

ARAB STATES - ISRAEL: Arab leaders closed their summit conference in Algiers yesterday with a declaration praising Arab unity and reiterating the Arabs' basic conditions for a peace agreement. Talks between Egyptian and Israeli military representatives at Kilometer 101, suspended yesterday at Israeli request, are scheduled to resume this morning.

In a declaration notable for its moderate language, the Arab leaders yesterday affirmed that a lasting peace can come only when Israel withdraws from the occupied territories, "first and foremost Jerusalem," and restores the "established national rights" of the Palestinians. According to Arab League Secretary General Riad, the conferees also discussed Arab military preparedness, decided to provide Egypt and Syria with financial assistance, and resolved to continue the use of oil as a political weapon.

Riad told the press that in the future the Organization of Arab Petroleum Exporting Countries will determine the allocation of Arab oil to non-Arab countries on the basis of their "stand toward the Arab cause." For December, however, Japan, the Philippines, and most of Western Europe will be exempt from projected cutbacks because of their recent shifts to a more pro-Arab position. According to press reports, the Arabs also agreed to institute an oil boycott and sever diplomatic and economic ties with South Africa, Rhodesia, and Portugal. They have guaranteed the supply of Arab oil to African states that have broken diplomatic relations with Israel.

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At a press conference prior to his departure from Algiers yesterday, Egypt's President Sadat repeated recent Egyptian charges that the disengagement talks at Kilometer 101 are suffering from Israeli "evasion and stalling." Although he did not directly tie Egypt's participation in next month's peace conference to progress at the talks, Sadat

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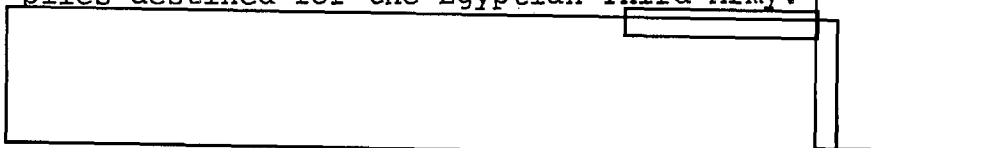
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asked "how can we meet at a peace conference when firing is going on daily?" He added that a situation in which previous resolutions are not carried out does not facilitate work at a peace conference. According to radio Egypt, the President also indicated that he would review the matter of the cease-fire on his return to Cairo, and would contact the Soviet Union and the US about the implementation of the cease-fire resolution.

Leaders of Israel's ruling Labor Party held a day-long meeting yesterday to draft a party platform from which to seek a vote of confidence from the party's central committee. Press accounts of the final document suggest that it contains significant concessions to party doves, but is unyielding on basic security issues. The most obvious concession reportedly came in a provision calling for the "preservation of the Jewish nature of Israel"--shorthand for abandonment of the recently-favored policy of annexing occupied Arab territories. In addition, the document lists "striving for peace" as the central goal of the party and allows for some territorial concessions. Despite these elements, however, the new platform reportedly retains three basic tenets of party policy that are in fundamental opposition to Arab aims. These include Israel's refusal to return to pre-1967 borders, its insistence that Jerusalem remain united and under Israeli control, and its opposition to the establishment of an independent Palestinian state on the West Bank.

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Sporadic exchanges of small arms fire marred the cease-fire on both the Egyptian and Syrian fronts yesterday. The most politically sensitive of these violations occurred when an Israeli soldier was killed by sniper fire at the unloading point for supplies destined for the Egyptian Third Army.



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Further incidents could disrupt the movement of supplies to the Third Army.

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An Israeli military spokesman stated yesterday that Israeli troops on the borders would remain on a high state of alert for at least another three months.

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Soviet Oil Problems

Moscow is experiencing some tightening of oil supply because of problems in oil drilling and production, but the threat of a crisis similar to that facing the West is not imminent. Over the next four years the USSR should be able to produce enough oil to meet domestic needs and to provide sizable exports to Eastern and Western Europe. Unless major problems are solved, however, the Soviet Union may have to rely on foreign oil in the 1980s to meet part of its steadily growing domestic demand.

During the past few months, reports of strains in meeting domestic oil needs and export commitments have emanated from Moscow. Soviet oilmen recently indicated that the USSR cannot now produce and refine enough oil to satisfy both domestic demand and contractual agreement with CEMA countries. During the recent Arab-Israeli conflict, the USSR was forced to reduce deliveries to Italy, evidently to compensate Eastern Europe for a partial cutoff of Iraqi oil exports. Although the USSR values its reputation as a reliable exporter to the West, in this instance it apparently gave priority to the needs of Eastern Europe--primarily Bulgaria, which depends on Iraqi oil, much of it obtained on Soviet account, for almost half of its oil supply. The USSR is also running behind schedule on deliveries of oil to France and West Germany, but even before the Middle East crisis Soviet deliveries of oil have, at various times, been over or under the amounts stipulated in contracts. It is possible, however, that reduced availability of Middle Eastern oil to Eastern Europe is forcing the USSR to make up the difference at the expense of Western Europe. It is also possible that Moscow is withholding oil from Western Europe to get higher prices and to increase hard currency earnings, especially to compensate for higher prices now being charged for Middle East oil that the USSR purchases. Any inference of a crisis at this time is exaggerated. The Soviet Union is a net exporter of about 2 million barrels per day (b/d), almost one fourth of its total output. Nevertheless, Moscow has little, if any, uncommitted oil.

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Major problems, however, do confront the Soviet petroleum industry. About half of the 35-40 billion barrels of proved and probable reserves of oil are located in permafrost areas, where exploitation is difficult and costly. Large, older fields near consumption centers are being depleted more rapidly than expected, and the USSR is being forced to accelerate development of oilfields in western Siberia, where domestic equipment and technology are inadequate. A Soviet economic journal has charged the petroleum industry with lack of planning for western Siberia and failure to establish adequate support facilities, such as electric power, railroads, roads, and worker housing.

To meet the 1975 production goal, new crude oil production capacity during 1971-75 will have to increase by some 25 percent more than originally planned. This will entail a considerable increase in drilling, presumably mostly in western Siberia. The Soviet record in fulfilling drilling plans has been poor in the past, and this new requirement is imposing an additional strain on the oil industry. Crude oil production this year is running below plan, which already has been revised downward from 8.6 million b/d to 8.5 million b/d. It is unlikely that the original oil production target of 9.9 million b/d in 1975 will be attained.

In the long run, the USSR may have to depend on Western technology and equipment to solve many of the problems confronting the petroleum industry. During the past three years, Soviet orders for the purchase of Western equipment and technology have exceeded \$400 million. One of the critical needs is for modern exploration equipment to locate new reserves, especially in Siberian regions. Such equipment should be acquired now if it is to have any effect on increasing oil production during the balance of the 1970s.

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