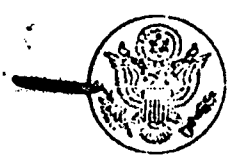


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DEPARTMENT OF STATE
BRIEFING MEMORANDUM
S/S

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NSC 5804

OCT 14 1973

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To: The Secretary
From: EUR - Walter J. Stoessel, Jr.

Actions in the Event of an Arab Oil Embargo
Against the United States, Western Europe
and Japan

As requested by the WASAG October 14 the attached paper on this subject has been prepared by an Interagency Group, including State, Defense, CIA and the NSC.

Attachment:
As stated.

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ACTIONS IN THE EVENT OF AN ARAB OIL EMBARGO
AGAINST THE UNITED STATES, WESTERN EUROPE
AND JAPAN

I. Introduction

This paper deals with the most extreme case of a number of Arab actions. It does not deal with the range of Arab actions short of total embargo such as reduction of oil production, selective embargoes, etc. In fact, other variations involving less than a total cut-off of all Arab oil aimed at Europe and Japan as well as the U.S. might be more difficult for the U.S. For example:

-- They might, as has been considered by King Faisal, cut production back slowly and announce that they were awaiting positive results on the issue of Israeli-occupied territory. In this and other approaches they would hope to split the allies.

-- They could aim their boycott at the U.S. alone even though they know that it would not be successful because of the difficulty of tracing the oil and because less than 10% of U.S. oil consumption is obtained from the Arab countries. Their rationale, again, would be to create divisiveness.

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II. U.S. Objectives

On the assumption of this paper that a total embargo on Arab oil shipments is threatened or occurs, U.S. objectives will be the following:

1. Restore the flow of Arab oil to Western and Japanese consumers.
2. Maintain a united front of the U.S. and its major allies on the oil question.
3. Prevent a train of events that will permanently impair U.S. and Western long-term interests in the development of Arab oil resources.

A ceasefire, if obtained, would promote all of these objectives. The U.S. position on a ceasefire, as well as our view of a settlement, will thus be a major factor in European willingness to cooperate with the U.S. Any joint action therefore implies some harmonization of diplomatic action.

With regard to the first two objectives (restoring the flow of oil and alliance solidarity), two broad courses of action are possible:

1. To allow individual countries to make whatever arrangements they can with their oil suppliers:

-- this might minimize Alliance strains in the short term and relieve immediate pressure on the more vulnerable of our allies, e.g. Japan;

-- over the longer term such a US-European split on a critical issue would damage the Alliance.

2. Attempt to obtain a coordinated position among major allies to share available oil supplies and apply uniform sanctions and other actions against the Arabs:

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-- The main European incentive will be our willingness and ability to sacrifice our own consumption to create an effective and equitable sharing arrangement;

-- The major disadvantages are (a) we suffer more from the cut-off than if we acted independently; (b) perpetuating a confrontation between the Arabs, on the one hand, and the US-Europe-Japan, on the other, might damage our long-term interest in increasing post-war oil supplies from the Middle East.

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III. Impact of an All-Arab Oil Embargo on Western Europe
and Japan and the United States

An all-Arab embargo of oil shipments would impact severely on Western Europe and Japan and to a much lesser extent on the United States. The impact would not be felt immediately, however, since there are always up to a month's supplies on the high seas and because these countries all have contingency stocks, ranging from around a month in Japan to as much as two and one-half months in Western Europe. The Europeans depend on Arab oil for two-thirds of their consumption; Japan for one-half and the U.S. for almost 10 percent. These three areas currently consume about 40 million barrels per day (b/d) of oil, of which Arab exporters supply over 15 million b/d, or 38 percent. There is no significant surplus production capacity (probably not more than 500 thousand b/d) elsewhere in the world to make up for the loss of Arab oil. Even with stock drawdowns and rationing, the European economies would be seriously affected after about three months and the Japanese in an even shorter period. (See Tab A for details.)

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IV. What Can Be Done to Foster European and Japanese Cooperation

The choice facing Europe and Japan will be to cut and run and seek their own deal with the Arab states or hold to a unified front. Left to their own devices the Europeans and the Japanese would most likely prefer to go it alone. They would prefer to disassociate themselves from our mid-East policy to which they attribute a large measure of responsibility for the present crisis.

On the other hand, the Europeans and Japanese recognize that oil moving in world trade is controlled largely by US companies and that in the event of a scramble for oil they would almost certainly come out second best, at least in the short run. The costs of exercising our control on the companies to thwart the Europeans and Japanese would be very great in terms of long-term oil industry relationships. Nevertheless, we could divert oil to our needs if forced to do so.

Aside from the considerations of oil availability, the Europeans will weigh political considerations involved in any unified action.

-- There are the domestic pressures for "independent European" policies -- especially the risk of a European consensus for a ceasefire or peace settlement on increasingly favorable terms for the Arabs.

-- Some of the allies, particularly France and West Germany, will be highly reluctant to jeopardize their relations with the USSR.

On the other hand the Europeans would be concerned if it were made clear to them that a serious parting of the ways in the mid-East crisis would weaken the alliance and the American commitment to Europe defense.

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In sum, the US has two principal means of getting the Europeans and Japanese to cooperate in united action.

On the oil front: First we should make clear a willingness to share any short falls with the Europeans and Japanese to the extent of willingness to cut deeper into our oil consumption than the amount of lost Arab oil.* Second, if they do not cooperate, we should make clear our determination to use all our power to scramble for available oil.

On the political front: We must convince the Europeans that the political cost to them of a parting of the ways in the alliance will be more serious to their national interests than the damage they may perceive united action would do to their mid-East or Eastern European policies. Under the impact of a prolonged crisis the natural tendency of recent years of the Europeans to break ranks on Middle Eastern issues may give way to greater readiness to cooperate in a united action to deal effectively with the problem.

* We understand that an OEP/Treasury study considers that a 30 percent reduction in oil consumption would have serious effects on our industry. Therefore, for illustrative purposes we have kept the US reduction to 25 percent, which would mean a diversion to Europe and Japan of most of the remaining overseas oil imports to the United States. Even with this reduction European consumption would be reduced to 40 percent of normal and that of the Japanese to less than 70 percent of normal.

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V. Courses of Action

A. Cooperative Arrangements for Oil Sharing

This subject is being considered separately by the SRG.

B. Actions against Arab States

The actions listed below would be applied individually by each national authority, but they are intended to be considered and agreed upon jointly by the U.S. and its principal European allies and Japan. Such collective action is essential if it is to have the desired effect on the Arabs, while avoiding serious rupture among the Allies. Military operations are not considered here, although some of the political actions could lead to military actions, such as the evacuation of nationals or a naval blockade to support the economic measures.

The actions indicated below largely involve economic countermeasures against Arab states. For some of the consumer countries these actions may require new legislation. All of them will be confronted by domestic complaints from suppliers of civil and military goods for Arab customers, whose trade would be disrupted. These measures may also lead to further Arab reactions against consumer countries, both in the supply of oil and in the well-being of nationals of consumer states present in Arab countries.

(1) Embargo on exports to the Arab countries.

Impact. The Arab states are significantly dependent upon imports of food and capital goods, with Egypt being the most dependent. A total embargo could affect \$2 billion in U.S. exports per annum, and a larger amount of exports from Europe and Japan.

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Pros and Cons. Soviets could probably provide food supplies to fill part of the gap, which will vary from one country to another. The effect of an embargo on capital goods could be more serious but felt more slowly.

- (2) Block Arab accounts in all principal Western financial centers.

Impact. Could affect financing of Arab trade with rest of the world, but would be of less importance if embargo is also established on exports to Arab states.

Pros and Cons. U.S. has legal authority and could move quickly to control trade and block accounts, but others may not have such authority even if they wish to move. Such action would have longer-term disruptive effects on financial centers and could discourage the resumption of oil production as well as increases in future production.

- (3) Suspend all travel to and from Arab countries, and all landing rights for aircraft serving Arab countries directly or indirectly.

Impact. Very limited impact in view of low level of such travel.

Pros and Cons. This would be a necessary accompaniment to general economic counter-measures. However, it could raise many of the divisive questions we face with allies in dealing with terrorism proposals in the field of civil aviation.

- (4) Suspend all military supplies and training for Arab countries.

Impact. Significant major end-items remain to be delivered by the U.S. to Jordan and Saudi Arabia, and by the U.K. and France to Saudi Arabia and Libya. Little impact on Egypt and Syria.

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Pros and Cons. While suspension would reduce war-making capabilities of Arab states at outset, there is real possibility it would lead to increased flows of Soviet supplies to these countries and a long-run dependence of these countries on the Soviets.

- (5) Withdraw nationals who serve as technicians in the oil and other industries.

Impact. Would lead to considerable reduction in oil production. Little effect on other industries.

Pros and Cons. Would greatly increase difficulty of restoring Arab oil production and exports. Some producers may turn to Soviet technicians, while others, such as Saudi Arabia, may simply suspend production. Could lead to military operations to assure evacuation of such nationals, especially if they are held hostage.

C. Actions against the Soviet Union

A separate paper (Tab B) is attached on U.S. pressure points against the Soviet Union aimed at persuading them to moderate their role in the Middle East war.

Once a stage of an Arab oil embargo is reached, it would be most desirable if our Allies could join with us in actions designed to induce the Soviets to pressure the Arabs to resume oil exports. The following could be considered:

- (1) Slow down or suspend the CSCE Conference.
- The Soviets attach high priority to the CSCE, but it is not vital.
 - Most allies would be reluctant to do this, but they might be convinced by the urgency of the situation.

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- (2) The U.S., Canada and the EC hold up all grain shipments to the USSR.
 - Soviet grain supplies are better this year than last, but the psychological impact would be important.
 - This would make it harder for Soviets to supply grain to Arab states affected by export embargo.
 - Canada and the EC would be most reluctant.
- (3) The U.S. and its allies in COCOM reinstate more severe controls on exports to the USSR.
 - COCOM controls in the past have not affected the Soviet economy in a major way.
 - Most allies would resist this measure.
- (4) The U.S. and its allies refuse credit facilities to the USSR.
 - Allies would be reluctant.

As indicated in the attached paper, the U.S. could take many of the above steps on a unilateral basis, as well as other measures. Of these, suspension of further discussion of liquified natural gas (LNG) deals, suspension of the SALT talks, and postponement of joint committee meetings and visits would have most impact, if not already carried out in an earlier phase of the crisis.

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Mechanisms

Any effective measures by the US, its European allies and Japan in response to an Arab oil embargo will require immediate high-level political approaches to the major Western European capitals and Tokyo to create the political will for unified action. Discussions to follow up this high-level approach will probably have to be undertaken through:

-- bilateral diplomatic channels,

-- the OECD Oil Committee High Level Group (HLG) meeting, the immediate purpose of which will be to reach agreement on a sharing scheme which is the prerequisite for any unified action against the Arabs (This is the minimum response required to deal with an oil shortage if the Alliance is to be maintained),

-- high-level multilateral consultations to agree on economic counter measures which could entail:

(a) a NATO mechanism and US-Japan bilateral or

(b) an ad hoc grouping of principal Western European countries, US and Japan.

The OECD HLG can quickly establish an emergency sharing scheme. The group was successful in 1956 and 1967 in dealing with the oil supply shortages of Europe in those two wars. The OECD has a body of expertise and collective experience as well as existing agreements for stockpiling and emergency measures. The principal issue regarding U.S. participation is the extent to which we are willing to reduce consumption in an effort to assist the Europeans and Japan.

There is no comparable mechanism or experience for economic counter measures against the Arab states. The OECD because of the presence of the neutrals will not be able to act on economic warfare measures. The

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need for Japanese participation makes it difficult to use a strictly NATO mechanism. The choice of whether to form a US-EC-Japan grouping to coordinate economic warfare measures or to rely principally on NATO while coordinating bilaterally with the Japanese should depend on the response to the initial high-level approach to capitals.

We must anticipate that the EC-9 will very likely want to coordinate their position even if we ask our allies to join with us in a NATO-sponsored exercise. We must assume the French will be the most negative on united action and that the British and Germans will be loathe to leave them isolated under the new conditions of EC political cooperation. In these circumstances we have to make clear to all three Western European allies that a breakdown of solidarity on this issue will have very grave repercussions for the future of the alliance as well as having the immediate effect of cutting oil supplies. We are prepared to cooperate with a Western European grouping in any organizational format that they desire provided there is effective cooperation and provided there is an adequate mechanism for associating the Japanese. But if the French in the last analysis block EC agreement to come along with us we will expect other EC member countries to cooperate individually through NATO or any other mechanism that is effective.

Drafted by Interagency Task Force under direction of Assistant Secretary Stoessel.

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Estimated World Oil Trade a/, 1973

Thousand Barrels Per Day

	Total Consumption	Total Production	Total Imports	Total Arab	Saudi Arabia	Abu Dhabi	Kuwait	Iraq	Libya	Algeria	Other Arab	Iran	Venezuela	Indonesia	Canada	Nicarua	Other
United States	17,300	9,200 <u>g/</u>	6,300	1,600	600	150	150	50	350	150	150	400	2,000	250	1,100	550	400
Western Europe	15,500	400	16,000 <u>b/</u>	11,350	4,350	600	1,750	1,300	1,700	750	850	1,900	500	Negl.	0	1,250	1,050
Japan	5,400	Negl.	5,400	2,300	1,250	300	650	50	Negl.	0	50	2,050	Negl.	900	0	Negl.	150
Canada	1,750	1,850	900	150	50	50	Negl.	Negl.	50	0	Negl.	150	450	0	0	100	50
Sub- Total	39,950	11,450	28,600	15,400	6,250	1,100	2,550	1,400	2,100	900	1,100	4,500	2,950	1,150	1,100	1,900	1,600
Comm- nist Area	9,850	9,300	500	450	Negl.	Negl.	0	200	100	50	50	100	0	0	0	0	0
Others	7,200	34,550	4,900	2,750	1,750	50	550	300	0	150	50	1,100	450	100	0	100	300
TOTAL	<u>57,000</u>	<u>55,300 <u>c/</u></u>	<u>34,000</u>	<u>18,600</u>	<u>8,000</u>	<u>1,150</u>	<u>3,100</u>	<u>1,900</u>	<u>2,200</u>	<u>1,100</u>	<u>1,150</u>	<u>5,700</u>	<u>3,400</u>	<u>1,250</u>	<u>1,100</u>	<u>2,000</u>	<u>1,950</u>

a. Table allocates imports on direct and indirect basis, i.e., refined products from export refineries are traced to source of crude. The estimates are a yearly average for 1973 and therefore differ from point in time estimates. For example, US dependence on Arab oil has increased through the year and is nearly 2 million b/d in October.

b. Western Europe's oil imports exceed consumption because it exports substantial quantities of oil to non-European sources.

c. Does not include US production of natural gas liquids of 1.7 million b/d.