Y 4
In 8/18
W 89

GOVERNMENT

Storage

1009

✓

[COMMITTEE PRINT]

DOCUMENTS

JAN 21 1980

FARRELL LIBRARY
KANSAS STATE UNIVERSITY

INTELLIGENCE ON THE WORLD ENERGY FUTURE

SUBCOMMITTEE ON OVERSIGHT
PERMANENT SELECT COMMITTEE ON INTELLIGENCE
U.S. HOUSE OF REPRESENTATIVES



DECEMBER 1979

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1979

55-277

A11600 699951 ✓

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

PERMANENT SELECT COMMITTEE ON INTELLIGENCE

(Established by H. Res. 658, 95th Congress, 1st session)

EDWARD P. BOLAND, Massachusetts, *Chairman*

CLEMENT J. ZABLOCKI, Wisconsin
BILL D. BURLISON, Missouri
MORGAN F. MURPHY, Illinois
LES ASPIN, Wisconsin
CHARLES ROSE, North Carolina
ROMANO L. MAZZOLI, Kentucky
NORMAN Y. MINETA, California
WYCHE FOWLER, JR., Georgia

J. KENNETH ROBINSON, Virginia
JOHN M. ASHBROOK, Ohio
ROBERT McCLORY, Illinois
G. WILLIAM WHITEHURST, Virginia
C. W. BILL YOUNG, Florida

THOMAS K. LATIMER, *Staff Director*
MICHAEL J. O'NEIL, *Chief Counsel*
PATRICK G. LONG, *Associate Counsel*
JEANNE M. MCNALLY, *Clerk*

SUBCOMMITTEE ON OVERSIGHT

LES ASPIN, Wisconsin, *Chairman*

CHARLES ROSE, North Carolina
ROMANO L. MAZZOLI, Kentucky
EDWARD P. BOLAND, Massachusetts

JOHN M. ASHBROOK, Ohio
C. W. BILL YOUNG, Florida

LEON S. FUERTH, *Professional Staff Member*
RICHARD D. ANDERSON, Jr., *Professional Staff Member*
G. ELIZABETH KEYES, *Professional Staff Member*
PATRICIA GARBER, *Secretary*

CONTENTS

	Page
Summary	1
Energy outlook	2
CIA's estimative approach	6
Suggestions	9
Additional views	20

APPENDIX

Appendix A—Washington Post article June 23, 1978	12

LIST OF WITNESSES

WEDNESDAY, OCTOBER 17, 1979

Mr. Maurice Ernst, Director of Office of Economic Research, Central Intelligence Agency.
Mr. John Ecklund, Chief, Petroleum Supply Analysis Center, Office of Economic Research, Central Intelligence Agency.
Mr. C. Roger Glassey, Assistant Administrator for Applied Analysis, Energy Information Administration.
Dr. Everett M. Ehrlich, Principal Analyst, Natural Resources and Commerce Division, Congressional Budget Office.
Mr. Lionel S. Johns, Assistant Director, Energy, Materials, and International Security Division, Office of Technology Assessment.
Dr. Bruce C. Netschert, Vice President, National Economic Research Associates, Inc.

THURSDAY, OCTOBER 18, 1979

Mr. Melvin A. Conant, president, Conant & Associates, Ltd.
Mr. Ben C. Ball, Jr., president, Ball & Associates, Cambridge, Mass.
Mr. Amory B. Lovins, independent energy consultant.

СОДЕРЖАНИЕ

Intelligence on the World Energy Future: Report of the Oversight Subcommittee of the House Permanent Select Committee on Intelligence

SUMMARY

The Subcommittee on Oversight held hearings on the world energy outlook on October 17–18, 1979. This report summarizes the conclusions of the Subcommittee's witnesses regarding the oil outlook and the methods appropriate to forecasting it and advances considerations for intelligence officials in charge of future reports on this subject.

The hearings assessed a report by the Central Intelligence Agency entitled "The World Oil Market in the Years Ahead" and released to the public in August 1979. For purposes of additional perspective, the Subcommittee also heard a presentation by the Energy Information Administration on a revision of that agency's world oil forecasts, contained in its 1978 Annual Report to Congress. In addition to representatives of CIA and EIA, the Subcommittee heard from two panels of experts: a panel commenting on the merits of the two reports, and a panel examining the reports' policy implications.

On the basis of the testimony the Subcommittee commends CIA's forecast of the world oil market. The CIA report enjoys the respect of authorities on oil appearing before the Subcommittee. Witnesses of otherwise diverse points of view agree with the general forecast of oil shortages leading to price increases. Uncertainties about the timing of the shortages—before 1982 in CIA's view, or by 1985 in the best circumstances—and about the size of the price increases do not detract from the value of CIA's warning that a shortage is coming, that it will not be short lived, and that it will have profound implications for the United States.

The Subcommittee also noted testimony on the design of CIA's forecasts. The witnesses before the committee presented a range of points of view on the CIA's design, but the following points summarize the main features of their testimony:

The witnesses applauded CIA's decision to project oil supplies country by country on the basis of detailed study of each producing country's reserves, productive assets and intentions.

The CIA presented its numerical forecasts in the form of point estimates of oil supplies. The CIA witness pointed out the advantages of this presentation for clarity and simplicity, but several other witnesses would have preferred a fuller reflection of uncertainty through ranged estimates.

The CIA's choice of a near time horizon (1982 for specific numerical projections) reflected its intent to draw attention to a near term oil shortage but according to the witnesses reduced the forecast's usefulness to policy makers.

Members of the Subcommittee recognized the importance of CIA's activity in energy intelligence. Mr. Boland, Chairman of the full Committee, observed at the opening of the hearings that energy:

"* * * is of transcendant importance to our nation * * * the purpose of this particular hearing has in many ways become as important a factor for the national security as military defense.

"Many believe in fact that energy and related economic problems can threaten us more deeply and affect our national security more rapidly than any change in the military picture short of war itself.

"Against this background, CIA's unclassified study of world energy production represents a significant contribution to public understanding of what may be the crucial problem of the times."

ENERGY OUTLOOK

The impending oil shortage

The consensus of witnesses before the Subcommittee foresees a world shortage of oil in the near term. Fundamentally, during the next three to six years demand for oil is expected to grow while the supply of oil will increase only slightly if at all, whatever the price offered.

The shortage CIA expects will result from political decisions by certain OPEC countries, not from a geological lack of oil. CIA expects geology to constrain some oil producers outside OPEC (e.g., the United States). But the urge to let oil in the ground appreciate, in preference to extracting it rapidly enough to meet growing demand, will limit output in the rest of the world before geology does.

The date on which this shortage will set in remains a point of conjecture. The Central Intelligence Agency expects it before 1982 and forecasts an average excess of demand over supply of two to five million barrels per day. As Figure 1 (taken from the Energy Information Administration testimony) implies, EIA foresees the possibility that supplies may continue to match demand until 1985.[1] After that date, even in the best projected case, supplies will become inadequate. The witnesses saw these projections as, in the words of one, "in the right ballpark."

---

[1] EIA's testimony before the Subcommittee represented an updating of estimates in EIA's Annual Report to Congress, bring EIA's conclusion substantially closer to CIA's.

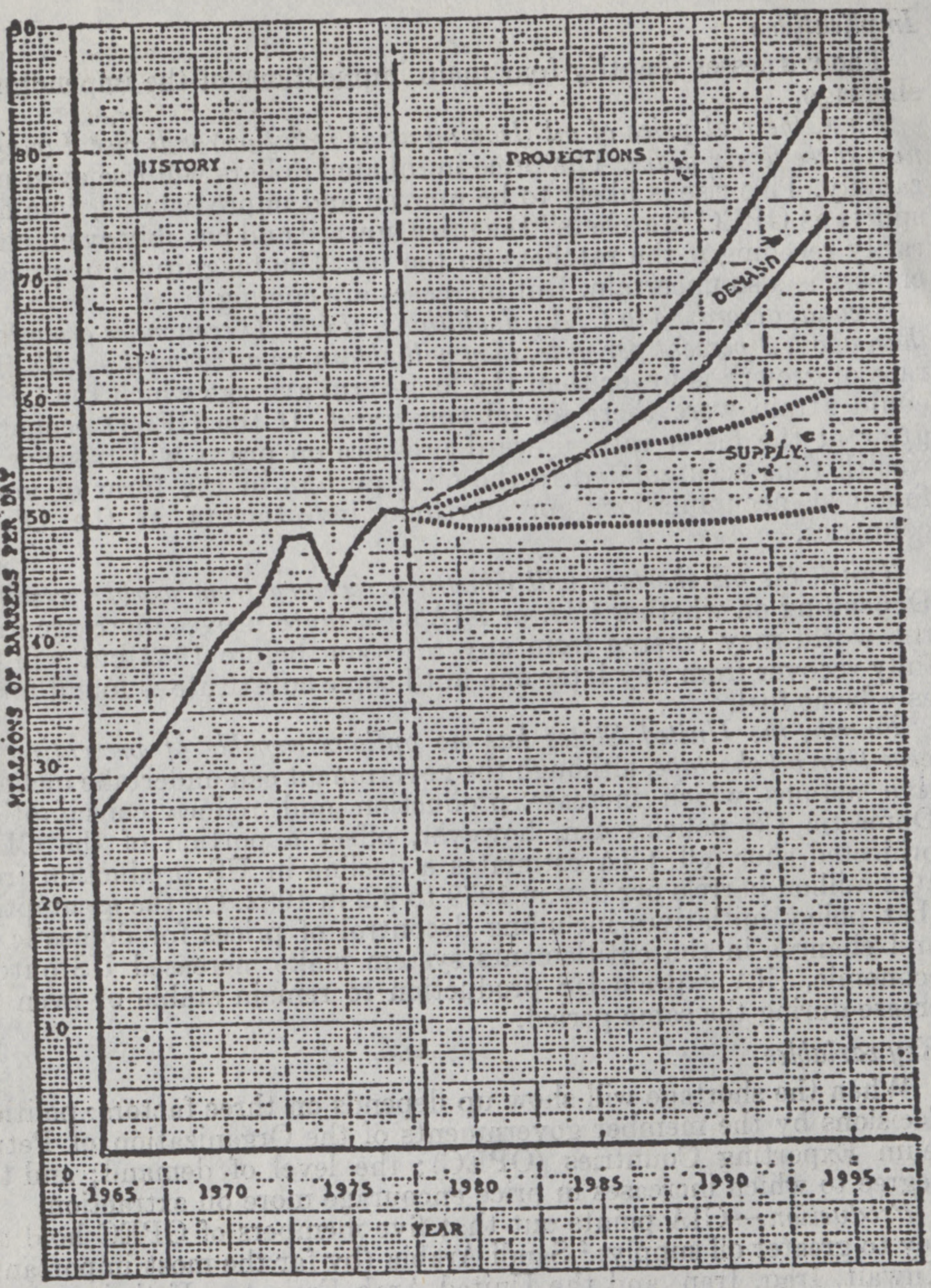

FIGURE 1.—*Free world oil supply and demand, 1965–95*
(Constant real prices)

Implications

The witnesses identify four main implications of the impending oil shortage.

First, the real price of oil (leaving aside inflation) will rise during the next three to six years. The price in inflated dollars will rise even more rapidly. This rise is likely to be uneven and unpredictable, coming in spurts as OPEC "ratchets" the price upward and possibly even temporarily receding if the ratchets go too far. The magnitude of price increases is also uncertain. But increases are coming.

Second, according to CIA calculations, if OECD economies grow faster than about 2 percent per year, they will obtain no additional wealth. This rate of growth is lower than the long-term average which the OECD could attain were there no oil constraint. If the OECD economies grow at the faster rate, upward pressure on prices will transfer the wealth thus accumulated to the oil exporters in the form of goods, financial accumulations, or portfolio investments in the OECD countries.

Third, the oil shortage will constrain recovery from world recessions. Depending on whether CIA or EIA's estimate proves more accurate, the world may emerge from any recession before 1982 but will not fully recover from any later one until some substitute is found for oil as a basic fuel.

Fourth, the United States has no options capable of preventing the near term oil shortage, although the government can undertake meliorative actions which increase production and reduce consumption. Domestic US policies can, however, offset a portion of the CIA's projected shortfall. CIA estimates a decline in US production from 10.2 million barrels per day in 1979 to 9.2 in 1982. On the assumption that policy initiatives including decontrol of prices for domestic oil and changes in the entitlements system make increased US output economic, EIA expects US production to remain stable or even increase during the same period.

Key variables

When the shortage will show up depends on three factors: political decisions by the member governments of the Organization of Petroleum Exporting Countries (OPEC); the level of demand; and the degree to which increases in price encourage more oil extraction.

Production.—CIA points out that five members of OPEC hold the key to greater oil supply: [2] Saudi Arabia (by far the most important), Kuwait, Iraq, Iran, and the United Arab Emirates. If their governments wished, these five countries could make good the entire shortfall foreseen by CIA. Witnesses agreed, however, that to do so would be contrary to these states' own interests and long-term economic needs, although some of these countries may be willing to undertake some expansion of output to moderate the shortfall's impact on the health of the industrialized economies.

Demand.—CIA and EIA both project the level of demand by assuming moderate rates of economic growth and a relatively stable

---

[2] In the rest of the world, production is near maximum short-term capacity.

ratio of economic growth to fuel consumption. CIA assumed a minimum 3 percent growth rate in the member countries of the Organization for Economic Cooperation and Development (OECD), while EIA used a minimum 3.8 percent growth rate for the (non-communist) world. As long as the OECD economies do not attain these rates, oil demand will be less than projected by either agency. Recession may temporarily stave off the oil shortage, unless the oil supply falls short of projected amounts because of unpredictable political developments in the producing countries.

The relationship of fuel consumption to national product is the single largest uncertainty in long-term forecasting, according to CIA testimony. Price increases for energy are already leading the industrialized economies to reduce energy consumption per unit of industrial output. Mr. Amory Lovins [3] holds out promise for significantly larger improvements in the energy efficiency of houses, automobiles, and industry and for savings from consumption of fuels according to their suitability for end uses. As an example, he cites French realization that electricity is the most expensive and least suitable form of energy for heating homes; government decisions to restrict electric home heating will limit France's need for additional generating capacity.

Table 1 (aggregated from data supplied by Lovins) demonstrates the potential for reduction of energy use without loss of national product. The table shows how forecasters of energy consumption needed to sustain acceptable U.S. growth have come to expect lower and lower levels. The point of the table is that every two years the most extreme expectations of reduced energy use have gained increasingly wide acceptance, until expectations that were "beyond the pale" in 1972 are the highest demand forecasts in 1978.

TABLE 1.—*Reduction in forecasts of U.S. primary energy demand for the year 2000*

(Forecasts in quadrillions of Btu's per year (1972–78 demand: About 75 quads per year))

Year of forecast:	*Range of forecasts*
1972	125–190
1974	100–160
1976	75–140
1978	63–124

Mr. Ben Ball [4] pointed out that rising oil prices have ended an era of economic progress on the basis of declining costs for additional energy. The implications of this change have not been fully recognized, but Ball observed that business planners' training and experience has taught them to expect lower unit costs for larger purchases of any good. This lesson no longer holds for any form of energy, he said. Higher unit costs for additional energy imply that economic growth will become progressively slower unless the ratio of fuel consumption to output can be reduced.

Price increases.—The impact of prices on oil supply is in dispute among the Subcommittee's witnesses. CIA's and EIA's projections

---

[3] **Mr. Amory Lovins is a consultant physicist and author who concentrates on energy and resource strategy, particularly in the search for more efficient use of primary fuels.**

[4] **Mr. Ben C. Ball is an adjunct professor at the Massachusetts Institute of Technology and an independent consultant on energy. As former vice president of Gulf Oil Corp., Mr. Ball was instrumental in setting up the Corporate Planning Group, which among other responsibilities prepares oil market forecasts.**

55–277—79——2

make different assumptions on this question. EIA believes that ten percent price increases induce two percent increases in supply from OECD and other non-OPEC producers. CIA believes that higher prices will not encourage exploration for oil rapid enough to expand production at the rate expected by EIA and points to declining reserve-to-production ratios worldwide as evidence that production declines are more likely, whatever happens to prices.

Dr. Bruce Netschert [5] criticizes CIA's argument as too narrow. He calls attention to the much more intense drilling rates in North America than in the rest of the world. As a result, Netschert argues, North American reserves are divided about evenly between fields with more than 500 million barrels of recoverable oil and smaller fields (which require more drilling to find). Elsewhere the ratio of reserves in larger to smaller fields is about three to one. Dr. Netschert concludes that higher prices can encourage more drilling outside the United States, with the expectation of sufficient discoveries to bring the world ratios in line with the North American.

Other witnesses dispute this expectation. CIA's report observes that the petroleum geology of North America appears to differ from the rest of the world, with a higher percentage of oil in small fields. Even should more oil be discovered, other witnesses argue, the producers can be expected to behave like OPEC: to recognize that new oil is an appreciating asset and to produce less as the price rises. The witnesses cite Norway's production restraints as an example of likely policies wherever new oil is found in quantity.

CIA'S ESTIMATIVE APPROACH

Methodology

The witnesses concur that CIA has chosen the right approach in using a building block method to forecast oil supply. CIA estimated likely production country by country, using four kinds of information:

(*a*) geological data about oil reserves;

(*b*) economic analysis of the effect of higher prices and the countries' individual revenue needs;

(*c*) knowledge of capital investment in production equipment;

(*d*) where appropriate, analysis of political intentions with regard to oil production.

In contrast, the EIA does not project oil production country by country. For the OPEC countries, EIA's witness said, the forecast used estimates prepared by another office of the Department of Energy. For producing countries outside OPEC, other than communist producers, EIA assumed that any ten percent increase in price would automatically induce a two percent increase in oil production.

Although Dr. Netschert strongly defended for the long run the validity of EIA's assumption about the positive effect of price increases, he agreed with other witnesses that in the short term, price increases might have little impact on production. Mr. Lionel Johns of the Office of Technology Assessment said that price rises could be expected to increase production in only two circumstances. When the

---

[5] Dr. Bruce Netschert is vice president of National Economic Research Associates, Inc., a Washington economic consulting firm. Dr. Netschert is a specialist on resource policy with degrees in economics and geology.

production cost is close enough to the price that an increase in price puts an oil field into the black, higher prices will bring forth production. Alternatively, countries such as Mexico or Nigeria, whose economic development is constrained by foreign currency, may want to maximize short term revenues.

For most OPEC countries and OECD producers such as Norway, higher prices per barrel are likely to encourage reduced production. Otherwise, these countries would be trading a limited, appreciating asset for money which is losing value because of inflation.

CIA's analysis of OPEC political intentions was examined critically. Drawing on declarations of intent by OPEC officials, CIA concluded that an urge to keep oil in the ground corresponded to the "basic motivations behind the oil policies of most of these countries." As Dr. Netschert remarked, "* * * current OPEC policy and intentions should not be regarded as carved in stone." Netschert and other witnesses identified another factor running counter to OPEC's conservationist urge. OPEC has strong incentives to incorporate into its policy making a concern for the impact of its pricing decisions on the health of industrialized economies, where OPEC keeps the assets gained from selling oil and whose governments provide security for some OPEC countries.

Saudi Arabia, for example, has been producing a million barrels per day above its declared ceiling of 8.5 million barrels per day since June 1978. Saudi decisions since the Iranian production cut led the CIA witness to agree that concern for the health of Western economies does to an extent offset the Saudi's urge to conserve.

In contrast, EIA approaches the estimation of OPEC's production by starting with a range of assumptions about OPEC's possible choices. The consequences for world oil prices of each possible choice are worked out by means of EIA's econometric model. Comparing these price consequences against the ability of the West to pay, EIA concludes that only two of OPEC's possible choices are actually practical: to practice conservation along present lines or to gradually expand production in order to moderate the rate of price increase.

The Republican Members of the Subcommittee, Mr. Ashbrook and Mr. Young,[6] were concerned that at least one additional factor in the politics of oil supply had not been adequately taken into account: to wit, the potential for deliberate Soviet interference. These Members encouraged CIA to be alert for Soviet efforts to influence oil policies, through the back door of subversion and sabotage as well as through the front door of overt pressure on the producer governments.

Design of CIA's report

The main features of the design of CIA's estimate were also subjects of discussion and comment by the witnesses at the hearings.

Time Horizon.—CIA chose to end its numerical projections in 1982. While agreeing that CIA's forecasts were valuable as far as they went, the Subcommittee's panel of expert commentators was also in agreement that a longer term forecast would be helpful. Amplifying on this point, Dr. Ehrlich pointed out that the lead times for developing new oil supplies are five to seven years. Thus a forecast

---

[6] See additional views of Congressmen Ashbrook and Young

to 1982 permits CIA to tell what is coming in the near term, but Mr. Johns noted that policies that are expedient in the near term may be "counter productive for the post 1982 time frame." As Dr. Netschert observed, "a short term forecast has little relevance to the longer period." In point of fact, discussion by all witnesses during the hearings of remedies for the imbalance between oil supply and demand was confined to measures whose full effects could only transpire beyond the horizon of CIA's forecast.

Point forecasts.—Four witnesses before the Subcommittee addressed CIA's decision to prepare point forecasts of future oil supply rather than ranges. While varying in their individual preferences for the presentation of forecasts, all four witnesses agreed that point forecasts projected to the nearest hundred thousand barrels per day present an exaggerated appearance of certainty about future levels of oil supply. As the text of CIA's report emphasizes, levels of oil production may vary up or down from the forecasts. But the numbers CIA provides do not communicate any sense of the scope of possible fluctuations. The other two expert witnesses before the Subcommittee, Mr. Melvin Conant [7] and Mr. Lovins, did not comment directly on whether forecasts should be specific or ranged, but both emphasized uncertainty about future oil supplies in their testimony.

Assumptions about U.S. production.—From the range of available private and official forecasts for U.S. oil production, CIA chose a particular forecast by an industry study group in preference to the higher official U.S. government forecast by EIA. The forecast CIA chose assumed continuation of current U.S. policies rather than such options as decontrol of domestic prices, changes in the entitlements system, or more rapid leasing of potentially oil-bearing areas. CIA's choice of such a forecast downplayed the potential for policy changes to increase production. If the government were to adopt different policies, EIA's and others' forecasts foresee higher production than CIA's expectation.

Assumptions about the world oil market.—Mr. Ball observed that CIA's assumptions underlying its projections of the world market were "simplistic." CIA assumed constant real prices for oil, modest economic growth worldwide, and fixed levels of oil production. In Mr. Ball's view these assumptions did not encourage an insightful depiction of a future likely to feature rapidly increasing oil prices, economic slowdown and seesawing oil output.

Comparability with other forecasts.—Subcommittee Chairman Aspin explored the subject of the comparability of the CIA and EIA forecasts. Witnesses from the two agencies differed during the hearings, for example, on whether CIA's projection of economic growth agreed with the high or the low end of EIA's range of projections for this parameter. In general, the Chairman experienced difficulty determining how CIA's assumptions and expectations corresponded to or differed from EIA's.

Initiation.—CIA's witness testified that both the 1979 world oil study and its predecessor in 1977 had been undertaken at CIA's own initiative rather than by request from policy makers or by a schedule for issuing energy reports.

---

[7] Mr. Conant is a former senior official of the Federal Energy Agency and now head of his own independent consulting firm, Conant & Associates, Ltd.

SUGGESTIONS

CIA's choice of design is consistent with its desire to warn of an imminent world oil shortage while adumbrating a longer range future with continuing limits on oil supplies. This objective logically would indicate a near time horizon, a single set of most probable oil supply estimates, and constraints on consideration of the effects of alternative policy choices.

Witnesses at the hearings did not quarrel with the usefulness of such a warning. On the contrary, Mr. Conant called CIA's report "far and away the best that we have had available from our Government, and I would even say from any private industry source." At the same time, the witnesses' comments indicate a need for a more complex analysis of the world oil market.

On the basis of the witnesses' comments, the Subcommittee believes that the following considerations are worth presenting for future CIA world energy forecasts.

1. Extending the time horizon beyond three years would require CIA to deal with more complexity, but, assuming that CIA's first purpose is to alert its readers to the need for action, a longer projection is logical in view of the long lead time for nearly all remedies.

2. Estimating a range of possible oil supply levels rather than one projection for each country would make CIA's analysis more cumbersome but would convey more of the uncertainty that in fact marks this problem and explore the boundaries of reasonable policy objectives.

3. Preparing forecasts on a regular schedule, rather than an ad hoc basis, would be consistent with the continuing need for analysis on this issue.

4. Emphasizing analysis of the dynamics of the world oil market, as well as numerical projections, would require a larger report but would also equip the reader to make his own judgments about what is coming.

5. Continuing to use a building block approach to oil supply forecasts takes advantage of the store of information on producer country geology, production costs and revenue needs, capital investment, and political intentions. This information is more likely to produce accurate forecasts than the use of assumptions that price increases automatically induce more oil supply in the short run.

6. Considering a wider range of options for OPEC policy, beyond the declared intent to keep oil in the ground, would take into account that intentions change with circumstances. CIA could combine its information on producers' political intentions with an analysis of the effects of a range of OPEC policies to determine how producers' intentions are likely to change. This is the key political question in regard to oil supplies.

7. Using a format comparable to previous CIA forecasts and to those by other agencies would make it easier to see how CIA's expectations have changed and what differences, if any, exist among agencies. Differences in methodology, which it is desirable for CIA to retain, will make it difficult to compare CIA's and EIA's forecasts, but by such measures as using the same base years for predictions this task can be considerably simplified. Comparability sharpens the readers' appreciation of conditions and options.

8. Using a range of projections for US energy production would take advantage of the full extent of available expertise, inside and outside the US government. In the 1979 report, CIA chose one projection from a variety of forecasts by industry and other private sources. The projection CIA chose turned out to be one million barrels per day less than the EIA's mid-range forecast. This placed the CIA in a position of appearing to challenge a forecast by another agency with statutory responsibility in the area of domestic forecasting, where CIA, as an intelligence agency, has none. The use of a range of forecasts would avoid a direct challenge.

9. Focusing research on incremental costs of energy and on conservation would illuminate the potential for adjustment to the energy shortage in the long run. Since 1973, the world economy has been in transition from decreasing incremental costs for energy to increasing costs. How does this transition change the prospects for economic progress—and for the whole range of political, social and security issues that CIA analyzes? Is there a dramatic potential for conservation, more efficient use of energy, and more appropriate end uses of specific fuels? Witnesses before the Subcommittee regard these as critical questions.

Additional Views of Congressmen John Ashbrook and C. W. Bill Young

The CIA is performing a valuable service in issuing reports on energy and other matters. In general, we concur with the remarks of the witnesses and the Subcommittee report which commends CIA's forecast of the world oil market.

However, there is one area in which the CIA energy report falls short. That is, the possibility of U.S. oil supplies being reduced for political reasons by anti-American forces. The Soviet role in this is of particular concern. The CIA, as the Subcommittee report points out is aware of the beneficial effect of the actions of some oil producers, such as Saudi Arabia, who have increased oil production to offset the harmful economic effects on the United States of the oil shortage.

As Congressman Young stated during the October 17, 1979, hearing with the CIA, "I understand the United States-Saudi political involvement, and I am happy for that. It is the countries that are adverse to us that concern me."

Congressman Young pointed particularly to Libya as a possible source of trouble. The CIA witnesses did not see any problem with Libya as they indicated that while Libya is "friendly with the Soviets" * * * "They play their own game."

Since the hearing, the U.S. Embassy in Libya was attacked by a mob and burned. Such mobs do not operate in Libya without government sanction. As a result U.S. oil supplies from Libya are in jeopardy.

In response to a question by Congressman Ashbrook, the CIA stated that they did not believe that "there is a deliberate attempt by the Soviets to interfere with our oil supplies." Congressman Ashbrook made it clear that he was, "not talking about bombs or anything like that." He said, "I am talking about political interference in a country." Nevertheless the CIA witnesses insisted that, "the Soviets simply do not have the influence over the oil producing countries that would enable them to reduce or to affect the oil supplies, even if they wanted to."

In Iran, Congressman Ashbrook stated, the role of the Soviets in the Khomeini takeover, was, on a scale of one to ten, about one or one and a half. The CIA witness argued, "I don't think the Khomeini movement in any way was a result of Soviet action." Congressman Ashbrook answered, "I don't think you have even read your own CIA reports."

Since the hearing, we have had the takeover of the U.S. Embassy, the hostage situation and the cutoff of Iranian oil to the United States.

The Soviet Union maintains a clandestine radio called the National Voice of Iran. This radio, located in the Soviet city of Baku, has broadcast many hours of anti-American propaganda to Iran. On November 5 this Soviet controlled radio broadcasted support for the takeover of the U.S. Embassy. Subsequent broadcasts provided additional support to the terrorists holding U.S. diplomats hostage.

On November 13 the Soviet controlled National Voice of Iran applauded the cutoff of Iranian oil to the United States. While later broadcasts, such as one on December 5, admitted that the holding of the hostages was "a violation of international mores" the radio continued to broadcast anti-U.S. agitation.

As early as 1967, the Soviet Union was urging Arab leaders to "use the oil weapon against the West," according to the minutes of a meeting between Soviet Premier Kosygin and Arab leaders, in Moscow. The Washington Post of June 23, 1978, reported on the publication of the "unofficial but near verbatim minutes" in the London Arabic magazine "Ad Dastour" (see appendix).

The energy problem is of course an economic problem, but it is also a political problem. The CIA should be alert to the possibility that "the oil weapon" will be used against us by the enemies of the United States.

APPENDIX A

[From The Washington Post, June 23, 1978]

MAGAZINE SAYS MOSCOW URGED ARAB OIL EMBARGO IN 1967

(By Bernard D. Nossiter)

LONDON—The Soviet Union was secretly urging Arab leaders to use the oil weapon against the West more than six years before the 1973 embargo and subsequent price explosion, according to a document published in an Arabic magazine here.

Meeting in Moscow on July 17, 1967, Premier Alexei Kosygin told the chiefs of Algeria and Iraq that Arab oil could "split the ranks of the imperialists" and "create great political problems" for the United States and its allies. He urged them to set up an oil subcommittee of foreign ministers to study this tactic.

Neither Prime Minister Houari Boumediene of Algeria nor President Abdul Aref of Iraq then appeared much interested. They had gone to Moscow, representing the Arab states, to seek Soviet support for a continued war against a freshly triumphant Israel in the Six Day War. But the seeds Kosygin planted bore fruit after the next round in the Middle East in 1973 and the West is still struggling with the consequences.

An account of the Soviet strategy appears today in Ad Dastour, an Arabic-language weekly printed in London. The magazine obtained unofficial but near verbatim minutes of the meeting from Abdul Majid Farid, a former aide of President Gamal Nasser of Egypt who is now a key aide to Boumediene in Algiers.

Farid said in an interview that the account was recorded by an Arab minister who had been present. It was then given to Nasser as a report of the conversations.

Farid has also been publishing in Ad Dastour the official and previously secret minutes of other 1967 meetings between Nasser and the Soviets following the Six Day War.

That conflict shattered Egypt's army and cost it most of its Soviet arms. Throughout June and July, Nasser met endlessly with fellow Arab leaders and his Soviet arms suppliers.

From Moscow he wanted not only huge quantities of weapons but also direct Soviet participation in Egypt's air defense. The minutes of the meeting show that Moscow was ready to promise arms but steadily resisted any proposal to put Soviet fighting forces on Egyptian soil.

Boumediene and Aref volunteered to put Nasser's case and flew off in mid-July to meet Kosygin and Leonid Brezhnev, the Communist Party chief. The Soviets barely hid their irritation with Arab "emotionalism" and pressed the visitors to play for time.

Kosygin told them: "I think that your big mistake is believing that if we send you 50 pilots or 1,000 soldiers you will achieve victory. This is not thinking clearly * * *

"If we send you troops, then America and Britain will also send their troops to Israel * * * I do not mean to say that we are afraid, but we should think seriously about the results before they become critical * * *

"We hear that some Arabs are saying that the Russians are afraid. In fact we do consider these matters very carefully and we approach them with a cool head * * *

Then Kosygin added:

"I have recently learned that an Arab foreign ministers' conference will soon be held. I wish this conference would set up a subcommittee on oil. Try to split the ranks of the imperialists on the oil question by supporting one country against another, and follow the same policy on economic concessions"—presumably, concessions to exploit oil—"for America and the West in Arab countries.

"You can create great political problems for them, and you should make great use of these problems. It's unfortunate that your current thinking is restricted to one topic: Will the war go on or stop * * *"

Aref replied first and ignored Kosygin's suggestion. Instead, the Iraqi repeated his opposition to a Soviet proposal for a U.N. resolution that would end the state of war in return for Israeli withdrawal from the territories it had just taken. Boumediene was equally dismissive.

The pair met with Brezhnev and Kosygin the next day, July 18, and if anything, tempers were more strained.

In what reads like a sarcastic gibe, Brezhnev said, "Comrade Boumediene, you in Algeria are far from the battlefield and perhaps you have a clearer picture of the situation."

Marshal Andrei Grechko, the Soviet defense minister, listed the relative Israeli and Arab strengths to show that the Arabs could not continue the war.

Brezhnev then said bluntly, "You Middle Easterners are very emotional. But reason and logic is called for here."

Throughout the two days, Brezhnev was scathing about the Egyptian misuse of arms the Kremlin had sent before the June war.

At the start of the talks, Brezhnev complained:

"It hurts us to think that our reputation has been damaged, our latest planes and rockets ending up in the hands of the Americans, and our most modern tanks in West Germany. And it hurts us all the more when we learn that Israeli Army officers described our tanks and planes, which you abandoned, as the best of weapons."

He told his guests the Egyptians needed "two years of continuous work," before they could fight again.

In principle, however, the Soviets did agree to provide fresh arms. But they repeatedly balked at the provision of troops, other than advisers.

The other set of minutes published by Ad Dastour of meetings in Cairo on June 22 and 23 between Nasser and Nikolai Podgorny, chairman of the Soviet Presidium, offer at least one moment of unintended light relief.

Nasser complained that enemy security was better because "Israelis are generally pretty tight-lipped while Arabs cannot stay silent."

Podgorny advised, "Try to work quietly until you are completely ready and watch out for reporters and journalists, for they can spoil everything for you in their competition for scoops."

○