[redacted]

ARAB STATES - ISRAEL: Military action in the Sinai was heavy yesterday, while fighting on the Syrian front was primarily limited to artillery duels and some air action.

Both Egypt and Israel reported that large-scale tank battles were under way throughout yesterday in the central sector of the Egyptian front. [redacted] the armored clashes as the biggest in Israeli history; [redacted] that 90-100 Egyptian tanks were destroyed in the fighting. Concentrated air strikes on the Port Said area continued yesterday and a raid by Israeli frogmen against the port took place, reportedly damaging several ships. The Egyptian Air Force was more active against Israeli aircraft and on several occasions pursued attacking planes back across the canal. Egyptian aggressiveness in the air may reflect a decrease in the effectiveness of their SAM defense system.

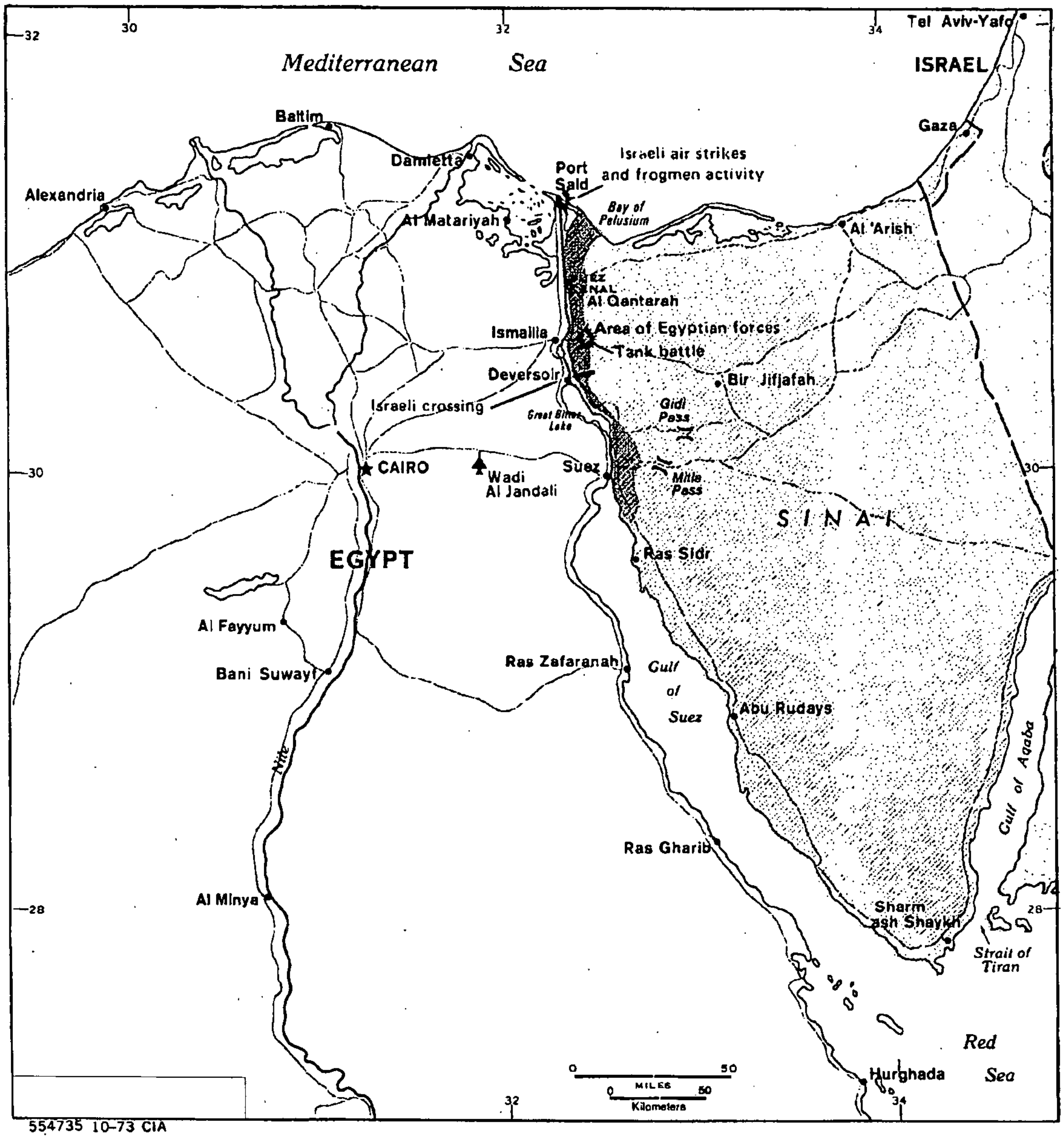
The fate of the small Israeli force on the west bank north of the Great Bitter Lake remains uncertain. Cairo claims that the force, which crossed the canal two days ago, has been wiped out. The Israelis, however, say the force is still operational.

There was little movement on the Syrian front yesterday. Minor ground clashes and artillery exchanges took place approximately along the same lines as the previous day. In the air, the Israelis reportedly struck Latakia and Tartus, and claim to have downed eight Syrian aircraft. The Syrians claim five Israeli aircraft were destroyed. The Saudi Arabian force in Syria, which has yet to see battle, is located just south of Al Harrah.

[redacted]

[redacted]

The Egyptian Front



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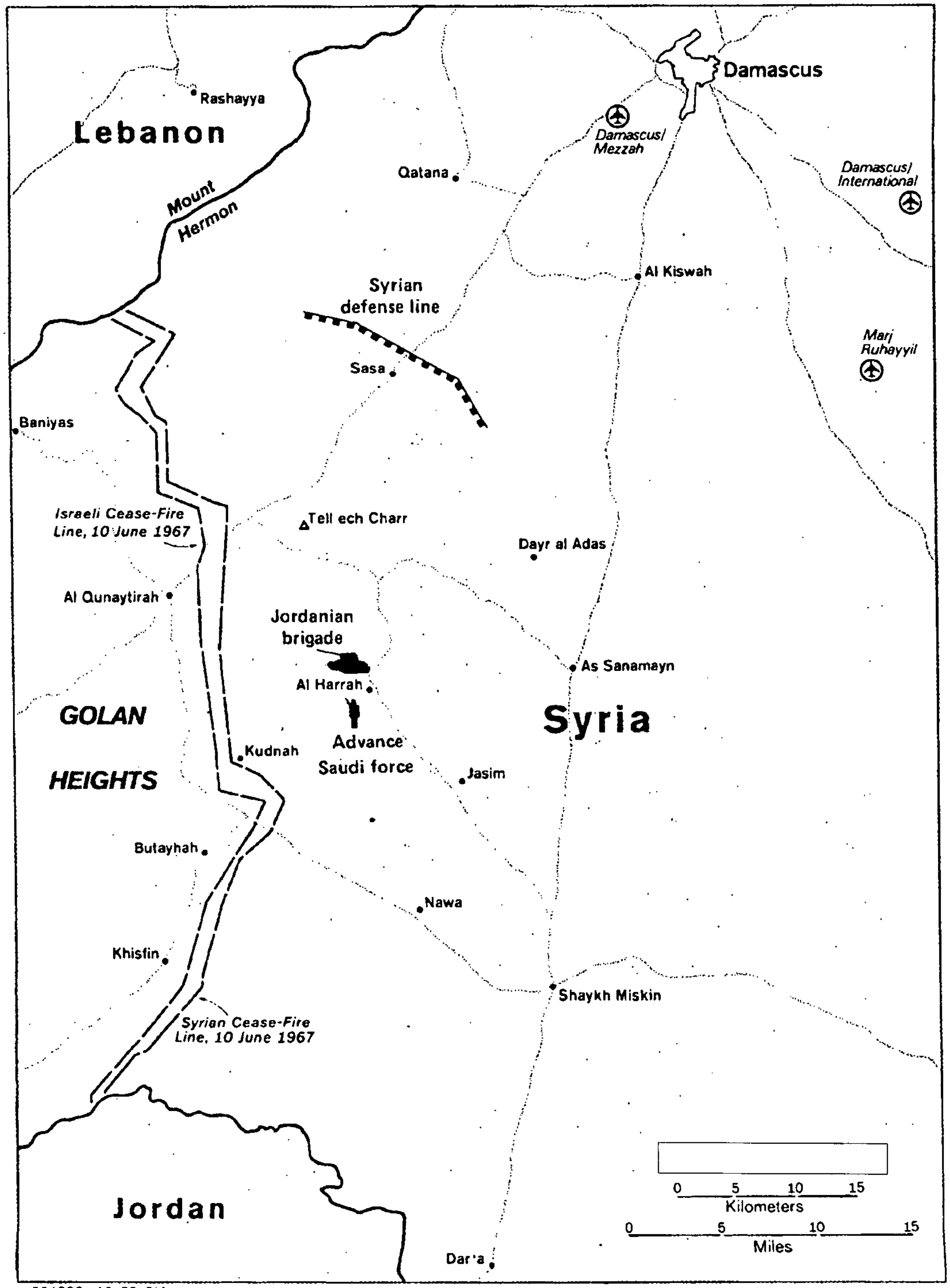
[redacted]

The Syrian Front



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Approved for Release: 2012/09/04

[redacted]

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In his first public statement since the outbreak of the current hostilities, King Husayn yesterday told Israel that it could have peace or territory, but not both. He urged Tel Aviv to opt for peace before time runs out. The Jordanian monarch described Tel Aviv's policy as an expansionist one, sugar-coated under the guise of trying to maintain secure boundaries. Secure boundaries, he added, cannot be assured by positions on the ground, rather security can only be established "when people have a willingness to live together."

(continued)

[redacted]

[redacted]

He added that Jordan will never give up its claim to territory lost during the 1967 Arab-Israeli war. The King made no mention of the demands of some Arabs that the Jordanian Army launch an attack against Israel from Jordanian territory, opening up a third front. Rather defensively, he described the Jordanian-Israeli border as the "longest confrontation line" and said that his army's defensive posture prevented Tel Aviv from mounting an operation which would endanger the entire northern front. Israel's Prime Minister Meir advised Husayn yesterday to stay out of the war.

There is increasing evidence that Soviet Premier Kosygin arrived in Cairo on 16 October. There is no reporting yet on the line he is taking with the Egyptian leaders, however. [redacted]

[redacted]

ARAB STATES - OIL: The Organization of Arab Petroleum Exporting Countries (OAPEC) has stated that the Arab producing nations will reduce production not less than 5 percent per month until Arab military and political demands of Israel are met. "Friendly" states helping in the struggle against Israel are not to be affected by the cutback and are to receive the same quantities of oil they received before the reduction. [redacted] The OAPEC decision is apparently a compromise between the Saudis' moderate position and the more radical position of Algeria and Libya.

The reduction--initially about 1 million barrels per day--will have little immediate effect, but, depending on how it is applied, could cause considerable economic dislocation in Western Europe and Japan by mid-winter. The US, which had hoped to import as much as 600,000 barrels per day of heating oil from Europe to offset projected shortages this winter, could also suffer important effects. [redacted]

[redacted]

INTERNATIONAL OIL: The Persian Gulf members of the Organization of Petroleum Exporting Countries (OPEC) have presented Western oil companies with a "take it or leave it" demand for a 70-percent increase in crude oil posted prices. The companies--with little leverage in the current sellers' market--probably will be forced to accept. OPEC's demands for a price increase, first voiced last June, probably have been strengthened by the crisis atmosphere of the current Arab-Israeli hostilities.

Negotiations between OPEC and Western oil companies on the price issue became deadlocked last week when the producers asked for a 100-percent increase and the companies offered 15 percent. Historically, Persian Gulf oil prices have been set either by the companies alone or through negotiations with the oil-producing governments. The Persian Gulf countries supply about two thirds of the oil in world trade. Moreover, the other members of OPEC are certain to raise their prices as a result of the Persian Gulf increases.

If the companies accept, Persian Gulf oil revenues in 1974 will be increased by about $10 billion and the revenues of the other OPEC members by about $5 billion. Skyrocketing oil revenues will accelerate foreign asset accumulation problems of several Persian Gulf countries. The 1974 oil revenues of Saudi Arabia, Abu Dhabi, Qatar, and Kuwait--all of which have limited abilities to absorb capital--will approach the amounts that were only recently being estimated for 1980.

Most of the increase will be reflected in the oil import bills of the US, Western Europe, and Japan. The increased cost in 1974 will probably be about $3 billion to the US, nearly $8 billion to Western Europe, and almost $3 billion to Japan. Some of the increased cost, however, will return to the industrialized countries through the sale of goods and services to the producing countries and repatriation of company profits. [redacted]

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INTERNATIONAL MONETARY DEVELOPMENTS: Rumors are circulating in Europe that the Arab oil states are switching out of dollars to minimize the effect of any asset freeze imposed in retaliation for an Arab oil embargo. No evidence is available, however, of any substantial dollar sales so far. The dollar has weakened only slightly on international money markets.

There has been only one small confirmed movement of Arab funds out of the US. Informed sources report that an Arab nation transferred about $25 million to Europe, and it is not clear whether this sum has been shifted out of dollars. [redacted] the Kuwaiti Parliament had decided to withdraw its government's deposits in US banks, but no withdrawals have been noted to date.

The Arab oil states have enough liquid foreign reserves to disrupt currency markets. They have customarily maintained most of their reserves in liquid form--cash, time and demand deposits, and short-maturity bills and certificates of deposit. Recently, oil revenues have increased so rapidly that the Arab investors have not been able to place all of their funds in long-term, high-return investments. Arab liquid dollar holdings currently amount to an estimated $5 to $7 billion, compared--for example--with the $12 billion that European central banks were forced to absorb during the currency crises early this year.

It is questionable whether the Arabs would want to dump large dollar holdings. Exchange controls surrounding the strongest European currencies--including the Swiss franc--minimize earnings on foreign-owned deposits and thus make transfers into these currencies expensive. Sterling, the major currency least encumbered by controls, has proved to be unstable, and London might freeze Arab holdings if oil deliveries to the West were cut back.

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The Arabs probably are not particularly worried about a US freeze on their holdings. Only about half of their foreign exchange reserves are held in dollars, and only a very small proportion of these dollars is deposited in the US. Most of the dollars are held in Western Europe, particularly in London branches of US banks and in Swiss and French banks. Bern and Paris probably would not cooperate in an asset freeze. In any case, the Arab oil producers have enough funds beyond the reach of the oil-consuming countries to finance normal imports for many months. [redacted]

[redacted]

<u>WESTERN EUROPE - MIDDLE EAST:</u> The Middle East conflict has once more impressed on the Europeans their inability to influence a situation that presents a potentially grave threat to both their energy supplies and East-West detente.

After holding political consultations on the Middle East, the nine EC members issued a bland communiqué that was described by an influential German newspaper as "an appeal full of platitudes." The declaration called for a cease-fire linked to "true negotiations within an appropriate framework" aimed at a settlement conforming to the UN Security Council's Resolution 242, which called for withdrawal from territories occupied during the 1967 war. The political directors of the EC foreign ministries also agreed to suspend arms shipments to the "belligerents," but left the definition of the term up to each member. The practical import of both these moves is small, but they are indicative of the Nine's desire to overcome differences in the interests of affirming a "European" position.

[redacted]

Even before the fighting broke out on 6 October, Europeans were feeling increasingly nervous about being caught in the middle of an Arab-US dispute over oil. The outbreak of hostilities raised fears that the Arabs intend to use their oil as a political weapon and has led to heightened concern for Arab sensitivities. Yesterday's announcement of a 5-percent monthly reduction in oil production by the Organization of Arab Petroleum Exporting Countries would seem to confirm these fears. The official European policy of "evenhandedness" toward the Arabs and the Israelis has been aided by a general decline in public sympathies for Israel since the 1967 war.

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[redacted]

Strong pro-Israeli sentiments still exist in some quarters, however, and the French and British arms embargoes to the "battlefront" states have given rise to domestic criticism because the measures primarily work to Israel's disadvantage. In France, the political effect of such criticism on the government is minimized because both the government coalition and the opposition Socialist-Communist alliance are split on the issue. On the other hand, British policy is under heavy domestic criticism, and there may be some modification, such as providing ammunition and spare parts for arms of British origin.

[redacted]

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