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THE CURRENT STATE OF THE ARAB OIL EMBARGO: IMPLICATIONS FOR THE CONSUMERS

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The Current State of the Arab Oil Embargo: Implications for the Consumers

Summary

Although the exact dimensions of the Arab production cutback and embargo are not yet clear and the future actions of the individual countries are subject to conjecture, certain elements have become clear.

- All major Arab producing states are participating, but not all producers have formulated their cutback/embargo programs in exactly the same way.
- Even with an effective cease-fire, there will be strong pressures to continue sanctions in some form until there are clear indications that the demand for Israeli withdrawals is being met.
- The Arabs intend the oil weapon to be selective with the brunt falling on the United States, Japan, and most, but not all, West European nations.

Despite this selectivity, the United States will be less affected than most other industrialized nations. However, the already serious supply problems that the United States faced before the war will be exacerbated by the embargo.

By treating the West European countries in different ways, the Arabs have increased the likelihood that divisive forces will emerge, both in terms of postures on the question of the Arab-Israeli confrontation and intra-European oil sharing. Japan, which has been singled out along with several European countries for rather severe cuts in imports, may soon adopt a more openly pro-Arab posture.

Although the consuming countries have stocks to carry them for some months, they will be pressing to make hard decisions to force an acceptable settlement long before stocks are run down and significant rationing becomes necessary.

- The United States has substantial stocks, but these will be difficult to move to areas of need without government participation.

- Although the companies can be expected to perform a limited oil-sharing function by switching crude oil sources and cross-hauling, their task will be more complicated than previously because of the way producers are formulating and enforcing selective embargoes.

The Nature of the Embargo

On 17 October the Organization of Arab Petroleum Exporting Countries (OAPEC)* decided that production will be reduced by not less than 5% monthly until Israel withdraws from occupied territories and the "legal rights" of the Palestinians are restored. Oil deliveries will be maintained to "friendly" countries that give Arabs "effective material help." A total embargo will be established against countries that use their armed forces to aid Israel. Individual Arab countries can interpret the OAPEC decisions in the way that seems most suitable to their individual situation.

Subsequent decisions by most Arab producers have gone beyond the original OAPEC agreement. All Arab producers have now embargoed the United States; Algeria, Iraq, and Kuwait have also embargoed the Netherlands. Most Arab countries – Saudi Arabia, Kuwait, Abu Dhabi, Algeria, and Qatar – have announced an immediate 10% production cutback to be followed by additional monthly cutbacks of at least 5%. Saudi Arabia will also cut back by the amount of its direct and indirect exports to the United States. The total Saudi reduction by 30 November will be about 25% less than ARAMCO's planned production of about 8.9 million b/d for that date.

	Thousand b/d
10% cut	820
Latest direct and indirect flow to the United States	800
ARAMCO planned increase	700
Total loss	**2,320**

* OAPEC members are Abu Dhabi, Algeria, Bahrain, Egypt, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and Syria.

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The Saudis have specified seven friendly countries that will receive supplies equal to their average 1973 imports. These are mostly Moslem states in Asia and Africa, but France, Spain, and "for the moment" the United Kingdom are also included. If, as seems likely, most other Arab countries follow Riyadh's methodology, the total Arab reduction by 30 November will be more on the order of 20% than 25% of September's exports. Large production increases were not planned in most producing countries.

Arab Objectives

Although there are slight differences in the objectives of the different producers -- for example, the more moderate states such as Saudi Arabia and Kuwait wish to maintain ties with the US government and American companies, while the more radical states do not consider this an important goal -- there is a general consensus on goals and strategy.

The first target of the cutback and embargo is the United States. It is recognized that the United States can be discomforted but not seriously hurt by the Arab restrictions.

The Arabs hope that Europe will not put up a united front against them, because some states (Italy) are under more pressure than others and other states (France) stand to lose more than they would gain through a united front. Certain countries such as Japan and Italy are very vulnerable to an oil cutback, and the Arabs believe that they will succumb quickly to Arab pressure. Without a united front in Europe and with Japan highly vulnerable, a worldwide united front of industrialized consumer nations is unlikely. The Arabs further hope that the United States will modify its support of Israel rather than seriously jeopardize its relationship with Japan and NATO and that Japan and Western Europe will protect their own interests by putting increasing pressure on the United States.

Implications for the Consuming Countries

Oil Companies

In the absence of an intergovernmental agreement to share available oil supplies, the Western oil companies will play a key role in determining the effectiveness of Arab oil cutbacks and embargoes. The selective embargoes of the United States and the Netherlands can be partly overcome by switching crude oil sources and cross-hauling, if the companies are willing to risk punitive action by Arab governments and if the companies are able to withstand pressure from those oil consumers who feel they are sharing the loss of oil only because of the United States' Israeli policy. There are some other factors which will reduce the companies' ability to circumvent the embargoes.

- Companies were able to overcome selective embargoes in the 1967 war, but policing by Arab governments was not rigid.
- Non-Arab oil production now represents a smaller share of world oil exports than in 1967.
- There is very little excess production capacity in non-Arab countries.

Impact on the United States

US dependence on Arab oil in mid-October was about 2 million b/d, some 10%-12% of consumption. Although an effective total cutoff would hurt, it need not be especially damaging. The United States was already facing fuel oil supply problems this winter and expected to import from 350,000 to 700,000 b/d of refined products from Western Europe. Although switching oil deliveries to the United States from non-Arab producers by oil companies will ease any burden somewhat, clearly the US supply problem now will require alternative solutions such as drawing down stocks, reducing gasoline consumption, and adjusting US refinery production to yield more fuel oil.

- The share of gasoline produced by US refineries normally varies seasonally from 44% to 48%, whereas Europe's refineries produce about 20% gasoline. Each 10% cut in gasoline consumption – a 5% product mix shift – would yield 650,000 b/d of heating oil.
- Domestic oil production can be increased by 200,000 to 300,000 b/d as a result of surge production.

Impact on Other Consumers

Western Europe and Japan will be affected by the cutback more severely than the United States, although individual countries within Western Europe probably will be affected differently. As a result of selective exemption from oil cutbacks, such as Saudi Arabia accorded France, the United Kingdom, and Spain, problems could arise among European governments.

Attempts at implementing sharing schemes within Western Europe are certain to be affected by the selective treatment. France is likely to drag its feet in any oil-sharing scheme in which it is called upon to share oil supplies it receives through preferential treatment. Indeed if France did share its imports of Arab oil, this source might dry up.

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- Other Arab countries are certain to have their own list of friendly countries – i.e., Libya probably will exempt France and Italy from the cutbacks but not the United Kingdom; Algeria will probably continue selling at normal levels to Western Europe and the Communist countries.

- Japan is under pressure from Saudi Arabia to take a pro-Arab posture at the United Nations. Jidda pointedly left Japan off its exempt list. As a result, the reduction of ARAMCO shipments to Japan will be closer to 15%.

ANNEX

Statistical Tables

Impact on Oil Consumption by the OAPEC Cutbacks and Embargoes, Assuming a 5% Cutback per Month After November

	November 1973 Oil Consumption (Thousand b/d)	Percent of Current Consumption After	
		3 Months	6 Months
United States[1]			
No sharing	17,500	90	90
No sharing and stock drawdowns to replace losses	17,500	100	100
Western Europe			
No sharing	15,700	89	79
No sharing and stock drawdowns to replace losses	15,700	100	100
Japan			
No sharing	5,600	87	82
No sharing and stock drawdowns to replace losses	5,600	100	100

1. According to the American Petroleum Institute, which receives periodic reports from all US oil companies, US crude and product stocks were 850 million barrels on 5 October. We have adjusted this figure downwards to 500 million barrels to arrive at an estimate of usable stocks. The stocks are the equivalent of 80 days of total imports, or 280 days of imports of Arab oil. Unlike the situations in Europe and Japan, the stocks will not be readily available without some kind of government allocation program, because they are held by individual companies.

Even then it would be difficult to move oil to areas of need, and regional shortages beyond those expected before the Arab embargo seem certain to develop. Beyond this there is the continuing problem of a shortage of US refining capacity and an appropriate mix of products.

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Selected Consuming Countries' Dependence on Arab Oil
1972

Thousand Barrels per Day

		Imports											
			Arab Oil										
	Total Consumption	Total[1]	Total	Saudi Arabia	Abu Dhabi	Kuwait	Iraq	Libya	Algeria	Other	Iran	Venezuela	Others
Total Western Europe	14,200	14,400	9,902	3,573	369	1,873	867	1,889	684	647	1,648	276	2,574
Percent of imports		100	68.8	24.8	2.6	13.0	6.0	13.1	4.8	4.5	11.4	1.9	17.9
Italy	2,005	2,217	1,534	566	....	303	244	421	....	....	353	....	330
Percent of imports		100	69.2	25.5	....	13.7	11.0	19.0	....	....	15.9	....	14.9
France	2,315	2,364	1,836	495	227	342	287	196	219	70	142	36	350
Percent of imports		100	77.7	20.9	9.6	14.5	12.1	8.3	9.3	3.0	6.0	1.5	14.8
United Kingdom	2,195	2,057	1,411	418	90	399	70	294	22	118	264	100	282
Percent of imports		100	68.6	20.3	4.4	19.4	3.4	14.3	1.1	5.7	12.8	4.9	13.7
West Germany	2,885	2,052	1,466	380	....	87	38	570	228	163	196	74	316
Percent of imports		100	71.4	18.5	....	4.2	1.9	27.8	11.1	7.9	9.6	3.6	15.4
Netherlands	787	1,810	1,258	608	....	372	8	82	23	165	308	9	235
Percent of imports		100	69.5	33.6	....	20.6	0.4	4.5	1.3	9.1	17.0	0.5	13.0
Belgium-Luxembourg	624	879	424	268	....	127	29	....	....	....	100	....	355
Percent of imports		100	48.2	30.5	....	14.4	3.3	....	....	....	11.4	....	40.4
Spain	700	755	520	226	....	66	38	62	97	31	48	17	190
Percent of imports		100	67.1	29.2	....	8.5	4.9	8.0	12.5	4.0	6.2	2.2	24.5
Portugal	87	80	67	25	....	....	32	....	....	10	6	....	7
Percent of imports		100	83.7	31.2	....	....	40.0	....	....	12.5	7.5	....	8.8
Other Western Europe	2,602	2,166	1,386	587	52	177	121	264	95	90	231	40	509
Percent of imports		100	64.0	27.1	2.4	8.2	5.5	12.2	4.4	4.2	10.7	1.8	23.5
Japan	4,800	4,757	2,162	1,067	269	595	30	4	....	197	1,680	8	907
Percent of imports		100	45.4	22.4	5.7	12.5	0.6	0.1	....	4.1	35.3	0.2	19.1
Canada	1,665	730	183	77	39	3	16	38	1	9	98	373	76
Percent of imports		100	25.1	10.6	5.4	0.4	2.2	5.2	0.1	1.2	13.4	51.1	10.4
United States[2]	16,350	4,750	850	300	100	50	....	250	100	50	200	1,700	2,000
Percent of imports		100	17.9	6.3	2.1	1.0	....	5.3	2.1	1.0	4.2	35.8	42.1

1. Imports exceed consumption in some countries because they export products; the Netherlands transships come crude oil to other West European countries.
2. US imports are allocated on a direct and indirect basis, i.e., refined products from export refineries are traced to the source of the crude oil.

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Estimated Arab Oil Trade, 1973[1]

Thousand Barrels per Day

Arab Oil Producers	Total Exports	United States	Western Europe: Total	West Germany	United Kingdom	France	Italy	Netherlands	Other	Japan	Canada	Communist Area	Other
Total Arab	**18,600**	**1,600**	**11,300**	**1,650**	**1,600**	**2,100**	**1,750**	**1,450**	**2,750**	**2,300**	**150**	**400**	**2,850**
Percent of Exports	**100**	**8.6**	**60.8**	**8.9**	**8.6**	**11.3**	**9.4**	**7.8**	**14.8**	**12.4**	**0.8**	**2.1**	**15.3**
Saudi Arabia	8,000	600	4,350	500	550	600	700	750	1,250	1,250	50	Negl.	1,750
Percent of Exports	100	7.5	54.4	6.2	6.9	7.5	8.8	9.4	15.6	15.6	0.6	Negl.	21.9
Kuwait	3,100	150	1,750	100	350	300	300	350	350	650	Negl.	....	550
Percent of Exports	100	4.8	56.5	3.2	11.3	9.7	9.7	11.3	11.3	21.0	Negl.	....	17.1
Libya	2,200	350	1,700	500	250	150	400	100	300	Negl.	50	100	....
Percent of Exports	100	15.9	77.3	22.7	11.4	6.8	18.2	4.6	13.6	Negl.	2.3	4.5	....
Iraq	1,900	50	1,300	100	100	400	350	Negl.	350	50	Negl.	200	300
Percent of Exports	100	2.6	68.5	5.3	5.3	21.1	18.4	Negl.	18.4	2.6	Negl.	10.5	15.8
Abu Dhabi	1,150	150	600	....	200	300	....	....	100	300	50	Negl.	50
Percent of Exports	100	13.1	52.2	....	17.4	26.1	....	....	8.7	26.1	4.3	Negl.	4.3
Algeria	1,100	150	750	250	Negl.	250	....	50	200	....	....	50	150
Percent of Exports	100	13.6	68.2	22.7	Negl.	22.7	....	4.6	18.2	....	....	4.6	13.6
Other Arab	1,150	150	850	200	150	100	....	200	200	50	Negl.	50	50
Percent of Exports	100	13.1	73.9	17.4	13.0	8.7	....	17.4	17.4	4.3	Negl.	4.3	4.3

1. This table allocates imports on direct and indirect basis – i.e., refined products from export refineries are traced to source of crude oil. The estimates are a yearly average for 1973 and therefore differ from estimates made at any specific time. For example, US dependence on Arab oil has increased throughout the year and in October is nearly 2 million barrels per day.

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Impact of Cutbacks and Embargoes on Arab Oil Production 1973

Thousand Barrels per Day

		Estimated	
	September	October	November
Total	**20,000**	**18,350**	**15,650**
Saudi Arabia	8,550[1]	8,000	6,600
Kuwait	3,250[1]	3,100	2,750
Libya	2,100	2,000	1,900
Iraq	2,100	1,700	1,400
Abu Dhabi	1,300	1,200	1,000
Algeria	1,100	1,000	950
Qatar	600	550	450
Other[2]	1,000	800	600

1. Includes share of Neutral Zone production.
2. Bahrain, Dubai, Oman, Syria, and Egypt.

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