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The Arab Boycott of Israel: New Efforts and Old Problems

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An Intelligence Assessment

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An Intelligence Assessment

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The Arab Boycott of Israel: New Efforts and Old Problems

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Key Judgments

Information available as of 9 August 1982 was used in this report

The Arab boycott is designed to prevent commerce between Arabs and Israel and foreign firms contributing to the economic development or military strength of Israel. In the past several months, the Arab League has approved a number of changes that could increase the vulnerability of US firms to the boycott. Among other things the new measures call for the automatic blacklisting of any firm from a country with antiboycott legislation that violates boycott principles. 25X1

It is unlikely these measures will be enforced vigorously. Because implementation of the boycott varies from country to country and is often lax, 25X1 the boycott has been viewed by many as ineffective. Even strict enforcers of the boycott make exceptions for goods or services they strongly desire.

The boycott has cost US firms some business in the Middle East, but many companies have traded with both Israel and the Arab states. It is difficult to quantify the impact of the boycott on Israel's economy, but it has been one factor in the decline in foreign investment in Israel since 1973. 25X1 Whatever the economic effects of the boycott, it has been useful propaganda to keep the issue of Israel before the Arab people and the world.

Israel's invasion of Lebanon has prompted calls in the Arab world to extend the boycott to the United States. Moderate Arab states with strong commercial ties to the United States are unlikely to take such a drastic step.

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The Arab Boycott of Israel: New Efforts and Old Problems

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History of the Boycott [1]

The Arab boycott of the Jewish community in Palestine predates the formal establishment of the state of Israel in 1948. In December 1945 the Arab League Council called on all Arabs "to refuse to deal in, distribute, or consume Zionist products or manufactured goods." Even before the boycott, many Arab individuals and groups shunned Jewish businesses in Palestine.

Before 1950 the boycott attempted only to keep Israeli goods out of Arab countries. In that year the boycott was extended to include third-party shipping in an effort to slow trade into and out of Israel. The Arab League Council decided that any ship carrying military equipment or immigrants to Israel would be barred from Arab ports. In the early 1950s the Council also recommended extending the boycott to foreign firms with branches in Israel.

Today, in theory, only companies considered to be significantly contributing to the economic development or military strength of Israel are subject to the boycott. According to boycott principles, sanctions need not be imposed on firms exporting only consumer goods to Israel. Some companies selling such products, however, have received questionnaires from the boycott office.

The Arab League does not distinguish among the various types of boycott it administers, but the world business community generally differentiates among three types of boycott action. The *primary boycott* bans all direct trade between Arab states and Israel. Until the United States enacted strict antiboycott legislation in 1977, the primary ban was most commonly enforced by a negative certificate of origin—a trade document certifying that the goods in question are not made in Israel and do not contain Israeli-made components. After the United States forbade US firms from supplying negative certificates, most Arab states came to accept a positive certificate of origin that indicates where the product and its components were manufactured and the name of the manufacturer.

The *secondary boycott*, instituted in the early 1950s, bans commerce with companies that contribute significantly to Israel's economic or military strength. A firm is blacklisted if it:

- Has a plant, branch, licensee, or regional agent for the Middle East in Israel.
- Is a partner in any Israeli company.
- Advises Israeli manufacturers.
- Acts as agent or principal importer for any Israeli firm.
- Prospects for natural resources in Israel.[2]

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Although boycott officials periodically insist publicly and privately that only firms adding to Israel's strength are blacklisted, the contributions of many boycotted companies are difficult to discern. The Topps Chewing Gum Company, for example, was blacklisted after it licensed an Israeli factory to produce Bazooka bubble gum.

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Third-country firms suspected of proscribed activity in Israel are usually confronted with a questionnaire asking if they are engaged in forbidden practices. If a firm responds positively or refuses to reply to a questionnaire, it may be blacklisted. US firms are prohibited from responding to boycott questionnaires under the 1977 antiboycott legislation. The law also requires US companies to report the receipt of questionnaires to the US Department of Commerce.

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In a form of extended secondary boycott, boycotting countries require third-country firms to refuse to use products or services of blacklisted companies in fulfilling a contract or sale to enforcing countries. A clause requiring such a refusal sometimes appears as a contract condition. This requirement has been labeled

[1] Based largely on open-source literature.

[2] See appendix.

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a *tertiary boycott* in the United States. It is especially prevalent in international banking. As Arab financial institutions have come to play an increased role as lenders to corporate and government borrowers, some borrowers have been pressured to refrain from dealing with blacklisted banks or other institutions with alleged "Zionist" connections. Three Arab banks, for example, recently withdrew as comanagers of a $2 billion loan for the Mexican state oil company after blacklisted banks were included in the management syndicate. [redacted]

An indeterminable number of companies refrain from commerce with Israel without any prompting from the Arab League, believing such a practice is necessary to win Arab business. Even though it is illegal for US companies to respond to boycott questionnaires, some firms have asked for the questionnaires without having been contacted by the Central Boycott Office. [redacted]

The Boycott Apparatus

The Arab boycott is administered by a Central Boycott Office (CBO) headquartered in Syria and national boycott offices in each Arab country.[3] Each member of the Arab League appoints a representative to a central boycott committee that usually meets semiannually. The committee recommends the addition or deletion of firms to the blacklist, but its decisions are not binding. Each Arab country decides whether to accept the decisions of the committee. Each country, therefore, maintains its own blacklist, and the various country lists are not uniform. [redacted]

If the CBO receives credible evidence that a firm has violated the rules of the boycott, a questionnaire will be sent to the company. The CBO interprets a company's failure to respond to repeated requests for information as an admission of guilt. In late 1979 the deputy secretary general of the CBO stated that since US antiboycott laws took effect, 90 percent of all US companies blacklisted were boycotted for failing to respond to boycott office questionnaires. [redacted]

[3] The CBO has been located in Damascus since 1960 and has a staff of about 50. The current secretary general is Nurallah Nurallah, a former Syrian Minister of Planning. [redacted]

According to a CBO official, US firms may be treated with greater leniency than non-American firms because boycott officials realize that legal restrictions prohibit their response to boycott office inquiries. In a recent investigation of J. P. Stevens Co., for example, the CBO refrained from sending its standard boycott questionnaire and instead pursued its own investigation. [redacted]

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New Procedures

Decisions on whether to recommend imposition or removal of boycott sanctions on specific firms are normally within the purview of the boycott committee. Any changes in boycott procedures, however, must be ratified by the Arab League Council before they become effective. At its meeting in September 1981, the Council was reported to have approved a number of procedural changes that could greatly increase the vulnerability to boycott action of firms from the United States and other countries with antiboycott legislation. According to a CBO official, the changes were prompted in part by French efforts to strengthen and Canadian and Dutch moves to enact antiboycott legislation. [redacted]

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The Council ratified a decision by the boycott committee to boycott automatically any firm from a country with antiboycott legislation if credible evidence exists or an official Arab or other completely reliable source states that the firm has violated boycott regulations. In the past US firms often benefited from delays in the boycott committee decisionmaking process. The new "automatic" boycott reduces the possibilities for delay and avoidance. [redacted]

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The Council also ratified the committee's decision to boycott automatically any firm participating in Israel's Mediterranean–Dead Sea canal project. If any firms are blacklisted for participating in the project, the CBO will refuse further communication with them until they have ended their involvement in the canal scheme.[4] [redacted]

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[4] The Mediterranean–Dead Sea canal boycott may become a non-issue. We believe it is highly unlikely that the canal will ever be built because of the difficulty Israel will have in financing the project. [redacted]

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The Arab League Council also approved the banning of any airline using Kalandia Airport in Israeli-occupied East Jerusalem. Only domestic Israeli carriers, however, use that airport.

At its meeting in September 1981, the Union of Arab Chambers of Commerce recommended that Arab governments reimpose their requirement for negative certificates of origin for imports. The business group argued that the Arab states' retreat from their demand for negative certificates of origin was encouraging Western nations to adopt antiboycott legislation. One Arab business source predicted that even if the boycott committee approved the recommendation—which it apparently has not yet considered—it would die in the Arab League Council. If this procedure is reinstituted, it could hurt US trade in the region.

Over the past year other attempts have been made to expand the boycott. The CBO and the Islamic Conference Organization (ICO) have had contacts regarding the establishment of a structure within the ICO for boycotting firms doing business with Israel. The two groups hope such an office will increase interest in boycotting Israel in non-Arab Islamic states. The ICO boycott office apparently is not yet operational.

Even without a formal boycott apparatus within the ICO, some Arab states and institutions have been successful in extending the boycott to other Islamic countries. Boycott conditions have appeared in tenders issued by non-Arab countries for projects funded by Arab nations or lending institutions. Non-Arab Islamic countries that receive substantial financial aid from Arab oil-exporting states are particularly susceptible. Advertisements, for example, have appeared in the US press concerning Saudi-financed Turkish state railroad and Turkish Electric Authority projects barring participation by firms blacklisted by the CBO or Saudi Arabia. Turkey is vulnerable to pressure to participate in the boycott because it receives significant Arab development aid and has important trade ties to Arab countries.

Loopholes in Enforcement

Although the Arab League's boycott bureaucracy has attempted over the past year to strengthen the boycott, we strongly doubt that these measures will be enforced strictly by the individual Arab nations. Numerous exceptions made by Arab states to the boycott principles detract from their goal of preventing certain types of commerce with Israel. Some Arab League members have criticized the central boycott bureaucracy itself. After the boycott committee went through all of 1978 without meeting, the League commissioned an investigation of charges by some members that the CBO is ineffective. A report written by the Arab League's then assistant secretary general accused the boycott office of inflating its performance.

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Implementation of CBO recommendations varies widely from country to country. Even countries that strictly enforce the boycott have overlooked regulations and dealt with blacklisted firms when they believed it was important to their economic development or national security. Iraq, for example, bought buses from British Leyland while the company was on the blacklist. If goods or services are only available through a few exporters, exceptions are made. The boycott also may be ignored if a blacklisted firm is the only source for necessary spare parts. The former head of the US Commerce Department's Office of Anti-Boycott Compliance said in 1981, "If they want the goods, Arab countries will accommodate themselves . . . by and large an arrangement can be made."

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One clear example of why Arab customers skirt the boycott is provided by the case of the Arab Telecommunications Organization—a specialized agency affiliated with the Arab League. The organization had difficulty soliciting bids for its Arab telecommunications satellite (ARABSAT) project because almost all foreign firms involved in space communications are on the blacklist. The CBO decided in April 1980 to allow boycotted firms to participate—although only for the ARABSAT project. This was the first time the CBO had made a formal—even if limited—exemption to the boycott.

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Military equipment is usually exempted from boycott requirements since government-to-government sales in theory are not subject to the boycott. Despite the principle of blacklisting any company contributing to

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Israel's military strength, Arab governments regularly put their own national security interests ahead of boycott rules. Still, the "General Principles for the Boycott of Israel" recommend that importing countries examine Israel's connections with arms manufacturers. [redacted]

The boycott office excepts from boycott rules any international banking institution from which the Arabs derive greater benefit than Israel regardless of the extent of the bank's relationship with Israel. A commercial bank will not be blacklisted for dealing with Israel if boycott officials have evidence that the bank has loaned more money to Arabs than to Israelis. [redacted]

In the same vein, some Arab countries have told corporations investing in Israel that they would not be blacklisted if they made an equal or greater investment in an Arab country. [redacted] after IBM decided to establish an electronic research center in Israel, the boycott committee ruled it would not be blacklisted if it built a comparable facility in the Arab world. Many large firms and banks, therefore, have found that they can deal with both Arab states and Israel because the Arabs consider their products or capital resources indispensable. [redacted]

Some boycotted companies have reported approaches by agents claiming they could get them removed from the blacklist for a fee. An official of the Monsanto Company, blacklisted in 1966, was quoted in 1976 as saying, "There has been no end of agents coming to us and offering to get us off the list for a fee." RCA executives also reported being contacted by agents offering to intercede with the boycott office. [redacted]

In 1977 the General Tire and Rubber Company acknowledged in a report filed in US District Court that it had paid $150,000 to the Lebanese-based Triad Financial Establishment in the early 1970s for help in being removed from the blacklist. According to press accounts, General Tire had been unsuccessful in its attempts to get off the blacklist even though it had sold its one-third share in an Israeli tire company in 1963. In 1970 General Tire was approached by a
representative of Triad, a conglomerate headed by 25X1
Saudi businessman Adnan Khashoggi. Within a few
years General Tire was removed from the blacklist
after filing a sworn statement with the Arab League 25X1
that it would cease rendering technical assistance to
the Israeli company. [redacted]

Discrepancies in Enforcement

Implementation of the boycott varies from country to 25X1
country. Iraq, Syria, Libya, and Kuwait are considered by most observers to be among the strictest
states. Morocco, Tunisia, Sudan, Somalia, Mauritania, and Algeria do not enforce the secondary boycott. 25X1
Egypt ended its participation in the boycott as part of
its peace treaty with Israel. [redacted]

Iraq is one of the most inflexible enforcers of the
boycott, but it will make exceptions for products or 25X1
services that cannot be matched elsewhere, especially
items for its petroleum industry. Nonetheless, boycott
requirements pervade Iraqi commercial practices.
Even Libya—before the US embargo of petroleum- 25X1
related services and equipment in 1981—would allow
boycott language acceptable to US authorities in
letters of credit for goods that could not be found
outside the United States, particularly essential oil- 25X1
field equipment. [redacted]

Oman, at the other extreme, is an unenthusiastic 25X1
participant in the boycott. Muscat's practice has been
to pay lipservice to CBO directives and interpret them
in a liberal fashion or ignore them entirely. [redacted]
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The case of the French firm Renault is a good
example of the variance in implementation among
Arab states. The boycott committee added Renault to
its blacklist in December 1981 because Renault owns
46 percent of the American Motors Corporation, a
firm that has supplied an Israeli manufacturer with at 25X1
least 200 Jeep assembly kits later sold to the Israeli
police and army. After the blacklisting of Renault,
some Arab states—including Iraq, Saudi Arabia,
Kuwait, and the United Arab Emirates—quickly
curtailed imports of the company's trucks. Kuwait's
boycott office, which is run by Palestinians, is particularly rigid about enforcing boycott regulations on
nondefense items. [redacted] 25X1

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Algeria is a strict enforcer of the primary boycott, but it does not apply the secondary boycott. On 15 March 1982, soon after Renault had been added to the Arab blacklist, the French manufacturer announced it had signed a contract to sell 4,700 trucks to Algiers. [redacted]

North Yemen's reaction to the banning of Renault also underscores how self-interest often leads countries to ignore boycott regulations. The implementation of boycott recommendations in North Yemen involves bargaining among various interest groups and rarely results in barring the import of boycotted products. After Renault was added to the central blacklist, the company's Yemeni agent apparently argued before officials in Sanaa that imposition of the ban would hurt many farmers who would be unable to obtain spare parts for their Renault tractors. As a result, the ban on dealings with Renault was ignored. [redacted]

The Renault case also suggests that boycott committee decisions may sometimes be influenced by broader Arab-Israeli issues. The US Embassy in Damascus noted that committee members' negative political attitudes toward France seemed to be "a major factor" in the banning of the state-owned automaker. The blacklisting followed the Mitterrand government's moves to tighten French antiboycott regulations, pro-Israel statements attributed to the French Foreign Minister, and reports that Mitterrand planned to visit Israel. [redacted]

Before the increase in Arab economic power in 1973, the boycott was often ridiculed because of many odd rulings. The Yale Glee Club was blacklisted in one Arab country because of the Hebrew motto on the university's seal. Elizabeth Taylor's films were boycotted in 1959 after she purchased $100,000 worth of Israeli bonds. Scores of other popular entertainers have been blacklisted for alleged pro-Zionist activity. [redacted]

Impact on Israel

Israel's reaction to the boycott has been mixed. Until the mid-1970s the Israeli Government for the most part was quiet about the boycott, fearing that publicity would only remind the business community of its existence. Israel's concern about the boycott before 1973 was so slight that it abolished its small antiboycott office in 1971. In 1975 Israel reestablished an antiboycott unit. Still, Israeli Government officials have differed in tone on the boycott, stressing its negative aspects when talking to US officials but playing it down to potential investors. Israeli officials have acknowledged that foreign firms are able to continue doing business with Israel through various means such as dealing through separate companies or subsidiaries or simply ignoring the boycott. [redacted] 25X1

Israeli leaders called for direct US action against the boycott in 1976 and 1977 before antiboycott legislation was enacted. Subsequently, according to US Embassy reporting, Israeli Government officials encouraged their West European trading partners to adopt antiboycott laws and sought US support in convincing the European states to do so. [redacted] 25X1

The impact of the boycott on Israel's economy is difficult to measure, but it apparently was a factor in the drop in foreign investment in Israel from a high of $185 million in 1973 to $86 million last year after net disinvestment of $1 million in 1980. Although Israel touts its free trade access to the EC as an attraction to investors, many probably locate in EC countries to avoid boycott problems. The boycott, however, is not the only reason for the decline in investment. Triple-digit inflation and a strong trade union movement discourage many investors. [redacted] 25X1 25X1

The cost of the boycott in terms of trade lost by US firms is difficult to quantify. Some firms undoubtedly have been discouraged from doing business with Israel, but most companies determined to deal with both Israel and Arab countries have found ways, sometimes using subsidiaries or dummy corporations. Some US firms have forgone or been excluded from trade opportunities in Arab countries because of the boycott, but there are many loopholes in the boycott. [redacted] 25X1

Outlook

Israel's invasion of Lebanon has already generated calls in the Arab world for stricter economic sanctions against Israel and the United States. A proposal submitted by the PLO at a meeting of Arab foreign ministers in late June, for instance, called for a series

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of economic sanctions against the United States. Some Arab newspapers have made similar suggestions. There is little likelihood the boycott will be extended to the United States, however, since we believe moderate Arab states with strong commercial ties to the US realize that such measures could harm their own economies. [redacted] 25X1

Nonetheless, the boycott remains useful propaganda for the Arabs. In a recent press interview, CBO Secretary General Nurallah Nurallah claimed that the boycott is "the only effective Arab measure against Israel." One scholar has observed that "perhaps one of the principal benefits of the boycott program, in Arab League eyes, is that it keeps the issue of Israel constantly before the Arab people." After the Lebanese conflict, boycott actions are likely to be the focus of even greater Arab attention, but Arab self-interest probably will continue to dull the effectiveness of this weapon. [redacted] 25X1

Appendix

Excerpt from "The Principles of the Arab Boycott of Israel" [5]

The Cases in Which Transactions With Foreign Companies Are Banned if They Fail To Liquidate Their Violations

1. Manufacturing and Trading Companies

Transactions with foreign companies are banned in the following cases if such companies insist on their attitude by carrying on such practices and not ceasing from performing them:

a. If they have main or branch factories in Israel.

b. If they have assembly plants in Israel. This also applies to foreign firms and companies whose agents assemble their products in Israel.

The ban will be applied, too, in the case of assembly if it is proved that a certain Israeli company has assembled, on commercial scale, a unit of a certain product or goods from parts, the majority of which are produced by a certain foreign company or any of its branches/subsidiaries, unless such foreign company establishes its nonresponsibility for such assembly and takes legal proceedings against the Israeli company that committed the assembly. This provision is applied if the parts used in producing the unit constitute more than 50 percent of the parts of such unit or if the engine of the unit is of the foreign company's production.

c. If they have in Israel either general agencies or main offices for their Middle Eastern operations.

d. If they give the right of using their names or manufacturing licenses to Israeli companies.

e. If they hold shares in Israeli companies or factories.

f. If they render consultative services and technical experience to Israeli factories.

g. If the foreign company is engaged in the field of export-import and because of obstinacy and bias in favor of Israel, refuses to promote and sell Arab products while it promotes and sells Israeli products similar in price and quality.

h. If they take part in searching for the natural resources of Israel such as petroleum drilling.

i. If they decline to answer the questionnaire addressed by the Arab authorities requiring them to explain the nature of their relations with Israel and whether they form a violation or not.

[5] Published by Qatar's boycott office.

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The ban imposed on a certain company is applied against all of its parent and subsidiary companies.

It is permissible, however, to waive, for one time only, the ban imposed on a blacklisted company if it arranges for the liquidation of the violation of the rules in force in the Arab countries and presents documentation to this effect.

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