

**Secret**



## *The Current State of the Arab Oil Embargo*

State Department review completed

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## The Current State of the Arab Oil Embargo

### Summary

1. Arab oil ministers meeting in Kuwait last night announced a 25% production cutback based on September's production figures. Saudi Arabia and Kuwait, with the 10% limitation announced in mid-October and the additional embargoes of shipments to the United States and the Netherlands, had already reached the 25% level, and the new formulation appears to strengthen King Faysal's leadership role by committing the other producers to match his cutback. The move may be designed to bring countries such as Libya, Algeria, and Iraq, which have not been rigorously enforcing the earlier limitation, into line. If adhered to, it will increase the overall Arab cutback in November by 5% over that already in effect. Saudi Arabia and Kuwait, which account for 60% of Arab oil exports, had been holding firm. There had been some shippage in Algeria, Libya, Abu Dhabi, and possibly Iraq. The rest of the world's oil-producing countries are expanding their production at normal rates.

2. Arab oil exports have been cut from a mid-October level of 19.5 million barrels per day (b/d) to about 15 million b/d. By the end of November, the net loss of Arab oil exports to the United States, Western Europe, and Japan will be (in million b/d) 2.1, 1.4, and 0.5, respectively. This would amount to 12% of US consumption, 8% of Western Europe's, and 9% of Japan's. Because of the vast amounts of oil already on the high seas, however, the full impact on the consumers will be delayed several weeks.

3. Prior to the 4 November announcement, some Arab countries were not implementing the cutbacks rigorously. We cannot be certain how the announcement will change their implementation.

- Abu Dhabi is enforcing an embargo against the United States and the Netherlands, but has not cut production.
- Algeria's cutbacks appear to have been forced by technical problems in the producing fields, rather than by political decisions.
- Iraq, the only major Arab producer not signing the Kuwait agreement to reduce production, has cut back only because of pipeline problems.
- Libya is loosely interpreting the 5% cut and is not rigorously enforcing the embargo.

4. Although the major oil companies are taking measures to spread the impact of the Arab actions, all consuming nations will be hard hit if the cutbacks continue for some months and especially if they are increased beyond the present schedule.

Note: Comments and queries regarding this publication are welcomed. They may be directed to [REDACTED] of the Office of Economic Research, [REDACTED]

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The United States and the Netherlands have been embargoed by most Arab producers, and will – at least in theory – receive no Arab oil once the shipments already at sea are delivered. A number of nations, mostly in the Third World but also including France, Spain, and the United Kingdom, are considered friends of the Arabs and have been promised supplies equal to their average imports during the first nine months of this year. No mechanism has been set up to implement this policy, however, and these countries apparently will have to forgo any increases in imports to meet growing consumption needs. Most other countries, including such important consumers as West Germany, Italy, Japan, and Canada, will have their Arab oil imports cut by roughly the amount of Arab production cutbacks.

5. The reaction of most of the major consuming countries has been to assume a low profile and try to cut their losses without alienating either the Arabs or the United States.

- West Germany is preparing an emergency rationing bill and is pressing for measures to share the shortage among members of the European Community.
- The Netherlands is restricting oil exports and limiting nonessential use of automobiles. The Hague is also pushing for a Europe-wide oil-sharing plan.
- France, presently favored by some Arab producers, is resisting most moves toward intra-European sharing of available oil.
- The United Kingdom, also favored by some Arabs, hopes to obtain a degree of consumer country cooperation while expanding diplomatic contacts with the Arab producers.
- Japan hopes to improve its position by making cautious moves toward the Arab camp.

6. The chances of an early end to the embargo are slight. King Faysal is continuing to take a very tough stand, and Kuwait will likely follow his lead. Most countries of Western Europe as well as Japan and Canada are under increasing pressure to take pronounced pro-Arab stands. The United States, because of its domestic production and its potential for obtaining savings from its relatively large amount of nonessential energy consumption, is in a somewhat better position than most other major consumers. Nevertheless, the US import shortfall could reach 2.5 million b/d – 13% of consumption – by mid-winter.

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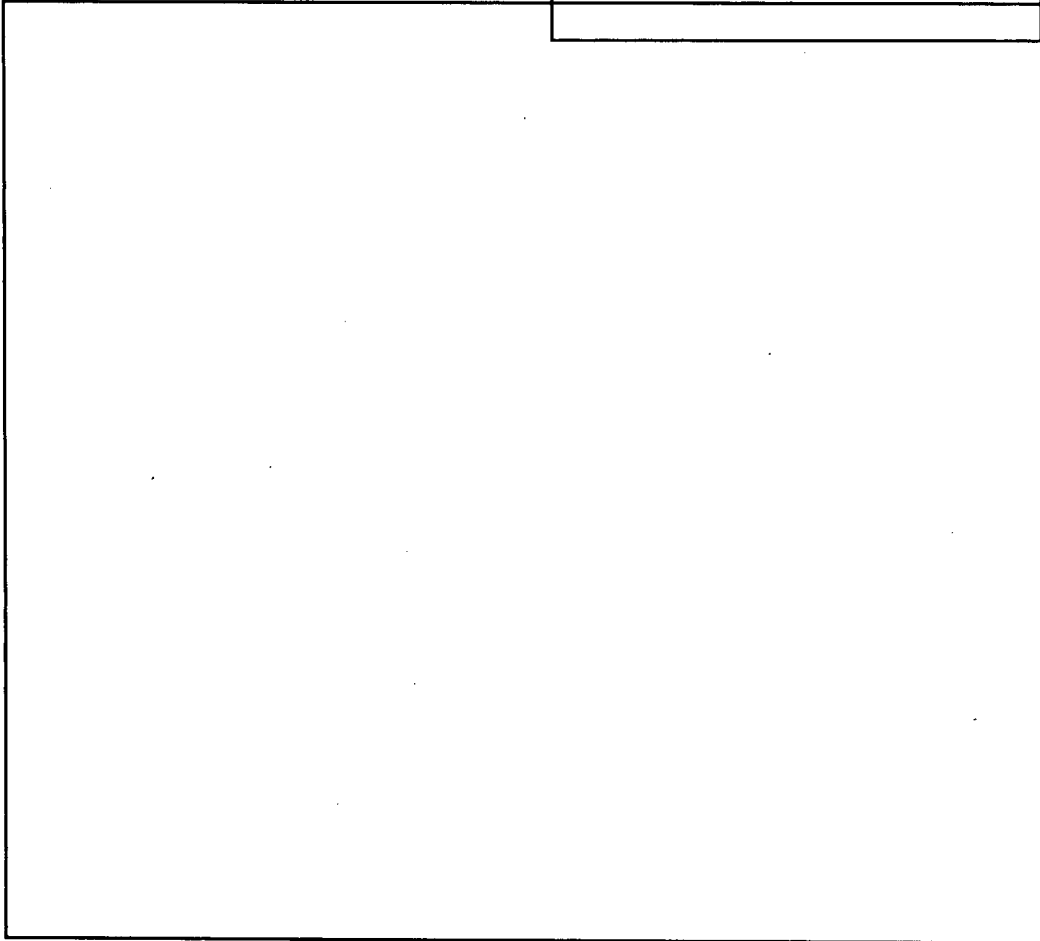
Discussion

**Implementing the Cutbacks**

7. While no Arab oil producer will ignore the decisions by the Organization of Arab Petroleum Exporting Countries (OAPEC) to reduce production progressively, some are more committed than others to making the cutback work. For various reasons, the vocally radical states - Libya, Iraq, and Algeria - are supporting the program with much less energy than states such as Saudi Arabia and Kuwait.



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**Worldwide Impact**

*The United States*

9. We estimate that by mid-winter the US oil import deficit will be running at about 2.5 million b/d if the cutbacks and embargoes are

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ARAB STATES - ISRAEL: Several violations of the cease-fire on both the northern and the southern sectors of the Egyptian front yesterday and reports of heavy Egyptian troop movements may be harbingers of a higher level of military activity.

The Syrian front remained calm yesterday, but in the Sinai Israeli military spokesmen claim that Egyptian forces violated the cease-fire four times. One small clash occurred between a Third Army patrol and Israeli forces in the southern sector, and the Egyptians conducted three attacks in the Second Army area in the northern Sinai--the first there since the cease-fire. The fighting in the northern sector included Egyptian tank and infantry attacks which lasted for six hours before the Egyptians were reportedly stopped. Israeli spokesmen have stated that the Egyptians made some initial gains and still hold some of the ground taken during the fighting.

The Israelis claim that the attacks were not particularly large or militarily significant. Nonetheless, press reports from Tel Aviv have cited concern in Israeli military circles about the possibility of renewed Egyptian attacks in the northern sector. Defense Minister Dayan said yesterday that Egypt can definitely be expected to renew fighting along the Suez front which could involve Egypt's Second Army. Last night another spokesman indicated his belief that the Egyptians are in position for military action; "we are ready for it," he said.

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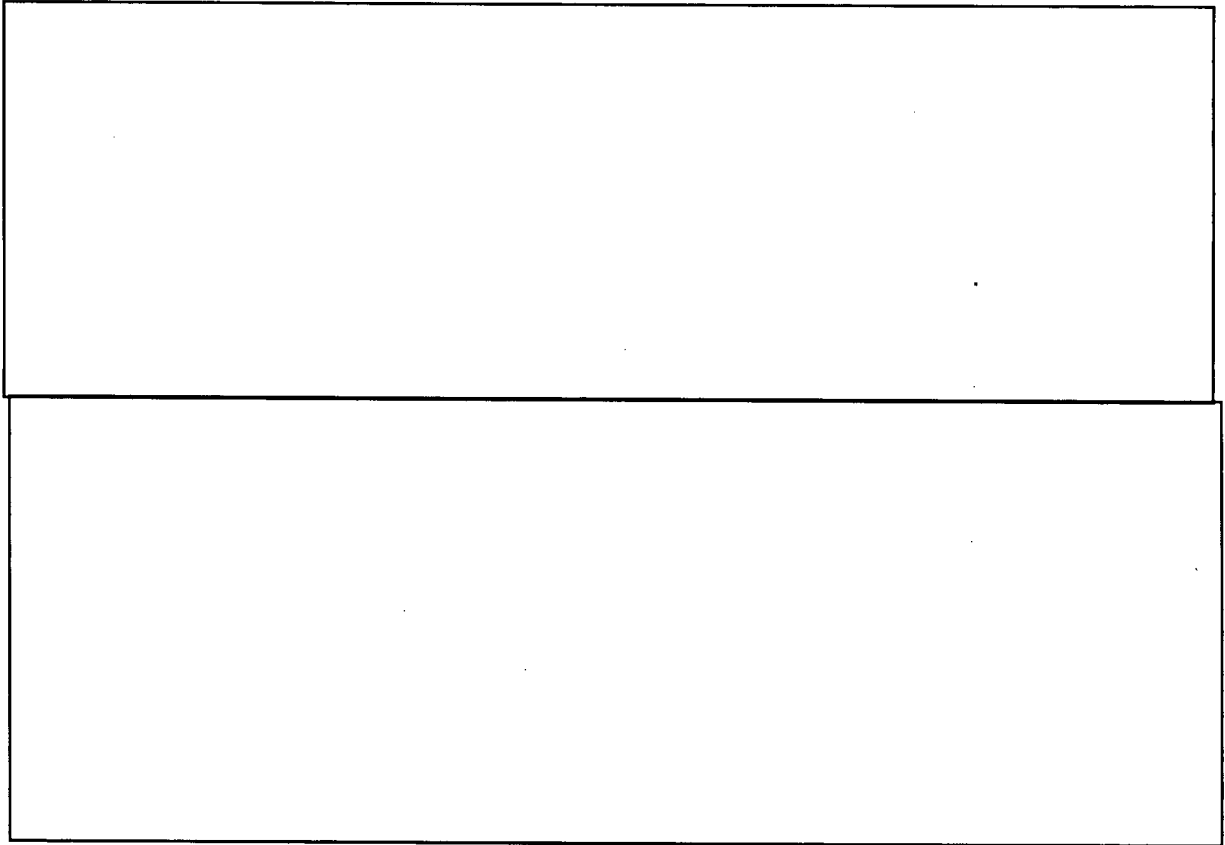
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Libyan President Qadhafi and Algerian President Boumediene are in the midst of separate whirlwind tours of Middle East capitals, and other Arab leaders appear on the verge of similar trips. Since the first of the month, Qadhafi and Boumediene have visited Egypt, Saudi Arabia, Iraq, and Syria; Boumediene also visited Kuwait. Tunisian Foreign Minister Masmoudi completed a week's visit to the Egyptian capital yesterday. The meetings have undoubtedly included an exchange of views on future strategy in view of Secretary Kissinger's visit, and Qadhafi and Boumediene have probably attempted to press a hard line on their more moderate colleagues. Lobbying for an Arab summit conference, possibly to be held in Cairo or Algiers within a week, may also have been on the agenda.

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