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Approved For Release 2004/10/28 : CIA-RDP86T00608R000600050030-9

 S-08304

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MEMORANDUM FOR: The Record

The attached was requested by Deputy Assistant Secretary Harold Saunders, Bureau of Near Eastern and South Asian Affairs, Department of State, for Secretary Kissinger.

Transmitted to Saunders by the NIO/ME.

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[redacted]

16 January 1975
(DATE)

FORM NO. 101 REPLACES FORM 10-101 WHICH MAY BE USED.
1 AUG 54 (47)

CIA/OER/S-08304-75

MEMORANDUM FOR: Asst. NIO/ME

This is the paper you requested on Sinai oil.

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[redacted]

MAURICE C. ERNST
Director
Economic Research

14 Jan 75
(DATE)

FORM NO. 101 REPLACES FORM 10-101 WHICH MAY BE USED.
1 AUG 54 (47)

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<u>Israel and Sinai Oil</u>

The Sinai fields produce 100,000 b/d of crude oil, 70% of Israel's domestic requirements. Imports from Iran supply the remainder of Israel's domestic needs and the large amounts that are refined for re-export. In the past three years, the entire increase in domestic oil consumption has been meet from the Sinai fields.

Sinai oil costs Israel probably less than $50 million in foreign exchange. If the fields were returned to Egypt, Israel would have to spend $350 million to $400 million to import the same amount of oil. Israel is extremely short of foreign exchange. Even with Sinai oil it has been forced to cut back non-military imports at the cost of civilian belt-tightening and curtailed economic growth.

Sinai oil does not have much strategic value to Israel in the event of hostilities. The oil wells themselves would easily be damaged. Shipping of the oil by sea -- the only transport route at present -- is vulnerable to attack and there is no feasible overland route. [redacted] 25X1

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Israel would require a guaranteed alternative source of foreign oil in peacetime before giving up the Sinai fields. Such a guarantee and assistance to cover all or most of the foreign exchange cost of this oil would be sought from the US. Israeli confidence in Iran as the source for oil imports has been shaken as a result of the Shah's recent public expressions of sympathy for the Arab cause. There is no evidence that he intends to sacrifice his long-established ties with Tel Aviv, but Israel cannot be certain of this. Some 30 million tons of Iranian oil for Europe transits the Israeli Elat-Ashquelon pipeline annually, in addition to the 2 million tons consumed in Israel. Tel Aviv will continue to offer Iran advantageous prices on this oil even if the Suez Canal reopens and the Trans-Egypt pipeline is built.

The Sinai fields do not, however, provide a reliable source of supply for the longer term. At the present

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production rate they will probably be exhausted in the next 5 to 7 years. Israel has not searched intensively for additional oil in the Sinai; its efforts have been concentrated offshore in the Mediterranean. No new oil has been discovered yet and the prospects are poor.

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Israel: Selected Petroleum Statistics

Basic Oil Balance for 1974 (Barrels per day)

Supply	180,000
Sinai crude	100,000
Imports from Iran	80,000
Domestic crude	Negl
Consumption	140,000
Available for export/addition to stocks	40,000

Petroleum Refinery Capacity (Barrels per day)

Haifa	140,000
Ashdod	70,000

Elat-Ashquelon Pipeline (Barrels per day)

Throughput capacity	800,000
For Israeli consumption	180,000
Transit for Europe	620,000

Tanker Fleet Capacity

About 4 million tons (includes 6 supertankers -- over 250,000 ton capacity)

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APPENDIX

Israel's 1974 Oil Import Bill

Volume (Million tons)	
Sinai	5.0
Iran	2.0
Cost (Per barrel)	
Sinai	$10
Iran	$14 average
Value ($ million)	
Sinai	350
Iran	200
Total	550

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We assume all Sinai crude is used domestically and that only one half of the 4 million tons of oil contracted for with Iran is consumed domestically. The other 2 million tons of Iranian oil are assumed

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to be re-exported either as crude oil or as products, and thus involve no net foreign exchange cost. The domestic consumption figure excludes small quantities of petroleum used on the West Bank, Gaza Strip, and the other territories, in keeping with Israeli accounting practices.

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