distribution and consumption of liquid heating oils in relation to their confirmed availability.

Italy's Minister of Foreign Trade acknowledged in a recent press conference that export licensing measures are mainly psychological, with little practical likelihood of resolving supply problems. Reports indicate that an overwhelming share of Italy's heating oil exports (about 75 percent) go to Common Market countries, leaving only about one-quarter of heating oil exports subject to government leverage.

The Italian petroleum market has traditionally been open and relatively free of government controls with respect to the importation and exportation of petroleum products. The government does control the pricing of products as well as the authorization of additional refining capacity and service station outlets.

While government sources point to the relative openness of the Italian market, there were in recent months signs of growing support for a larger government role in securing supplies in a tight seller's market. Italian concern is based on the belief that the international companies can no longer be relied upon to supply the needs of the country. This concern has led to suggestions of direct government relationships with producer countries.

All of these observations lead us to believe that even though Italy has the largest refining capacity in Europe, American fuel dealers would not have been able to buy all the heating oil they needed on the Italian market because the Italian Government wanted to stabilize both supply and prices by restricting exports. Thus, even without the embargo, U.S. purchases from Italy would probably have been limited. 134,000 barrels per day of oil to the U.S. market, but could have increased exports greatly. As of December 1972, Italy's 36 refineries had a total authorized annual capacity of 150 million tons but had only processed 123.5 million tons of oil, of which 27.4 million tons were exported.

Because Arab countries have targeted specific Italian refineries which shipped products to the United States, we can expect no products from Italy until the Arab States agree to lift the embargo. Even then, the specter of future Italian Government control over the oil industry will probably restrict the free movement of products to the United States.

ITALIAN IMPORTS OF CRUDE PETROLEUM BY COUNTRY

[Thousands of metric tons]

Country	1971		1972		Percent variation 1972 on 1971
	Quantity	Percent of total	Quantity	Percent of total	
Africa:					
Algeria and Tunisia		2.8	5,000	4.2	+56.4
Egypt	1,131	1.0	1,100	.9	-2.8
Libya	29,255	25.0	22,000	18.4	-24.8
Nigeria	2,317	2.0	2,000	1.7	-13.7
Total, Africa	35,899	30.8	30,100	25.2	-16.2
Middle East:					
Abu Dhabi	846	.7	1,400	1.2	+65.4
Saudi Arabia	21,291	18.2	28,500	23.7	+33.8
Iran	10,864	9.3	17,900	15.0	+64.7
Iraq	16,711	14.3	11,800	9.9	-29.4
Kuwait	15,364	13.1	14,500	12.1	-5.7
Qatar	1,960	1.6	2,100	1.8	+7.1
Syria	2,506	2.1	1,800	1.5	-28.2
Total, Middle East	69,542	59.3	78,000	65.2	+12.1
Other sources:					
U.S.S.R.	8,290	7.0	7,400	6.2	-10.8
Venezuela	1,815	1.5	1,400	1.2	-22.9
Other countries	1,668	1.4	2,600	2.2	+55.8
Total	11,773	9.9	11,400	9.6	-3.2
Grand total	117,214	100.0	119,500	100.0	+1.9

Source: Ministry of Industry.

ITALIAN EXPORTS OF PETROLEUM PRODUCTS IN 1971 AND 1972

[Thousands of metric tons]

Product	1971	1972	Percent variation
Gasoline and virgin naphtha.....	6,498	5,721	-12.0
Kerosene and jet fuel.....	2,150	2,178	+1.3
Gasoil.....	9,119	8,139	-10.8
Lubricants.....	273	230	-15.8
Fuel oil.....	8,867	10,567	+19.1
Bitumen.....	198	170	-14.2
Other products.....	380	378	-.6
Total.....	27,485	27,383	-.4

The situation in the Netherlands

Holland, like the United States, has been totally cut off from its supplies of crude oil from the Arab States. The Arab embargo will deprive Holland of 1.47 million barrels per day or about 71 percent of its total daily imports. But the importance of the embargo on the Dutch goes far beyond the borders of the Netherlands.

Because Holland's port cities serve both as transshipment points for other areas of Europe and as major refining centers for Northern Europe, the embargo will impact on many countries. Nearly 60 percent of the production of Dutch refineries is exported by ship or through pipelines. Few ports in Europe can handle the sizable tankers, not to mention storing or refining the crude in the volume that Rotterdam handles. So the embargo on Holland affects the whole delivery system of oil in Europe and will exaggerate shortages in countries which have been cut back to a lesser degree.

Although there was considerable confusion as to why the Arab States embargoed Holland, an October 22 dispatch from the Iraqi News Agency said that certain facts relating to Dutch aid to Israel had been made known in Baghdad. Those ostensible Arab grievances are as follows:

—The Netherlands was transformed into a bridgehead for assistance sent to the enemy, and at the same time it was carrying out a vicious campaign against the Arabs. It was also proved beyond any doubt that the Royal Dutch Airlines (KLM) made continuous flights to transport mercenaries and assistance to the enemy or to supply centers designated in various places by the enemy.

—The Netherlands opposed the issue of a rational and unbiased communique by the member countries of the European Economic Community calling for the end of the hostilities.

—The declaration by the Dutch Foreign Minister to Arab diplomatic missions at a meeting in The Hague clearly supports Israel against the Arab States.

—The personal participation of the Dutch Minister of Defense in a demonstration staged in the Dutch capital to express support for Israel.

—The participation of various Dutch establishments and companies upon the outbreak of the present war in collecting funds and contributions for the Israeli war effort, and the supply by Holland to Israel of crude oil from its imported stocks.

The Iraqis also used the reasons listed above for the passage of a nationalization law which allowed the Iraqi Government to nationalize the Dutch share of the Basrah Petroleum Co. as it had earlier with the U.S. share.

The singling out of Holland by the Arab States also added another dimension to the energy policies of the European nations. The embargo, according to Mr. L. G. Wansink, the Dutch Director General for Energy Supply, was causing a crisis of sorts among the member nations of the European Economic Community who had agreed last spring that a common energy policy for the 10 countries should be worked out. A resolution to this effect was passed by the EEC ministers, but was something which they preferred to ignore during the crisis.

Fortunately, the Dutch will probably be able to restrict domestic demand through conservation measures and meet their necessary energy needs through increased imports from Iran, Venezuela, Nigeria, and Gabon. The Netherlands also had emergency stores of petroleum which amounted to more than 70 days of demand, slightly more than the amount required of all Common Market Countries for emergencies.

However, the oil marketers in the United States can forget about buying the 200,000 barrels per day of distillate oil which they had planned on buying for this winter's needs from Holland. Instead, they should brace themselves to bid against the Dutch dealers in a spiraling price market for other limited supplies of oil elsewhere.

Dutch imports before the embargo were:

Netherlands crude oil imports: January to April 1973

[1,000 barrels per day]

Main Arab suppliers:

Saudi Arabia	720.8
Kuwait	414.3
Qatar	121.5
Libya	86.5
Abu Dhabi	79.0
Subtotal	1,422.1

Other Arab suppliers:

Syria	22.7
Egypt	16.2
Algeria	6.4
Iraq	1.9
Dubai	1.0
Oman	0.1
Subtotal	48.3

Total Arab suppliers 1,470.4

Non-Arab suppliers:

Iran	362.7
Nigeria	206.8
Gabon	14.9
Venezuela	4.5
Subtotal	588.9
Total	2,059.3

The situation in Spain

Two days after the Middle East war began, Spain restricted the unlicensed exportation of petroleum products in an effort to increase stocks and service growing domestic demand. A Commission of Fuels

was established to review applications and has granted no licenses to date on the grounds that it is not yet clear that Spanish needs are being satisfied. No preference is being shown by country, and the only exceptions to the export restrictions are the provision of jet fuel for international carriers landing in Madrid and other relatively specialized export uses.

According to Dr. Jose Luis Diaz Fernandez, the director general of energy in the Spanish Ministry of Industries, the export controls are a general measure directed at all exports and were developed before the fighting in the Middle East began. The reason for their adoption has been the extraordinarily rapid growth in Spanish demand for oil which, according to Fernandez, has been 20 percent per year during the last 2 years. This has resulted from an unprecedented 16 percent per year growth in industrial production. The result has been conversion of a number of export refineries to production for domestic needs. Because shortages of fuel oil are particularly severe at present, exports of fuel oil and other distillates are most likely to be prohibited for the foreseeable future.

If a company needs to export to maintain its refinery runs or to meet a contractual obligation, it must first confer with the Ministry of Industries. The Ministry will examine existing stock levels, the needs of the Spanish market and other factors before it can decide to license the exports. The Government of Spain has assured the United States that these controls are nondiscriminatory as to destination and that no supplies have been denied because they are bound for the United States or U.S. forces in Europe.

Spain is also requiring "restitution"; that is, oil exports by a company must be offset by oil imports of a type needed by the Spanish economy. Spain insists on swapping products that are relatively abundant for products that are not. Fuel oil is especially tight in this regard because 2 years of drought have forced a partial switch from hydroelectric power production to oil-fueled generation of electricity.

In view of their own shortages of heating oil, the Spanish will also not ship to the United States as long as the Arabs threaten to cut off crude oil shipments in retaliation.

ECONOMIC EFFECT OF THE EMBARGO

While it is too early to forecast the medium-to long-term effects of the oil embargo on the United States, it is clear that, if the embargo is prolonged, the economic consequences will be serious, notwithstanding efforts to conserve available energy and to develop new and alternative sources.

Among the domestic consequences which could occur as a result of such a shortfall are the following:

(1) The unemployment rate well could soar above the current figure of 4.8 percent to 8 or 9 percent by 1975, according to executive branch estimates.¹

(2) Homes, offices, schools, and factories who use heating oil will undergo severe shortages this winter, particularly those lo-

¹ Indicative of this trend is a recent prediction of Ralph L. Harding, Jr., president of the Society of Plastics Industries, that that industry will lay off 1.6 million workers and suffer a \$65 billion production drop by the end of the year if the embargo causes a shortfall of 15 percent in petrochemical products.

cated along the Atlantic Coast, in the Northeast and upper Midwest. (Charles DiBona, the President's former special assistant for fuel policies estimates that the shortage for those areas normally dependent on Arab oil imports could run as high as 50 percent by the first quarter of 1974.)

(3) The economic growth rate will be retarded. According to a recent National Petroleum Council report, the shortages due to the Arab embargo and production cutbacks will cause an annual loss of \$48 billion in the gross national product of 1974, a 3.4 percent decline.

(4) Shortages of petroleum products in face of increased demand will continue to push prices of both oil and related products upward thus insuring a new round of inflation.

THE ARAB OIL PRODUCERS—A NEW SOLIDARITY

The Arab oil producing countries have successfully thrown the industrialized nations of the non-Communist world into a major energy crisis due to their ability to present a unified front. The following summary of the evolution of the oil producers efforts to organize themselves illustrates the nature of their control over the world's consumers.

BACKGROUND

Two organizations, the 13-member Organization of Petroleum Exporting Countries (OPEC) and the 10-member Organization of Arab Petroleum Exporting Countries (OAPEC), were formed during the 1960's in order that the producing countries could present a united front against the international oil companies and consumer nations.¹ At the outset, both organizations were unsuccessful in their efforts to restrict oil supplies or to control prices. However, by 1971, increasing world dependence on fewer sources of supply and declining or constant rates of production by certain producing nations, especially the United States, gave OPEC the opportunity to conclude an important new agreement with major oil companies in Teheran in 1971.

In addition to increased prices for their crude oil, the producing states gained three other important long-term advantages:

(1) The major companies agreed to collective bargaining rather than unilateral price actions in determining the price of oil;

(2) The price of oil was tied to an escalator clause or parity adjustment which allowed payments to the producing countries to increase with price levels in industrial countries; and

(3) The major oil companies accepted the principle of producing country participation in oil company assets and profits.

Thus, the Teheran agreement marked a turning point in the relations among the oil producers, and major oil companies and consumers, a turning point which saw the balance of power tip in favor of the producers.

RECENT EVENTS

In the last 2 years, the oil producing countries have become disenchanted with the Teheran agreement. They found, for instance, that the U.S. dollar was losing in value relative to major world currencies. Because the price of oil was posted in dollars, a weakening of the dollar could result in great losses to them. Another weakness in the Teheran agreement, in their view, was the low rate of compensation that was meant to offset inflation. Finally, the producing coun-

¹ OPEC's member nations are Venezuela, Algeria, Libya, Iraq, Kuwait, Saudi Arabia, Qatar, Abu Dhabi, Iran, Nigeria, Indonesia, Ecuador, and Gabon. OAPEC consists of Saudi Arabia, Kuwait, United Arab Emirates, Libya, Egypt, Oman, Iraq, Syria, Qatar, and Bahrain.

tries believed that oil-scarce industrialized nations were paying too little for their precious commodity. These issues were raised at a series of meetings between OPEC members and major oil companies in Vienna during the first week in October, 1973, thus coinciding with the opening guns of the fourth Arab-Israeli war.

At the first Vienna meeting on October 9, the major oil companies submitted an offer to OPEC providing for a 15-percent increase in posted prices (the price on which taxes are charged) and an upward adjustment of the inflation factor.

This offer was refused by OPEC which produced a counterproposal for a 100-percent increase in posted prices, coupled with a mechanism for keeping the posted prices 40 percent above the actual selling price at all times. The OPEC members also asked for an inflation adjustment in line with a wholesale price index and they requested that the agreement apply retroactively to October 1.

The companies requested time for negotiations, which OPEC members granted, and then October 12 insisted on a 2-week adjournment. Negotiations were then broken off by the OPEC ministers with no date set for continuation of the meetings between the producing states and the oil companies.

Following the breakdown in negotiations, representatives of the six Persian Gulf state members of OPEC met in Kuwait on October 16 with permission from their governments to make a unilateral announcement of new posted prices.

Simply stated, the new price mechanism established at the Kuwait meeting means that the posted price of OPEC crude oil will be determined by upward or downward trends of the market. The Iranian Finance Minister, Dr. Jamshid Amouzegar, explained it by saying:

I would like to tell the consumers just this: Now it is not we as producers that will determine the price but you as consumers; we will wait and see what the market prices are and then calculate posted prices on this basis keeping the same ratio between the two sets of prices that existed in 1971.

By their actions in Kuwait, the Persian Gulf state members of OPEC enabled producing countries to greatly increase the amount of money made on each barrel of crude oil thus paving the way for the Arab producers subsequent embargo and production cutback activities.

THE KUWAIT AGREEMENT TO EMBARGO OIL

On October 17, in a meeting of the oil ministers from the 10-member Organization of Arab Petroleum Exporting Countries (OAPEC) in Kuwait, agreement was reached on a plan to limit oil production and gradually reduce exports to certain countries until Israel was forced to withdraw from Israeli-occupied Arab territories captured in the June 1967 war.

The crucial element in the success of such a plan was the cooperation of Saudi Arabia, the largest producer and most influential member of OAPEC. Desiring to show solidarity with her sister Arab states, Saudi Arabia initially agreed to a plan calling for an immediate reduction of oil shipments to industrial nations but opposed more radical

plans for a complete embargo on the United States and/or nationalization of major oil companies. The main points outlined in the initial plan were as follows:

The 10 countries agreed to cut oil production by a minimum of 5 percent using the September 1973 production level as a base. Additional 5-percent cuts were to be announced each month, but each country was allowed individually to raise the percentage higher.

Any countries which remained friendly to the Arab States by extending "effective concrete assistance to the Arabs" were to continue receiving the same quantity of oil as before the cutback. Moreover, the same exceptional treatment was to be extended to any state which would take a "significant measure against Israel with a view to obliging it to end its occupation of usurped Arab territories."

The oil producers decided on a formula that would allow them to individually choose whether or not to cut off oil to the United States.

A system was formulated whereby each country was to notify its operating companies of its desired pattern of exports for any given month. The companies were then to be held responsible for carrying out the government's instructions or were to face a penalty.

A communique explaining these points and justifying the production reductions was signed by nine of the 10 OAPEC members; Saudi Arabia, Kuwait, Libya, Algeria, Egypt, Syria, Abu Dhabi, Bahrain, and Qatar. Iraq refused to be a signatory because nationalization of foreign-owned oil holdings was not included in the scheme. The text of the communique can be found in appendix 2.

THE EMBARGO AND THE ESCALATION OF PRODUCTION CUTS

On the day following the issuance of the October 17 Kuwait communique, the Arab oil producers strengthened their "oil weapon" in three ways.

(1) Some of the member countries announced cuts of 10 percent for the first month instead of 5 percent.

(2) All of the members announced a total embargo on shipments to the United States and some announced a total embargo on the Netherlands.

(3) The OAPEC members warned that nations caught transshipping oil to the United States would also be embargoed.

As a package, these three additional measures made the Arab oil reductions much more severe than anyone first expected. Within 2 weeks of the first announcement of the reduction policy, the total cutback in Arab oil exports was over 20 percent of September production levels. By their actions, the Arabs took 4 million barrels of oil per day out of world commerce. This figure translates into the equivalent of a shortfall of nearly 12 percent of the total volume of oil moving in world trade.

In addition to the production cuts, other war-related disruptions contributed to the general reduction in oil supplies. For example, dur-

ing the war several oil port facilities were damaged, a Syrian refinery was destroyed, and major pipelines such as the Trans-Arabian Pipeline were operating far below capacity because of the unavailability of tankers in the area for loading the crude oil.

What led the conservative, traditionally pro-American OAPEC nations such as Saudi Arabia and Kuwait to join in an embargo against the United States? The week following the Arab price hikes and production curtailments, the study mission was told repeatedly in Arab capitals on its itinerary that the compelling reason for singling out the United States was President Nixon's October 19 request of \$2.2 billion in military assistance for Israel. Furthermore representatives of the U.S. missions in those Arab countries told the study mission that Washington did not consult them at all as to the effect and timing of such a request.

Saudi Arabia, for instance, had been a moderating influence in the Kuwait meetings and had opposed embargoing the United States. However, according to Saudi officials who met with the study mission, the President's request eroded their government's position and forced its capitulation. The following is a text of Saudi Arabia's official statement signifying its reversal on the embargo issue:

In accordance with the statement issued by the Royal Cabinet on 22 Ramadan 1393 (October 18, 1973) whereby His Majesty's Government announced an immediate reduction in its oil production by 10 percent and that it would continue to review developments in the situation and in view of the increase in American military aid to Israel, the Kingdom of Saudi Arabia has decided to halt oil exports to the United States of America for taking this position.

Although the Saudi statement was issued on October 18, 1 day before the official Presidential request, the latter was public knowledge prior to October 18.

The Saudi position was also supported by Kuwait which, like Saudi Arabia, has been traditionally pro-Western in its international relations. On October 25, Kuwait's Oil and Finance Minister Sheikh Abd al-Rahman-Atiqi explained his government's position on the embargo as follows:

It would be wrong to imagine that the battle with Zionist enemy is at an end. What has ended is just one of several rounds in a running battle that has been going on for a quarter of a century. It will continue until the occupied territories are liberated. This particular round, involving the use of armed forces, may have come to an end, but there are many other weapons that can be used.

Kuwait took the initiative in calling for a meeting of Arab oil ministers to consider the role of oil in the battle. Oil has both a negative and positive role to play. The negative role of the oil weapon is to make the world feel the bitterness and pain we are experiencing as the result of Zionist aggression, thereby persuading many countries which have relations with Israel to adopt a neutral stand. We cannot impose neutrality but we can make the countries concerned move towards it

gradually. We decided to embargo countries without exposing our economy to ruin. Now the atmosphere is more propitious than in 1967 and we can accept a reduction in production at the same time denying supplies totally to any country which supports Israel materially and practically. This has certainly proved possible as far as the United States is concerned.

Only Iraq, whose more radical proposal was rejected, refused to sign the embargo agreement. The Iraqi's favored the three following measures:

(1) The complete liquidation of U.S. economic interests, particularly oil interests, by nationalizing all U.S. companies operating in the Arab homeland;

(2) The withdrawal of all funds invested by Arab States in the United States; and,

(3) Breaking off diplomatic and economic relations between all Arab oil producing countries and the United States.

With regard to the Iraqi proposal, the study mission was told by Saudi officials that they resisted and would continue to resist actions involving nationalization of United States and other foreign holdings.

ENFORCEMENT OF THE EMBARGO

At the outset of the embargo, those skeptical of the effectiveness of the Arab embargo contended that past embargoes have not worked and that the Arabs cannot stop the major oil companies from getting the oil to the United States. Also, those who believed the Arabs would crack under pressures to loosen the embargo sloganeered that the Arabs "can't drink their oil." In the case of the former contention, neither the skeptics nor the consumer nations were cognizant of the sophisticated planning and execution of the embargo. The fallacy underlying the latter contention will be discussed later in the report.

In order to enforce the embargo, Saudi Arabia (the largest OAPEC producer) has kept detailed information on every barrel of oil leaving its borders. Even before the October 17 Kuwait meeting, Saudi Arabia required tankers loading oil in her ports to provide certificates of destination and certificates of unloading points. This information gave Saudi Arabia the mechanism to enforce a very tight embargo before it became a fact. In describing the extent of the Saudis' knowledge of the destination of their oil, an observer told the study mission, "the Saudis know more about oil imports into the United States than the U.S. Government does." The characterization has been borne out by the difficulty encountered by the study mission in its efforts to obtain from our Government reliable statistics on Arab oil imports.

Saudi Arabia and the other Arab Persian Gulf states also took steps not only to enforce a ban on direct shipments to the United States but also a ban on indirect shipments of crude oil and refined products as well. Thus, the export ban on the United States includes a long list of destinations because of their previous roles as intermediate supplies of U.S. markets. The embargoed destinations include Trinidad, the Bahamas, Dutch Antilles (Curaçao), Canada, Puerto Rico, Bahrain (50,000 barrels per day normally supplied to U.S. Navy), Guam, and

Singapore (also supplies U.S. Navy). Shipments have also been reduced to certain specific refineries which supply U.S. markets, including those in Italy, Greece (which supplies the 6th Fleet), and one refinery in southern France.

In dealing with other countries of the world, the Saudi's and other OAPEC states have formulated a list which divides oil customers into three categories which break down as follows: (1) Those countries allied with Israel in any direct way are totally embargoed (initially the United States and the Netherlands, and later South Africa, Rhodesia, and Portugal); (2) those countries which were relatively neutral received percentage cutbacks; and (3) those countries favorable to the Arab cause received oil shipments at prewar levels.

Conditions for getting on the most favored list are that a particular country must fulfill one or more of the following conditions: (1) Break off diplomatic relations with Israel; (2) apply one or more economic sanctions against Israel; and, (3) give some military assistance to the Arab States. During November, it appeared that Saudi Arabia's most favored list included the following countries: Arab countries like Lebanon, Jordan, Egypt, and Tunisia; Islamic countries which import Saudi crude such as Pakistan, Turkey, and Malaysia; all African countries which have broken off diplomatic relations with Israel; and France, Spain, and Britain.

In all, cutbacks and the system of selective embargoes had a drastic effect on the overall export of crude oil by OAPEC states. In the case of Saudi Arabia, the decrease in production by November 4 reached 31.7 percent. This drop represented:

A drop of 31.7 percent, or roughly 2.63 million barrels per day below the actual Aramco production average for September (8,290,589 barrels per day);

A drop of 35.4 percent, or 3.1 million barrels per day, below planned Aramco output for October (8,760,000 barrels per day);

A drop of 37.8 percent, or 3.44 million barrels per day, below planned Aramco output for November.

Cuts by Saudi Arabia of this magnitude set the stage for the second Kuwait meeting on November 4.

THE SECOND KUWAIT MEETING—NOVEMBER 4

At the urging of the Saudi Arabian Government, a second meeting was held in Kuwait on November 4 to discuss further ways of using the "oil weapon." The meeting effectively brought the Arab oil states to a common level of production cutbacks (25 percent) and also insured that shipments of crude to refineries which shipped to U.S. markets would be embargoed by all Arab oil-producing states. The new 25-percent cutback level included the volumes deducted as a result of embargoes against the United States and Holland.

In addition, three other important decisions were reached at the meeting:

(1) The Arab States decided to take explanations of their actions directly to the affected countries. In this regard, they decided to send the oil ministers of Algeria and Saudi Arabia, Mr. Belaid Abdesselam, and Sheikh Ahmad Zaki Yamani, to several

European capitals and to Washington to explain the Arab actions.

(2) They set up a special committee, composed of the oil ministers of Saudi Arabia, Algeria, Kuwait, and Libya, to insure the implementation and enforcement of the two Kuwait decisions.

(3) They decided to convene a meeting in the future to decide on specific and uniform qualifications for the countries that are classified as "friendly" or "most favored" so that no disparity will exist between the definitions of various Arab nations. (See appendix 3 for text of the Kuwait November 4 communique).

By November 5, the reductions in production by OAPEC states were estimated by the Middle East economic survey as follows:

[Thousand barrels daily]

Country	September output	Cutback	Percent cut	New output level
Saudi Arabia.....	8,290	2,630	31.7	5,660
Kuwait ¹	3,200	950	30.0	2,250
Iraq.....	2,000	500	25.0	1,500
Abu Dhabi.....	1,400	350	25.0	1,050
Qatar.....	600	150	25.0	450
Neutral zone.....	580	145	25.0	435
Libya.....	2,300	575	25.0	1,725
Algeria.....	1,050	263	25.0	787
Others ²	1,050	263	25.0	787

¹ Kuwait has actually based its production cutback on the normal level of 3,000,000 barrels daily rather than the September level of 3,200,000 barrels daily. The reduction from the former is thus 25 percent and from the latter is 30 percent.

² Comprise Egypt, Syria, Bahrain, Dubai, and Oman. Dubai and Oman were not parties to the Kuwait decision but announced embargoes on the United States and the United States and Holland respectively. Overall cutback for these countries taking into account (a) Kuwait decision, (b) war damage, and (c) reduction in Dubai owing to the recent oil well fire, is estimated at approximately 25 percent.

Thus far, the only cracks in OAPEC solidarity on the embargo appear to be Libya and Iraq who are reportedly exporting crude oil in amounts exceeding the OAPEC reduction level. In the case of Libya, it is believed that some of its crude exports are still reaching Caribbean refineries for final shipment to U.S. markets. However, according to the Department of State's Director of the Office of Fuels and Energy George M. Bennsky the Libyan activity has little beneficial effect on U.S. needs and the chances for the United States replacing its Arab oil losses through other sources are "virtually nil." To illustrate the rampant expansion of demand for oil outside the Arab bloc, Mr. Bennsky reported that, during the recent auction of Nigerian oil, more than 200 bidders competed for a single lot of oil.

THE CRUCIAL ROLE OF SAUDI ARABIA

The impact and effectiveness of the Arab oil embargo are due largely to the participation and leadership of Saudi Arabia. Opposed to the embargo policy at the outset of the October war, the Saudis have since assumed a primary role in the formulation and enforcement of the embargo. What is the basis of Saudi Arabia's influence and strength among both oil producing and oil-consuming states?

The paramount reason for Saudi Arabia's importance in the world community and thus among oil producing states is its huge proven oil reserves, estimated to be at least 150 billion barrels—the largest known reserves in the world. According to some experts the known reserves

may be twice the previous figure and the probable reserves could double that sum.

Assuming there will be no sudden technological breakthrough in producing a substitute for oil, U.S. dependence (and the industrialized nations as a whole) on Saudi Arabia and other Arab producers, already substantial, can only increase. The current U.S. Ambassador to Saudi Arabia and former Director of the State Department Office of Fuels and Energy, James E. Akins predicts that by 1980, excluding the possibility of continuing production cuts and embargoes, the United States could be importing directly as much as 8 million barrels of oil daily from Arab producers, mostly from Saudi Arabia.

Thus, because of its huge oil reserves, Saudi Arabia is not only the recognized leader of the block of Arab oil states but also a leader of the larger Organization of Petroleum Exporting Countries (OPEC). As an illustration of its influence, Ambassador Akins has observed that Saudi Arabia could destroy OPEC. By producing oil in much greater quantities than it now does, Saudi Arabia could drive the price of oil down to the mythical \$1 a barrel thus ruining every OPEC country. However, the Saudis have chosen to do just the opposite. Recognizing that even their enormous reserves are finite, the Saudis have opted to lessen or "minimize" production and to "maximize" its income. This latter was accomplished at the previously mentioned Vienna meeting on prices which the former was set into motion during the October Kuwait meetings.

With few exceptions, major oil producers around the world have followed suit in cutting back production as a hedge against the future. In the case of Saudi Arabia, oil experts with whom the study mission spoke agree that the Saudis underestimate their reserves and have an extremely conservative view of their production capability. There was a consensus among those experts that potential increases in production that the Saudis may undertake could ease extreme shortages in the United States over the next few years. Saudi Arabian oil would not make the U.S. energy crisis disappear, but it would minimize its drastic effect on the American public. Thus, until the United States is able to increase its refining capacity and develop its offshore oil deposits and other feasible sources of energy, Saudi Arabian oil could fill much of the current gap between supply and demand in the United States.

In addition to its vast reserves of oil, Saudi Arabia possesses another potential asset which could be used to the Saudis advantage in the world arena—its growing monetary reserves. These reserves, revenue earned from the sale of oil, are already far in excess of Saudi Arabia's expenditure requirements and could be as dangerous a weapon as the oil embargo has proved to be. As of January 1973, Saudi foreign exchange reserves totaled \$2.85 billion and were increasing at the rate of \$100 million each month, a rate which in all likelihood will increase sharply in coming years.

The Department of State's Office of Fuels and Energy has projected that Saudi revenue from oil sales will climb to \$5.4 billion in 1975 and to \$25.6 billion by 1980. Given the present gap between its budget requirement and its income and given the current international political climate, there is considerable concern in some quarters that these massive Saudi monetary reserves and those of other Arab oil states might

be used in a crisis over Israel to "bring down currencies" of those supporting Israel.¹

The study mission addressed this issue with Saudi Arabia's Monetary Governor Anwar Ali who said that while no "specific discussion" had taken place on such a use of his country's reserves, he could not totally dismiss the possibility if his country had no other recourse. He added, however, that his country generally opposes such radical measures.

In discussions with Mr. Ali and other principal Saudi Government officials, the study mission was given to understand that, rather than using its vast reserves as a weapon against nations with pro-Israel leanings, the Saudis are more inclined to use these funds for such purposes as: (1) investments to promote Saudi Arabia's 30-year industrialization program; (2) funds to attract needed technology and technical assistance; (3) foreign aid to assist in the development of the non-oil-producing Arab countries; and (4) "downstream" investments abroad.

With regard to the task of attracting desired technology and technical assistance as well as investing abroad, Saudi officials told the study mission that they would like to work with the United States. However, in lieu of U.S. cooperation in achieving what they consider to be a just settlement of the Arab-Israeli conflict, the Saudi officials asserted that they would and could turn elsewhere for assistance in those areas.

From the conversations the study mission had with King Faisal and other Saudi officials, the study mission was given the distinct impression that the Saudis would prefer to continue to deal with the United States not only in oil production and sales, but also in the industrialization of Saudi Arabia. This impression was best conveyed by Sheikh Ahmad Zaki Yamani, Minister of Petroleum and Mineral Wealth, during an interview with the study mission. (For the minutes of this interview, see appendix 4.) The political aspects of this discussion and Saudi Arabia's general political position in the Middle East will be discussed later in the report.

Because of Saudi Arabia's leadership among the Arab oil producing states and because of that country's strong financial position, it would be in the interest of the United States to promote good relations

¹ The following table prepared in April 1973 by the International Monetary Fund shows the following reserves in relation to imports for the major Middle East oil producers:

[Dollar amounts in millions]			
	1966	1973 ¹	Reserves to imports ² (months)
Saudi Arabia.....	\$748	\$3,087	35
Libya.....	339	2,986	42
Kuwait.....	1,096	³ 2,235	33
Iran.....	268	968	4
Iraq.....	325	785	11

¹ Feb. 28, except for Iraq, which is Dec. 30, 1972, and Kuwait (see note ³).

² Monetary reserves compared to import demand. Based on 1971 imports except for Saudi Arabia, where 1970 data is the latest.

³ Kuwait Central Bank reserves at February 1973 (\$396,000,000) plus Government holdings at end of 1st quarter of 1972 (\$1,839,000,000).

with Saudi Arabia. Such a relationship would be to the advantage of the United States in terms of energy supplies and balance of payments. With regard to the latter, it is significant to note that American firms and contractors operating in Saudi Arabia repatriated over \$1 billion in profits to the United States last year.

THE ROLE OF THE MAJOR OIL COMPANIES

While the study mission's scope of inquiry was limited to the production aspect of oil, some reference should be made to the role of the major oil companies in supplying the American market.

Unfortunately, a great deal of confusion and disagreement exists within the executive branch on this subject. This state of affairs is exemplified by the Federal Trade Commission's (FTC) July 12, 1973, investigative report indicting the major oil companies and the Treasury Department's refutation of FTC charges.

In brief, the FTC critique of the major oil companies can be summarized by listing the alleged violations charged to the eight largest oil companies (Exxon, Texaco, Gulf, Mobil, Standard Oil of California, Standard Oil of Indiana, Shell, and Atlantic Richfield) in an FTC complaint filed on July 18, 1973. The violations are as follows:

(1) The companies have engaged in acts and practices which constitute a combination or agreement to monopolize refining of crude oil into petroleum products.

(2) Through these acts and practices, the eight companies have maintained monopoly power over the refining of crude oil into petroleum products.

(3) The eight companies, individually and with each other, have restrained trade and maintained a noncompetitive market structure in the refining of crude oil into petroleum products.

The FTC report on which the above charges are based implied that shortages of petroleum are deliberately contrived by the major oil firms.

In response to the FTC report and charges against the companies, the Treasury Department made the following points in defense of the companies:

(1) Many of the facts in the FTC report are inaccurate. Consequently, the resulting conclusions are questionable.

(2) Although perhaps unintentional, the FTC report is biased against the largest integrated oil companies. Nothing in the report supports restricting the FTC's complaint to the eight largest oil companies. Why not 7, or 10, or all of the fully integrated oil companies?

(3) As a result of this bias, the FTC's final conclusions are incorrect or misleading at best, regarding: (a) the charge that the majors control the output of the independent crude producers; (b) the charge that the majors have engaged in exclusionary practices in their use of exchanges; and (c) the conclusion that the independent sector's welfare is dependent on the well-being of independent refiners.

(4) Although there is little question that the continued existence and viability of the independent refiner is important to maintain a healthy petroleum industry, divestiture of refining or pro-

ducing capability from the large majors is not the best way to protect the independent refiner. Integration of the producing, refining, transporting, and marketing of crude oil and petroleum products has proven to be an efficient method of operation. To meet the demands of 1985, the equivalent of about 60 new refineries averaging a throughput capacity of about 160,000 barrels per day must be constructed. The total investment required by these refineries could be as much as \$15 billion. A primary requisite for a company (major or independent) considering such an investment is the assurance of a source of crude. Divestiture would work against that assurance.

(5) Divestiture would cause the integrated oil companies to consider foreign investments and/or operations as their best course of future action, thus further aggravating U.S. shortages and balance-of-trade problems.

(6) The FTC's complaint against the eight largest integrated oil companies, if successful, would cause considerable adverse impact on future domestic energy supplies.

(7) The FTC report's implication that the current shortages of petroleum are deliberately contrived by the major oil firms is incorrect. The companies have merely been responding to Government laws and policies, and these laws and policies have been the real culprits. The solution, therefore, is not divestiture, but rather a change in laws and policy.

(8) The Federal Trade Commission should reconsider its action and withdraw the complaint issued against the eight largest oil companies.

The divergent views of these two bureaucracies raise some important questions. If the FTC report and subsequent charges are correct, does the monopoly of these large multinational corporations also involve collusion with foreign producers such as the Arab oil states to control prices and production? Were last year's highest level of profits in the history of oil companies attributable to such collusion?

If the Treasury Department's view is more accurate, the fault lies not in the activities of large oil companies but in badly drawn governmental laws and policies which prevent increases in domestic refining capacity, and crude oil production.

In order to clarify these vital questions, the study mission recommends that the appropriate committees of Congress launch an immediate investigation into the domestic and international roles of major oil companies.

DEALING WITH THE EMBARGO—ALTERNATIVES¹

By the end of November 1973, two things had become clear to American citizens. First, they realized that they were faced with a full-blown energy crisis. Second, they realized that the Arab oil embargo against the United States had aggravated an already serious situation. In face of these realizations, it also became clear that something must be done to alleviate the crisis and to deal with the embargo.

What, then, are the options and alternatives for action to resolve this very dangerous situation? The principal proposals which either have been considered or actually put into motion are the following:

(1) The United States could strive to become self-sufficient in meeting its energy requirements.

(2) The United States should make a concerted effort to conserve fuel by eliminating waste and by invoking certain mandatory controls over the population's consumption of petroleum products.

(3) The United States could make up the shortfall caused by the embargo by increasing its non-Arab oil imports and by increasing domestic production.

(4) The United States could endeavor to repair and improve its relations with Arab countries without endangering the security of Israel.

(5) The United States could combat the Arab oil embargo with its own counterembargo which would include halting the export of foodstuffs, manufactured goods, military equipment, and technology to the Arab oil states.

(6) The United States could attempt to occupy Arab oil fields by military means.

What are the advantages and disadvantages of each of these proposals?

SELF-SUFFICIENCY IN ENERGY

In his address to the Nation on November 7, 1973, the President called on Americans to support the goal of attaining self-sufficiency in energy by 1980. Subsequently, he sent a message to the Congress detailing his proposal for reaching that goal. Comparing "Project Independence" to the Apollo and Manhattan projects, the President asserted that "by the end of the decade, we will have developed the potential to meet our own energy needs without depending on any foreign energy resources."

While the study mission is skeptical that our Nation can ever become completely self-sufficient in energy, particularly within a time

¹ For a comprehensive alternative approach to dealing with the U.S. energy crisis, see appendix 5 for Representative Jim Wright's paper, "A National Energy Plan of Action," and a memorandum on the white paper by Representative Leo J. Ryan.

frame of 7 years, efforts to develop new and alternative sources of energy as quickly as possible in order that the United States become less dependent on foreign energy sources should be wholeheartedly supported.

The quest to develop new and alternative sources of energy will not be an easy task. It will require efficient Government direction and a high level of funding.

With regard to efficient Government direction of our energy program, the study mission encountered an appalling situation prior to and following our trip to the Middle East. Although the Nation's energy management was ostensibly under the control of Gov. John A. Love as Director of the Energy Policy Office, the study mission encountered, during its inquiry into U.S. Middle East oil imports, a myriad of departments and agencies who offered varying sets of statistics and analyses of the extent of U.S. dependence on Arab oil as well as other aspects of the energy crisis.

Hopefully this disarray will be corrected by the executive branch's recent reorganization of the Government's administration of energy programs. Under the direction of Deputy Secretary of the Treasury William E. Simon, the newly created Federal Energy Administration is designed to forge a disciplined well-coordinated effort to manage the Nation's energy requirements. The Congress, as well as the executive branch, needs to centralize its jurisdiction over energy issues. Therefore, the study mission believes that both Houses of Congress should each create a Committee on Energy or consider the creation of a Joint Committee on Energy with complete legislative oversight in all areas directly related to the development and management of the Nation's energy programs.

In addition to effective and efficient management, the goal of becoming less dependent on foreign energy sources will be expensive. The President has requested \$10 billion to finance his proposal to become self-sufficient in energy by 1980. Some experts in the field believe that the funding of such a project could at least double the President's request.

Whether the cost of developing new and alternative sources of energy will be \$10 billion or even triple that sum over the next decade, the study mission is convinced that it is worth the effort for two reasons:

(1) The era of cheap energy is over. Prior to the midsixties, the price, availability, and desirability of oil as a source of energy made the development of other sources impracticable. However, the recent spiraling price of oil, dwindling supply, and increasing demand all combine to make the development of alternative sources economically feasible.

(2) Because of political instability in the Middle East and other areas of the world which export oil, the United States cannot afford to remain overly dependent on such areas for its energy requirements.

While it is therefore imperative that we embark on a crash program to develop independent sources of energy, we must be realistic about its effect on the embargo and about the time frame for positive results.

With respect to the embargo, it is doubtful that such an effort will

persuade the Arab oil producers to ease their restrictions on the United States. When the study mission raised this issue with the Saudi oil minister, he replied that he would "love to see (the United States) more independent * * *." He explained that he is convinced that, in spite of technological advances, oil will always be in demand and that it will become even more valuable in the future.

Apart from the doubtful effect "Project Independence" will have on the embargo, the study mission feels that Americans should not delude themselves that such a program will provide immediate or even medium-term relief. Most energy experts agree that, given proper management and adequate funding, it will take at least a decade to develop alternative sources of energy and to perfect the technology required to make such sources viable.

In the meantime, it is incumbent on the United States to apply reasonable conservation measures on its present supply of oil, to increase domestic production where feasible, and to promote a move toward conciliation with the Arab oil producers without endangering Israel's security.

CONSERVATION OF AVAILABLE OIL SUPPLIES

In the short-term the United States can and should make a concerted effort to conserve fuel by minimizing waste and by invoking certain mandatory controls on the population's consumption of petroleum products.

It is often pointed out that Americans comprise only 6 percent of the world's population but consume 35 percent of the planet's energy supplies. It cannot be denied that a certain amount of that consumption is wastage. Americans have become accustomed to overheated, super-air-conditioned homes and offices, unnecessary electrical gadgetry, and, most of all, 4,000-pound, 350-hp automobiles with automatic transmissions, air-conditioners, and emission control devices.

In order to attack the waste problem the executive branch has proposed that certain mandatory and voluntary measures be taken. Among these are: the elimination of nonessential lighting; reduction in speed limits; the exemption of or delay in certain environmental requirements; cutbacks in airline schedules; and the permanent establishment of daylight saving time.

While the study mission generally supports such measures, it must be realized that these conservation efforts will be at best have a minimal effect on the country's legitimate petroleum requirements. At worst, it must also be realized that certain controls on consumption can have a stagnating if not debilitating effect on the Nation's economy. For example, the Department of Treasury estimates, in the event of a gasoline tax increase, each penny of additional tax takes \$1 billion out of the public's purchasing power. Thus, a 30-cent tax hike would pull \$30 billion out of consumer's pockets.

Moreover, it is obvious that mandatory controls such as lower speed limits, higher gasoline prices, and rationing and fuel allocation have an unequal effect on consumers. The recent blockading of interstate highways by truckers is illustrative of this problem. Those who must commute from suburb to the city will suffer more than those who live

nearer their jobs. Those who rely on heating oil as opposed to natural gas will be more severely affected; and so on.

Therefore, it is the study mission's belief that, while it is imperative that reasonable conservation measures should be practiced, those controls which adversely affect the economy and well-being should be a stopgap effort coupled with an accelerated research and development program to meet consumers' legitimate energy requirements.

AVAILABILITY OF NON-ARAB OIL

What are the prospects for increasing oil imports from non-Arab sources?

According to the Department of State's Office of Fuels and Energy, the possibilities for compensating for the effects of the embargo and production cutback from non-Arab producers are virtually nil, as these producers are already operating at or near capacity. Moreover, the Arab embargo and cutback has forced other major consumers such as Japan and Western Europe to rely on other sources, thereby increasing demand on a static supply.

In statistical terms, the United States can expect to receive through the winter months oil imports averaging about 4 million barrels per day, as against a projected required rate of 7 million barrels per day. Almost 70 percent of this reduced quantity would come from Latin American (predominantly Venezuelan) sources and Canada, with most of the remainder coming from Nigeria, Iran, and Indonesia.

With regard to increasing domestic oil supply, the study mission's research shows that, by raising the maximum efficiency rates at which oil is lifted, production could be slightly increased. However, U.S. oil wells have been producing at close to maximum capacity for the last 3 years, and any significant jump in production could risk permanent damage to these wells. Thus, the experts estimate that the United States could achieve an increase in production of 300,000 barrels per day at the outside.

In addition to attempting a production increase in operating wells, the United States could open up the Elk Hills Naval Petroleum Reserve as requested by the President. The Elk Hills Reserve is capable of producing, almost immediately, 160,000 barrels per day and, within a year and after some investment in pipelines and other facilities, as much as 300,000 barrels per day. However, this measure would require congressional action.

PROSPECTS FOR A COUNTEREMBARGO

It has been suggested both in the executive branch and in the Congress as well as in private circles that the United States combat the Arab oil embargo with its own counterembargo of foodstuffs, manufactured goods, military equipment, and technology.

However, in a recent Library of Congress study commissioned by the Committee on Foreign Affairs, a unilateral U.S. counterembargo on food was evaluated to be an ineffective response. The study concluded, "On the basis of the data available, the leverage available to the Arabs through their oil boycott far exceeds any leverage that

might be available to the United States through a food embargo since the Arabs can meet their relatively small food import needs from other sources in the world market, while the United States cannot meet its relatively large petroleum import needs from other sources." (See appendix 6 for a text of this study.) Further inquiry revealed that a similar imbalance of leverage would apply to other items of trade.

To be effective, a counterembargo against the Arab oil states would have to be a multilateral effort involving a majority of the free world's industrialized nations. However, the current state of disorganization and lack of cooperation among the countries of Western Europe, particularly the NATO alliance, and Japan in face of the embargo and production cuts, makes the immediate chances for such an action remote.

France, as an example of one NATO country, appears unilaterally to be making every effort to keep its Arab oil imports flowing. The study mission was able to see, firsthand, evidence of French-supplied foodstuffs to Syrian forces during the October war. While in the Israeli-held area in the Golan Heights, we observed numerous empty food tins of French make left by retreating Syrian troops. It should be noted that France is among those nations included on the Arab oil producers "friendly list" and, as such, remains exempt from further cutbacks.

Nevertheless, in spite of the present disunity among the nations dependent on Arab oil, the industrialized countries must recognize that international cooperation is imperative if they are to effectively confront such energy cartels as OPEC and OAPEC. Therefore, the study mission believes that the United States should promote the formation of an "International Organization of Energy Importing Nations" under the auspices of the 24-member Organization for Economic Cooperation and Development (OECD).²

The advantages of using the OECD machinery to set up such a group are—

(1) Its membership contains all of the NATO countries as well as Australia and Japan; and

(2) It has had an energy committee from its earliest days as well as an oil committee. Thus, a voluminous amount of work on energy cooperation has already been prepared by the OECD.

The proposed group under the mantle of the OECD could begin work immediately in the areas of cooperation outlined by Secretary of State Henry A. Kissinger in his December 12, 1973, speech in London. Those areas of cooperation include efforts to—

(1) Conserve energy through more rational utilization of existing supplies;

(2) Encourage the discovery and development of new sources of energy;

(3) Give producers an incentive to increase supply; and

(4) Coordinate an international program of research to develop new technologies that use energy more efficiently and provide alternatives to petroleum.

² OECD members are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States.

While the study mission's proposal is intended to give consuming nations the capability of dealing with such problems as the current oil embargo, it should not be viewed solely as a countervailing force against producing nations. Rather, as Secretary Kissinger said in his London address:

The producing nations should be invited to join * * * from the very beginning with respect to any matters of common interest. The problem of finding adequate opportunity for development, and the investment of the proceeds from the sale of energy sources would appear to be a particularly important area for consumer-producer cooperation.

MILITARY OCCUPATION OF ARAB OILFIELDS

One of the most radical proposals for defeating the oil embargo that has been suggested by some people is a U.S. military occupation of Arab oilfields.

In the opinion of the study mission, no serious leader in the United States should or would consider force as a solution. When this subject was brought up during the study mission's interview with the Saudi oil minister, the latter said that, in the event of such an action, his country would destroy the oilfields. Whether or not the conflict would ever come to such a disastrous point, it occurred to the study mission as we crossed the vast desert of Saudi Arabia that the miles and miles of pipelines would be extremely vulnerable to acts of sabotage.

A milder yet equally unsound proposal discussed in some quarters is the internationalization of the Arab oilfields, since oil is a commodity vital to all nations of the world. If one accepts this logic, it would follow that American wheatfields should be internationalized. Such reasoning, in our opinion, is absurd and deserves no further discussion.

RECONCILIATION WITH THE ARAB OIL PRODUCERS

The only reasonably certain way to achieve an easing of the oil embargo is for the United States help to bring about a mutually acceptable solution to the Arab-Israeli conflict.

The prospects for the Arab oil states lifting the embargo in return for U.S. assistance in resolving Arab grievances are best characterized by two widely differing views presented to the study mission in Saudi Arabia.

During our interview with King Faisal, we were told that Saudi Arabia would resume its oil trade with the United States only after Israel vacates Arab territory, gives up the Old City of Jerusalem, and the Palestinian question is satisfactorily resolved.

However, the King's Oil Minister told the study mission that, if the United States were to demonstrate a "tangible" change in its Middle East policy in favor of the Arab side, there would be a "slight" chance that the embargo could be lifted. The King's position suggests that any easing of the embargo will be hostile to long, arduous negotiations, while the oil minister's comment implies that the removal of the embargo could be accomplished before all outstanding issues in the conflict are satisfactorily resolved. Taking the conversations with

Arab officials in the countries visited as a whole, the study mission's general impression is that there is a possibility of achieving the end of the embargo before a total settlement is reached. The steps which could lead to such a resolution are discussed in the next part of the report.

PART II—POLITICAL-MILITARY ISSUES

THE OCTOBER 1973 WAR

THE MILITARY SITUATION

Referred to as the "Yom Kippur War" because it began on the Jewish religion's most solemn holiday, the fourth Arab-Israeli war in 25 years was, in a military sense, a victory for Israel, albeit a pyrrhic one in other respects.

Begun by Egypt and Syria ostensibly to regain land lost to Israel in the June 1967 war, the October 1973 hostilities ended with Israel holding more Syrian territory than before and having crossed the Suez Canal to capture strategic positions on the west bank of the Canal, only 30 miles from Cairo. The Egyptian Second Army does hold a small strip of land northeast of Ismailia on the east bank. However, the Egyptian Third Army which is located on the east bank roughly between Great Bitter Lake and the Gulf of Suez is surrounded by Israeli forces in the Sinai and those on the west bank of the Canal.

[For comparison of land area held by Israel after the June 1967 war and the latest war, see maps A, B, C, and D which appear on following pages.]

In terms of losses, those suffered by Arab forces were far greater than Israeli losses in a numerical sense. However, in a relative sense, Israel suffered its most severe loss since its war of independence in 1948. Moreover, the losses incurred by Israel in the October war were absorbed in a brief time frame of 16 days while the 1948 war losses were spread over more than a year. To put Israel's 2,412 killed in action¹ into perspective the equivalent U.S. total would be 150,000 with 500,000 wounded. Using its own population as a guide, Israel suffered 1 dead out of every 494. In comparison, Egypt, whose actual losses were 9 times Israel's, lost only 1 in 6,000 of its population with a similar ratio in Syria.

In terms of military equipment, the Israeli forces inflicted greater losses on the Arab side than they absorbed. However, the attritional effects of such losses were far more serious for Israel than in prior conflicts. According to the U.S. Defense Attaché in Tel Aviv, the Israeli losses included approximately 1,000 tanks and 110 aircraft. While Israel was able to repair some of its damaged equipment and to capture some enemy tanks, the relatively high loss of aircraft and well-trained, experienced crews to enemy surface-to-air missiles (SAM's) was particularly damaging to Israeli Defense Forces. Moreover, the

¹ The U.S. Embassy in Saudi Arabia has reports that the killed in action figure may be as high as 4,000 but the Department of State essentially agrees with the Israeli Government figure. It should be noted that Israel does not count as killed in action accidental deaths in the war zone nor those who are wounded in action and die later in the hospital.

ongoing massive Soviet resupply of Egypt and Syria has more than made up for Arab military losses according to the Department of Defense.

In the view of military observers interviewed by the study mission, Arab forces gave a far better account of themselves than in past Arab-Israeli conflagrations. The principal reasons cited were:

(1) The Arab forces were better trained, better led, and better motivated than before.

(2) They utilized sophisticated weaponry to better advantage than in the past, especially Soviet-supplied SAM's and modern antitank missiles. In Egypt's case, the use of SAM's permitted the Egyptian Air Force to be kept largely out of the war. On the Syrian side, it is estimated every two of three Syrian foot soldiers were equipped with "Sagger's" (antitank missiles). These devices were largely responsible for the severe Israeli casualties and equipment losses on the northern front.

(3) Israeli intelligence, long thought to be nearly infallible, badly misjudged Arab capabilities and intentions. When the Egyptian and Syrian forces began their coordinated attacks on October 6, the Israelis were unmobilized and understrength at perimeter defense lines. This failing has caused serious internal political problems for Israel which will be discussed later in the report.

In evaluating the outcome of the October War, the study mission arrived at the following conclusions:

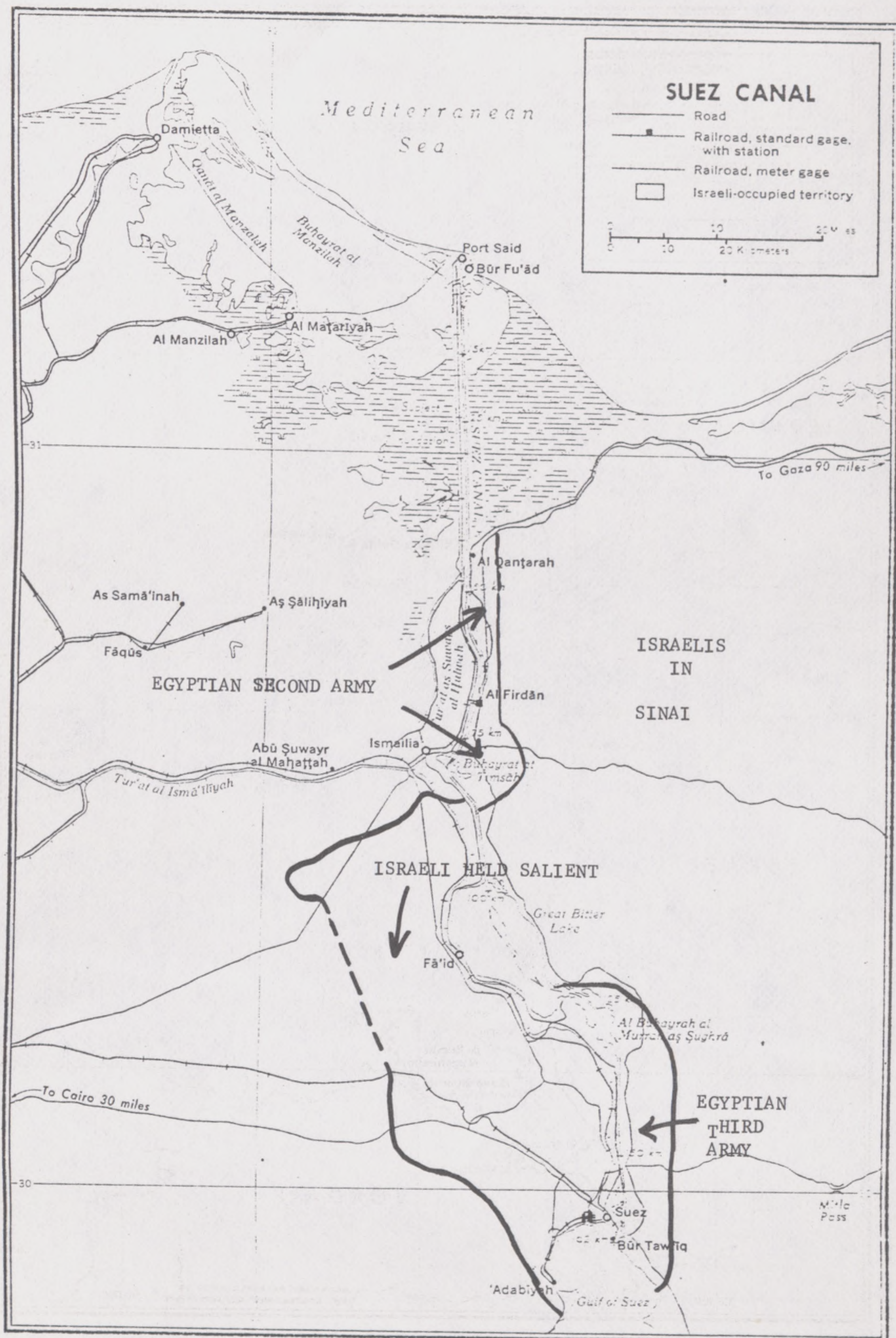
(1) The Israeli Military Establishment remains the single most effective force in the Middle East.

(2) However, in spite of Israel's overall superiority, Arab forces have improved to the extent that they are capable of inflicting serious to unacceptable losses on Israel.

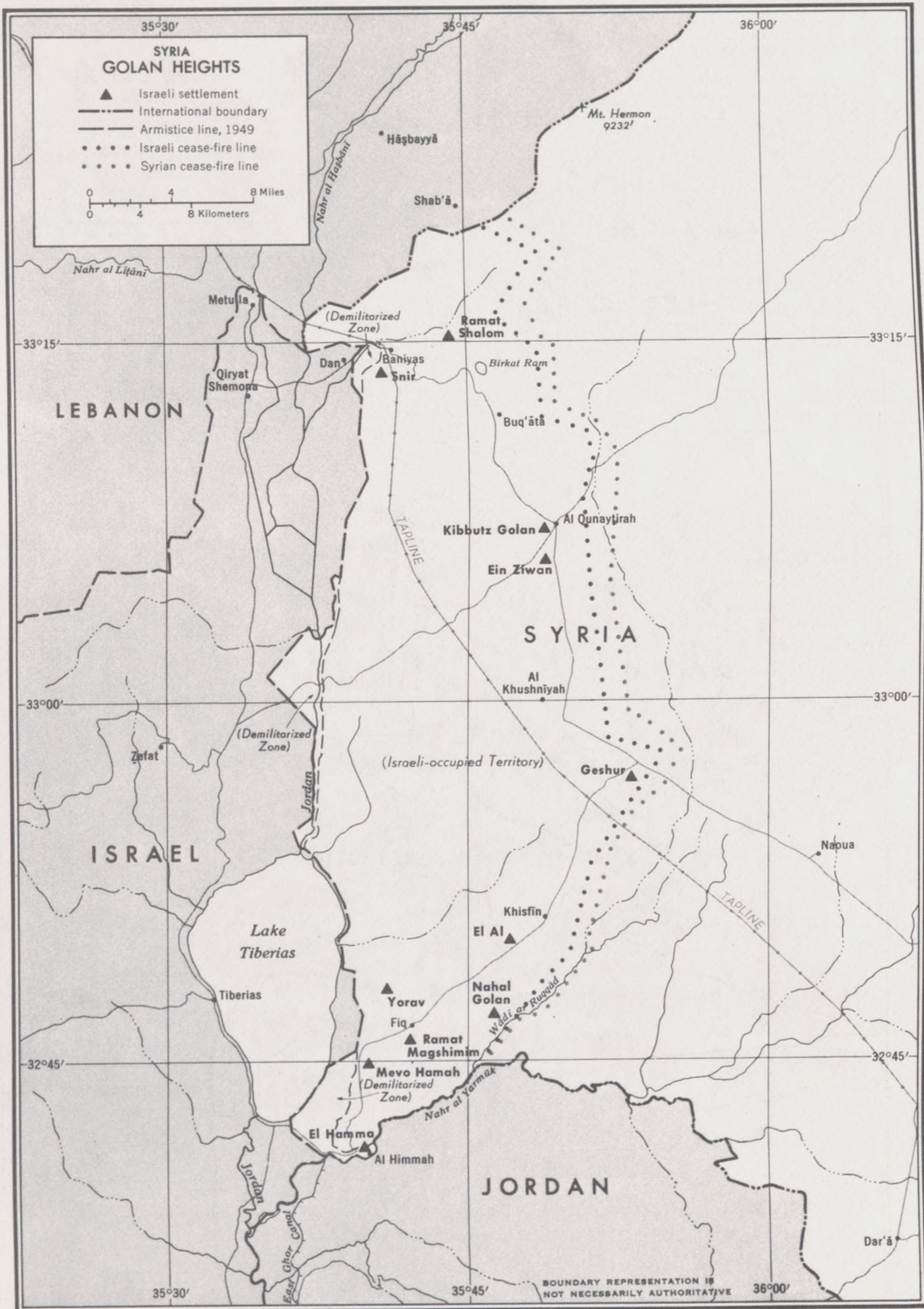
(3) The Golan Heights region in Israeli-occupied Syria is Israel's most vulnerable point. According to U.S. military observers there, Israel's survival was at stake in the Golan Heights battle. These observers contend that, at one point, Syria could have invaded the Jordan Valley of Israel but did not, probably due to logistical problems.



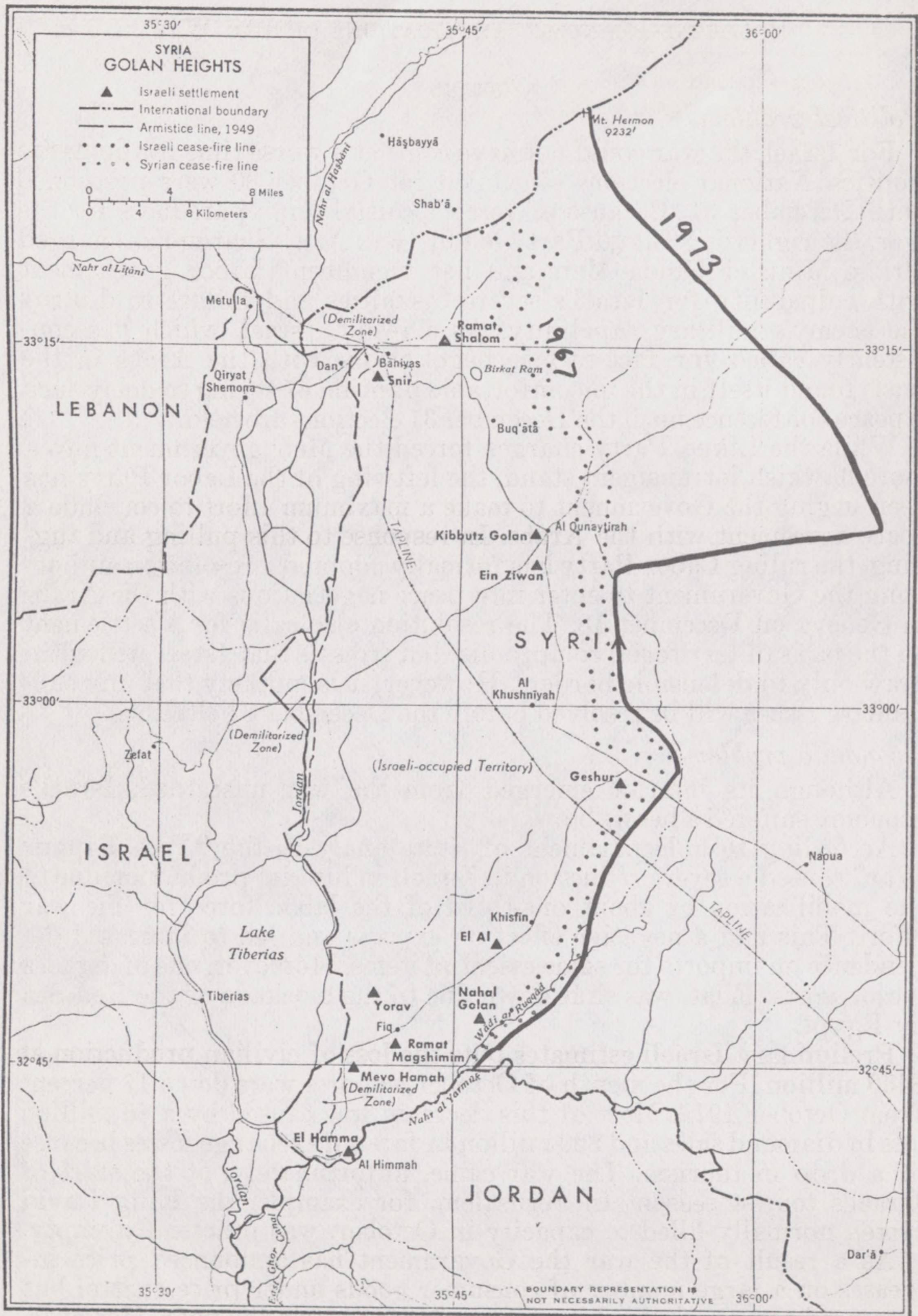
A. Territory Captured by Israel From Egypt in the June 1967 War



B. Israeli Positions on the Egyptian Front After the October 1973 War



C. Israeli-Syrian Position in the Golan Heights After the June 1967 War



D. Israeli Position in Syria After October 1973 War

POLITICAL-ECONOMIC IMPLICATIONS OF THE WAR

ISRAEL

Political problems

For Israel, the war could not have come at a worse time for domestic politics. National elections scheduled for October 30 were postponed until December 31. Because of Israel's initial unpreparedness for the war, the rightwing Likud Party led by Gen. Ariel Sharon has charged Prime Minister Golda Meir and her incumbent Labor government with culpability for Israel's severe casualties and failure to destroy the enemy's military capability. As a result, Israel, which has consistently called for face-to-face negotiations with the Arabs in the past, found itself in the uncomfortable position of trying to delay such a peace conference until the December 31 elections are held.

While the Likud Party charges forced the Meir government into a more hawkish intransigent stand, the leftwing of the Labor Party has been urging the Government to make a maximum effort to conclude a peace agreement with the Arabs. In response to this pulling and tugging, the ruling Labor Party has formally adopted a resolution authorizing the Government to enter into peace negotiations with the Arabs in Geneva on December 18. The resolution also calls for a settlement on the basis of territorial compromise but stresses that Israel will withdraw only to defensible borders. However, it is unlikely that any substantive issues will be resolved before the December 31 elections.

Economic problems

Although its interior emerged from the war unscathed, Israel's economy suffered a heavy blow.

According to a Department of State analysis, the "Yom Kippur War" caused a severe reduction in Israeli industrial production due to the mobilization of about one-third of the labor force for the war effort. This had a negative effect on exports and led to increased dependence on imports for some essential items. Moreover, one of Israel's major ports, Eilat, was shut down due to the blockade of the Red Sea by Egypt.

Preliminary Israeli estimates puts the loss of civilian production at \$450 million. For the month of October, exports were down 17 percent from October 1972. Most of this decrease was caused by a \$6 million loss in diamond sales and \$20 million in foreign exchange losses because of a drop in tourism. The war came, unfortunately, at the start of Israel's tourist season. In Jerusalem, for example, the King David Hotel, normally filled to capacity in October, was practically empty.

As a result of the war the Government has announced price increases on a large number of consumer goods under price control but exempted some basic food items in order to protect the poor. However, the price of meat and rice have risen 50 percent. In addition, the import surcharge has been increased from 20 to 25 percent and sales tax to a flat 5 percent on most items and customs duties on certain luxury items have been raised 20 percent. While the Government hopes to raise revenue and save foreign exchange with these measures, they will add to the already high rate of inflation which was reported to be 22.4 percent for the 12 months preceding the war. Taken together with higher taxes and customs duties on imports plus the steady rise in the

cost of living due to inflation, there could be a decrease in the standard of living by as much as 10 percent according to Israeli estimates.

The Department of State analysis estimates that approximately 30 percent of Israel's industrial capacity is now concentrating on defense production, much higher than before the war. In addition, due in part to defense needs and in part to save \$4 to \$5 million annually, the Government has asked the public to suspend private automobile use 1 day a week.²

To date then, it can be said that Israel's economy has been shaken but not severely dislocated. However, if negotiations do not allow for an Israeli pullback and demobilization on the Egyptian and Syrian fronts in the near future, severe dislocations may begin to develop.

THE ARAB NATIONS

Diplomatic advances

As for the major Arab combatants, Egypt and Syria failed in their military objectives but made significant diplomatic gains. Most important was the economic cooperation of the Arab oil producing states led by Saudi Arabia who helped fund the war effort while embargoing oil shipments to the United States, the Netherlands, South Africa, and Portugal for their support of Israel. In addition to gaining the support of a majority of African states who severed relations with Israel, the Arab use of oil as a diplomatic tool caused disunity among the NATO allies and forced Japan into a more pro-Arab stance.

The reestablishment of full diplomatic relations between Egypt and the United States is, in the opinion of the study mission, a victory for both sides. During the study mission's visits to Arab countries, it became clear that a major roadblock to a settlement of the Middle East conflict is the lack of communication between the United States and certain Arab countries. Therefore, the study mission encourages U.S. efforts to reestablish relations with Syria, Iraq, and Libya. Such a diplomatic effort would not be harmful to Israel; rather it could promote an easing of tensions in the area.

Sadat and Faisal—Emerging leaders

In terms of personalities, the conduct of the war and the ensuing diplomatic efforts brought President Anwar Sadat of Egypt and King Faisal of Saudi Arabia to the forefront of Arab leadership. In order to better understand the roles of various leading Arab figures, the following classification offered by U.S. Ambassador to Jordan, Lewis D. Brown, is presented:

King Faisal—Saudi Arabia; traditional conservative.

King Hussein—Jordan, modern traditional.

Muamar Qadaffi—Libya; traditional radical (opposes both monarchies and communism but clings strictly to the Moslem laws).

Anwar Sadat—Egypt; modern radical (accepts Soviet aid and advice but desires relations with the West).

Hafiz Asad—Syria; modern radical.

Hasan al-Bakr—Iraq; radical.

² Israel's Energy Director, Zvi Dinstien, told the study mission that Israel gets 60 percent of its oil from occupied Sinai and the remainder from Iran and from "second hand" sources.

According to Ambassador Brown, the outcome of the October war hoisted both Faisal and Sadat to the top of the pecking order.

In Sadat's case, he has disavowed the irrational radicalism of past Arab figures such as Gamal Abdal-Nasser who vowed to "push the Jews into the sea." Under Sadat, Egypt's military forces have been professionalized and the heretofore uncontrolled use of wild propaganda has been tamed so that the masses are not led to expect great victories only to be disappointed and disillusioned as in the past.

Although Sadat is now in a position of leadership, the study mission was told at a gathering of moderate Lebanese Government and business representatives that his efforts must produce a permanent tangible gain for the Arab side in its conflict with Israel if he is to solidify his position. Otherwise, we were told, a more radical movement could unseat Sadat, thereby reducing the chances for peace.

Because of his financial aid to the Arab combatants and his leadership in the oil states, adroit use of oil to put pressure on the non-Arab world, King Faisal has ascended to an important, if not the most important of leadership position in the Arab world. The king is also widely admired for his insistence that the former Jordanian sector of Jerusalem, with its Islamic holy places, revert to Arab control. In our audience with the king, the study mission was told that Saudi Arabia's oil embargo against the United States would not be lifted until all Arab grievances against Israel are resolved and the Old City of Jerusalem returned to the Arabs.

With regard to Saudi Arabian economic assistance to the Arab combatants, the study mission was told by the king's monetary governor that Saudi Arabia has increased its cash grants to Arab Egypt and Syria considerably during the war. Although there is no hard information on the amount of funds granted to the Arab countries involved in combat by Saudi Arabia and other Arab oil states, the vast amount of Soviet military equipment sent to Egypt and Syria offers a clue. Unlike the United States, the Soviet Union does not have military grant aid programs. Rather, its military aid programs are predicated on cash sales or barter arrangement. While the U.S. Government can produce no exact dollar value on Soviet arms deliveries to Egypt and Syria, since the outbreak of the war, the Soviet supply effort was described by Deputy Secretary of Defense William Clements as an "absolutely open spigot." Therefore, the cost of this equipment along with the dislocations caused by the war must have required large amounts of budgetary support from the Arab oil states. The fact that such support was available marks a milestone in Arab unity and that milestone is due in large part to King Faisal.

Hussein—Man in the middle

Among the Arab leaders King Hussein of Jordan deserves a special mention. He is the "man in the middle." His pro-Western government, his crushing of the Fedayeen force in 1971 and his border with Israel have placed him in a dangerously delicate position in the Middle East.

King Hussein received high marks from military and political observers who talked to the study mission. It was their consensus that the King was able to participate in the war effort without directly involving his country in hostilities which would have been disastrous for his

people. By dispatching his two most militant armored brigades to participate in the fighting on the Syrian front, he gave Israel no reason for attacking Jordan proper. The study mission learned that, throughout the hostilities, the two Jordan River bridges remained open to traffic and the West Bank was quiet enough to enable Israel to transfer most of its troops from that area to the Syrian and Egyptian fronts.

According to the U.S. Embassy in Amman, King Hussein has proposed, as part of peace settlement with Israel, a plebiscite which would permit Palestinians and others on the West Bank to decide to become an autonomous entity. During the study mission's audience with the King, the Jordanian leader affirmed his proposal and said he envisaged a United Kingdom of Jordan and Palestine (the West Bank) wherein the Palestinians would have sole responsibility for their domestic affairs.

Thus, for the United States, Jordan represents a positive force in the Middle East. Through its economic and military assistance programs, our Government maintains a presence and considerable influence in a country which will play a pivotal role in any Arab-Israeli peace conference. The study mission believes its leaders are moderate and appear willing to compromise in order to achieve a workable settlement.

FRAMEWORK FOR PEACE NEGOTIATIONS

In the final analysis, the fourth Arab-Israeli war resolved nothing. In return for their efforts, the Arabs failed to recover their lost territories, while Israel paid an enormous price to defend its real borders in the "buffer" zones captured in June 1967. The October 1973 war obviously did nothing to resolve the Jerusalem issue nor to alleviate the Palestinian refugee problem.

On the positive side, the abject futility of the October war may offer the combatants and the world community the last best chance to achieve a just, negotiated settlement to the Middle East conflict. In light of the outcome of the war and related events such as the Arab oil embargo and production cuts, the following outline for a settlement is emerging:

(1) For the first time since 1948, Israelis and Egyptians have met face-to-face to negotiate cease-fire provisions. In Cairo, the study mission was told by Hafez Ghanem, First Secretary, Central Committee, Arab Socialist Union,¹ that his Government no longer objected to such "formalities," (that is, face-to-face negotiations). He explained further that while the meeting with the Israelis at kilometer 101 were the subject of some criticism in other Arab countries (Iraq and Libya), Egypt would continue these discussions. He added that Egypt is willing to participate in a full-fledged peace conference with Israel but that such negotiations should include the Soviet Union, the United States, Palestinian representatives, Jordan, and Syria. Ghanem explained that all parties to the conflict must take part in the negotiations because a bilateral settlement between Egypt and Israel would produce no real peace.

(2) In Israel, the study mission was told that growing numbers of Israelis support "adjustments" in Arab territory now occupied by Israel as an avenue to a broader peace settlement. During the October war opinion polls taken in Israel indicated 11 percent favored partial withdrawals. The latest polls show 55 percent in favor of such an action as a part of an overall settlement. On the Palestinian issue, Israel's Deputy Foreign Minister for North American Affairs, Michael Elizur, told the study mission that his Government could accept an autonomous Palestinian Government in the West Bank of the Jordan River which is now occupied by Israel.

(3) In Jordan the study mission learned that King Hussein would accept a peace settlement involving a plebiscite on the West Bank wherein the area's inhabitants, including the Palestinian refugees could choose to become an autonomous entity.

¹ Egypt's only political party, led by President Sadat.

(4) In Saudi Arabia, ranking Government officials expressed to the study mission their Government's willingness to approve any settlement acceptable to the Arab parties directly in conflict with Israel (that is, Egypt, Syria, Jordan, and the Palestinians).

Thus, the present mood among the principal parties involved in the Middle East conflict indicates significant willingness to resolve the territorial disputes and to attempt to seek a solution to the Palestinian issue. The thorniest issue dividing Arabs and Israelis is, of course, Jerusalem. Although King Faisal, as the accepted protector of Islam's holy places, appears adamant on this question; the study mission received indications from other Arab spokesmen that the Jerusalem issue could be separated from those issues more amenable to compromise.

THE SINAI AND THE GOLAN HEIGHTS

The study mission feels that the issue of Israeli-occupied Arab territories can be separated into two parts. Resolution of boundaries along the Sinai and in the Golan Heights is a problem involving Israel, Egypt, and Syria. However, the status of Gaza and the West Bank of the Jordan River, also occupied by Israeli forces since the June 1967 war, should be discussed in relation to the Palestinian question.

With regard to the Sinai and the Golan Heights, two opposing viewpoints must be compromised. First, Israel contends that its presence in the two disputed areas is for its security and not for permanent territorial gain. On the other hand, Egypt and Syria maintain that they have a legitimate right to recover those areas. In Cairo, the study mission was told by an associate of President Sadat that, while Egypt is willing to enter into negotiations to resolve the Sinai issue, it is also prepared to resort to military means if such negotiations are not productive.

While both sides warn that fighting may resume over those territories, the study mission feels that the Israeli-Egyptian talks at kilometer 101 and the joint willingness of the two parties to enter into full-scale negotiations in Geneva demonstrates a feeling on both sides that the military approach to the problem is a bankrupt policy. Although it was not possible to get a first-hand Syrian reaction to possibility of a negotiated settlement of the Golan Heights issue, the study mission was informed by political observers in the Middle East that Syria would probably go along with Egypt in participating in a peace conference with Israel.

What should the U.S. role be in promoting such a peace conference? First, in the opinion of the study mission, the United States cannot and should not attempt to provide specific proposals at the conference. Rather our Government should act as a catalyst in bringing opposing points of view together. With regard to the territorial issue, the United States can be most constructive in resolving Israel's problem of security.

It is clear that Israel will agree to a return of large areas of the Sinai and the Golan Heights only if it can be assured of defensible borders and a credible external guarantee of security. Therefore, in order to encourage Israel to negotiate a territorial settlement, the United States should consider supporting the following provisions:

(1) In the event of an agreement involving a phased Israeli pullback in the Sinai and the Golan region, a buffer zone should be maintained by U.N. observers with possible Israeli and Arab participation. Such a provision is essential in the Golan Heights where Israel is particularly vulnerable.

(2) In order to encourage a permanent boundary settlement, the Sinai and Golan areas should be demilitarized under the auspices of the United Nations

(3) The United States should consider entering into a formal bilateral agreement to guarantee Israel's territorial integrity. Such a guarantee should meet the following criteria: (a) It should seek to give Israel reliable assurance of physical security in territory defined by borders accepted by all sides of the conflict; (b) it should be entered into only parallel to a general territorial settlement; (c) it should seek to avoid any further polarization of United States and Soviet roles in the Middle East.

However, in the absence of a territorial settlement, a military balance between Israel and its adversaries must be maintained. Anything less could severely endanger Israel's security and chances for successful peace negotiations.

THE PALESTINIAN REFUGEES

Even if the territorial disputes involving the Sinai and the Golan Heights are resolved, the continuing plight of Palestinian refugees forced to flee their homes as a result of four Arab-Israeli wars will prevent the establishment of a lasting durable peace in the Middle East.

With an estimated total population of 1.5 million, the Palestinian refugees are largely dependent on the United Nations Relief and Works Agency (UNRWA) for their food, shelter, clothing and educational needs. While this organ of the U.N. is doing a creditable job with the means available to it, it is incapable of meeting the basic needs of all the refugees. (See appendix 7 for a summary of UNRWA's financial crisis.)

According to Sir John Rennie, Commissioner General of UNRWA, the refugees are a diverse group whose people range from militant supporters of the various guerrilla movements to those who would accept a solution not involving a return to their former homes. However, until such a solution is reached, the guerrilla forces will remain influential in the refugee ranks as well as a political problem for the Arab countries which serve as their bases of operation.

In order to promote a settlement of this vital issue, the study mission believes the following steps should be taken:

(1) Coinciding with peace negotiations, the United States should encourage U.N. members to increase the funding of UNRWA to alleviate the plight of the refugees.

(2) Because a major repatriation of the refugees inside Israel proper is not a viable alternative, an indemnity program for those who lost property, jobs, and businesses should be considered. Such a program could be formulated and administered by the U.N. or any other multilateral organization acceptable to the parties involved.

(3) The offer of King Hussein for a plebiscite on the West Bank should be explored as well as a similar solution for the Gaza area.

JERUSALEM

A solution to the status of Jerusalem might well be the last issue in the Arab-Israel conflict to be discussed and, probably, the most difficult to achieve. Any settlement of the conflict will have to resolve the following positions:

(1) Most Jews feel that the issue of Jerusalem has been solved since the Israelis took over the entire city in 1967 and gained access to the holy places denied them for 19 years. The Israelis feel they can continue to guarantee free access to all peoples.

(2) The Moslems, typified by King Faisal, are unwilling to accept Israeli control over an area which they feel they took good care of over several centuries.

(3) All Christians want access to the city and its holy places. Some Christians are skeptical of both Moslem and Jewish rule, preferring some form of international guarantee or internationalization of the city.

In the study mission's view, the future of Jerusalem must be negotiated by the Arabs and the Israelis. However, the United States should support the following considerations:

(1) Because of Jerusalem's unique importance to three major religions, any solution must maintain the city's special character.

(2) The right of access should be guaranteed to all holy places, and a free flow of goods and people within the city maintained.

(3) Insistence on the sovereignty and administration of all holy places by any one nation should be avoided if an agreement is to be reached.

COOPERATION BETWEEN THE UNITED STATES AND THE SOVIET UNION

While the basic issues responsible for the Arab-Israeli conflict must in the final analysis be resolved by those two parties, a durable peace in the area can be realized only if the superpowers can agree on a set of common interests in the area. During the ongoing conflict, United States and Soviet interests have often clashed.

The Soviet Union's interests are more strategic and military in nature and less economic and cultural. A foothold in the Middle East serves as a counter to NATO and CENTO and affords the Soviets a presence in the Mediterranean Sea and the Indian Ocean with greater access to the Turkish straits. To date, the Soviet Union has appeared to be most concerned about its strategic and political position in the Middle East seems to prefer a state of affairs other than peace or full-scale war, either of which might threaten its substantial investment in the area.

U.S. interests in the area tend to be more economical, cultural, emotional, less strictly military. War, as demonstrated by the October hostilities, threatens our interest in Israel's existence as well as our economic reliance on Arab oil. Because of this dual interest it has been said that whichever side wins in an Arab-Israeli war, the United States loses.

What, therefore, can be done to minimize the danger inherent in these conflicts of interests?

The study mission strongly recommends that, in tandem with the peace conference, the United States should press for an understanding with the Soviet Union to control arms flows to the Middle East, thereby reducing the chance of a full-scale war. The potentially deadly situation brought about by the combined United States-Soviet Union military alert during the October war amply demonstrates the need for an arms control agreement. In order to ease tensions in the Middle East, the United States should press for an understanding with the Soviet Union to control arms flow into that area. One method of curbing the arms flow would be to link the granting of "most favored nation" trading status to the Soviet Union with Middle East arms limitation agreement.

REPORT

1912

1913

1914

1915

1916

1917

1918

1919

1920

1921

1922

1923

1924

1925

1926

1927

1928

1929

1930

1931

1932

1933

1934

1935

1936

1937

APPENDIX 1

SCHEDULE OF MEETINGS, INTERVIEWS AND DISCUSSIONS

BEIRUT, LEBANON

October 24-26, 1973

Suheil Sadaawi, former Secretary General, OAPEC.
Nadim Pachachi, former Secretary General, OPEC.
Fuad Itaym and Ian Seymour, Middle Eastern Economic Survey.
Sir John Rennie, Commissioner-General United Nations Relief and Works Agency
for Palestine Refugees in the Near East.
Harvey T. Clew, Petroleum Officer, U.S. Embassy.

The study mission also attended a luncheon hosted by U.S. Ambassador William B. Buffum. Present at the luncheon were :

Pierre Helou, Deputy, Lebanese Parliament.
Muhieddine M. Ahdab, Mobil Oil Lebanon, Inc.
Bryan Jones, Esso Standard (Near East), Inc.
A. N. Pagnotta, Caltex (Middle East), Limited.
David S. Dodge, Trans-Arabian Pipe Line Co. (Tapline).
Raymond Hitti, Ministry of National Economy.
Dr. Zuhayr Mikashi, Professor at the American University in Beirut.
Ian Steele, Refinery Manager, Medreco.
James M. Templar, Vice President, Tapline.
Albert Lahm, Lawyer.

ROME, ITALY

October 26, 1973

Matthew Quilter, Vice President of Esso/Italy.
David S. Wilson, Petroleum Officer, U.S. Embassy.

ISRAEL

October 27-29, 1973

ISRAELI OFFICIALS

Abba Eban, Israeli Foreign Minister.
Michael Elizur, Chief, North American Division, Ministry of Foreign Affairs.
Dr. Zvi Dinstein, Deputy Minister of Finance in Charge of Petroleum Matters,
and Chairman of the Board of the Israeli Institute of Petroleum.

U.S. OFFICIALS

Hon. Kenneth B. Keating, U.S. Ambassador.
Nicolas A. Veliotis, Deputy Chief of Mission.
Jack B. Button, Economic/Commercial Officer.
William A. Kirby, Jr., Economic/Commercial Officer.
Col. Billy B. Foresman, Defense Attaché.
Arthur R. Day, U.S. Consul General, Jerusalem.

The study mission toured Golan Heights with guide Major Dan Bawly, Israeli Army.

AMMAN, JORDAN**October 30, 1973****JORDANIAN OFFICIALS**

Audience with His Majesty, King Hussein.

H.E. Zaid Rifai, Prime Minister, Defense Minister, and Foreign Minister of Jordan.

H.E. Adnan Abu Odeh, Chief of the Royal Court.

Lt. General Amer Kammash, Political Counselor to King Hussein.

H.E. Baha Ad-Din Toukan, Court Minister.

H.E. Dr. Khalil Salim, President National Planning Council.

H.E. Dr. Sa'id Nabulsi, Governor, Central Bank.

Maj. Gen. Sharif Zaid bin Shaker, Chief of Staff, Jordanian Armed Forces.

U.S. OFFICIALS

Hon. Lewis D. Brown, U.S. Ambassador.

Pierre R. Gram, Deputy Chief of Mission.

Charles E. Waterman, Political Officer.

Colonel Clarence C. Mann, Defense Attache.

KUWAIT**October 30, 1973**

Hon. William A. Stolzhus, U.S. Ambassador.

Walter M. McClelland, Deputy Chief of Mission.

Richard W. Bogosian, Economic/Commercial Officer.

Leslie M. Lisle, Public Affairs Officer.

SAUDI ARABIA**October 31-November 1, 1973****In Dhahran**

James M. Bahti, U.S. Consul General.

In Riyadh**SAUDI ARABIAN OFFICIALS**

Audience with His Majesty King Faisal.

H.E. Sheikh Hisham Nazir, President, Central Planning Organization.

H.E. Sheikh Ahmad Zaki Yamani, Minister of Petroleum and Mineral Wealth.

U.S. OFFICIALS

Charles O. Cecil, Political/Military Affairs Officer.

T. McAdams Deford, Political Officer.

James E. Smith, Information Center Director, USIA.

Col. William L. Durham, U.S. Army Engineer District, Saudi Arabia.

Lt. Col. F. Whiting III, Chief, U.S. Army Section, U.S. Military Training Mission.

In Jeddah

H.E. Sayyad Omar Saqqaf, Minister of State for Foreign Affairs.

Anwar Ali, Governor, Saudi Arabian Monetary Agency.

U.S. OFFICIALS

Hon. James E. Akins, U.S. Ambassador.

Hume A. Horan, Deputy Chief of Mission.

Eugene H. Bird, Political/Economic Officer.

Raymond H. Close, Political/Economic Officer.

Robert R. Ruggiero, Public Affairs Officer.

CAIRO, EGYPT

November 2, 1973

Edward T. Penney, Cultural Affairs Officer, U.S. Interests Section, Spanish Embassy.

Hafes Ghanem, First Secretary, Arab Socialist Union.

THE NETHERLANDS

November 2-3, 1973

DUTCH OFFICIALS

L. G. Wansink, Director General for Energy Supply, Ministry of Economic Affairs.

A. T. van Rhyn, Deputy Director for Energy Supply.

U.S. OFFICIALS

Hon. Kingdon Gould, Jr., U.S. Ambassador.

Charles R. Tanguy, Deputy Chief of Mission.

John Q. Blodgett, Economic/Commercial Officer.

Carroll E. Cobb, Economic/Commercial Officer.

PRIVATE INDUSTRY

F. G. van Duivenbooden, President/Esso/Nederland.

D. J. Piliero, Managing Director, Chevron Petroleum/Nederland.

APPENDIX 2

TEXT OF THE OCTOBER 17, 1973 COMMUNIQUÉ OF A MEETING OF THE ORGANIZATION OF ARAB PETROLEUM EXPORTING COUNTRIES IN KUWAIT

The Arab oil exporting countries contribute to the prosperity of the world and the growth of its economy through their exports of this wasting natural resource. And in spite of the fact that the production of many of these countries has exceeded the levels required by their domestic economies and the energy and revenue needs of their future generations, they have continued to increase their production, sacrificing their own interests in the service of international cooperation and the interests of the consumers.

It is known that huge portions of the territories of three Arab states were forcibly occupied by Israel in the June 1967 war, and it has continued to occupy them in defiance of UN resolutions and various calls for peace from the Arab countries and peace-loving nations.

And although the international community is under an obligation to implement UN resolutions and to prevent the aggressor from reaping the fruits of his aggression and occupation of the territories of others by force, most of the major industrialized countries which are consumers of Arab oil have failed to take measures or act in such a way as might indicate their awareness of this public international obligation. Indeed, the actions of some countries have tended to support and reinforce the occupation.

Before and during the present war, the United States has been active in supplying Israel with all the means of power which have served to exacerbate its arrogance and enable it to challenge the legitimate rights of others and the unequivocal principles of the public international law.

In 1967, Israel was instrumental in closing the Suez Canal and burdening the European economy with the consequences of this action. In the current war, it hit East Mediterranean oil export terminals, causing Europe another shortfall in supplies. This is the third such occurrence resulting from Israel's disregard of our legitimate rights with U.S. backing and support. The Arabs have therefore been induced to take a decision to discontinue their economic sacrifices in producing quantities of their wasting oil assets in excess of what would be justified by domestic economic considerations, unless the international community hastens to rectify matters by compelling Israel to withdraw from our occupied territory, as well as letting the U.S. know the heavy price which the big industrial countries are having to pay as a result of America's blind and unlimited support for Israel.

Therefore, the Arab Oil Ministers meeting in Kuwait today have decided to reduce their oil production forthwith by not less than 5 percent of the September (1973) level of output in each Arab oil exporting country, with a similar reduction to be applied each successive month, computed on the basis of the previous month's production, until such time as total evacuation of Israeli forces from all Arab territory occupied during the June 1967 war is completed, and the legislative rights of the Palestinian people are restored.

The conferees took care to ensure that reductions in output should not affect any friendly state which has extended or may in the future extend effective concrete assistance to the Arabs. Oil supplies to any such state will be maintained in the same quantities as it was receiving before the reduction. The same exceptional treatment will be extended to any state which takes a significant measure against Israel with a view to obliging it to end its occupation of usurped Arab territories.

The Arab Ministers appeal to all the peoples of the world and particularly the American people, to support the Arab nation in its struggle against imperialism and Israeli occupation. They reaffirm to them the sincere desire of the Arab nation to cooperate fully with all the peoples of the world and their readiness to supply the world with its oil needs as soon as the world shows its sympathy with us and denounces the aggression against us.

APPENDIX 3

TEXT OF THE NOVEMBER 4, 1973 COMMUNIQUÉ OF A MEETING OF THE ORGANIZATION OF ARAB PETROLEUM EXPORTING COUNTRIES IN KUWAIT

The Arab Oil Ministers met for the second time in Kuwait on 4-5 November 1973 and studied the method of implementation of their first decision and its effects. They took decisions, among them that the reduction in oil production in each Arab country which is a party to the first decision shall be 25 percent of the September production, including quantities deducted as a result of the embargo on oil supplies to the U.S. and the Dutch market. A further reduction amounting to 5 percent of the November output will follow in December provided that such reduction shall not affect the share that any friendly state was importing from any Arab exporting country during the first nine months of 1973.

It was also decided to send the Algerian Minister of Energy and the Saudi Arabian Minister of Petroleum and Mineral Resources to Western capitals to explain the Arab point of view regarding the two meetings held by the Arab Ministers of Oil.

It was further decided that meetings will be held from time to time in future, as the need arises, to follow up on the implementation of the decisions and their effects.

APPENDIX 4

MINUTES OF STUDY MISSION INTERVIEW WITH H.E. SHEIKH AHMAD ZAKI YAMANI, SAUDI ARABIAN MINISTER OF PETROLEUM AND MINERAL WEALTH

Date and place: October 31, 1973, Minister Yamani's Office, Riyadh, 6:15 p.m.

The conversation with Yamani started with focus on the war, and he was asked what he thought the chances for a settlement would be now. His views on the war corresponded with the statements that King Faisal made and were especially strong in regard to the Palestinians. He said, "The refugees have been living in the desert for 25 years in tents after they were driven out of their lands." ". . . Israel is like an alien, expanding body in our land, and most of the people in the Arab countries are scared and bitter about the growth of Israel."

He was asked about the conditions for peace and he said that the most important factor now was the establishment of internationally recognized borders. "If Israel is ready to accept U.N. Resolution 242 of 1967, we can have peace."

Yamani deplored what he called the U.S.'s "total support for Israel" and expressed the view that only the cutoffs of oil to the U.S. would change the attitude of the American public.

In explaining this point he said, "Your people will begin to change their attitude in 1973 and 1974. This winter, when there is a shortage of fuel in the United States and your people begin to suffer—the change will begin. Americans are not used to being uncomfortable."

The Congressmen discussed the current and probable reaction of Americans to the Arab embargo. Congressman Steele said that America cannot and has no intention of trying to force Israel to act against her own interests. Yamani responded, "Israel will also see that time is not in its favor—they cannot grow as the Arabs grow (in strength)."

Yamani then got very tough on the role and influence the United States has on Israel and what the effect has been. "What you did in 1967 had a price and you are paying for it now—the Russian influence in the Mideast. What you are doing now is also having its price—i.e., the oil boycott and production cutbacks. We are your friends and we were the ones that helped Sadat kick them (Russians) out of Egypt and we had no help from the United States in doing so." Furthermore, he said there was no response from the United States.

The Congressmen then turned to the question of Israel and Yamani stated a position much more moderate than the one the King had made earlier. "Jerusalem is one of three Moslem holy places . . . and we will not accept the Israeli flag over Old Jerusalem." Jerusalem, he said, is a holy city for all three religions and that all three must have a voice. He was asked what he meant precisely, and he said that the King should be consulted directly, but that he felt accessibility to the city might be accomplished by making it an international city.

Congressman Steele at this point raised the Prisoner of War issue and said that the Congressmen had urged the King and wished to urge him again through Yamani to use his great influence in the Arab world to take the lead in breaking the serious current deadlock between Israel and the Arabs by bringing about an exchange of POW's in return for an end to Israeli encirclement of the Egyptian Third Army. Representative Steele noted that the dispute over whether to exchange POW's on the one hand and the continued encirclement of the Third Army on the other was currently the main road block to progress toward peace negotiations, and said that what the Mideast urgently needed now was a leader to come forward and achieve a compromise on this key question.

Yamani said he felt this was a reasonable suggestion, but then became irritated when he was asked if he would raise the subject again with the King. "King Faisal," he said, "has done his best in the last two weeks to represent American interests" and attempt to moderate the crisis. Why should there be concern all of a sudden, he asked, for the Israeli POW's when the Palestinians have had to live in the desert for 25 years. "They are not animals," he said.

Congressman Steele asked what the necessary condition were for ending the oil boycott. Yamani said there were two reasons behind the cut: First, the question of the occupied territories, and second, the "unlimited support" which the U.S. just gave Israel. "We did not want the embargo," he said. "We hope that we can do something, but there must be something that we can show as change . . . don't expect the embargo to be removed because of the cease-fire."

Yamani was asked what type of change had to take place before the Saudi Government would consider lifting the embargo. He said that the situation was now somewhat out of his government's hands and that King Faisal would go along with whatever was agreed to by the combatants in the war. Both Congressmen pressed him on the point of what the first step would be in lifting the embargo. He said, "It might be modified if the U.S. tells the Arabs that she is not as pro-Israeli as she used to be." He then explained that there was a "very slight" possibility that the embargo would be lightened if the U.S. were to announce a strongly-worded change on policy. He then very quickly told the Congressmen that he was telling them something he would not say to newsmen. He definitely gave the impression that both some symbolic and substantive changes in U.S. policy could effect the Saudi oil embargo. He said that the oil ministers would have to meet again before the embargo could be modified or lifted. He also stated that some of the OAPEC countries may modify or lift some of their production cutbacks if the cutbacks begin to seriously hurt them economically (Iraq and Algeria were examples).

Congressman Steele then told Yamani that in addition to adequate supply, a stable price for oil was also an important factor for the U.S. Yamani began his reply by saying, "The price of oil will jump beyond your imagination in 1974, because it will be dictated by supply and demand." In explaining this he said, "You will have to bring your money to the marketplace and buy oil at the market demand level."

He also said that no single Arab country can lift the oil embargo and that the Iraqis are mad because the Saudis did not nationalize Aramco. He said that the Iraqis also want to see Saudi Arabia break all ties with the United States. He indicated that this pressure is something that the Saudis must deal with at home also.

The Congressman pressed for a better explanation of what the U.S. might expect in price stability and supply once the question of the war is settled. Yamani replied, "I hope that circumstances will change and I will explain this in two steps. First, the embargo must be removed. Secondly, we must have two conditions, the first being a political condition and the other is an economic condition."

He explained the economic condition in the following way: "We are producing more than what we need to produce, and no matter how big the reserve, it is an exhaustible one. If we produce as the U.S. Government wants us to produce, we will exhaust our reserves in 25 years or less. Therefore, while we are willing to consider increasing production, we are not willing to go as high as you would like. We must create a substitute for oil as the basis of our economy, which means that we must industrialize. Give us technology *and* markets and we will not only help ourselves but we will help your (U.S.) balance of payments. . . . This is what you want and what we want." Yamani added that there would also be a technical restriction to how much oil Saudi Arabia would produce, in that he was determined to see that Saudi Arabia did not overproduce and thereby damage its fields.

Yamani then explained the Tehran Agreement and how hard he personally worked to preserve price stability. In explaining his role he said, "In May 1973, we were selling participation oil and 100 countries were fighting for every barrel. I could set whatever price I wanted to set. I could have destroyed the Tehran Agreement, so I went to my Petroleum Council and asked their help to set a price. I couldn't sleep at night because if I set the price too low, I could

cost my country's treasury \$100 million. Our finance minister said to set the highest price per barrel." Yamani said he resisted this pressure and sold the oil at \$2.55, which was well below the posted price of \$2.90.

He also explained another instance in which he fought the Algerians in June at the OAPEC meeting when they wanted to destroy the Tehran Agreement at Vienna. "We feel we have an international responsibility to sell at a regular price, even though everyone else wants to keep raising prices," Yamani said. "If you are now talking about stability such as the Tehran Agreement, then you are cheating us, and deluding yourselves. You have industry and you have to plan for the future for your industry and we understand your need, but you must understand our needs."

Yamani then said, "I think there should be meetings between us and industrialized countries so that we can seek the proper ways to industrialize Saudi Arabia."

He explained that this meant perhaps bringing together the U.S. Secretary of the Treasury and the Japanese finance minister with officials of his government. He explained that such a meeting was important because "we control the supply and affect the world price and supply of oil. Saudi Arabia can produce 20 million barrels per day," he said. But he said that Saudi Arabia can do everything that she needs to do with a production of five million barrels per day. At the same time, he said, "If we produce more oil it will help to keep prices at a reasonable rate, since there will be greater availability." He also referred to a statement of Secretary of Agriculture Butz about the U.S. doubling wheat production to pay for oil and compared the skyrocketing prices of grains that the U.S. sells to the increases in oil prices.

Yamani concluded the meeting by speaking very strongly on how his country had to have the right type of technology. Specifically he referred to sophisticated industries with plants and process geared to an export-oriented industry. "We flare two million cubic feet of natural gas each day as waste in the process of producing oil", he said. "There are industries that should be built nowhere else but on the Persian Gulf."

Congressman Ryan said that the decision to withhold oil will make the Saudis unpopular in the United States and could have a reverse effect. Yamani said, "The only choice you have is to occupy Saudi Arabia, and this was even talked about by crazy U.S. politicians." He then explained how the oil fields could be put out of production, which would seriously damage many countries of the world.

At this point, Representative Steele said that no serious leader in the United States considered force a solution, but he felt it was essential that the Saudis recognize that the oil boycott could provoke a strong negative reaction toward the Arabs in the United States and seriously jeopardize the future of U.S.-Saudi economic relations. It was also certain, Congressman Steele said, to jolt the U.S. into making a serious effort to develop alternative sources of energy and become self sufficient in energy.

Yamani replied that the small economic benefit Saudi Arabia would obtain by dealing with the U.S. was of no great importance to Saudi Arabia. As far as the Saudis were concerned, he said, everything depended on politics, not on "petty economics." Saudi relations with the U.S., he continued, depended entirely on the U.S. political position in the Middle East. He said King Faisal was tired of hearing American protestations of friendship, and expected some concrete signs of U.S. friendship and sensitivity to the Arab's point of view. In response to the point about the U.S. taking alternative steps to be more independent of the ME oil, Yamani said, "I would love to see you more independent; why should we produce the oil, which will be more valuable with each passing year."

Yamani then said that his preference was to deal with Americans, and that he went to Washington in April to beg for support of his country and a reduction of aid to Israel. He said that his choice between an American company and a Japanese concern would always lead him to the Americans, but if the political situation does not change, Japan can replace America.

APPENDIX 5

A NATIONAL ENERGY PLAN OF ACTION

(By Representative Jim Wright, with accompanying memorandum by Representative Leo J. Ryan)

The nation looks to Congress for leadership in the energy crisis. Leadership involves facing the whole unpleasant truth and coming forward with a definite, consistent and coordinated plan of action not merely to cope with the present difficulties but to anticipate and head off the far more serious crisis which inevitably will confront the nation if our vision is too short and our response too timid.

The public will not be well served if the primary Congressional "initiative" consists merely of turning over yet another wide range of discretionary policy making powers to the Executive branch of government. Not only is such a posture ludicrously at odds with our protestations against Presidential usurpation of legislative prerogatives. It also would represent a "cop out" by the people's elected representatives on the hard decisions that shape the future in this singly most significant domestic problem of our time.

The plan presented in this paper is based upon the following premises, which I believe to be valid :

1. The energy shortage is quite real and truly serious. It has been coming upon us for a long time. The Arab oil blockade has merely hastened our inevitable day of reckoning.

2. It is not and should not be regarded as a temporary problem. It will grow inexorably more binding and more inhibiting upon our way of life until we find alternate basic sources of energy to replace our present profound reliance upon petroleum.

3. While there are things that we can and must do to "share the shortage" and alleviate immediate hardships, the energy shortage will not be solved by short-range palliatives taken during the coming winter. It is a problem of the coming decade, and we'd better deal with it as such. Trying to temporize or to muddle through from crisis to crisis will only postpone a real beginning upon the necessary long-range solutions.

4. There is no painless solution, and any effective actions will involve certain costs and sacrifices upon the part of the American public. The citizens of this country, however, would rather be told the truth than to be lulled and pampered into a false sense of complacency. They will sacrifice if they see that all are sacrificing evenly and that the common sacrifice is attaining the promised results. They will willingly pay the necessary price in taxes so long as those taxes are reasonable and the public understands exactly what they are going for.

ENERGY TRUST FUND

With the foregoing thoughts in mind, I propose the creation of an *Energy Conservation and Development Trust Fund* made up of user taxes with the proceeds dedicated to short-, medium-, and long-term programs designed both to reduce wasteful consumption and to develop new and additional sources sufficient to meet national needs and to attain the ultimate goal of domestic self-sufficiency.

The Trust Fund concept is not new. In the Social Security program and the Federal Aid Highway program it has been a demonstrably effective device for producing a long-range commitment to long-range goals with the assured and consistent funding necessary to meet those goals. Freed from the vagaries and uncertainties of the annual budget submission and appropriations process and the

sometimes unpredictable peaks and valleys which can occur in that process, the Trust Fund permits the development of intelligent and dependable long term planning by both government and industry.

Revenues for the *Energy Conservation and Development Trust Fund* would come from those firms and individuals engaged in activities which cause the greatest drain on energy supplies. And, as with the Highway Trust Fund and the Social Security Trust Fund, those paying the taxes would be the ultimate beneficiaries of the programs funded, in that those programs would be calculated to assure to them, as to the nation at large, a continuing supply of energy.

PROGRAMS FUNDED

I propose a \$6 billion assured annual commitment to various national programs realistically designed to conserve and develop energy. Considering the monumental magnitude of the problem and the lengthening shadow it casts upon the future of our entire economy, such a commitment is not unreasonable. Compared with the \$6 billion annual Highway Program and the Apollo Moon Landing Program funded over the past 12 years at an average annual outlay of about \$2 billion, a commitment of \$6 billion a year to achieve national self-sufficiency in energy seems fully appropriate.

Following is a list of those programs, together with a suggested level of assured funding, which in my judgment could be expected to yield maximum results:

1. *Two billion* dollars annually for *Urban Mass Transit* programs. This sum would be in addition to, not in lieu of amounts already approved for funding out of General Revenues in the 1973 Highway bill. It could be divided appropriately between matching funds for capital investment in rail and bus systems and operating subsidies to make local public transportation service a more attractive alternative to the private automobile.

Two billion dollars a year for the entire nation should not be considered excessive when one contemplates that completion of the Washington subway system alone will probably come to some \$3 billion.

Let us face the fact that improved service in such systems cannot to be economically sustained simply out of the fare box. City dwellers will voluntarily opt for public transportation only when service is good and fares are reasonable. With the possible exception of Montreal, there probably is no public transportation system in any large North American city that is today paying its way from fares, and few if any in Europe. To increase fares would be counterproductive.

Public transportation *can* be self-sustaining, but only with greatly expanded ridership. In 1945, when there were 18.9 billion individual passenger fares paid, the nation's bus, trolley and subway systems returned a profit of 11¢ for every dollar in operating revenue. By 1971, with only 5.5 billion passenger fares, they were suffering an aggregate operating loss of 23¢ for each dollar taken in.

It may be recalled that earlier this year I opposed any large-scale raid on the Highway Trust Fund for the purpose of public transportation, while supporting funding out of General Revenues. My reason was that there simply is not enough money in the Highway Trust Fund to serve both purposes adequately. Highways, too, are necessary in our efforts to conserve fuel and abate air pollution. Both fuel consumption and the emission of carbons are appreciably increased by the crowding of too many cars on outmoded and overly congested road surfaces, with frequent starts and stops and the idling of engines. Just as it is impossible to get two quarts of milk out of a one-quart bottle, to pretend to serve both purposes from the finite resources available to the one existing Trust Fund would be to shortchange both needs.

It is incontestably true, however, that maximum and efficient utilization of public transportation will conserve significant amounts of fuel. To this end, by helping to assure a continuing supply, public transportation can perform a service to motorists everywhere who *must* use private vehicles in the conduct of their daily activities.

To comprehend the potential savings, one needs only to recognize that transportation consumes 25 percent of the total energy used in this country, and petroleum accounts for 96 percent of that. One gallon of fuel in a double decker suburban train can produce 200 passenger miles of travel. In an automobile carrying only one person it will produce 20 passenger miles or less, depending

upon the size and efficiency of the automobile. Based upon its predicted ridership, the Bay Area Rapid Transit System of Northern California—even when considering all energy requirements such as station lighting, control and traction systems—will be four times as energy efficient as the automobile it displaces.

2. \$200 million in annual matching grants to assist in the development of better and more efficient *inter-city commuter rail and bus systems*. Such systems have long provided a useful service in places like New Jersey and the Connecticut suburbs of New York City. Dependable service could convert daily automobile commuters to their use in other metropolitan areas.

3. \$100 million in grants, or as a replacement for revenue loss from a system of tax incentives, to expand the nation's industrial capacity *to produce buses* for local public transportation systems. One present bottleneck to the expansion of public mass transit is the limited number of firms now engaged in the production of buses and the finite limits of their existing production capacity. There are only some 50,000 buses currently in use in local systems, and a reported production capacity of only about 5,000 a year—most of which are used as replacements for older vehicles. If we are markedly to enlarge the utilization of public transportation, we obviously must find some means rather quickly to enlarge the capacity to produce the necessary vehicles.

4. One billion dollars annually to finance a crash Research and Development program, including a number of large demonstration plants, *to convert coal as a usable, efficient and clean replacement* for gasoline, fuel oil and other petroleum products. The nation has been piddling along for several years on a variety of processes funded at a niggardly level, some of which have been started up only to be stopped at half-way point when the funds ran out or the whims of policy changed. Even so, they have produced some modest results.

Coal *can* be converted to such uses. Its sulphur content *can* be drastically reduced. To develop the most economical and efficient means of achieving these ends will cost a great deal of money. But the basic research exists and the time for puttering around, on a low-budget operation has passed. Coal conversion is no longer simply a desirable end; today it is both imperative and urgent.

At our *present* rate of consumption—a rate that has been taking quantum jumps upward every year—total known domestic oil reserves, including the Alaskan strike, are sufficient to last us for only some 15 or 16 years. But we have enough coal to last us several hundred years. As with the Pharoah's dream of the seven fat calves and the seven lean, we'd be the most foolish of nations to wait until the oil runs out before providing a ready replacement. One billion dollars a year over the next five or six years could make the vital difference.

5. One billion dollars a year for solar, nuclear and thermal energy research. The application of the funds as between these three separate programs should be sufficiently flexible to permit the nation to take useful advantage of an unexpected scientific break-through in any of these areas. Funds for nuclear power development should be concentrated upon developing the means to maximize safety, and should include the application of fusion.

But in my opinion the lion's share should be expended upon *solar* research and development. For the long run, it holds out the greatest promise. It seems only plausible to believe that solar energy is the ultimate answer to our problems.

Solar energy is abundant, inexhaustible and non-polluting. In an average day, enough energy falls upon the U.S. in the form of sunlight to supply our power needs for an entire year. And every day we delay the real beginning of a fully funded, top priority effort at solar energy conversion will prolong and ultimately magnify the problems we face.

6. \$200 million for research to develop better *recovery methods for oil shale*, including ways to minimize damages to surface land and landscape.

7. \$100 million annually for conservation program to *rehabilitate, restore and beautify lands* pocked and ravaged by strip coal mining and possible oil shale operations.

8. \$500 million a year to support and if necessary to subsidize a national program of *guaranteed long-term low-interest loans* to individual homeowners and operators of small business establishments to finance *improved insulation* so as to preserve heat and reduce fuel consumption. The aggregate results of such a nationwide effort could be significant in the conservation of heating fuels.

9. \$100 million a year in matching grants to states to assist in *patrolling and enforcing* whatever uniform speed limits may be imposed to combat the fuel shortage. Available evidence impellingly suggests that dramatic savings in petro-

leum—as well as truly enormous safety benefits—can be realized by reducing automotive highway speeds. While a high degree of voluntary compliance will be necessary to achieve this goal, it must not be left entirely to voluntarism. Any such hope would be doomed to failure, for several reasons.

Human nature being what it is, a motorist cruising along faithfully at 50 mph will be disillusioned and totally discouraged from compliance if other automobiles are consistently passing him at much higher speeds, with no apparent restraint or retribution. Moreover, it is simply much harder to maintain a speed of 50 in a stream of traffic which is flowing at a pace of even five or ten miles per hour faster.

When circumstances are so austere as to require the imposition of a national speed limit, it should be uniformly enforced. A \$100 million matching fund for enforcement, dispersed on a road mileage or population formula, would provide \$2 million a year in additional revenue for the average state. This could be extremely useful in supplying the additional patrol cars, helicopters, radar and other speed control devices necessary to assure uniform enforcement and to reassure the good citizen-driver that the results of his patriotic compliance are not being cavalierly undone by others.

10. \$350 million a year as a replacement for revenues lost through *a system of incentives* (tax credits or intangible drilling costs) as an encouragement to *expanded domestic oil and gas exploration*. Historically, most of the petroleum discoveries in this country have been the work of independent oil operators, most of them relatively small companies and many of them “wildcatters”—guys with a rig and a rabbit’s foot, a smattering of geology and a lot of guts. The major integrated oil companies often develop the finds, but the original discovery usually has been the work of the independents.

Exploration has become increasingly costly and uneconomical and this is one reason why majors have left the bulk of it to the independents. Eight out of every nine exploratory wells are dry holes, and the number of exploratory crews in operation in the U.S. today is only a very small fraction of the number operating 20 years ago. As I conceive it, any such tax incentive should be designed expressly to encourage a renewal of the type of speculative exploration without which new discovery has been handicapped.

As will be seen in the next section of this paper, dealing with taxes to support the Energy Conservation and Development Trust Fund, in order to avoid either the reality or the appearance of a “windfall” to the oil and gas industry, I shall propose *a system of taxes* through which those engaged in *the most profitable end of the industry will replace the revenue loss* through severance and gathering taxes. In effect, the industry will be paying for its own incentives.

11. \$350 million a year for a fund to provide extended and improved *unemployment compensation for workers* displaced from their jobs by reason of the shortages and economic cutbacks induced by the energy crunch, and whenever appropriate extensive programs of *job retraining* so as to provide marketable skills in new types of work.

Obviously, so pervasive and severe an impact as the national energy crisis will inevitably displace workers through changing patterns of industrial priorities and employment opportunities. If we are serious about “sharing the shortage” and sacrificing evenly, then we should be ready with effective plans to see that relatively mild social curtailment and economic sacrifice for most of us does not result in total economic and social disaster for a few of us.

TAXES TO SUPPORT THE TRUST FUND

Any such large undertaking as this paper suggests must, of course, be paid for. Let us acknowledge in candor that almost any system of taxes we may devise, however artfully contrived, will inevitably find a great bulk of their burden being passed on in one way or another to the ultimate consumers of the products taxed. Frankly, I know of no effective way to avoid this. At least, we owe the public the honesty of not pretending that it isn’t so. Let us merely try to distribute the burden fairly.

Many of us in the Congress have strongly opposed the idea of a punitive tax deliberately designed to control consumption of gasoline by artificially raising its price to one dollar a gallon or some such figure. Such an approach would be grossly unfair since it would place its heaviest and most onerous burden upon those Americans of low and moderate income who *must* rely upon private automotive travel to perform their daily work.

It is necessary to recognize, however, that our nation for a long time has been the beneficiary of an Energy Subsidy of quite considerable proportions. One gallon of gasoline in our society today produces the work equivalent of 25 man/days—in other words, the output in efficient labor of 25 men working all day or of one man working for 25 days. Shorn of taxes, that gallon of gasoline costs us just a little more than 25¢—a penny for the equivalent of one man's daily labor. Never in the bleakest meridians of slavery was work performed so cheaply.

Compared with what consumers elsewhere must pay—particularly when taking into account their relatively more meager incomes—Americans have indeed been getting a bargain at the gasoline pump. What costs us now about 40¢ a gallon with all taxes absorbed is retailing in Italy for \$1.30 a gallon, in Japan for \$1.60, in West Germany for \$1.15 and in the average world retail market for 96¢.

So, while utterly rejecting the idea of a punitive or prohibitive tax, we do find abundant reason in equity for additional taxes on petroleum and other energy-related products where the proceeds of those taxes are dedicated to conserving the finite supply and developing replacements.

I propose, therefore, that the following taxes—or some variation of them calculated to produce the necessary revenues—be levied and dedicated to the Energy Conservation and Development Trust Fund:

1. An additional tax of 4¢ per gallon on gasoline. At our present national volume of sales, such a tax would produce approximately \$4 billion a year for energy conservation and development. To the same degree that our various efforts to curtail total gasoline consumption are effective, the proceeds of the tax would diminish.

A fall-off in revenues from this particular levy in future years would, therefore, be good news and proof that our other efforts were working. *If we should succeed in reducing total national consumption by 25 percent* (an ambitious if not roseate assumption), a 4¢ per gallon tax still would yield \$3 billion annually for the Energy Trust Fund.

2. A manufacturer's excise tax on new automobiles, with the rate of taxation deliberately tilted to place its heaviest levies upon the largest, most luxurious vehicles which consume the greatest quantities of energy in their operation.

Small or energy-efficient cars of the medium range would be exempt. Perhaps an exemption should be written for any new automobile which clocks 20 miles per gallon or better over an extended run at 50 mph. A 5,000 pound automobile of the Cadillac or Lincoln class obviously would not qualify. Less energy-efficient cars could pay a tax proportioned to their fuel consumption.

A recent testing program by EPA, including 630 1973 vehicles, revealed for example that the heaviest car (5,500 lbs.) averaged 8.8 miles per gallon, while the smallest (2,000 lbs.) averaged 25.5 miles per gallon. These figures can be scaled downward by installation of such once-common devices as overdrive and substitution of standard for automatic transmission. The smallest vehicles obviously are not suited for every American family or legitimate need, but it does make sense to require those whose cars gulp the greatest quantities of the irreplaceable national resource to pay something for that privilege into the fund for energy conservation and development.

It has been estimated that a manufacturer's excise tax, scaled from \$300 per car on the largest and least energy-efficient to perhaps \$50 per car on those that barely exceed the 20 mph standard, would yield—based upon recent national patterns of production and sales—somewhere in the neighborhood of \$800 million annually for the Trust Fund. This amount, too, will gradually diminish as popular preferences develop for more energy-efficient vehicles. If so, so much the better.

3. A manufacturer's excise tax on pleasure boats. Enjoyable as a hobby and source of outdoor recreation, pleasure boating surely could not be called an essential undertaking. It seems only fair, therefore, that those who wish to consume vital sources of energy in its pursuit should be willing to pay something into the Energy Conservation and Development Fund for the privilege. As with the tax on new automobiles, I would suggest heavy taxes on boats of the yacht class, and a downward sliding scale on other large boats.

A \$300 tax on boats of more than 100 horsepower and a \$100 tax on boats of between 50 and 100 horsepower—exempting those of less than 50 horsepower—would yield some \$48 million a year, based on projected sales for 1974.

4. A sales tax on all large commercial and industrial users of electricity. Utility rates typically favor the largest users who get the benefit of quite consid-

erably lower unit rates than are paid by the residential consumer. It seems only fair, therefore, that those who consume the most of our electrical energy supplies and pay the least per kilowatt/hour should bear a share of the cost of conserving and developing supplies for the future.

Ways and Means Committee sources indicate that a tax of 1/10 of a cent (one mill) per kilowatt—exempting users whose total individual consumption is less than 30,000 kilowatts (this I am told would exempt all residential and small commercial users)—would yield some \$900 million a year for the Trust Fund.

5. A tax on all *parking lots*, except for those with a capacity for fewer than 100 automobiles. The exception would exempt only the small parking lots operated as small businesses and those maintained by small enterprises for the benefit of their employees and customers. Chain commercial parking lots could not escape payment by dividing their operations into a number of small lots. All those under the same ownership would be counted for purposes of the tax as one enterprise.

The tax I contemplate would be *25 cents per stall per day*, certainly not a prohibitive figure. A commercial parking establishment with a capacity for 1,000 cars would pay \$250 a day. Assuming that this amount would be passed on, if we further assume only three cars accommodated daily for each space in the average downtown parking lot used by shoppers, it should add no more than 10 cents to the parking fee of the casual shopper. Perhaps 5 cents per hour.

For a person parking regularly at a given accommodation five days a week while he works nearby, it would predictably add \$1.25 to his weekly parking fee. I should think that in fairness the same ought to apply to large company parking lots used by employees and to public and Federal parking lots (yes, the Rayburn Building included) whose beneficiaries should be expected to pay just like everyone else.

Such a tax would yield an estimated \$490 million a year, based on preliminary estimates of the number of park-for-money spaces available in the United States, plus those parking spots made available by companies and governmental units for free use by employees. The computation does *not* include complimentary parking spaces provided by businesses as an accommodation to customers. These would not be taxed.

6. A *severance tax on oil* and a *gathering tax on natural gas* calculated to yield total revenues of \$350 million a year so as to compensate for the incentives extend to encourage exploration. Thus, as noted earlier, the industry would be paying for its own incentives. The exploiter would pay for the incentive extended to the explorer. In the long run, it would benefit him—even more directly than it benefits the entire nation—since it is the discovered supplies that he is selling, and since unless more domestic petroleum resources are discovered he may not have anything at all to sell within a few years.

* * * * *

The total estimated revenues from the taxes herein contemplated would appear to exceed—particularly in the early years—the earmarked annual expenditures from the Trust Fund. This is somewhat deliberate, as a hedge against possible miscalculations and the apparent likelihood of declining levels of revenue from certain of the sources, and to provide a margin for flexibility in altering the proposed taxation and expenditure schedules as further observation and new information may dictate.

The foregoing outline no doubt can be improved upon by refinements, moderations, enlargements and even substitutions. I make no claim, obviously, that it represents a final or infallible judgment as to each of its particulars. Some of my figures may be subject to successful challenge. They are merely the results of the best information available to me at the present time, and I believe them to be basically and in large part reliable.

My purpose in offering this initiative is not to say that it should necessarily be precisely this way in every detail, but rather to conceptualize what it is that I believe the Congress should and must be about doing in the very near future. I invite critical analysis and suggestions for improvement in the basic plan I've offered here.

Most of all, I invite my colleagues in the Congress to come to grips with these hard problems now, to face these hard decisions which in the interest of the national future should not be longer put off, and to synthesize among us a Congressional plan of action worthy of the world's greatest legislative body and of the nation it serves, worthy of those who sent us here—and of their children.

TO RECAPITULATE

AN ENERGY CONSERVATION AND DEVELOPMENT TRUST FUND

Dedicated to the following purposes :	Millions
Urban mass transit programs-----	\$2, 000
Inter-city commuter systems-----	200
To expand bus production-----	100
R. & D. program for coal conversion-----	1, 000
R. & D. program for solar, nuclear, thermal-----	1, 000
Recovery methods for oil shale-----	200
Rehabilitation of stripped lands-----	100
Loans for insulation improvements-----	500
To States, speed enforcement program-----	100
Incentives for oil and gas exploration-----	350
Unemployment compensation training—Displaced workers-----	350
Total -----	5, 900
With taxes from following sources :	
4¢ per gallon on gasoline-----	¹ 4, 000
Excise on new large automobiles-----	¹ 800
Excise on large pleasure boats-----	48
Electricity, large commercial and industrial users-----	900
Parking lots-----	490
Severance and gathering taxes, oil and gas-----	350
Total -----	¹ 6, 588

¹ Estimated first year's yield based on present level of sales. These figures may decline somewhat in response to energy shortage.

[MEMORANDUM]

DECEMBER 1, 1973.

Re energy paper.

To : Congressman Jim Wright.

DEAR JIM: This is a response to your paper on "A National Energy Plan of Action" which was kindly given to me by Congressman Bill Alexander at the Whip meeting on Thursday, November 29. First of all, I think it is one of the most significant and useful suggestions for getting ourselves out of the impossible mess we find ourselves in that I have seen in a long time. I agree with you completely that the Arab oil embargo has only hastened by a few years the day of reckoning. Perhaps in a few years the embargo will turn out to have been a very useful precipitate to necessary national action.

If I may, then, let me make some suggested amendments. First of all, your suggestion for an energy trust fund is an idealistic approach to the matter, but your use of the Social Security Fund analogy indicates its weakness. In the 1930's when the Social Security Fund was first set up, it was supposed to be a self-sustaining fund just as private insurance funds are supposed to be self-sustaining. In the years since the Social Security Fund was created, different administrations and different Congresses have raided that Fund for various purposes to the point where it is now necessary for the Congress to appropriate funds and to raise taxes simply to keep even with the increased demands upon that Fund from the increased numbers of citizens who are eligible for Social Security payments. I suspect that such an energy trust fund might become the victim of the same kind of fiscal chicanery. I think this objection can be overcome perhaps by some language and perhaps by a different method, but it should be examined more closely.

I believe any legislation on our uses of energy must recognize the terrible misuse of our present construction materials and the energy cost for manufacturing construction materials. Specifically, I refer to the single-function high-rise buildings being constructed in the central cities now, such as the World Trade Towers in New York. Not only will these towers cause enormous new needs in the form of transportation energy which becomes more costly, but they are also buildings which are used on an average of 40 hours a week or less than 25% of their actual potential use. I believe that such buildings are dinosaurs and we must, as a matter of national policy, begin to discourage the construction of

such buildings. In fact, we should begin to encourage, in a positive sense, the restructuring and rebuilding of most office buildings in a central city so they can be used at least on a part-time basis for residential purposes. In fact, a main thrust of any kind of new national energy policy should be an effort to attract the middle class back to the central city for the many advantages which can be derived from that effort.

The fact that much of the central city would have to be redesigned and then rebuilt as an attractive place to live might help to put our skilled workers back to work and stimulate a kind of rebuilding effort such as the world has not seen since the need for rebuilding much of Europe after WWII. It now becomes clear that the flight of our generation to the suburbs after WWII was more costly than anyone could have imagined.

For example, if buildings are used for both living and working, the need for transportation of any kind is drastically reduced. If buildings are used 168 hours a week instead of 40 hours per week, there is less need for housing separate from the city. I will pass over the obvious advantages in terms of social values, recreational values, etc.

Perhaps most important of these suggestions is the fact that we may be overlooking the most obvious source of relief of all. Since almost two-thirds of the earth's surface is under water, it is logical to assume that there is deposited under the mantle of the earth's surface at least as many natural resources as there are presently on the land. Where, under the ocean, is there another Saudi Arabian oil field? Obviously, the reason we have not discovered such resources is because we have not had the technology in the past. Today, no one denies that we have the technology and the capacity to explore the bottoms of the ocean—perhaps to find vast new oil fields. I believe that equally substantial amounts of money should be spent for the purpose of undersea exploration, as you have suggested for solar, nuclear, and thermal energy.

Finally, as almost an afterthought, I must suggest to you that your reference to highway speeds is a little misdirected. This nation is several times larger than all of Western Europe combined. In order for us to maintain something like our present standard of living, we *must* allow this nation's travel and commerce to proceed at what might be called a fairly reasonable speed. It is an absolutely awesome experience to drive, as I have, across this nation from San Francisco to Washington, D.C., and to experience the awesome vastness of this American land. As a matter of permanent national policy, I do not believe we can become the victims of the kind of thinking which is too common here on the Eastern Seaboard, to wit: Most of the nation's activities occur east of the Cumberland Gap.

I hope you will take these comments in the spirit that they are offered. I have always placed highest on my list of those worthy of admiration the man who says what is wrong with our country, and then comes up with bold and imaginative solutions for those problems. Using that criterion, you are certainly a person worthy of being placed at the top of the list.

Sincerely yours,

LEO J. RYAN,
Member of Congress.

APPENDIX 6

DATA AND ANALYSIS CONCERNING THE POSSIBILITY OF A U.S. FOOD EMBARGO AS A RESPONSE TO THE PRESENT ARAB OIL BOYCOTT¹

On the basis of the data available, the leverage available to the Arabs through their oil boycott far exceeds any leverage that might be available to the United States through a food embargo since the Arabs can meet their relatively small food import needs from other sources in the world market, while the United States cannot meet its relatively large petroleum import needs from other sources.

In order to understand the impact of a potential U.S. food embargo upon the Arab oil boycotters, certain basic facts about the nature of the Arab food market should be made clear. In the present situation there are two main categories of Arab countries. In one category are the oil exporters who are participating in the boycott: Libya, Algeria, Abu Dhabi, Kuwait, Bahrain, Qatar, Saudi Arabia, Iraq, and Syria. In the other category is Egypt. The countries in the first category obtain the majority of their foreign exchange through exports of petroleum, and, except for Algeria, whose greater population and development needs have limited the size of the growth, all have increased their foreign exchange reserves dramatically in the last 4 years. Finally, except for Algeria, they all have relatively small populations and total food requirements. Egypt, on the other hand, has a large and rapidly growing population, few natural resources, and has experienced continual chronic foreign exchange shortages since the closing of the Suez Canal—its main foreign exchange earner.

Probably the most significant economic characteristic of the food import market for the countries in both categories is the extremely decentralized, competitive nature of their cereals purchases. In the last year, major purchases of either wheat or rice have been made in the United States, France, Pakistan, Canada, Australia, Thailand, the Soviet Union, through Singapore and Hong Kong, and, according to Agriculture Department sources, perhaps from the People's Republic of China.

An examination of the figures for total wheat exports to the Arab countries since 1963 indicates that there have been large variations in amounts purchased and countries of origin (see table A). The main reason for this is, except for Egypt's reaction to the 1967 war in cutting off wheat imports from the United States for political reasons, that the Arab countries have been very attentive to price and non-price competitive factors in their grain buying. Thus, substantial grain sales by Australia in 1971 and 1972, and by Canada in 1970 and 1971 were made largely because they were on concessional terms, or because the seller offered to assist in the construction of milling facilities in the buyers' country. In the tight world grain market in 1973

¹ Prepared for the Foreign Affairs Committee by the Foreign Affairs Division, Congressional Research Service, Library of Congress, and filed as House Report 93-674.

the Arabs turned to the lowest cost seller, in this case it was the United States.

Probably the second most significant characteristic of the Arab food import market is the large amount of transshipping that takes place. Much of the wheat and rice for Saudi Arabia, for example, is purchased and recorded as an import in Kuwait, Iraq, the United Arab Emirates. The variations which appear from year to year in the food import statistics of many of the Arab countries may only indicate a larger or smaller amount of transshipment rather than changes in demand or domestic supply. With the major characteristics of the buyers kept in mind, an examination of the figures in table B for estimated wheat supply of all Arab countries indicates that, except for the provisional 1973 data, the United States has never supplied more than 10.2 percent of the total supply of wheat to the area (16 countries). However, two countries have been more dependent upon U.S. supplies in the last few years than other states in the Arab world. Specifically, Saudi Arabia and Algeria have purchased sizable quantities of U.S. cereals (see table D). From 1967 to 1972, Saudi Arabia imported about three-quarters of its wheat and wheat flour requirements. These imports have ranged from 280,000 to 370,000 metric tons annually. The U.S. portion of total Saudi wheat imports has ranged from 28 to 40 percent—with a provisional 1973 figure of 63 percent (see table C). Since 1967, Algeria has imported an average of 30 percent of its wheat consumption. During this period, total Algerian wheat imports have ranged from 337,000 to 800,000 metric tons a year. (A provisional 1973 figure indicates imports of 1.1 million metric tons.) The U.S. percentage of Algerian imports averaged 47 percent, with a high of 68 percent of imports in 1969 and a low of 17 percent in 1970. The amount of U.S. wheat exports to Algeria since 1967 has ranged from 121,000 metric tons in 1971 to a provisional 1973 figure of 575,000 metric tons (see table C).

While table C on supply of wheat and flour and the U.S. annual share of imports indicates that Algeria and Saudi Arabia are the most heavily dependent of all Arab countries upon the United States for wheat imports, it must be kept in mind that the total for these two countries has never exceeded 850,000 metric tons (1973 provisional data). This figure should be contrasted against the size of the world wheat export market of 73.5 million metric tons in 1972 and 55.5 million metric tons in 1971, or the size of U.S. wheat exports: 32.5 million metric tons in 1972, 16 million metric tons in 1971. Furthermore, the wheat import total for the entire Arab world (16 countries) has never exceeded 9.2 million tons from all sources. Of that 9.2 million tons, the United States provided 13.3 percent (see table B).

Two-thirds of U.S. rice exports to the Middle East have gone to Saudi Arabia. These exports have averaged about 65,000 metric tons a year since 1969. (See table F.) Since recent total Saudi Arabian imports of rice have been about 195,000 metric tons a year, the United States has been providing about one-third of Saudi Arabian rice requirements. And, according to U.N. statistics, since the Saudi Arabians produce only 2 to 3 percent of their rice consumption, it can safely be said that the United States has provided about one-third of Saudi Arabian rice consumption in the last few years. Because of the effect of recent floods in Pakistan, which annually had exported 100,000 metric tons of Basmati rice to Saudi Arabia, U.S. rice exports to the

entire Arabian Peninsula are expected to exceed 170,000 metric tons in fiscal year 1974. Counting uses in other countries, this is over 80 percent of the consumption of rice in Saudi Arabia. To give some idea of the magnitude of this figure, about 938,000 metric tons are expected to be imported into the Middle East and Turkey in 1973 from all sources. In 1972, worldwide U.S. rice exports amounted to 2 million metric tons, while the world rice export market was 8.2 million metric tons. Thus, for 1972-73, U.S. rice exports comprise about one-quarter of the world rice export market and about the same percentage of the rice exports to the entire Middle East.

Having discussed the nature of the Arab cereals market and examined the import patterns of the two largest importers, it is now possible to discuss the impact upon these countries of a potential U.S. grain embargo. First of all, not counting 1973, which is an exceptional year, the Arab oil producers, except for Algeria and Saudi Arabia, are for all practical purposes completely independent of U.S. food exports. Kuwait, Libya, Iraq, Syria, the United Arab Emirates, and the Gulf States are dependent upon the United States, at most, for 5 percent of their food imports (see table D). Algeria and Saudi Arabia are more dependent upon U.S. cereals but, as previously noted, the 850,000 metric tons of wheat they have purchased from the United States in 1973 is an extremely small amount of the world wheat export market. If an embargo of rice exports were specifically aimed at Saudi Arabia, the Saudis could do either of two things to deal with the embargo: they could attempt to locate the rice in the open market (a good possibility, especially in a barter deal for oil) or they could increase purchases of wheat, which is more widely available (as the Indians did in 1973 when their rice stocks were seriously depleted and additional rice supplies could not be obtained).

While the 1973 purchases of wheat in this country by Syria and Iraq are unusual, the important thing is not their existence or amount, but that they have already been concluded and the grain shipped. Thus, any U.S. embargo would not be felt, even assuming total inaction by the Arabs, until next year when the stocks are depleted.

Furthermore, because Arab grain purchases are so decentralized, and the size of the individual states purchases so small in world market terms, future purchases could be made from Canada, Australia, or even from this country by third country middle men without attracting suspicion. The very structure of the U.S. grain export market is another factor that would work against the effectiveness of any embargo to the Arab world alone. Because the U.S. market is highly decentralized, it would be impossible for the original seller to determine the ultimate destination of the grain.

Finally, except for Egypt, because of their very substantial foreign exchange reserves, and the promise of even greater revenue as oil prices and output increase, the Arab countries are in an excellent position to outbid other potential food buyers in the world food market. Five dollars-a-bushel wheat can easily be purchased with \$5-a-barrel oil. And, while the world market for food grains is tight, it is nowhere near as tight as the world market for petroleum. Grain supplies are available in sufficient quantities even though the buyer might have to pay higher prices for them. The same cannot be said about oil.

Data compiled by the Department of State indicate that the equivalent of 1.6 million barrels a day of crude and petroleum products is entering the United States today from the Arab countries.¹ This is equivalent to about 9.2 percent of present U.S. daily consumption of 17.3 million barrels a day. This figure includes direct crude oil shipments and shipments of refined products which have been processed in refineries outside of the United States from Arab feedstocks.² Present U.S. consumption has increased about 1 million barrels a day over 1972 and about 2.1 million barrels a day over 1971 when total consumption was 16.3 and 15.2 million barrels a day equivalent respectively.

During the period from 1970 to mid-1973, U.S. domestic production has actually fallen from 11.2 million barrels a day to 10.9 million barrels a day. Thus, while U.S. requirements were rising 2 million barrels a day, U.S. domestic production was falling 0.3 million barrels a day, leaving a shortfall of 2.3 million barrels a day in the last 3 years alone. The total shortfall for 1973 is expected to exceed 6.4 million barrels a day. (see table G).

The shortfall has not been made up entirely by the Arabs. During the period (1969-73) Canada has increased its shipments to the United States from 610,000 barrels a day to 1.1 million barrels a day. Similarly, Venezuela has increased its exports to the United States from 880,000 barrels a day to 2 million, Iran from 46,000 to 400,000 and Nigeria from 49,000 to 550,000 barrels a day. (1969 data, Department of Interior Minerals Yearbook; 1973 data, Department of State.) In 1969, U.S. oil imports from the Arab countries were running about 150,000 barrels a day. Today, as noted in the opening of this section, that figure is 1.6 million barrels a day, or 9.2 percent of consumption. As the figures indicate, U.S. dependence upon Arab oil producers is a recent phenomenon caused by continuous, large increases in consumption combined with gradually declining domestic production.

In the short term, there is little that can be done to increase domestic production. While the figures for domestic U.S. production may change due to increased prices making formerly uneconomic wells profitable again, the most recent data on domestic and offshore U.S. oil production indicate that the addition of Alaskan North Shore Oil will simply serve to stabilize the gradual decline in domestic U.S. production. And, in any case, North Shore oil is some 4 years in the future at the earliest. Furthermore, on the basis of steps taken last summer, long before the Middle East war, further increases from Canada seem highly unlikely. And, presently, Venezuela is reexamining its export policy because of fears that the current high levels of exports will rapidly deplete reserves. Only Iran and Nigeria have not threatened cuts in production although the Nigerians did double the price of their crude last week partly as a reaction to the boycott.

¹ This figure is an estimate of the level of imports at this time based upon projections from the most up-to-date data on the actual deliveries of Arab crude and petroleum products.

² The latter is important because a very large percentage of the oil entering the United States originating from the Arab countries has been either transshipped through or refined in third countries before it reaches the United States. The most recent figures based upon direct shipments of crude to the United States would indicate that the United States is dependent upon the Arabs for only 4-5 percent of its total consumption rather than 9-10 percent as it actually is.

TABLE A.—WHEAT EXPORTS TO ARAB COUNTRIES FROM MAJOR EXPORTERS 1964-72 AND JANUARY-SEPTEMBER 1973

Country ¹	1946	1965	1966	1967	1968	1969	1970	1971	1972	January-September 1973
Metric tons (thousands):										
United States.....	1,498	1,393	1,498	945	981	671	1,015	1,104	986	1,766
U.S.S.R.....	202	235	274	1,200	298	301	234	200	2,570	560
Australia.....	344	40	12	16	150	42	1,058	1,233	40	593
Canada.....	20	475	361	604	1,140	1,147	256			
France.....	260									
Total wheat imports from all sources.....	2,335	2,539	3,538	4,578	4,065	2,705	3,645	6,275	5,768	7,380
Approximate share of wheat imports from (percent):										
United States.....	64.2	54.9	42.3	20.6	24.1	24.8	27.8	17.6	17.1	23.9
U.S.S.R.....	8.7			26.2	7.3	11.1	6.4	3.2		
Australia.....	14.7	9.3	7.7	12.5	12.2	9.0	12.2	37.2	44.6	
Canada.....	.9	1.6	.3	.3	3.7	1.6	29.0	19.6	9.7	
France.....	11.1	18.7	10.2	13.2	28.0	42.0	7.0	.6	10.3	

¹ Individual country's data based on their exports to these countries.

Source: U.S. Department of Agriculture.

TABLE B.—ESTIMATED WHEAT SUPPLY OF ARAB COUNTRIES, 1966-73¹

	1966	1967	1968	1969	1970	1971	1972	1973
1,000 METRIC TONS								
Total supply.....	10,114	12,780	14,271	10,982	12,524	15,595	17,562	16,800
Wheat production.....	5,114	6,502	8,635	7,294	7,686	7,903	10,424	7,600
Imports: total.....	5,136	6,307	5,656	3,718	4,873	7,722	7,458	9,280
Imports from United States.....	2,207	1,259	1,209	816	1,275	1,330	1,369	2,250
Exports.....	170	37	120	30	35	30	320	80
PERCENT								
Percent of total supply imported from all sources.....	50.8	49.3	39.6	33.8	38.9	49.5	42.5	55.2
Percent of total supply provided by United States.....	21.8	9.8	8.5	7.4	10.2	8.5	7.8	13.3

¹ Egypt, Sudan, Libya, Morocco, Algeria, Tunisia, Lebanon, Syria, Saudi Arabia, Iraq, Yemen, Oman, Qatar, UAE, Kuwait.

Source: U.S. Department of Agriculture.

TABLE C.—SUPPLY OF WHEAT AND WHEAT FLOUR IN SELECTED COUNTRIES AND U.S. SHARE OF IMPORTS, ANNUAL 1967-73

[In thousands of metric tons]							
	1967	1968	1969	1970	1971	1972	1973
Egypt:							
Total supply.....	3,908	3,810	2,774	2,768	4,076	4,972	5,197
Imports.....	2,687	2,284	1,517	1,252	2,506	3,356	3,340
Imports from United States.....	103						530
Percent of imports from United States.....	3.8						15
Saudi Arabia:							
Total supply.....	494	410	398	430	475	520	554
Imports.....	344	280	248	280	325	370	434
Imports from United States.....	123	91	79	98	91	150	225
Percent of imports from United States.....	35	32	31	35	28	40	63
Algeria:							
Total supply.....	1,984	2,236	1,747	1,837	1,913	2,400	1,110
Imports.....	718	702	421	337	713	800	1,110
Imports from United States.....	205	343	288	229	121	496	575
Percent of imports from United States.....	28	49	68	67	17	62	51

TABLE C.—SUPPLY OF WHEAT AND WHEAT FLOUR IN SELECTED COUNTRIES AND U.S. SHARE OF IMPORTS, ANNUAL 1967-73—Continued

[In thousands of metric tons]

	1967	1968	1969	1970	1971	1972	1973
Iraq:							
Total supply.....	1,042	1,576	1,191	1,159	1,767	1,955	1,700
Imports.....	176	205	2	100	953	195	700
Imports from United States.....	25				8	8	144
Percent of imports from United States.....	14					4	20
Syria:							
Total supply.....	1,149	854	1,048	1,392	1,625	1,960	1,140
Imports.....	100	254	44	542	750	360	340
Imports from United States.....	85				181	51	50
Percent of imports from United States.....	85				24	14	14

TABLE D.—U.S. AND WORLD FOOD EXPORTS TO SELECTED ARAB COUNTRIES

[In millions of dollars]

	A			B			C			D			E		
	U.S. exports of foodstuffs and live animals—category 0			U.S. exports of cereals (including wheat and rice—category 04)			Estimated world total agricultural imports by Arab countries			Estimated total foodstuff imports by Arab countries			U.S. percentage of estimated total foodstuff imports		
	1970	1971	1972	1970	1971	1972	1970	1971	1972	1970	1971	1972	1970	1971	1972
Saudi Arabia.....	26	22	32	20	18	26	218	225	263	207	213	250	12	10	12
Kuwait.....	3	4	4		1	1	80	81	139	76	77	132	3	5	3
Libya.....	1	1	2			1	122	155	173	116	147	164	1		1
Iraq.....		4	1		4		69	199	75	66	189	71		2	1
Syria.....		11	3		11	3	103	110	55	94	106	52		10	5
Algeria.....	14	9	33	14	9	30	153	189	208	145	180	198	9	5	16
Egypt.....	9	3	6	8	2	5	208	294	377	198	279	358	4	1	1
UAE.....	3	1		1		1									
Oman.....							102	104	117	96	100	111	6	2	
Qatar.....	3	1		1											

Sources: Columns A and B, U.S. Commerce Department, foreign trade series FT-455. Column C, U.S. Department of Agriculture data. Columns D and E calculated by author.

TABLE E.—RICE PRODUCTION AND ESTIMATED TOTAL SUPPLY IN THE NEAR EAST, ANNUAL 1966-73

[In thousands of metric tons]

Country	1966	1967	1968	1969	1970	1971	1972	1973 estimate
Total production.....	869	1,072	1,024	1,036	1,188	942	1,118	948
Total imports.....	496	372	393	418	561	713	655	968
Total supply.....	1,365	1,444	1,417	1,454	1,749	1,665	1,773	1,916

RICE IMPORTS BY ARAB COUNTRIES, ANNUAL 1966-72 AND ESTIMATE FOR 1973

	1966	1967	1968	1969	1970	1971	1972	1973 estimate
Iraq.....	1	10		1	2	97	45	135
Saudi Arabia.....	142	125	124	151	233	220	167	195
Kuwait.....	47	19	42	27	39	55	51	94
Bahrein.....	18	9	19	8	26	28	28	32
United Arab Emirates.....	25	27	45	34	44	48	64	88
South Yemen.....	28	29	28	60	46	40	30	33
Other Arabian Peninsula states.....	23	17	27	22	28	26	27	29
Syria.....	32	36	44	30	40	50	56	49

Source: U.S. Department of Agriculture.

TABLE F.—U.S. RICE EXPORTS TO MIDDLE EAST COUNTRIES, FISCAL YEARS
[Metric tons]

Country	1968	1969	1970	1971	1972	1973
Saudi Arabia.....	60,211	59,613	70,148	48,439	80,780	57,000
South Yemen.....	7,191	11,154	13,433	1,700	2	1
Kuwait.....	11,868	8,651	2,634	2,193	5	2
Arabian Peninsula States.....	4,387	2,346			1	1
Libya.....		486	1,036	946	3	2
Bahrain.....	1,404	2,095				
Israel.....	7,712	12,836	13,312	12,144	10,000	11,000

Source: U.S. Department of Agriculture.

TABLE G.—LEADING ARAB CRUDE OIL SUPPLIERS TO THE UNITED STATES 1971-72
[1,000 barrels a day of crude]

	Abu Dhabi	Algeria	Iraq	Kuwait	Libya	Qatar	Saudi Arabia	Total
1971.....	105.4		40.1	31.5	153.3	1.7	156.7	488.7
1972.....	113.3	81.7	18.3	38.9	173.6	3.5	197.3	626.6

Source: Middle East Economic Digest Oct. 12 1973.

U.S. DOMESTIC PRODUCTION OF CRUDE AND GAS LIQUIDS
[Million barrels a day]

1969.....	10.8	1972.....	11.1
1970.....	11.2	1973 (estimated).....	10.9
1971.....	11.1		

U.S. DOMESTIC TOTAL CONSUMPTION
[Million barrels a day]

1969.....	14.1	1972.....	16.3
1970.....	14.7	1973 (estimated).....	17.3
1971.....	15.2		

Source: Department of Interior Bureau of Mines, 1973 data, Department of State.

TABLE H.—ESTIMATED TOTAL AGRICULTURAL IMPORTS BY MIDEAST AND NORTH AFRICAN COUNTRIES, ANNUAL
1966-73 AND ESTIMATE FOR 1973
[In thousands of dollars]

Country	1966	1967	1968	1969	1970	1971	1972	1973
Egypt.....	317,322	343,397	243,357	193,700	208,800	294,834	377,000	458,000
Libya.....	61,645	84,775	86,188	93,501	122,748	155,768	173,885	200,000
Algeria.....	160,174	184,796	168,863	92,900	153,555	189,359	208,000	300,000
Morocco.....	160,047	165,251	175,885	113,309	157,252	190,021	197,000	220,000
Tunisia.....	52,452	75,249	52,162	69,962	91,638	80,207	83,300	95,000
Syria.....	72,700	56,300	70,000	65,200	103,000	110,000	55,000	72,000
Iraq.....	92,800	73,400	82,700	65,700	69,200	199,880	75,000	170,000
Kuwait.....	50,000	60,000	65,000	70,000	80,000	81,800	139,800	153,600
Saudi Arabia.....	111,222	106,462	131,641	140,589	218,000	225,000	263,000	350,000
Gulf Area.....	77,000	81,000	93,000	97,000	102,000	104,000	117,000	130,000
Yemen.....	2,000	3,000	2,500	3,000	4,000	7,000	11,000	16,000
Yemen Democratic Republic..	5,000	4,000	3,500	4,000	6,000	8,000	12,000	14,000

Source: U.S. Department of Agriculture.

APPENDIX 7

SUMMARY OF UNRWA ANNUAL REPORT SHOWING SERVICES TO PALESTINIAN REFUGEES JEOPARDIZED BY FINANCIAL CRISIS

The United National Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) is again desperately short of funds and will have drastically to reduce services to the refugees—particularly education of children—in 1974 unless budget deficits are eliminated. A cut-back of services of this nature and on this scale would cause more hardship and “would heighten tension and encourage further violence in the region”, according to Sir John Rennie, Commissioner-General of UNRWA, in his annual report issued today but written before hostilities broke out on 6 October.

The report covers the period 1 July 1972 to 30 June 1973. At the latter date there were 1,541,000 persons registered with the Agency—an increase of 2.3% in 12 months. Over 1.3 million of these refugees were eligible for UNRWA health and education services and 829,000 were also in receipt of food rations. There were 256,000 children in 546 UNRWA/Unesco schools in the 1972/73 school year.

UNRWA, which began operations in May 1950, provides relief, health and education services for refugees who fled in 1948 from that part of Palestine which became Israel, who are in need and who reside in Lebanon, the Syrian Arab Republic, east Jordan and the Israeli-occupied West Bank of Jordan and the Gaza Strip. UNRWA also provides limited assistance in the case of non-refugees displaced as a result of the June 1967 hostilities.

The Commissioner-General states in his report that devaluation of the United States dollar and accelerating inflation have resulted in estimated budget deficits of over \$3 million in 1973 and over \$10 million in 1974 and the likely prospect of a more acute cash crisis at the beginning of 1974. Because ration items are donated, because health services are at a bare minimum, and because education absorbs 47.3% of the Agency's budget and is almost entirely cash expenditure, any substantial reduction would have to be in the education programme.

The size of UNRWA's estimated budget deficit for 1974 threatens “a very drastic reduction” in education; the elimination of the whole of the preparatory cycle (the last three of the nine years of general education in the UNRWA/Unesco system), reducing expenditure by \$7.5 million a year, would only cover three-quarters of the 1974 deficit, according to the report.

Reductions would cause more hardship, frustration and bitterness among the Palestine refugees, would wreck the hopes for future self-support of many thousands of young refugees, and would have “ominous implications for peace and security” in the region, the report states.

NO PROGRESS TOWARD SETTLEMENT

During the period covered by the report, there was no progress toward a settlement of the basic Palestine refugee problem in accordance with United Nations resolutions. The report points out that recent resolutions of the General Assembly on respect for the rights of the refugees and the rights of the people of Palestine as an element in any just and lasting peace show how “the problem of the refugees has been further complicated and the political dimension enhanced since the hostilities of 1967.” Moreover, despite repeated calls by the General Assembly, the vast majority of the hundreds of thousands of refugees and other persons displaced in 1967 have still not been allowed to return to the occupied territories, and of the 44,176 reported to have returned since 1967 less than 7,000 are believed to be registered refugees.

The report notes that "frustrations and uncertainties, the continued military occupation of areas where more than a third of the refugees still reside, violent action and reaction, and the absence of any reasonable foundation for an ordered future on which people can build their hopes and aspirations, continue to plague the Palestine refugees as they have done for the past quarter century."

The passage of time has not made action less urgent, states the report, which gives an account of developments during the year that have had an effect on the Agency's services to the refugees.

EDUCATION AND TRAINING

For the most part, the UNRWA/Unesco education programmes operated smoothly from 1 July 1972 to 30 June 1973, but, even with extensive double-shifting, there is still an urgent need for more classrooms to accommodate a refugee school population growing by approximately 12,000 annually through natural increase. Enrollments in UNRWA/Unesco schools rose to 255,984, and the total teaching staff reached 7,747. More than 150 classrooms and ancillary rooms in new and existing schools were completed and about half of a further instalment of 161 were already under construction at the end of June 1973. Plans for 657 more rooms have been drawn up and submitted to a potential donor.

Enrolment in the Agency's training centres rose by nearly 400 to 3,967 (1,164 in teacher training and 2,803 in vocational and technical education). This increase was made possible by expansion of the training centres at Wadi Seer and Amman in east Jordan and restoration of suspended training capacity at Siblin in Lebanon. According to the report, the growth may be regarded as evidence of the high importance the Agency, the refugees and donors attach to the programme.

The UNRWA/Unesco Institute of Education continued to have an impact on education in the area beyond the Agency's schools and their teachers. Financial assistance from both UNDP and UNICEF enabled the Institute to expand its extension services for government educationalists engaged in in-service training of teachers at no cost to UNRWA.

HEALTH

Within the limit of its resources, UNRWA, with the professional guidance of the World Health Organization, maintained an integrated and comprehensive health programme, the report says. Curative and preventive medical care services for refugees were provided by the Agency at 95 health units, at a further 13 units by Agency-subsidized voluntary organizations and at 11 units by governments. Nursing care, environmental sanitation, extra nutritional support for eligible refugees such as school children and expectant mothers, and school health programmes were also provided.

Improvements in Agency health facilities included completion of one new health centre in both east Jordan and Syria and the extension of a centre in the West Bank. Construction to replace an old health centre in Gaza is under way, and replacement of three old centres in Syria is planned. The replacement of three old supplementary feeding centres in Syria was authorized, with specially-contributed funds.

OPERATING PROBLEMS

The report recalls that the 53 camps established before June 1967 and the 10 emergency camps set up after the hostilities of that year are not extra-territorial areas under United Nations jurisdiction and that police, legislative and other governmental functions are not the responsibility of UNRWA but of the host governments or the occupying power. Only 38.4 per cent (644,093) of the refugees live in the 63 camps in UNRWA's area of operations.

In the Lebanon camps affected by Israeli attacks in September 1972 and February 1973, services were temporarily interrupted and a number of Agency buildings and shelters were demolished or damaged. Disruptions in services also occurred during the internal fighting in May 1973 involving Lebanese security forces and Palestinian organizations in and around Beirut. The Agency recorded 50 dead and 130 wounded among registered refugees.

During this fighting in Lebanon the Syrian Arab Republic closed its border with Lebanon, thus delaying the transport from Beirut to Syria and Jordan

of about 4,000 tons of Agency supplies, including rice and flour. Problems over land use and allocation held up the construction of shelters in two emergency camps in Syria, but a further 500 cement-block shelters were completed to replace tents in another camp there. In co-operation with the Government progress was made in overtaking the back-log in rectification of ration rolls.

In east Jordan, where one-third of the refugees registered with the Agency are to be found, a notable development was growing participation in "self-help" projects for the improvement of conditions in the camps. Discussions were held with the government authorities on procedures for the rectification of ration rolls but little progress had been made by 30 June. The Agency continued to co-operate with the Government in caring for persons displaced by the hostilities in 1967 who are not registered refugees.

In the West Bank of Jordan the co-ordination by the Occupying Power of the economy with that of Israel continued. Despite the high rate of inflation there were immediate material benefits for many refugees through employment but much of this employment was with Israeli employers engaged in Israeli development, and the longer-term economic, social and cultural effects of occupation were causing concern. As in east Jordan self-help projects were a feature of Agency-refugee co-operation.

In the occupied Gaza Strip a survey carried out in 1973 jointly with the Israeli authorities showed that of those refugees whose houses were demolished by the military authorities in July and August 1971, 706 families were still inadequately housed, including 266 in urgent need. During the period covered by the report, a further 873 shelter rooms, affecting 383 families, were demolished by the Israeli Military Administration in housing construction and road-widening projects, but the families affected were found alternative accommodation by the Military Administration and compensation was paid for construction and improvements that had been carried out by the refugees themselves.

CONCLUSION

The report concludes by saying that in the Commissioner-General's opinion, in view of the serious political consequences, a decision on reductions in services ought to be taken at a governmental level and that guidance and directions are required from the General Assembly.

APPENDIX 8

A CHRONOLOGY OF EVENTS IN THE MIDDLE EAST, OCTOBER 6 TO NOVEMBER 26, 1973¹

October 6—Heavy fighting erupted between Israeli and Arab forces along the Suez Canal and Golan heights ceasefire lines.

Official announcements by Israel and Egypt agreed that Egyptian forces had crossed the Suez Canal and established footholds in the Israeli-occupied Sinai Peninsula.

On instructions from President Nixon, Mr. Kissinger urged restraint to avoid the undermining and violation of the ceasefire in effect since August, 1970.

October 7—Israel said her jets struck deep inside Egypt and Syria and crippled Syrian air defenses and severed 9 of 11 Egyptian bridges across the Suez Canal. This action isolated 400 Egyptian tanks and other forces on the eastern bank. Both Egypt and Syria said that their forces had repelled the Israeli counterattacks. Each side blamed the other for starting the fighting, although the United Nations observers on the scene agreed with Israeli assertions that the Arabs had simultaneously attacked on two fronts first.

October 8—Preceded by large-scale Israeli air strikes against Arab military airfields, Israeli units launched major counterattacks on two broad fronts. Although Israeli forces had apparently succeeded in turning back Arab advances, the Israeli counterattack was encountering heavier resistance than expected.

The Soviet Union indicated that it shared the American desire to limit the fighting in the Middle East.

The United States asked the United Nations Security Council to bring an end to the fighting in the Middle East and restore the 1967 ceasefire lines.

October 9—Administration officials in Washington said that although the Soviet Union had avoided direct involvement in the Middle East conflict, Moscow had encouraged other Arab Governments to support Egypt and Syria in their fight with Israel.

Pentagon officials have concluded that Israeli forces will eventually prevail in the Middle East conflict, but only after several more days of costly fighting.

October 10—Administration officials said there were indications that the Soviet Union was air lifting military equipment to resupply Egyptian and Syrian forces in their fight against Israel.

October 11—Mounting Israeli losses of jet warplanes and tanks make it likely that additional F-4 Phantom fighter-bombers and A-4 Skyhawk attack will be sent to Israel. Israeli tanks and infantry started a major thrust toward Damascus.

October 12—Some Syrian Army units appeared to be in full retreat as Israeli forces advanced to within 18 miles of Damascus.

Egypt continued to pour men and heavy equipment across the Suez Canal to make the area secure against Israeli recapture.

Secretary of State Kissinger said that while the Middle East war had the potentialities for getting out of hand both the United States and the Soviet Union had acted so far to keep it from widening into a world conflict.

October 13—The Jordanian command announced that it had begun moving a detachment of its best military formations to Syria to help in the defense of that land.

The United States prepared to ship jet fighter planes to Israel to replace some of those lost in the first week of the Middle East war.

¹ Compiled by the Congressional Research Service from newspaper accounts, mainly New York Times.

October 14—American officials have concluded after eight days of efforts that a diplomatic solution to the Middle East conflict will have to wait until the fighting stops. So far none of the combatants have shown any wish for a ceasefire and the Soviet Union has refused to endorse a truce as long as the Egyptians feel they can gain more by fighting.

October 15—The State Department announced that the United States had begun to supply Israel with aircraft and equipment to replace her losses.

Saudi Arabia's Oil Minister was reported to have told Western oil executives that his country would cut crude oil production by 10 percent now and by 5 percent a month in future if the United States overtly undertook to resupply Israel.

Egypt has said that she will accept a ceasefire only if she is given guarantees that Israel will withdraw to the pre-1967 lines.

October 16—President Anwar el-Sadat of Egypt called for a ceasefire coupled with Israeli withdrawal from Egyptian territory seized in 1967. Sadat also proposed that the truce be followed by a peace conference at the United Nations.

Golda Meir said that the Middle East war would end when Israel had succeeded in beating the enemy.

Melvin R. Laird accused the Soviet Union of blocking efforts to achieve a Middle East ceasefire.

October 17—The Soviet Union has begun high-level efforts to persuade Egypt and Syria to move toward a diplomatic settlement of the Middle East conflict.

The Arab oil states said they had imposed a 5 percent cut each month in the flow of oil to the United States and other countries supporting Israel in the Middle East conflict.

Four Arab Foreign Ministers, who said they represented 18 Arab nations, submitted a general peace proposal to President Nixon and asked the United States to help mediate the Middle East conflict.

The Pentagon plans to ask Congress for an extra \$2 billion to replace American arms shipments being rushed to Israel.

October 18—Israeli and Egyptian forces reported locked in a huge tank battle on the Egyptian side of the Suez Canal.

Egypt announced that Soviet Premier Kosygin had held three long meetings in Cairo with Sadat.

Saudi Arabia announced a 10 percent oil production cutback to put pressure on the United States into reducing its support for the Israeli cause.

Jets piloted by North Koreans clashed with Israeli planes.

October 19—Libya ordered a halt to all shipments of crude oil and petroleum products to the United States and raised prices to almost twice the former level.

President Nixon asked Congress for \$2.2 billion in emergency security assistance for Israel and \$200 million for Cambodia.

October 20—Secretary of State Kissinger arrived in Moscow and entered into talks with Brezhnev on the two week old Middle East war.

Saudi Arabia has decided to stop all oil exports to the United States.

October 21—The Security Council unanimously adopted a joint Soviet-U.S. resolution which called for a cease-fire in place in the Middle East within twelve hours—about 1 p.m. (October 22, 1973) EDT—and immediate negotiations for a just and durable peace.

October 22—A cease-fire between Egypt and Israel went into effect about 12 hours after the UN Security Council called for an end to hostilities. Syria, where fighting continued, was said to be "considering" the UN resolution, while Iraq rejected the proposal. Jordan, while accepting the proposal, said its troops were under command of Syria.

October 23—Full-scale war continued between Israeli and Egyptian forces on the southern part of the Suez Canal, with each side blaming the other for violating the technical cease-fire. The UN Security Council adopted a resolution again calling for cease-fire and Syria informed the Secretary General that it would abide by the cease-fire.

October 24—As a new cease-fire went into effect on the Syrian and Suez fronts, Egyptian President Anwar el-Sadat issued an urgent appeal for the United States and the Soviet to send troops to supervise the agreement they had originated. The United States rejected his request and expressed optimism about the truce.

October 25—The United States ordered its military forces on a worldwide "pre-cautionary alert" because of concern that the Soviet Union might be planning to send troops to the Middle East.

Secretary of State Kissinger said that the United States does not want a confrontation with the USSR.

The UN Security Council unanimously voted to establish a UN emergency force made up of troops from smaller nations to supervise a cease-fire.

October 26—President Nixon said that the U.S. and the USSR had agreed to put more pressure on the Israelis and Arabs to reach a permanent settlement. Soviet party leader Brezhnev accused the U.S. of artificially increasing tensions in the Middle East with rumors of alleged Soviet plans to intervene. The United Nations moved swiftly to get a 7,000-man force into the Middle East.

October 27—Egypt and Israel agreed to negotiate face-to-face on implementation of the cease-fire along the Suez Canal as a result of the "good offices" provided by Secretary of State Kissinger, according to the State Department.

October 29—Israel said that continuation of the cease-fire was contingent on the early identification and release of more than 400 Israeli soldiers believed captured by Egypt and Syria.

The first truckloads of medicine and food were ferried across the Suez Canal to the Egyptian III Corps trapped on the east bank, under supervision of UN officials.

Ismail Fahmy, Egyptian Acting Foreign Minister, arrived in Washington and met with Secretary of State Kissinger.

October 30—President Nixon conferred with the Acting Foreign Minister of Egypt, Ismail Fahmy.

Egypt offered the release of Israeli prisoners of war on condition that Israeli troops withdraw to the cease-fire line of October 22.

November 1—Israel Premier Golda Meir met for more than an hour with President Nixon and said that she was "reassured" of continued U.S. support for Israel's security. She denied that Israel was under any pressure from the U.S. to make one-sided concessions or that the U.S. was trying to end Israeli encirclement of the Egyptian III Corps troops.

November 2—Syrian Deputy Foreign Minister Muhammed Ismail met with Secretary of State Kissinger, making Syria's first significant diplomatic contact with the United States in a year.

November 3—Secretary of State Kissinger continued to attempt to create dialogue between the contending sides as he held talks with Egyptian Foreign Minister Ismail Fahmy and Premier Golda Meir of Israel. The UN Emergency Forces reported some successes in easing tensions between Egyptian and Israeli troops, particularly in the areas west of the Suez Canal.

November 5—Secretary of State Kissinger arrived in Morocco on the first leg of an extensive trip.

November 6—Israel announced that 1,854 Israeli soldiers were killed during the latest war.

Secretary of State Kissinger arrived in Cairo for talks with President Sadat.

The European Common Market, under threat of an Arab oil boycott of all none member-countries unless they remain neutral in the Middle East war, called on Israel and Egypt to return to the lines they held October 22, before Israeli forces surrounded the Egyptian III Corps.

November 7—After a meeting between Secretary of State Kissinger and President Sadat, the United States and Egypt announced that they would resume diplomatic relations and exchange ambassadors within two weeks. Senior members of the Kissinger delegation then departed for Israel to convey "ideas" developed at the meeting.

November 8—Officials traveling with Secretary of State Kissinger said that Egypt and Israel agreed on new arrangements under the cease-fire that would take effect within a few days and lead to full-scale peace negotiations by the end of the year. The plan, worked out by Kissinger and Sadat and accepted by the Israeli Cabinet, called for a supply corridor to the Egyptian III Corps, a prompt exchange of prisoners, negotiations to adjust the cease-fire line, and later negotiations on a broader basis.

November 9—The Israeli Government announced that it had accepted "in principle" the American-sponsored cease-fire agreement with Egypt, but said it would seek further clarification of the details from the United States.

- November 9*—Secretary of State Kissinger was unable to obtain a relaxation of Saudi Arabia's oil embargo against the United States. Mr. Kissinger was told that production cuts imposed since October 17 would not be relaxed until there was physical withdrawal of Israeli forces from Arab territory occupied during the 1967 war.
- November 10*—Egypt and Israel agreed to sign a six-point American sponsored cease-fire agreement on the Cairo-Suez road. The signing, originally scheduled for yesterday, was postponed to give Israel time to ask the United States for "clarifications" on some of the six points.
- November 11*—Egypt and Israel signed the cease-fire agreement sponsored by the United States and immediately began direct discussions on carrying it out. The discussions marked the first time since the 1949 armistice that higher officers of the two nations met in negotiations over issues larger than the establishment and maintenance of local cease-fire arrangements.
- November 11*—The United States has proposed that an Israeli-Arab peace conference be convened in Geneva in early December under American and Soviet auspices, Israeli sources in Jerusalem reported.
- November 12*—Secretary of State Kissinger said that the United States was considering a mutual security treaty with Israel as one of the possible ways of guaranteeing Israel's boundaries once a formal peace agreement has been achieved in the Middle East.
- November 12*—Israeli sources said that unless the question on control of the strategic Cairo-Suez road was resolved and war prisoners promptly returned, Israel would have to reconsider the entire cease-fire agreement with Egypt, including her pledge to permit provisions to continue to go to the Egyptian III Corps.
- November 12*—Finnish troops of the United Nations Emergency Force established two checkpoints on the Cairo-to-Suez road and held them in spite of a threat of attack by Israeli force, highly placed sources reported. They said fistfights broke out between Finns and Israelis.
- November 13*—Israeli forces demonstrated that they retained full control of the road leading to the city of Suez despite the two United Nations checkpoints that were set up November 12. Israeli soldiers held back about 120 newsmen and cameramen who had come from Cairo to the point on the Cairo-Suez road called Kilometer 101.
- November 13*—Premier Golda Meir told the Israeli Parliament that she believed Israel and Egypt would be able to overcome their differences and carry out the American-sponsored cease-fire agreement along the Suez Canal.
- November 14*—Israeli and Egyptian negotiators ended a three-day impasse by agreeing on an immediate exchange of prisoners. The agreement appeared to clear the way for a full-scale Arab-Israeli peace conference that is expected to open in Geneva next month. Under the terms of the exchange agreement, prisoners will be returned on direct flights between Cairo and Tel Aviv by Red Cross planes.
- November 15*—Twenty-six wounded Israeli prisoners of war arrived in Tel Aviv aboard a Red Cross plane that later returned to Cairo with 44 wounded Egyptian prisoners, as Israel and Egypt began their prisoner exchange which is expected to last a week. Afterward, another plane took 250 wounded Egyptian prisoners to Cairo.
- November 15*—The United Nations began exercising its right to supervise the daily flow of food, water and medical supplies to Suez city under the cease-fire arrangement, but in other respects Israeli forces remained in control of all access roads.
- November 16*—President Nixon expressed hope that what he called the "real progress" in the Middle East might lead to a lifting of the Arab embargo on oil shipments to the United States.
- November 17*—Egypt has asked the United States to put diplomatic pressure on Israel to carry out the six-point cease-fire agreement more rapidly, according to well-informed Cairo sources. The requests were addressed to Herman F. Eilts, the newly appointed American Ambassador, by Foreign Minister Ismail Fahmy and other high officials.
- November 18*—Arab oil exporters made a conciliatory gesture to Western Europe with the announcement that petroleum supplies will not be cut back further to most European Common Market countries. An embargo will continue to apply to the Netherlands and the United States in punishment for what the Arabs believe to be Dutch and American policies favoring Israel.

- November 18*—It was reported that large quantities of new Soviet weapons have been put into service by the Syrian Armed Forces, which are offering Western suppliers cash in advance for quick delivery of radar and other air-defense equipment.
- November 19*—Syria, after long hestiation, has reportedly declared itself willing to attend a peace conference under United Nations auspices aimed at establishing a durable Middle Eastern peace, it was disclosed in Cairo. Officials said, the Syrian Foreign Minister, Abdel Halim Khaddam conveyed Syria's position to President Anwar el-Sadat.
- November 19*—The Administration's bill proposing \$2.2 billion in military aid to Israel would give President Nixon the power to determine how much would be a loan and how much a gift, and this is being interpreted in different ways in Washington. No previous aid bill has ever provided a President with this authority, according to Senate and Pentagon sources.
- November 20*—The Soviet note that, along with intelligence data on certain Soviet sea and air activities, led to a precautionary alert of United States forces around the world on the night of October 24 carried an implied threat rather than an actual threat of the dispatch of Soviet troops to the Suez war zone. "We strongly urge that we both send forces to enforce the cease-fire and, if you do not, we may be obliged to consider acting alone," the Soviet note said, according to two officials who have read it.
- November 21*—Secretary of State Kissinger said the United States would not change its Middle East policies because of the Arab oil embargo and warned that "countermeasures" would have to be considered if the embargo continued "unreasonably and indefinitely." During the news conference on the Middle East Mr. Kissinger also repeated his objections to the United States' proposing a detailed peace plan.
- November 21*—Defense officials said that the United States had intelligence information suggesting that the Soviet Union might have moved nuclear warheads into Egypt at the height of the Arab-Israeli war. Despite reported disagreements over how conclusive the evidence is, the information is said to have raised Administration suspicions that some Soviet-controlled weapons may now be in Egypt.
- November 22*—Egyptian and Israeli generals met on the Cairo-Suez road as the two sides held their first formal session in eight days to discuss the details of disengaging their troops under the cease-fire agreement. While no agreement was reached, the session was relaxed, and the discussion progressed to detailed debates of each side's proposals.
- November 22*—Saudi Arabia's Oil Minister threatened to cut oil production by 80 per cent the United States, Europe or Japan tried to counter current Arab embargoes and reductions. The minister, Sheik Ahmed Zaki al-Yamani, also threatened to blow up some oil fields if the United States should take any military action.
- November 23*—Col. Muammar el-Qaddafi of Lybia arrived in Paris and was expected to demand that the French deliver more and better arms, possibly including atomic weapons, and lift restrictions on transfer of French arms to Egypt and Syria.
- November 23*—Israel's Defense Minister, Moshe Dayan, said that he did not share the optimism generated by the talks between Egyptian and Israeli generals on carrying out the six-point cease-fire agreement. The talks at Kilometer 101 on the Cairo-Suez road, at which the disengagement of forces was discussed, continued to show some progress.
- November 23*—The editor of Egypt's semiofficial newspaper Al Aharam stressed that the Arab world needed to build, buy or borrow nuclear weapons as a deterrent to any use of such weapons by Israel. The editor, Mohammed Hassanein Heykal wrote that he had become convinced that Israel had nuclear weapons and might attempt to use them as psychological "blackmail" against the Arabs.
- November 24*—Israeli officials said that a major gap was still separating Israel and Egypt on the question of disengaging their forces along the Suez Canal. They said that "no meaningful progress" had been made at an 80-minute meeting between Israeli and Egyptian negotiators on the Cairo-Suez highway.
- November 24*—Anti-Israeli militancy was the keynote as ministers and other high officials representing 16 Arab nations and Palestinian refugees gathered at the Arab foreign ministers conference in Staoueli, Algeria, in the first large-scale Arab meeting since the October war against Israel.

November 25.—Israel's Cabinet decided to accept an American proposal that Israel attend peace talks with Egypt, Syria and Jordan on December 18. Arab hijackers seized a Dutch jet with 288 passengers and crew members in a flight over the Middle East, and sent a message to Archbishop Makarios, President of Cyprus, demanding release of seven Arabs who had bombed the home of the Israeli ambassador to Cyprus.

November 26.—Arab hijackers agreed to release passengers of a Dutch jet in Malta, and conference of Arab heads of state opened in Staoueli, Algeria with spokesmen speaking of the Arab "oil weapon" and its impact on the outside world, but adding notes of caution about its use.



