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CENTRAL INTELLIGENCE AGENCY

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SUBJECT: NIE 1-73: USING OIL AS A WEAPON: IMPLICATIONS AND PROSPECTS FOR THE ARAB OIL PRODUCING STATES

NOTE

This paper -- number two of three parts -- will focus on the period between now and the end of March 1974 because:

a. Peak winter demand for oil will be over by then;

b. The general situation will have changed pretty radically by then, for better or worse, on both the Arab-Israeli front and in coping with or avoiding an oil crunch among the consumers; and

c. The longer range questions raised by this crisis -- such as how producers are likely to act in the future and how consumers will act or react in the coming period of higher-cost energy -- will demand further estimative treatment in the light of developments in the coming months in any event.

Where possible the paper looks farther into the future.

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PRÉCIS

The Arabs have finally used oil as a political weapon -- declaring an embargo against the US (and a few others) and instituting major production cuts to drive their point home. This program has and will hurt the oil-consuming states. At present it works as follows:

- -- Total production has been cut 25 percent, and the Arab producers threaten to go on cutting five percent a month until Israel withdraws from all territory captured in 1967 and the rights of the Palestinians are restored.
- -- Until then; *friendly countries* may buy Arab oil at the pre-October rates; *unfriendly countries* get no Arab oil; *neutral countries* will have to divide up what is left.

This combination of embargo and production cuts by Arab oil producers has had an immediate and strong impact on the main oil-consuming countries. The Arabs seem both surprised and pleased at their success.

Saudi Arabia and Kuwait, which together account for about 60 percent of Arab oil exports, have been the leaders in implementing this program. Other Arab producers have been somewhat less enthusiastic about using oil as a weapon, but have for the most part joined in. Because of the recent price increases, Arab oil producing states have plenty of revenue to run their governments and give aid to poorer Arab states. And, solidarity between Saudi Arabia and the states that did the fighting is strong.

The Saudis and their followers will require major and substantial progress on the Egyptian-Israeli front before they would restore much of the production cut or ease the embargo. For King Faisal, the future status of Jerusalem will be a major problem. Without progress, production will be reduced to and remain at levels well below consumer needs. But the Arab oil producers will hesitate to cut output so much that major neutral or friendly consumers would be severely crippled. Saudi Arabia and Kuwait respect the power of the major consuming states and, more importantly, do not wish to tear down the whole structure of relations with Western Europe, Japan, and the US.

The Arabs have a number of powerful options in employing oil as a weapon:

- -- they can shift consumers from the neutral to friendly class
- -- they can shift countries into the "unfriendly" class
- -- they can vary the rate of application of production cuts
- -- they can restore production selectively or across the board.

but there is a prospect for movement on the oil problem short of a final peace settlement.

The Arab oil producers will be flexible and selective in exercising their options, but they will insist on progress. We judge there *will be no relief from the oil squeeze without real progress on the negotiations*. We do not think that, in the circumstances following this relatively favorable round of hostilities, the Arab states are going to let the opportunity to win a victory at Israeli expense slip out of their grasp.

If serious fighting breaks out again, the restraints on Arab use of oil as a weapon would be reduced. Reason would yield greatly to emotion, damaging effects on neutral states would carry less weight, and concern about good relations with the US would diminish, since the latter would be held responsible for failing to restrain Israel.

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I. INTRODUCTION

1. The Arab oil producers' embargo of oil shipments to certain countries together with an overall cutback in oil production introduces unfamiliar aspects to the Middle East oil situation. Most important, the Arab oil producing states have employed the technique of embargo and cutback with great effectiveness. They have operated from strength because of a sellers market in oil and a very small amount of spare oil producing capacity in the world outside the Arab states. In earlier confrontations over Israel, radical Arab countries took the lead in calling for stopping shipment of oil to the US and other countries helping Israel. This time the conservative oil producers -- Saudi Arabia, seconded by Kuwait -- are in the lead. So far, there has been a substantial degree of solidarity between the Arab oil producers and the states engaged in fighting.

2. *The key countries are Saudi Arabia and Kuwait.* They account for about 60 percent of Arab oil exports (and have great influence in the oil-related decisions of most of the minor Gulf producers) and they have been the pacesetters in devising, carrying out, and imposing on others the present combination of cutback and embargo. They have divided importing countries into three categories -- *friendly states* (including the UK, France and numerous small countries); *neutral states* (including Japan and most of Western Europe); and *unfriendly states* (chiefly the US). The "friendlies" can buy Arab oil at the rate they got it during the first nine months of 1973 (in a few cases at

[redacted]

the September rate if it was higher.) No Arab oil is shipped to the unfriendly states. And the neutrals must divide up what is left.[1] To better enforce the embargo and to squeeze all oil consumers enough to make them pay attention to the Arab cause, the key states cut total production by 25 percent and announced that output would be cut five percent each month until the Arabs achieved their aims.[2] On 18 November, however, they softened this cutback a bit by exempting most European states from the scheduled December cutback. The major international oil companies have the job of actually policing these arrangements for the the producing governments.

3. The three other major Arab producers -- Iraq, Algeria and Libya -- have been less enthusiastic about this use of oil as a weapon. Neither Algeria nor Libya reduced shipments much in the first month of the crisis, but they did cut back 25 percent in early November. Iraq has thus far refused to reduce shipments and is selling all it can, though the amount is below prewar levels because the Banias terminal is damaged. Whether or not some or all of these mavericks diverge from the Saudi/Kuwaiti program of pressure on the consumers will have little affect on Saudi decisions on the use of oil as a weapon in the Arab-Israeli struggle. Even if it were acting entirely alone, Saudi Arabia is capable of gravely affecting world oil supplies. And Kuwait is very unlikely to abandon the Saudi lead.

4. Non-Arab oil producing countries -- Iran, Venezuela, Indonesia, Nigeria -- continue to export at their planned levels. They are producing

[1] *Tables C and D in the Annex show the oil import situation of the friendly and neutral countries.*

[2] *Table B in the Annex shows the extent of planned OAPEC cutbacks.*

at capacity and none is able to increase output much beyond present levels in the coming six to nine months, nor are any disposed to sacrifice income to support the Arab cause.

5. As far as revenue goes, Saudi Arabia, Kuwait and the lesser Gulf states have more than sufficient money at the prices established on 16 October 1973 to run their governments, to carry on development, to buy arms, and to subsidize as necessary the states of Egypt, Jordan and Syria.* Other Arab oil producing states will also have more revenue than they had planned for in the coming six months. Because prices have risen so much, the OAPEC states will get on the average at least 70 percent more oil revenue in the first quarter of 1974 than in the comparable period of 1973, even if the cutback in production continues as planned. A few states all have heavy expenditures and are accustomed to spending most of their income on current and development needs. Algeria in particular has a massive and expensive industrialization and development program underway and may in time turn to Saudi Arabia or other revenue surplus states for assistance. *Fundamentally however, no OAPEC state need worry about funds in the period through March 1974, and almost certainly for many months beyond.*

6. In trying to gain an appreciation of the Arab states concept of their own position, strengths and weaknesses, we are less fully informed than we

* *See Table A in the Annex.*

would like to be. The several Arab states appear to be impressed with the success they have achieved so far by the combination of embargo and cutback. We do not know what the expectations of Saudi Arabia and Kuwait are in terms of the speed and timing in getting occupied Arab lands restored to Egypt, Syria, and Jordan. The magnitude of the first cutbacks they imposed seem to indicate an expectation of quick action, a desire to capitalize on the peak winter demand for oil to put more bite into their demands, or some combination of the two. We are uncertain how or in what time frame they think the process of monthly reduction in oil production and efforts to regain land will match up. We doubt they have a fixed plan as to timing or response to specific moves.

II. OAPEC STATES' FEARS

7. The OAPEC states all recognize that in the international oil situation all power is not in their hands. They understand that a progressive cut of five percent a month, if extended to the spring of 1974 (by that time taking 45 percent Arab oil off the market), would run grave risk of serious reaction by angry consumers. Even states in the friendly category would be 5-10 percent short of expected imports (the OAPEC cutback makes no allowance for normal growth in oil consumption) and neutrals short of expected imports by 18 percent (Japan) to nearly 30 percent (Italy).* Moreover, they know that if the major

* *See Tables C and D.*

[redacted]

consumer states cooperate, they can hurt the Arabs economically by freezing funds, or refusing to deliver goods on order. But in the short run, Arab governments will not be influenced by strong efforts of consuming states to tighten belts and reduce oil consumption. Consumer action taken in the next months on research, inaugurate exploration of offshore areas, sharing arrangements, and otherwise strive to master the energy crisis in the longer run, rather than surrender to it, will have some effect on Arab appreciation of consumer states' determination to cope with the Arab dominance in oil.

8. The Arab states clearly are aware that, in terms of military capability, they are "gazelles among lions". From past experience, they worry about the military power of the major consuming states. Though they are aware of the constraints and limitations on the use of force in the current oil situation, they may not appreciate the full extent of such restraints. They undoubtedly know that their oil installations could be destroyed before being captured thus frustrating an attacker's aims of restoring cuts in oil availability. But, for a variety of reasons, we doubt the Arab producers would push their cutbacks and embargo so far as to invite retaliation.

9. *King Faisal and the other Persian Gulf rulers* would not wish matters to reach the state where oil consuming states were threatening the Gulf producers with force. He and his fellow rulers certainly wish to use oil as a weapon to get results on the Israeli situation, but *do not want to tear down the whole structure of relations with Western Europe, Japan, and the US.*

All three are important in matters of political support, arms sales, economic and trade relations, and the Gulf states have had generally favorable relations with them for decades. The US is especially important to Saudi Arabia. Their friendship is of longstanding and the royal family views the US as a help in opposing radical forces. The Saudis are trying to show firm reasonableness on the issue of Israeli-occupied Arab lands. It is our present judgment that the Saudi leaders believe that such firmness can be sustained for a few more months at least without undue or permanent damage to their ties with major consumers.

III. IF THE CEASE-FIRE HOLDS

10. By the end of another six to eight weeks, the OAPEC states may hope that the situation on the war front will have begun to improve. Some states probably entertain the notion that the USSR, by its presence in the area and its strong support of the Arab cause, will help deter oil consuming status from overtly hostile action. Saudi Arabia has sent an unprecedented message of congratulations to the USSR on the anniversary of its revolution, probably more as a ploy to annoy the West than as a real overture to Russia. But Saudi Arabia and its Persian Gulf associates would, we judge, not be willing to so alter their basic attachment to the West as to rely on the Soviets to save them from a punitive action by oil consuming states. The Saudis and others could always ward off such action, if threatened, by modifying their cutback schedule a bit and would do so if necessary.

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11. If the list of countries friendly to the Arab cause continues to grow because more adopt positions which the Arabs consider correct, the amount of oil available to neutral states will drop to painful levels by mid- or late-winter. (See Tables C and D.) The combination of reduced supplies and higher oil prices will have a particularly harmful effect on many of the poor countries as well as on the industrialized neutral states whose economies depend heavily on oil. We judge that Saudi Arabia and its supporting states would not wish to offend a large number of neutral countries by, in effect, putting them in such a bind. The 18 November announcement suspending a December cut for European neutrals illustrates both Arab flexibility and unwillingness to push too hard or too fast. We think the Saudis recognize the damage they can inflict on neutral states by production cutbacks and that this will tend to put some limit on the use of oil as a political weapon. That is to say, the Saudis will not continue to implement a five percent cut each month for many more months because to do so would arouse the hostility of the many states affected. If the list of friendly states grows enough, the Saudis might increase production to cover the needs of these states. And Saudi decisions will be followed by other Arab oil producers which control two-thirds of Arab output.

12. At some point short of the equivalent of an embargo on neutral states, the Arabs would probably employ additional economic levers, if necessary

to further their cause. These could include price increases, nationalization of parts or all of the major oil companies, and manipulation of Arab funds held abroad to add pressure on weakening currencies. Such measures could be used against one or many consumers and would be applied selectively, as warranted, to insure progress in the negotiations.

[redacted]

IV. ARAB GOALS -- PROCLAIMED AND ACCEPTABLE

13. Saudi Arabia's proclaimed goal of forcing Israel to return all of the territory taken in 1967 is almost certainly more extreme than what it will settle for. The Egyptian front is the most important. Syria's President Asad has hinted that Syria might enter negotiations, despite his problems with domestic opinion. We judge, however, that Syria's need for the funds that Saudi Arabia and Kuwait can supply and for Egyptian political support would outweigh Syrian qualms about Arab states settling with Israel.

14. The Saudis will hold out for solid evidence of material progress in dealings between Egypt and Israel before making significant changes in the embargo. Saudi Arabia will rely heavily on Sadat's judgments and suggestions in this. Thus, a prisoner exchange between Israel and Egypt is not likely to cause the Saudis to moderate their stand, nor would a pull back of forces a matter of a few kilometers be likely to have much effect. If Israeli troops withdrew from west of the Suez Canal, the Saudis might be willing to reduce the pressure on consumers. It is hard to tell. This is what one might call the break point case. If actual negotiations get underway and there is an Israeli pullback in Sinai itself, say with a demilitarized zone between the Israeli forces and Egyptian ones, the Arabs, led by the Saudis, would almost certainly stop any further

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reductions in oil production and might even raise output, pending further developments in the situation.

15. In these decisions, Sadat is likely to have much influence on King Faisal. We are not attempting to write scenarios of how Egyptian-Israeli negotiations might go, but merely to stipulate that, if they do succeed in achieving results which Egypt interprets as favorable, Cairo can and will influence Saudi Arabia to moderate its stance. Egypt recognizes that Saudi use of oil as a weapon is important, perhaps vital, if it is to regain lost territory. Egypt will want to walk a narrow line between rewarding consumers for bringing about withdrawal and conserving that weapon for future use. *Our principal judgment here is that there will be no* major *relief from the oil squeeze without* some *real progress on the negotiations. We do not think that, in the circumstances following this relatively favorable round of hostilities, the Arab states are going to let the opportunity to win a victory at Israeli expense slip out of their grasp.* At the same time, it may be possible to devise ways to ease the oil squeeze short of a final peace settlement.

16. In all of this, the Saudis and their supporters will seek to divide the oil consuming states, keeping them competing with one another rather than combining against the OAPEC states. But unless the Arabs cease the 5 percent a month reduction, they will at some point be unable to supply even those states which favor Arab interests. This is when the

"humanitarian" or "don't drive away potential friends" factor comes into play. *Unless OAPEC thinks the Israelis and the consumers are becoming totally intransigent, this factor will compel the OAPEC states to level production short of disaster for the major consumers at some point before spring, 1974.*

Jerusalem, the Toughest Problem

17. Assuming progress between Egypt and Israel, *the major stumbling block for Saudi Arabia will be Jerusalem* -- as and when that problem comes up. Here Faisal's adamancy will be put to the test; since he has said that Muslim control of the city is necessary. It will be extremely difficult to reconcile his and Israel's desires in respect of the Holy City. Whether a compromise is possible will depend on the atmospherics at the time, the attitudes of his fellow rulers, and the packaging of any agreement involving Jerusalem and the West Bank of the Jordan. We cannot say with any degree of certainty whether Faisal could be brought to agree to an arrangement concerning Jerusalem that Israel would also accept. *If such cannot be worked out, full restoration of Saudi oil production, including lifting of the embargo, could be delayed indefinitely.*

V. IN CASE OF RENEWED HOSTILITIES

18. The above discussion assumes that hostilities will not resume. But this is not a certainty and if fighting breaks out on a serious scale, the Israelis will make substantial gains at Egypt's expense. In this case, whatever restraints were operating on the Arabs' use of oil as a weapon would be greatly reduced. Reason would yield greatly to emotion and the damaging effects of reduced output on neutral states, for example, would carry much less weight with the Arab oil producers. OAPEC would almost certainly reduce output further and would probably add some neutral states to the embargoed list unless such states clearly demonstrated help to the Arab cause. Saudi concern about maintaining good relations with the US would diminish, since the latter would be held responsible for failing to restrain Israel. If hostilities were not stopped quickly, or if major powers became directly involved, there would be a whole new situation -- one well beyond the scope of this paper.

VI. THE LONGER TERM

19. The longer run effects of this current crisis will, of course, depend heavily on what happens in the next few months. Most of the broader implications of recent events in the Middle East will become apparent only after the crisis begins to abate. A few, however, already seem clear. The oil business has changed radically, and the Arabs

will not be the same again. They have, for the first time in modern history, acted from a position of strength and employed oil as a weapon. Even they seem surprised at its power and impact. The temptation to use it again will remain, but opportunities will not necessarily be as clear cut as the present one.

20. The events of the past few months have also hastened the coming of ever greater government to government oil dealing. The major oil companies have lost control over pricing of crude oil and much of their ability to make production decisions. It is unlikely they will regain these capabilities. It is less clear whether the choice of customers for a given country's oil will be left mainly to market forces or will come to be based more on political or other non-economic grounds. Where a number of producers agree, the latter is likely to happen at least occasionally, i.e., an embargo on South Africa designed to change its internal policies.

21. Finally, Arab producers looking beyond the current situation will face some critical pricing and production decisions. For key countries, Saudi Arabia and Kuwait in particular, the higher the price of oil, the faster they build up surplus funds, even if production is kept down. These states will hesitate to accumulate too much for fear of what might happen to their holdings; yet they will be afraid to

reduce output to a point where consumers would react violently. They will try for a middle course which would probably translate into a price structure, higher even than today's, but not as subject to the rapid changes which have characterized the past few years. This will be accompanied by less production than the consumers once hoped for, but enough of it to support their economies while the search for and the shift to new sources of energy takes place. Other producers like Venezuela, Indonesia, and Iran will benefit greatly from the higher oil revenues they will get. And other less developed nations will be hurt by the inevitable rise in the relative cost of energy. In sum, fundamental changes in the intricate relationships between oil producers and consumers have occurred. The process of working out reasonably satisfactory new arrangements will be both long and difficult for the major consumers.

ANNEX

The accompanying Tables and explanatory material are referred to in Section 2 of the NIAM. They apply to the whole paper and are attached here as a matter of convenience.

Please note that the numbers are preliminary. These will enable you to see the general line of approach we have used. Updated Tables will be forwarded shortly.

TABLE A

THE EFFECT OF CUTBACKS AND PRICE INCREASES ON ARAB OIL REVENUES

Arab oil revenues for 1973 are expected to exceed 1972 revenues by 54 percent. Despite cutbacks in the last quarter of 1973, oil exports will average one million barrels per day more than in 1972 -- a seven percent increase. The most important figure contributing to increased revenues has been higher prices. The average per barrel revenue in the Persian Gulf has risen 44 percent from $1.42 to $2.06. North African producers, Libya and Algeria, have realized a similar increase in prices. The largest jump in prices has come in the last month with the Persian Gulf countries raising posted prices 70 percent on 16 October, and Libya followed suit by doubling its posted price. Algeria also increased its selling price, to $5.00 from $2.35 per barrel. In the wake of the Arab actions, producing countries around the world have also raised prices considerably. Little of this increase will be felt in 1973. The impact in 1974 is clearly represented in the attached Table. Production for the first quarter of 1974 is scheduled to be cut back five percent each month, to a point where March 1974 output is only 60 percent of September 1973. Yet, for this period, revenues will be 71 percent greater than during the first quarter of 1973.

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Estimated Oil Revenues of Major Arab Exporting Countries

(Millions of Dollars)

	Saudi Arabia	Kuwait	Qatar	Iraq*	Abu Dhabi	Algeria	Libya	Total
1972	3,107	1,657	255	575	551	700	1,598	8,443
1973 (est.)	5,480	1,940	420	860	990	980	2,340	13,010
1974 1st Quarter (est.)	1,600	640	120	520	300	300	860	4,340
1973 1st Quarter	1,030	420	90	180	200	180	430	2,530

Revenue estimates are based on the following assumptions:
a) production cutbacks of 5% a month will continue through the first quarter of 1974.
b) prices will not increase after December 31, 1973.

It is clear that as production is further reduced, additional price increases will be asked. Also, the Tehran agreement of 1971 can be expected to add an additional 2½% +5¢/bbl to posted prices as of December 31, 1973. The revenue estimates above show the minimum of what Arab governments may expect.

* Roughly 50% of Iraq's production from national oil fields is sold under barter agreements. Revenue estimates exclude barter sales.

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TABLE B

The attached Tables illustrate the effect of the OAPEC 4 November decision on Arab oil production through March 1974 assuming all producers adhere to the agreement. It is possible that Iraq, which did not sign the agreement, will not reduce production and may even increase it. Dubai and Oman, which are not members of OAPEC, are not expected to reduce production. Iraq, Dubai, and Oman's deviating from the OAPEC decision will have only a minor effect on the overall Arab oil loss.

EXTENT OF ARAB OIL CUTBACKS

Thousand Barrels Per Day

	Saudi Arabia	Kuwait	Libya	Iraq	Abu Dhabi	Algeria	Qatar	Oman	Dubai	Total
September production (Actual)	8,600	3,500	2,300	2,000	1,400	1,050	600	300	300	20,050
October production (Estimated)[1]	8,000	3,000	2,200	1,700[2]	1,400	1,050	580	300	200[3]	18,430
Decrease from September										
Volume	600	500	100	300	—	—	20	—	100	1,620
Percent	7	14	4	15	—	—	3	—	33	8
New OAPEC production plan for November[4]	6,450	2,625	1,725	1,500	1,050	790	450	225	225	15,040
Decrease from September										
Volume	2,150	875	575	500	350	260	150	75	75	5,010
Percent	25	25	25	25	25	25	25	25	25	25
New OAPEC production plan for December[5]	6,125	2,500	1,650	1,425	1,000	750	425	210	210	14,295
Decrease from September										
Volume	2,475	1,000	650	575	400	300	175	90	90	5,755
Percent	29	29	29	29	29	29	29	29	29	29
January Plan[5]	5,820	2,380	1,570	1,350	950	710	400	200	200	13,580
Decrease from September										
Volume	2,780	1,120	730	650	450	340	200	100	100	6,470
Percent	32	32	32	32	32	32	32	32	32	32
February Plan[5]	5,530	2,260	1,490	1,290	900	680	380	190	190	12,900
Decrease from September										
Volume	3,070	1,240	810	710	500	370	220	110	110	7,150
Percent	36	36	36	36	36	36	36	36	36	36
March Plan[5]	5,250	2,140	1,420	1,220	860	640	360	180	180	12,260
Decrease from September										
Volume	3,350	1,360	880	780	540	410	240	120	120	7,790
Percent	39	39	39	39	39	39	39	39	39	39

1. October production based on normal growth during first 17 days of the month and uneven application of OAPEC resolution for remainder of the month; the members of the Organization of Arab Petroleum Exporting Countries (OAPEC) are Abu Dhabi, Algeria, Bahran, Egypt, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, and Syria.
2. Production reduced as a result of war damage to export facilities.
3. Dubai production reduced by offshore well fire.
4. On 4 November, OAPEC agreed to a 25% production cutback in November based on September production.
5. OAPEC plan to reduce an additional 5% each month based on production during the previous month beginning in December.

EXTENT OF ARAB OIL CUTBACKS

Thousand Barrels Per Day

	Saudi Arabia	Kuwait	Libya	Iraq	Abu Dhabi	Algeria	Qatar	Oman	Dubai	Total
Measured against the production that previously had been expected for December 1973 and March 1974, the cutbacks are still larger -----										
Pre-cutback planned December production[1]	9,400	3,800	2,300	2,200	1,500	1,100	650	300	300	21,550
Production shortfall due to cutbacks										
Volume	3,275	1,300	650	775	500	350	225	90	90	7,255
Percent	35	34	28	35	33	32	35	30	30	34
Pre-cutback planned March 1974 production[2]	10,000	3,400	2,300	2,300	1,900	1,100	700	300	300	22,300
Production shortfall due to cutbacks										
Volume	4,750	1,260	880	1,080	1,040	460	340	120	120	10,040
Percent	48	37	38	47	55	42	49	39	39	45

1. Company forecasts where available; otherwise, OER estimate.
2. OER estimate.

[redacted]

TABLE C

ARAB OIL IMPORTS OF THE FAVORED COUNTRIES

Million Barrels Per Day

Countries	Arab Oil Imports b/	Expected Mid-Winter Arab Imports	Consumption c/	Percent of Consumption From Arabs	Percent of Expected Arab Imports Lost	Percent of Total Expected Imports Lost
France	2.110	2.25	3.1	72.6	6.3	4.5
United Kingdom	1.460	1.55	2.9	53.4	5.7	3.0
Spain	.600	.7	.9	77.8	13.7	10.7
Brazil	.400	.4	.7	57.1	--	--
Others a/	.600	.650	1.1	59.1	7.7	4.5
TOTAL	5.170	5.55	8.7	63.8	6.8	4.3

a. Includes Turkey, Pakistan, India, and 18 African states.
b. Estimated September imports.
c. Estimated mid-winter oil consumption.

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TABLE D

THE OIL SITUATION OF NEUTRAL COUNTRIES -- THOSE NEITHER EMBARGOED NOR EXEMPT

This Table illustrates the effect Arab oil cutbacks will have on the oil supplies of countries such as Japan, West Germany, and Canada, which have been neither embargoed nor exempted from the cutbacks. The Tables are not an estimate of what will happen but of what would happen given certain assumptions. Pre-crisis winter consumption of oil for all of Western Europe is estimated at 19.0 million barrels per day. Individual countries' consumption is proportioned to the average annual consumption for 1972. The Table assumes Arab oil reductions will be distributed in proportion to the amount of oil each country normally received from Arab sources and that the consuming countries will continue to receive their usual amount of oil from other sources. It also assumes that the 4 November OAPEC agreement will be adhered to by all Arab producers.

West Germany will be affected more severely than shown because it imports a substantial amount of oil through the Netherlands which has been totally embargoed. Assuming that the West Germans lost all the Arab oil normally transiting through Rotterdam their loss in imports might look like this:

End of December 1973		End of March 1974	
Percent of Arab Oil Lost	Percent of Total Oil Lost	Percent of Arab Oil Lost	Percent of Total Oil Lost
64	29	85	38

It is unlikely that Germany will lose the full 38 percent because some oil will be diverted from Rotterdam to North German ports. Most of the other West European countries will undoubtedly be affected to some degree because of the inter-country movements of large volumes of refined products.

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TABLE D

THE OIL SITUATION OF THE NON-EXEMPT AND NON-EMBARGOED COUNTRIES

Countries	Percent of Arab Imports a/	Average Winter Consumption b/	End of December 1973		End of March 1974	
			Percent of Arab Oil Lost c/	Percent of Total Oil Lost d/	Percent of Arab Oil Lost c/	Percent of Total Oil Lost d/
TOTAL	100	36.4	24.0	7.5	42.0	13.1
Japan	22.9	6.2	24.0	10.1	42.0	17.6
Canada	1.8	1.8	24.0	2.7	42.0	4.8
Communist Countries	3.7	10.0	24.0	1.0	42.0	1.8
Western Europe	50.6	10.9	24.0	12.7	42.0	22.1
Italy	16.2	2.7	24.0	16.4	42.0	28.6
West Germany	15.5	3.9	24.0	10.8	42.0	18.9
Belgium-Luxembourg	4.5	.8	24.0	15.4	42.0	26.9
Other Western Europe	14.4	3.5	24.0	11.2	42.0	19.6
Other World	21.0	7.5	24.0	7.7	42.0	13.4

a. Pre-crisis share of Arab imports for the non-exempt and non-embargoed group.
b. OER estimate of total oil consumption in millions of barrels per day.
c. Based on winter estimates of expected Arab oil imports.
d. Based on winter estimates of total consumption.