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[redacted]

MEMORANDUM FOR: Assistant Secretary Designate
Ingersoll, E.A.
Department of State

SUBJECT : Diversion of Oil From Japan

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In response to your 14 December discussion with Mr. [redacted] I am forwarding the attached information on the question of diversion of oil from Japan. The evidence available indicates that substantial amounts of crude are being directed by the major international oil firms away from Japan and towards Western Europe. At least some of the diversion includes non-Arab oil from Iran. If there is any further information you require on this or related matters, I would be happy to oblige.

MAURICE C. ERNST
Director
Economic Research

Attachment:
As stated

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Distribution: (S-5773)
Original & 1 - Addressee
2 - D/OER
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DIVERSION OF OIL FROM JAPAN

According to the Arab cutback formula, Japan's oil losses during the first quarter of 1974 would have amounted to 400,000 b/d, or only about 6% of expected consumption in that period. The loss would have been relatively small because the amount of the Arab production cutback is roughly equal to Arab oil deliveries to the United States, the Netherlands, and the other embargoed countries. Thus, most non-embargoed countries, except West Germany and Belgium which depend heavily on oil coming through the Dutch port of Rotterdam, should have had relatively small cutbacks even considering the expected growth in imports from Arab countries.

Actual oil deliveries to Japan are expected to fall far short of the amount called for in the Arab formula. We estimate Japan's oil supply probably will fall about 1.2 million b/d, or about 20%, below normal demand during January-March 1974. This estimate reflects the fact that large amounts of oil are moving through Rotterdam despite the Arab embargo. Moreover, Japanese imports already are falling far short of planned levels. Oil deliveries to Rotterdam apparently have been cut by only 1.0-1.3 million b/d instead of the 2.3 million b/d called for unde

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Arab cutback plan. The only large quantity of oil that could easily be diverted to Rotterdam is non-Arab oil, primarily from Iran, ordinarily destined for Japan.

The major international oil companies have in effect admitted to diverting large amounts of oil from Japan to Europe. Based on data supplied to it by the oil companies, the Emergency Petroleum Supply Committee has concluded that substantial quantities of oil are being diverted away from the Far East, primarily Japan, to northern Europe. The Committee's initial estimate was that Japan's oil supplies during the first quarter of 1974 will be about 1 million b/d below normal requirements. The Committee agreed in its 11 December discussion, however, that the amount of diversion away from the Far East, and particularly Japan, will be even greater than its initial estimate for the first quarter of 1974.

Japanese trade data also strongly suggest the existence of large-scale diversion. Actual crude oil imports in November were 900,000 b/d less than the amount anticipated

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the largest drop was in imports from Iran. According to the Japanese, oil imports in December are expected to be 1 million b/d less than planned, and Tokyo is estimating

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25X1

a 1.4 million b/d import loss during the first quarter of 1974. As indicated above, if the Arab allocation formula were being strictly carried out, Japan would lose only about 400,000 b/d during January-March.

Japan apparently is bearing the brunt of diversion by the oil companies for a number of reasons. As noted earlier, Japan imports oil in large lots which can be shifted relatively easily to the Netherlands where large amounts are needed to meet the needs of the non-embargoed Western European nations served by Rotterdam. In addition, the majors have a considerable financial stake in Western Europe and relatively little in Japan. Finally, the majors are well aware that Japan's goal is to reduce dependence on them in the future, and thus are less concerned about damaging their long-term position in the Japanese market.

CIA/OER
19 December 1973

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