INTERNATIONAL OIL: The Arab oil producers' decision on December 25 to replace the scheduled 5-percent cutback in output for January with a 10-percent increase will mean a rise of about 2 million barrels a day (b/d) in world oil supplies over December levels. Supplies will still be some 3 million b/d below September's output and over 4 million b/d less than the output projected for January before the crisis. This latter loss, however, represents only about 11 percent of the oil in international trade. The 3 million b/d reduction in supply is roughly equal to the amount that the United States and the Netherlands would lose if the embargoes were strictly applied against them. If this were to happen, all other countries would receive oil at approximately their September import levels.

The situation is more complicated, however, because of diversions of normal oil flows. Well over 500,000 b/d of Arab and non-Arab crude apparently are being diverted to the US, and diversions to the Netherlands may amount to another 500,000 b/d. As the Arabs increase production, the amount of oil diverted will probably increase. Despite the embargo, the US probably will continue to receive at least a share of available oil proportionate to its pre-crisis imports. This means that the US, which typically imports only about 36 percent of its oil, compared with Europe's 97 percent and Japan's 100 percent, will lose relatively little of its total supply, perhaps no more than 5 percent. As for Europe and Japan, although very serious economic dislocations next spring are now unlikely, economic growth rates will be substantially below pre-October projections.

The Persian Gulf members of OPEC, meeting in Tehran on December 23, raised prices $4 a barrel. These hikes--when matched by other OPEC producers--will double the 1974 world oil bill to about $100 billion. This estimate, however, presumes little or no growth in consumption by major oil-importing countries over 1973 figures because of depressed economic growth rates, conservation measures, and higher prices. If these conditions do not pertain, the oil bill may be much higher. The additional cost resulting from the new hikes will be at least some $10 billion for the US, $23 billion for Western Europe, and $8 billion for Japan.

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