

~~SECRET~~

APPROVED FOR RELEASE - CIA INFO □ DATE: 29-Aug-2012

THE MIDDLE EAST

The cease-fire, always tenuous, was looking very unstable this week as the chief adversaries remained at daggers drawn. Talk of an early resumption of major hostilities increased on both sides and, in fact, renewed fighting remains a real possibility. If it is not initiated deliberately by one side or the other, fighting could easily develop from the action of some local commanders along the tense confrontation lines.

At this time, however, there is no firm evidence that any of the principals intend to break the cease-fire in the near future. Instead, all appear more inclined to wait, with shared feelings of anxiety, hope, and skepticism, for further political developments from outside diplomatic efforts, above all those of the US. If the present impasse can be broken and the cease-fire preserved, at least Cairo and Tel Aviv seem disposed to take a more flexible approach to the difficult task of peacemaking than at any time since the establishment of Israel 25 years ago. As Secretary Kissinger neared the end of his scheduled visits to Arab capitals on Thursday, press services from Tel Aviv were reporting that Israel had accepted a "US peace proposal" that included some Israeli give on the immediate issues in dispute.

TRUCE VIOLATIONS UP

Shooting incidents increased markedly over the previous week, although there were no large-scale clashes and no significant changes in the territorial positions held by the two sides. Incidents occurred virtually every day in the critical southern sector of the Suez front; most were near the city of Suez, where Egyptian troops are bottled up, or in the area across the canal, where the bulk of Cairo's Third Army is trapped. Since Monday a number of violations have been reported in the northern sector of the Egyptian front as well. These were the first clashes between the Egyptian Second Army and blocking Israeli

forces since the UN cease-fire resolution of 22 October.

The incidents, which each side invariably blamed on the other, involved mostly machine gun and artillery firing. The Egyptians fired a few SAMs at Israeli air patrols, and each side apparently sent tanks into action at least once. The exchanges resulted in new casualties on each side.

More significantly, the clashes fed a growing belief on the part of both sides that their adversary would ultimately break the cease-fire.

Adding to the tension emanating from the Egyptian front were reports [redacted] indicating that the Egyptians had moved tanks, vehicles, and troops from the Cairo area toward the Suez Canal. On 7 November [redacted]

[redacted] the Israelis had detected an Egyptian force equipped with SAMs and including over 500 tanks, just to the west of Israeli positions in the central sector of the Suez front. [redacted] the Egyptians have concentrated "tens" of artillery batteries in the vicinity of Ismailia.

Should hostilities resume, a high-priority goal of the Egyptians would be to isolate the Israeli forces on the west bank. A likely course of action would be an intensive artillery barrage to destroy the Israeli bridges north of Great Bitter lake, followed by an armored thrust aimed at capturing Deversoir.

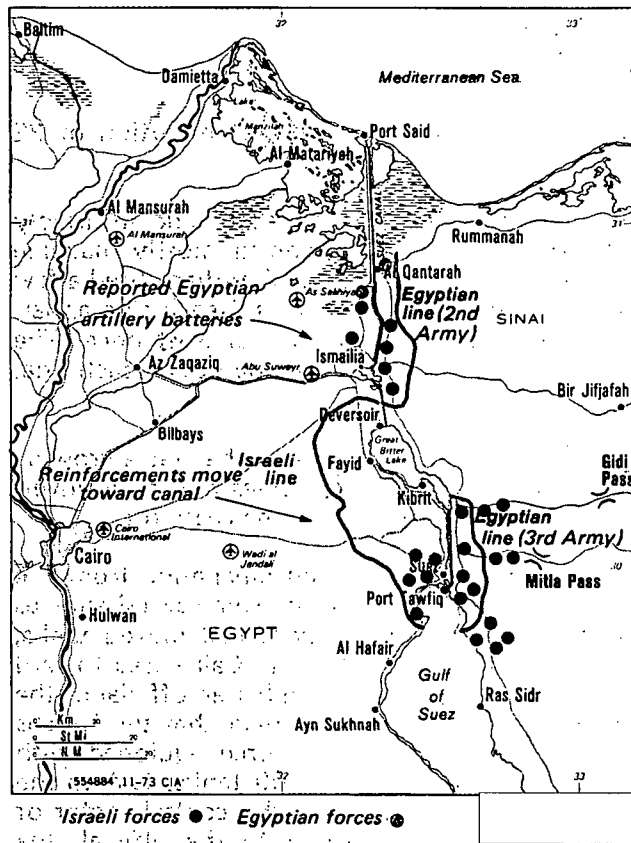
Tensions rose along the canal despite the arrival during the week of new contingents of the UN Emergency Force. By Thursday the force had grown to approximately 1,700 men. One deficiency that has limited its effectiveness may be alleviated with the arrival, expected later this week, of the logistic unit being provided by Canada.

~~SECRET~~

~~SECRET~~

APPROVED FOR RELEASE - CIA INFO □ DATE: 29-Aug-2012

Suez Canal Zone



back to the Syrian front. The move apparently came in response to the urging of Presidents Qadhafi and Boumediene and is said to be conditioned on Iraq's participation in any future inter-Arab planning.

THE IMMEDIATE ISSUES

Until the reports from Tel Aviv on Thursday, there was no discernible progress toward a resolution of the issues that must be solved before movement toward real negotiations on basic questions can begin. The Israelis continued to hold hostage in the Sinai Cairo's 20,000-man Third Army; in this way they remained in a position to inflict serious damage on, or perhaps destroy, the military credibility that Egyptian President Sadat has to preserve to be able to enter negotiations. He is most anxious to restore the force to Egyptian control and continues to press in every way he can for Israel's return to the positions it held on the canal's west bank on 22 October. Israeli forces cut off the Third Army several days later.

As a minimum first step, Sadat needed assurance that Egypt would be permitted indefinitely to send adequate quantities of essential non-military supplies to the beleaguered force. In mid-week, as the last of the 125 UN-driven supply trucks sanctioned reluctantly by the Israelis on 28 October delivered their loads, Tel Aviv agreed to allow 50 more. At least until the Thursday [redacted] Israel appeared unwilling to allow more than a trickle of supplies to the Third Army. [redacted]

[redacted] Israel would partially lift the encirclement of the Third Army in return for a prisoner exchange and the end of the Egyptian blockade of the Bab al Mandab straits at the entrance to the Red Sea.

The Syrian front was generally quiet. Heavy rains there last weekend provided a natural dampener to military activity. On 6 November, however, Israeli aircraft apparently attacked Syrian positions in one or two locations. Damascus charged that the Israelis had fired "many" Shrike missiles before being driven off by Syrian fighters and air defenses. The attack was the first serious violation of the cease-fire along the Syrian front. It was followed on 7 November by an exchange of fire between opposing ground forces that included a heavy artillery exchange. UN observers reported no forward movement by either side as a result of the incident.

The clashes on 6 and 7 November came amid reports that Syrian armored units have moved toward the Golan front. In addition, Baghdad, which has never stopped denouncing the cease-fire, has reportedly decided to send Iraqi troops

The issue of prisoners of war is vitally important to vastly outnumbered Israel. Under prodding, Cairo this week had finally furnished the International Red Cross the names of just over 100 of the 300 to 400 Israeli prisoners believed to be in Egyptian hands. As of Thursday noon, however, there was no visible indication from the Egyptian side that Cairo would in fact move toward the early and full prisoner exchange

~~SECRET~~

~~SECRET~~

APPROVED FOR RELEASE - CIA INFO □ DATE: 29-Aug-2012

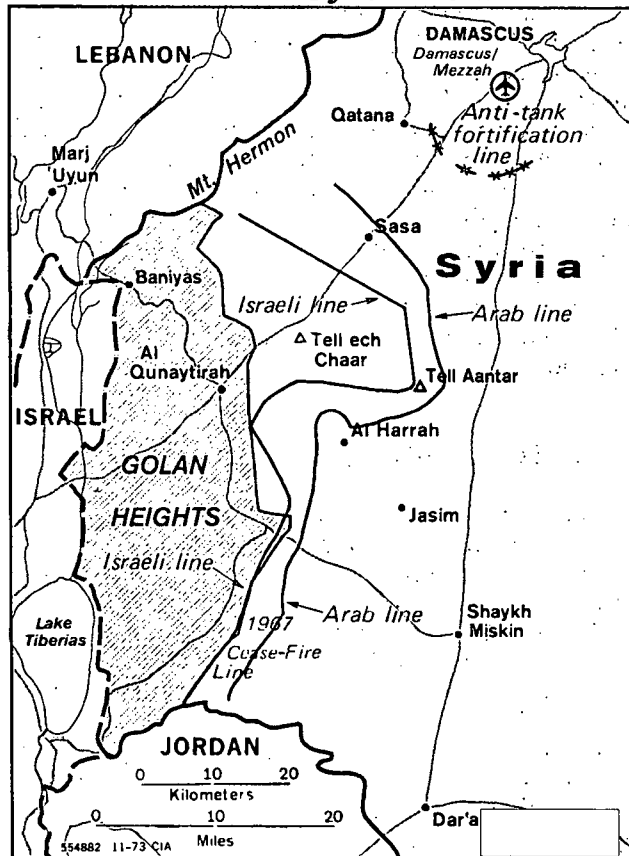
desired by the Israeli Government. Syria, for its part, remains totally unresponsive on the matter of prisoners and has furnished no names at all. Altogether, Israel holds prisoner nearly 7,900 Egyptians and 400 Syrians.

Egypt's interdiction since sometime last month of Israel's lifeline through the Bab al Mandab was of growing concern to the Israelis. An Egyptian naval force, consisting of a destroyer and two submarines on patrol and another destroyer and a frigate in nearby ports, has been maintaining an undeclared blockade that has bottled up 13 ships at the Israeli port of Elat. Tankers from Iran, on which Israel depends heavily, have had to take the long route around Africa. Tel Aviv, which does not have the military capability to break the blockade, has called its lifting an urgent order of business. Sadat had tied this issue to a "disengagement" of forces—i.e., Israeli give on the Third Army.

IN THE ARAB CAMP

Most Arab leaders spent the last week in diplomatic activity designed to forge a common stand from which to deal with the US and Israel. Egypt's President Sadat was trying to keep the leeway he needs to negotiate for all Arab states as well as the flexibility necessary to elicit cooperation from the US and concessions from Israel.

Battle Lines on the Syrian Front



Egyptian convoy awaits clearance before proceeding to Third Army

~~SECRET~~

~~SECRET~~

APPROVED FOR RELEASE - CIA INFO □ DATE: 29-Aug-2012

In an effort to stay somewhat aloof and to keep his negotiating options open, Sadat did not publicly support the rash of calls for an Arab summit. One of Sadat's chief problems has been to regain the confidence of Syria's President Asad, who, not having been informed that Egypt would accept the cease-fire, continues to take a harder line than Sadat on virtually every issue separating the Arabs from Israel and the US. Sadat and Asad met late last week in Kuwait to iron out their differences, but there are indications that their session left the basic issues unresolved.

In Egypt, Sadat's political position does not appear to have suffered significantly in the two-and-a-half weeks that have elapsed since the cease-fire. Although the wisdom of Sadat's decision to accept the cease-fire was questioned initially, a growing awareness in civilian and military circles of the real status of the Third Army and of the extent of the Israeli salient across the canal tended to justify Sadat's decision to stop fighting. Indeed, the basic uncertainties of the present circumstances may have focused popular reliance on him as the man who achieved Egypt's limited gains and may now be able to set the situation right.

[redacted] the current talk in Cairo of a military move to push Israel back to the original cease-fire lines may be designed primarily to mollify Sadat's critics while providing him room for political maneuver. His decision to renew full diplomatic relations with the US suggests that Sadat feels confident enough of his position to make this long-delayed move in the hope of inspiring the US to exert further pressures on Israel.

Syria's President Asad feels insecure both at home and abroad, with the result that Damascus continues to show markedly less inclination to engage in peace negotiations than has Cairo. Syrian Foreign Minister Khaddam repeated early this week that Syria has ruled out direct negotiations with Israel, any proposals for a demilitarized

zone in the Golan Heights, and any discussion of the surrender of Arab territory. Damascus has been unwilling even to follow Cairo's lead in tying a POW exchange to an Israeli return to the 22 October cease-fire lines.

There have, however, been indications that Syria might accept certain indirect moves toward a settlement. Khaddam, when questioned by newspaper reporters, left open the possibility of a visit to Damascus by high US officials.

Of the three leaders most involved in the fighting, Asad is under the greatest pressure to resume hostilities. Even some of his military commanders are said to favor a resumption of hostilities in the belief that Syria is nearly as strong as it was before the war started last month. Some of them may be looking for a pretext to instigate new fighting. If hostilities do resume, the Syrians reportedly will attempt to penetrate rapidly into Israel and are prepared to bomb military and civilian targets inside Israel.

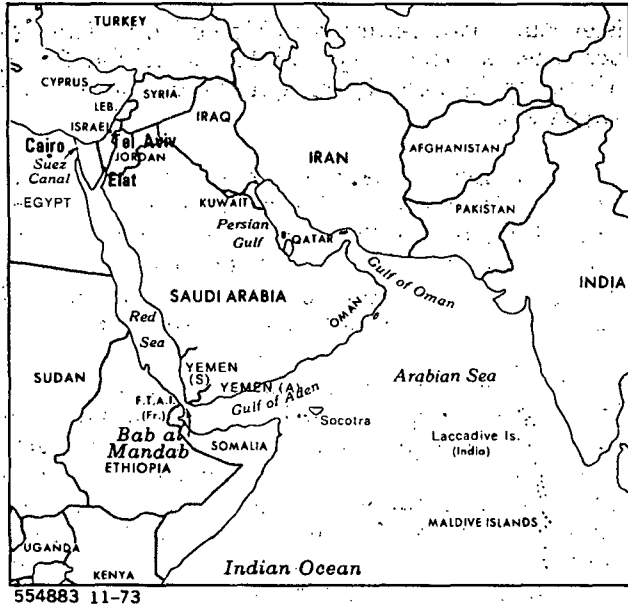
Syrian war-hawks are reflecting in part the very substantial infusion of Soviet arms since Moscow's resupply operation began early in the war. The Syrians reportedly have received some 700 T-62 tanks, new anti-tank weapons, SA-6 missiles, new naval equipment, MIG-17 aircraft, and MI-8 helicopters modified to carry bombs and rockets. Nearly 500 Soviet officers and technicians have reportedly entered Syria since the cease-fire; many of them will be engaged in helping Damascus organize a "new air force."

In the Arab world generally, plans are going forward for as many as three summit conferences. Libya's President Qadhafi and Algeria's President Boumediene have been especially active proponents of a summit, both to enhance their own minimal roles and to exert pressure on Sadat to keep in mind non-Egyptian issues like the Palestinian problem. Although virtually every Arab leader has traveled to other Arab capitals within the past week, there is still no firm indication of where or when any of the summit meetings being

~~SECRET~~

~~SECRET~~

APPROVED FOR RELEASE - CIA INFO □ DATE: 29-Aug-2012



discussed might be held. Possibilities for the near future include an Arab summit in Algiers; an Organization of African Unity meeting, also in Algiers; and an Islamic Conference summit, perhaps in Pakistan.

None of the proposed conclaves is likely to come up with anything startling or useful. Arab radicals, particularly Libya and Iraq, are likely to press the Egyptians to take a harder line toward Israel and the US. This happened at the Khartoum summit following the Arab debacle in 1967. Saudi Arabia, while likely to allow the combat states complete freedom to negotiate their own settlements with Israel, may well demand a meaningful Arab role in the administration of Jerusalem or at least its Muslim holy places, issues on which Tel Aviv is particularly reluctant to negotiate.

IN ISRAEL

The mood in Israel remains a somber mixture of anxiety and uncertainty. The man-in-the-street is inclined to give Mrs. Meir the benefit of the doubt, but the effects of the shocks administered by the Arab foe have been compounded by

the government's mistakes, producing increasing criticism.

Above all, Israelis are worried about what direction Washington will take. At this time, attitudes toward the US are ambivalent. The Israelis remain keenly aware of their dependence on the US and grateful for the help they receive. They are growing more suspicious, however, of what they believe may be a deeper US interest in pursuing detente with the Russians and securing its oil requirements. These considerations, they fear, will lead the US to appease the Arabs at the expense of Israel.

Mrs. Meir returned to Israel on 5 November after four days of talks in Washington. She has since refrained from public comments on the talks, except to reaffirm the US friendship for Israel and to acknowledge that some differences remain. She briefed her cabinet, but has twice postponed a promised accounting to the Israeli parliament, and seems to be waiting for developments from Secretary Kissinger's visits to Cairo and other Arab capitals this week.

The Israelis are upset by the heavy toll the recent fighting exacted in lives and by the prospect of more casualties should hostilities resume. On 6 November the government announced that 1,854 Israelis had been killed and that a comparable number were wounded. These were the first figures given out since mid-October, and they came as a profound shock to the casualty-sensitive Israelis. The losses were three times higher than those in the 1967 war.

Mrs. Meir's motives in releasing the casualty figures this week are not entirely clear. She had been under growing domestic pressure to do so, and she may hope that the shock will undercut Israelis who have been arguing for a renewal of the war. She may also be trying to prepare the way for public acceptance of some concessions to the Arabs.

The possibility of renewed fighting has been a recurrent theme in the Israeli press. Defense Minister Dayan asserted on 4 November that "Israel would not be surprised again." On 7

~~SECRET~~

~~SECRET~~

APPROVED FOR RELEASE - CIA INFO □ DATE: 29-Aug-2012

November the chief of the Israeli Air Force said he anticipated an Egyptian attack in force soon after Secretary Kissinger left Cairo and predicted that Israel would fight "with the gloves off."

THE UN SCENE

The United Nations inched forward this week in its efforts to assemble a 7,000-man peace-keeping force. The Security Council approved—after nearly a week of negotiation—the participation of seven more states, but that decision by no means ensured a speedy build-up of the force, now less than one third of authorized size. Many of the states finally selected are having difficulty organizing contingents.

These problems are compounded by difficulties over financing. The UN has no funds available and has only just begun procedures for a special assessment of all UN members to support the force. The assessment proposal will be subject to the usual parliamentary delays and may be held up by a competing plan; the less developed states are reportedly lobbying for an assessment scale that would place the burden on the developed states.

For now, the force must rely on donations and whatever financing is provided by participating states. Indonesia has already requested US assistance in equipping its contingent; similar requests can be expected from others.

Secretary General Waldheim has been under pressure from the nonaligned states to implement the council's resolution of 23 October that called on the combatants—only Israel was significantly affected—to return to the positions held on 22 October. The nonaligned states may request an early meeting of the Security Council at which Tel Aviv could be belabored for its failure to comply.

MOSCOW'S ROLE

Soviet diplomatic activity as it touches on the Middle East seems aimed at preserving the fragile cease-fire and on keeping pressure on the US and Israel. Soviet First Deputy Foreign Min-

ister Kuznetsov returned to Moscow on 6 November after a week-long visit to Egypt and Syria, where he apparently sought to promote these objectives.

In a speech marking the anniversary of the October Revolution, Soviet politburo member Kirilenko stressed the "urgent necessity" of an Israeli return to the lines of 22 October. Kirilenko raised the possibility of a Soviet drive in the UN for "stringent sanctions" against Israel if it does not comply. This point had been made earlier by Ambassador Malik, but it is the first time a top Soviet leader has endorsed sanctions against Tel Aviv since Shelepin did so in 1969. Kirilenko also promised that Moscow would render the necessary help and support to the Arab cause, but closed on a note of optimism, saying that conditions are more favorable than ever for a normalization of the Middle East situation.

Soviet Foreign Minister Gromyko's conversations with the West German foreign minister last week had suggested some flexibility in the Soviet position. Gromyko argued that negotiations should begin immediately and seemed to imply that they need not be preconditioned on Israeli withdrawal to the positions of 22 October. In

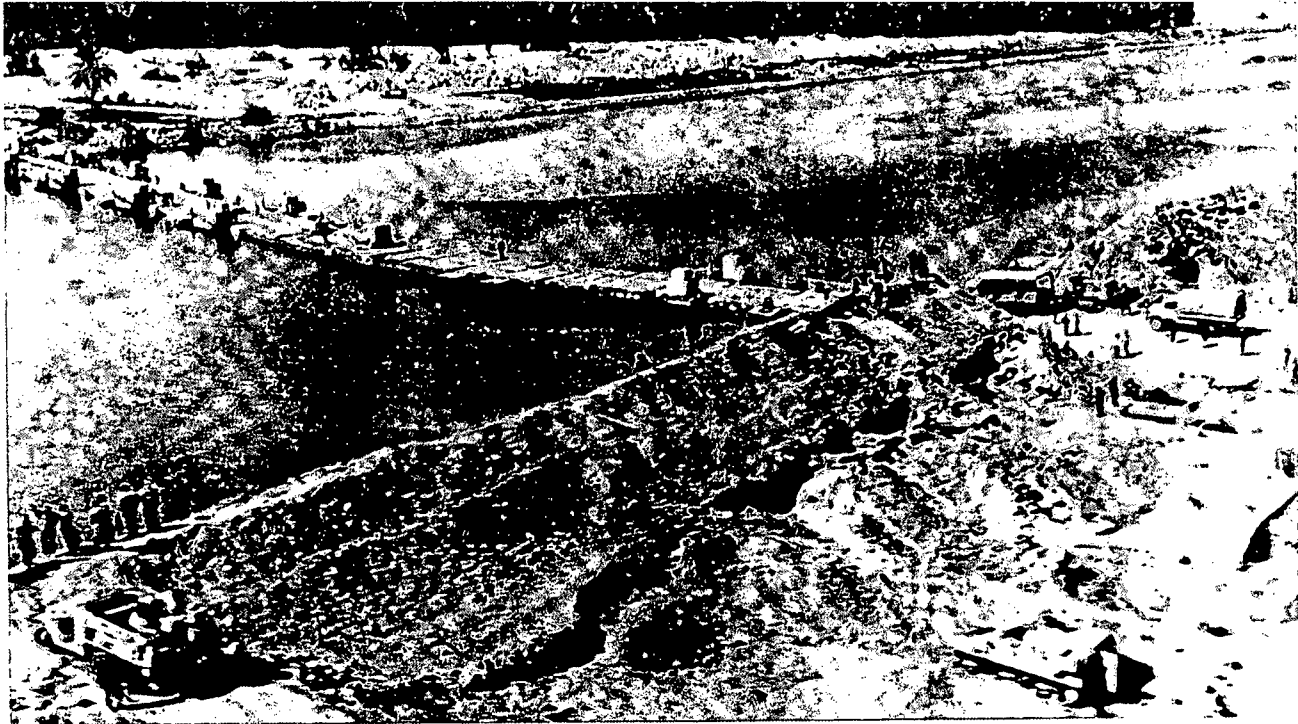


Kuznetsov and Sadat

~~SECRET~~

~~SECRET~~

APPROVED FOR RELEASE - CIA INFO □ DATE: 29-Aug-2012



Israeli bridge over Suez Canal

general, however, Moscow does not appear inclined to get very far ahead of the Arabs on political issues.

Moscow has been actively involved in efforts to get the UN peace-keeping force in place. The Soviets, for the first time, have agreed to help finance a UN force established by the Security Council, and they have actually begun to transport a Finnish contingent to the scene. The Soviet group of 70 observers, which arrived in Cairo on 25 October, apparently remains there pending approval by the UN Secretary General of their participation in the supervisory effort.

The Soviet resupply program to the Arab nations slackened significantly over the past week. Only four arms-carrying ships have been noted en route to Middle East ports so far in November. Since 7 October, 40 ships have delivered more than 93,000 tons of military cargo.

The massive shipment of military equipment over the past month has raised the possibility that Moscow may be preparing to insert its own forces. [redacted]

some such forces already have arrived, but the reports are not consistent as to the size or type of the Soviet force, [redacted]

[redacted] The number of Soviet advisers and technicians in Syria and Egypt may, however, have increased substantially since the war began.

One new weapons system that appears definitely to be present in Egypt is the Scud—a mobile surface-to-surface missile. It can carry a high explosive, chemical, or nuclear warhead and has the range to hit Tel Aviv from Egypt. The Soviets and the Egyptians may hope that this missile, which Egyptian President Sadat apparently referred to in his speech of 16 October, will deter Israeli deep penetration air raids on major Egyptian cities. [redacted]

~~SECRET~~

~~SECRET~~

APPROVED FOR RELEASE - CIA INFO □ DATE: 29-Aug-2012

THE OIL SQUEEZE

THE ARABS CUT BACK

The decision to cut production by 25 percent taken at the meeting of Arab oil ministers in Kuwait on 4 November means—if all participants stick to the plan—that Arab oil exports by the end of December will be some 5.8 million barrels a day below the September level. Before the war started, average December production was expected to be 1.9 million barrels per day above the September level. These increases will not now occur, and average production in December will be 7.7 million barrels per day below the level previously expected.

The new arrangement strengthens King Faysal's leadership role by committing the other



Kuwaiti and Saudi petroleum ministers confer

producers to match his cutback. Saudi Arabia and Kuwait, which account for 60 percent of Arab oil exports, had already cut production by about 25 percent. Libya had made only a symbolic cutback, and Algeria, Iraq, and Abu Dhabi had not slowed production at all. Abu Dhabi has now followed the Saudi lead, but Libya and Algeria, which argued in the meeting for moderation, probably will not make the full 25 percent cut, and Iraq refused to sign.

Under the new agreement, Turkey, Brazil, and the 18 African states that have broken relations with Israel were added to the list of friendly countries that will receive oil equal to their average imports during the first nine months of this year. France, Great Britain, Spain, and a number of Muslim states were already on this list. Portugal and South Africa were added to the US and the Netherlands on the embargoed list.

In addition to losses from the production cutbacks, all countries will lose any expected increases in imports. Although the US is not affected by these new cuts, having been totally embargoed earlier, it will lose something on the order of 500,000 additional barrels per day it had expected to get during the winter months.

EUROPE REACTS

3 This week's agreement of the EC Nine on a
 2 pro-Arab Middle East declaration may have
 5 stemmed in part from a belief that it would ease
 Western Europe's oil predicament.

the French gave "assurances" that the Arabs, in return for the declaration, would see to it that Europe, including the Dutch, would not lack for oil.

2 The "assurances" could be Arab acqui-
 4 sence in some degree of de facto help for the
 Dutch by the community. EC Commissioner for
 Energy Simonet believes that such aid will be
 forthcoming.

~~SECRET~~

~~SECRET~~

APPROVED FOR RELEASE - CIA INFO □ DATE: 29-Aug-2012

2 [The pro-Arab slant of the Nine's declaration is evident in the call for a return to positions occupied on 22 October, a formulation that makes Israeli withdrawal a prerequisite for settlement of the prisoner of war issue. In addition, the reference to the "legitimate rights of the Palestinians" goes beyond the language of Security Council Resolution 242.]

5 [Initial public Arab reaction to the EC statement has been favorable. A leading Cairo newspaper has said the EC position will help to bring pressure on Israel. The Palestinian news agency described the statement as a step on the path to understanding the Palestinian cause.]

6 [] while echoing Arab satisfaction with the declaration, nevertheless said it would not save the Dutch from the oil embargo. Relaxing the boycott, he implied, would signify Arab weakness. Should this Arab attitude prevail, it is likely to increase criticism—already evident in much of the European press—that the position of the Nine is not only "appeasement," but is also futile.]

2 [The atmosphere at the Brussels meeting was reported to be tense, especially when the French proposed that the Nine seize the occasion to dissociate themselves from the US and establish an independent European position embracing neutrality on the Middle East, both with respect to the superpowers and to Arabs and Israelis. The French offered to lead Europe in this neutrality and linked it with their proposal to develop alternative sources of energy by constructing a gaseous diffusion plant to supply Europe with enriched uranium.]

5 [A desire on the part of some Europeans to distance themselves from the US was apparent during the discussions, and Simonet commented on the marked distrust of some European officials for the US. He emphasized his own sense of urgency that the US and Europe should develop a common policy before the end of the year.]

PREPARING FOR THE WORST

7 [Western Europe faces a grim winter if the Arab oil cutbacks continue, since the Europeans

consume about 30 percent more oil in winter than in summer, a more pronounced swing in demand than in the US. Western Europe normally meets this high winter demand by drawing down stocks as well as by increasing imports.

At present rates, by mid-winter, deliveries to Western Europe will be running some 3 million barrels a day behind consumption. The Europeans can lessen the impact by using stocks built up earlier for just such a contingency and by reducing demand.

Western Europe has an estimated 880 million barrels in storage, the equivalent of 55 days of imports from all sources and about 80 days of imports from Arab producers. Western Europe draws down its stocks in a normal winter, at about 1.5 million barrels a day. Its capability for reducing demand, however, is probably much less than in the US. Western Europe consumes only 20 percent of its oil as gasoline, for example, compared with 45 percent in the US.

Most West European countries are already trying to cut their losses. Italy, Spain, Turkey, and the Benelux countries are restricting oil exports, and Britain will do so shortly. France and Sweden have ration cards ready to issue, and West Germany is preparing an emergency rationing bill. A number of countries have taken steps to reduce consumption: the Netherlands and Belgium have banned Sunday driving, while Austria has cut

Estimated Oil Supply and Demand, Winter 1973/74

	Million barrels/day
Domestic production	0.4
Imports	
Arab	10.1
Non-Arab	4.5
Normal winter stock drawdown	1.5
Total Supply	16.5
Demand	-19.5
POTENTIAL SUPPLY DEFICIT	3.0

~~SECRET~~

~~SECRET~~

APPROVED FOR RELEASE - CIA INFO □ DATE: 29-Aug-2012

output in its major refinery by 40 percent and is prohibiting the sale of gasoline in containers to discourage hoarding. Despite such measures, and even with a larger use of its stocks, the West Europeans probably will suffer some severe shortages.

JAPAN: NOT HURTING YET

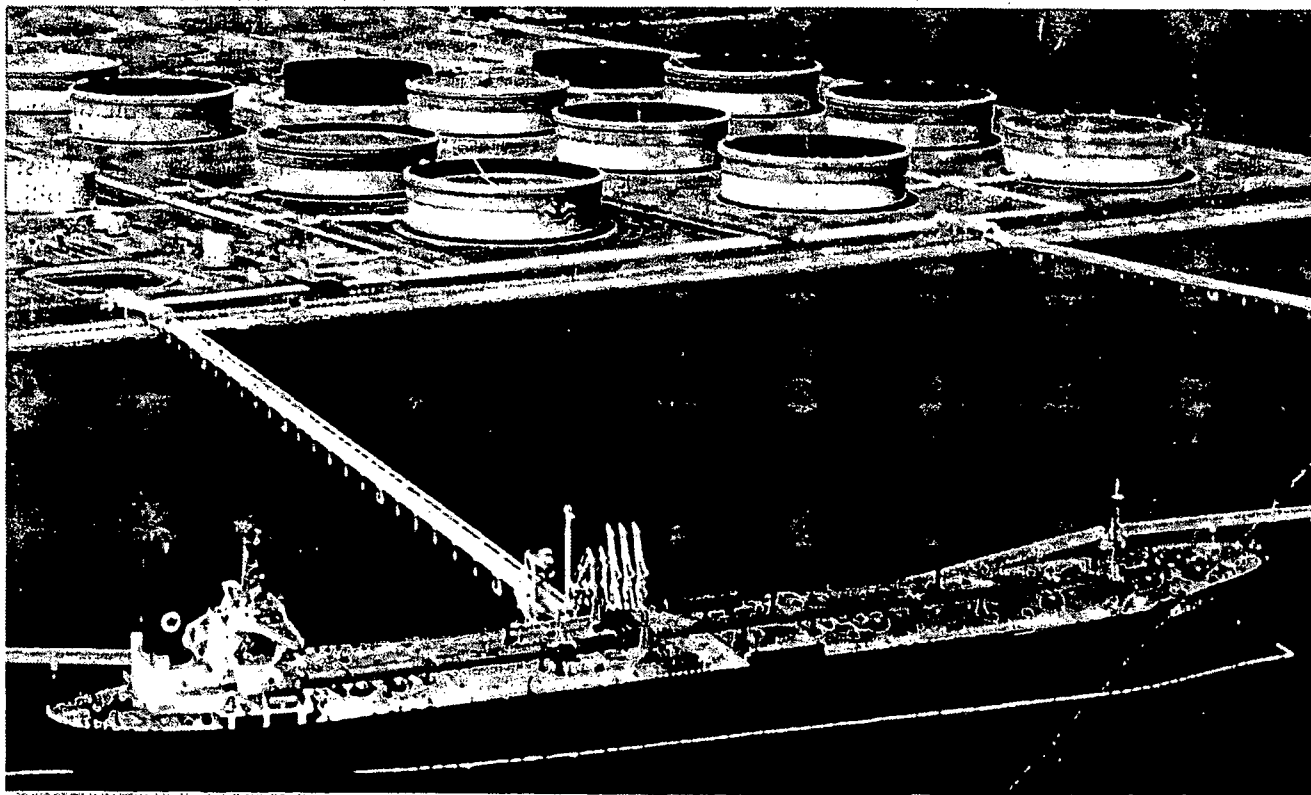
Japan stands to lose roughly 600,000 barrels per day of oil imports, equal to about 11 percent of consumption, as a result of the Arab producers' production cutback. The major international oil firms that supply most of the oil have already notified the Japanese of impending delivery cuts. Japan's import losses could reach roughly 20 percent of normal requirements during December and January, when fuel consumption is at a seasonal peak.

For the moment, Japan is in a good position to compensate for reduced imports. The govern-

ment has increased stocks of crude and products to about 280 million barrels, a 50-day supply at current rates of consumption. Because of the 20-day lag between the time tankers load in the Persian Gulf and unload in Japan, the flow of crude has not yet been affected. Refineries are operating normally so far.

Even with continuing Arab cutbacks, normal consumption requirements could be satisfied for about nine months by drawing on stocks. A 10-percent cut in consumption through rationing would stretch the period to a year. The government is unwilling to exhaust stocks, however, and supply shortages could begin to affect industrial production sometime this winter, private consumption even sooner. The steel and petrochemical industries are particularly vulnerable.

The government is preparing a three-phase campaign to save energy, starting with the issuance of consumption guidelines. The second



Japanese oil unloading facility

~~SECRET~~

~~SECRET~~

APPROVED FOR RELEASE - CIA INFO DATE: 29-Aug-2012

phase would require refineries to reduce supplies of specific products to wholesalers. Finally, the government would seek to obtain emergency legislation permitting a ration system. Tokyo has already allocated propane supplies, the largest oil distributor has announced that it will restrict wholesale deliveries to September levels, and oil refiners are planning a 10-percent cut in output.

Meanwhile, Japanese representatives reportedly are trying to buy from Abu Dhabi and Iraq the government-owned crude previously committed to US companies. To obtain near normal amounts of oil, however, Japan will have to meet Arab demands that it adopt a more openly pro-Arab political stance. Tokyo already is moving in that direction.

In addition to the supply issue, Tokyo is increasingly concerned about the effect of oil price hikes on its trade balance. The 35-percent increase recently announced by the major firms would raise the cost of oil imports by about \$3 billion next year if the level of imports remained at the 1973 level. The result would be a substantial decline in Japan's trade surplus instead of the slight increase that Tokyo had been projecting.

CANADA: POLICY FOR THE SQUEEZE.

14 [Ottawa is taking action on a number of fronts to deal with the serious effects a reduction of Arab oil production could have on eastern Canada. The region east of the Ottawa River valley is almost totally dependent on imported crude, some 25 percent of which comes from Arab states.]

13 [Recently, Prime Minister Trudeau has made a number of proposals that would reduce dependence on foreign supplies, but most of his moves will have only a limited impact. Canada alone among industrialized Western nations is self-sufficient in oil, but the transportation facilities between Ontario and points east are not sufficient for the needs of Quebec and the Maritime Provinces. A trickle of oil from western Canada reaches Montreal, but most of this will be cut off when ice closes the St. Lawrence Seaway next month.]

13 [Canadian diplomats have been busy trying to convince Arab officials that Canada should be exempt from the oil boycott. There have been some indications that if diplomatic persuasion fails, Ottawa may be willing to use grain for leverage with the Arabs. The results to date have not been encouraging for Ottawa.] At least some Arab states have informed Ottawa that no oil will be shipped to Portland, Maine, even though it is bonded for transshipment by pipeline to Montreal, which is ice-bound from December to April. Moreover, the Arabs are demanding guarantees that Arab oil delivered to other Canadian points will not be diverted to US customers.]

14 [The oil crisis has lent urgency to Canada's efforts to formulate a national energy policy. This policy seems certain to be more concerned with protecting Canadian interests and less attentive to US needs than present Canadian policy. As a first step, the government has made a number of decisions restricting petroleum exports to the US.]

13 [Some of these restrictions have run into opposition from Premier Peter Lougheed of oil-rich Alberta, who has been feuding with federal Energy Minister Donald MacDonald since energy policy changes were first announced in early September. MacDonald's changes include:

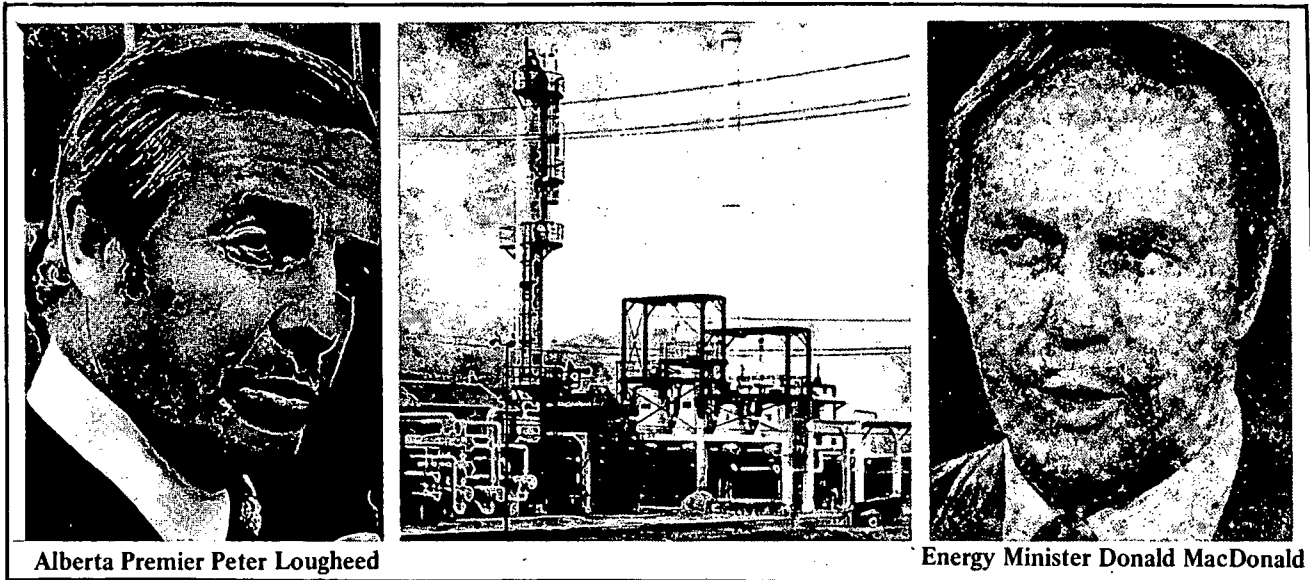
- a voluntary freeze on oil prices until 1 February 1974;
- a federal export tax on crude oil of \$1.90 per barrel;
- plans to extend the present Alberta-Ontario pipeline to Montreal, thus diverting part of the 1.2 million barrels per day exported to the US.]

[The New Democratic Party, Trudeau's informal coalition partner, has been demanding creation of a publicly owned company that would buy, sell, and set prices for Canada's energy resources independent of the international market. Proponents maintain that such an institution would insulate Canadian

~~SECRET~~

~~SECRET~~

APPROVED FOR RELEASE - CIA INFO □ DATE: 29-Aug-2012



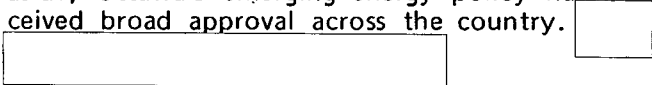
Alberta Premier Peter Lougheed

Energy Minister Donald MacDonald

consumers from the rising prices of the high-demand US market, while still allowing surplus production to be sold at high rates in the US

13
14
Lougheed is concerned that the federal move will reduce the province's income from oil production and harm its economic growth. Alberta believes that it should control the production and use of its resources. If firmly adhered to, this stance could lead to a major constitutional battle with Ottawa.

At this point, Lougheed and his advisers are so incensed with the Trudeau administration's handling of energy matters that they have cut off communication with Ottawa. For his part, MacDonald, a politically ambitious nationalist, is showing few signs of softening his position. With Trudeau looking ahead to a spring election, MacDonald has been stressing that his changes in oil policy are in the national interest. Lougheed's rigid stance has not helped his case, and, Alberta aside, Ottawa's emerging energy policy has received broad approval across the country.



~~SECRET~~

Page Denied

Page Denied