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Comments on NSC Memorandum "Economic Issues Related to the Search for a Middle East Settlement"

1. Summary:

The memorandum considers six economic issues (really proposals) involving international cooperation in the Middle East that could be used to promote settlement of political differences and help to make them stick. These propositions are:

a. A political settlement between Jordan and Israel could help Jordan by enabling:

(1) additional exports of up to $20 million annually to Israel,

(2) duty-free access for Jordanian exports to Mediterranean ports,

(3) expanded tourism earnings, through freeing two-way traffic and possibly internationalizing Jerusalem, and

(4) development of potential Jordan Valley water resources.

b. Political settlement between the UAR and Israel could benefit the UAR very little economically but would enhance the prospect of increased Western economic aid. For example, the UK, now losing more than $500 million a year because of Canal closure, may be induced to aid in its reopening.

c. A general Arab-Israeli political settlement could resolve the refugee problem by including limited repatriation, some compensation to others, and economic development to aid in resettling still others. If political settlement is impossible, creation of a consortium of countries is recommended to aid financially in resettling refugees.

d. A general Middle Eastern political settlement could enable broader regional development of potential water resources than is envisaged under 1a above. The possibility of fossil-fueled and nuclear powered desalting plants is cited for discussion.

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e. Settlement of political differences among Arab states could enable regional development of fertilizer production and distribution over an area ranging from Morocco to Iraq.

f. General economic benefits could be obtained from any regional economic cooperation among states in the Middle East area including Turkey and Iran.

2. <u>Comments</u>

1a Any expansion of Jordan's export trade would be especially useful in a country that has been able to maintain a satisfactory balance of payments position only through receipt of large quantities of foreign aid. Jordanian exports, however, would consist largely of fruits and vegetables, products that Israel now produces in large quantities and therefore $20 million in new export earnings seems very optimistic. Foreign exchange earnings by Jordan from expanded tourism would depend on obtaining at least a part of the earnings realized in the city of Jerusalem. Most of the hotel space is in this city, and about 60 percent or more of the expenditures of tourists accrue there.

1b In addition to $240 million in revenues accruing from the reopening of the Suez Canal, an Arab-UAR settlement returning the Sinai oil fields would improve the UAR balance of payments position by about $50 to $60 million a year. Furthermore, access to the Canal as a transport route for Egyptian products would ease internal distribution problems and impediments to exports.

1c Attempts to settle the long standing refugee problem have been futile. Political difficulties now include that of Israel absorbing large numbers of Arabs into a Jewish state and Jordan controlling hordes of Palestinians spread throughout the country.

1d One opportunity for cooperative development of regional water resources is that of the Euphrates River Basin, which extends across Turkey, Syria, and Iraq. At present, each country is attempting to develop its own portion of the river with considerable acrimony between Syria and Iraq, with no riparian rights yet ceded.

1e Interregional development of phosphate production in Morocco, Tunisia, and Spanish Sahara coupled with potential natural gas production in Algeria and Libya could result in this area becoming by far the world's largest producer and exporter of phosphate fertilisers.

1f That benefits would be obtained from general economic cooperation among Middle Eastern countries follows by definition without question.

 (yellow)

TO: O/DDI

EA/ER
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Herewith are OER comments on the NSC memorandum, "Economic Issues Related to the Search for a Middle East Settlement".

STATINTL

The NSC memorandum is attached.

/s/

STATINTL [redacted]
Acting Director
Economic Research

Atts.

26 October 1967

Distribution (of attachment):

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26 OCT 1967

TRANSMITTAL SLIP DATE

TO: OD/OER M/R:

ROOM NO. BUILDING

REMARKS: S-2497

OER Comments (prepared in FW/NE - [redacted] in response to request from O/DDI [redacted] by OOB Thurs, 26 Oct 67, in connection with NSC meeting.

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FORM NO. 241 1 FEB 55 REPLACES FORM 36-8 WHICH MAY BE USED. (47)

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5X EA/ER
OD/OER File
(ME)

11 August 1967

MEMORANDUM

SUBJECT: Crude Oil Production - Principal Producing and Exporting Countries of the Middle East, Africa, and the Western Hemisphere

REFERENCE: Memorandum, subject as above, 1 August 1967

1. The following estimates of production reflect the best available information as of 10 August 1967 (in thousands of barrels per day).

	1967		
	May	June	Early August
Saudi Arabia	2,951	1,863	2,900
Kuwait	2,386	1,498	2,800
Iraq - Northern Fields	800	387	800
Southern Fields	580	0	500
Trucial Coast	374	348	370
Qatar	265	254	260
Bahrain	69	70	70
Algeria	806	800	800
Libya	1,748	368	2,000
Total Arab States	9,979	5,588	10,500
Iran	2,310	2,451	2,700
Nigeria	560	560	60
Venezuela	3,450	3,600	3,700
United States	8,500	8,600	9,400
Total	24,799	20,799	26,360

2. Data shown for May and June represent average daily rates; data for "early August" reflect rates attained on various days but are not necessarily daily averages. Actual daily production and shipping rates vary as empty tankers are available at loading ports. Subject to the availability of tankers, production and exports will continue to exceed the May rates as oil stock levels in consuming countries, reduced during the immediate post-crisis period when imports were interrupted, are restored.

[redacted]

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4. Related Developments

a. No exports are being made through Tapline. (One tanker was loaded for Spain from Tapline terminal stocks in late July.) Although earlier reports indicated that Syria had prohibited resumption of the Tapline operation, evidence accumulates that insistence by Saudi Arabia on higher posted prices for crude at the Eastern Mediterranean terminal of Tapline is the principal impediment to resumption.

b. Libya reportedly has asked the oil companies for an increase of 80 cents per barrel in the posted price of crude oil. Libya points out that the delivered price of its oil in Western Europe is now $2.56 per barrel compared to a delivered price of $3.35 per barrel for Persian Gulf oil. (The posted price of Libyan crude is $2.11 per barrel; comparable Persian Gulf oil is $1.85 per barrel.)

c. The principal immediate effect of the new Iraqi Law 97 (August 1967) denies the Iraq Petroleum Company (IPC) any rights to the proved, but not producing, North Rumalia oilfield. IPC's claim to this field has been the source of a long-standing dispute with the Government as an outgrowth of the relinquishment provisions of Law 80 (1961). IPC's rights to producing areas in the northern and southern oilfields are unaffected by either Law 80 (1961) or 97 (1967).

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2	Chief, D/R	8/11	
3	DD/OER	14/8	
4	D/OER	14 Aug.	
5	[redacted], ONE		
6	Room 3-E-63		

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Remarks:

This unsolicited blind memo was prepared for [redacted] use when, and if, required. [redacted] will be on leave the week of 14-18 August.

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FROM: NAME, ADDRESS AND PHONE NO.	DATE
[redacted]	11 Aug 67

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