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THE OIL WAR

UNTIL the late sixties, the big oil companies were more worried by the prospect of too *much* oil, which could bring prices and profits tumbling down further, than by the prospect of a shortage. In May 1967 Michael Haider, then chairman of the biggest company, Exxon (or Esso), answered a shareholder's question at the annual meeting in Houston with the words: 'I wish I could say I will be around when there is a shortage of crude oil outside the United States.'

A year later, some oil companies were still concerned at the thought of a glut, and one of the 'Seven Sisters,' the Standard Oil Company of California (Socal or Chevron), was specially apprehensive of the Alaska discoveries, in which they had no share, which would bring a flood of oil down to the West Coast. A Socal company memo in December 1968 warned that 'within five to 10 years there may be large new crude supplies from the Arctic regions of the world seeking markets and thereby extending and magnifying the surplus supply problems.'

In 1969 George Piercy, the Exxon director concerned with the Middle East, had been fairly confident of future supplies meeting demands. On the one side he had expected that the boom in Japan—the biggest single importer of oil—would begin to slow down. On the other hand, there were some huge new expected sources of oil, including Alaska, Libya and, in the longer term, the North Sea, whose estimated reserves were constantly increasing.

But already by the late sixties there was an ominous turn-down in Exxon's master-graph, which showed spare capacity compared to world demand for oil, and by 1970 the trend had become much more serious. The Alaskan production had been delayed by the protests of the environmentalists. The Libyan production, after the revolution and the militant regime of Qadhafi, had become much less reliable. In 1972 there came a more serious shock: Kuwait decided that, to conserve their resources, they would not allow production to go above three million barrels a day.

For BP and Gulf, the two partners in Kuwait, this was menacing news. And Shell, too, was becoming alarmed by impending shortages. In October 1971, Sir David Barran, then chairman of Shell Transport and Trading, warned that the days of cheap oil were over, and that by the end of the century the oil consumers could be 'looking down the muzzle of a gun.'

But Exxon, like the other American partners in Aramco, were not seriously worried, for they were one of the four partners in Aramco, the company which held the vast concession in Saudi Arabia; and they were confident that Aramco could supply all the extra required. Some of Exxon's rivals, including BP—who had huge investments in Alaska—suspected that Exxon was not at all sorry that the Alaskan oil had been delayed, and it was even suggested that they might secretly have encouraged the environmentalists' protests: for Exxon had a 30 per cent share in Aramco, and Saudi Arabian oil was much cheaper and easier to produce.

Aramco, morever, had made plans to jack up production by as much as 25 per cent each year, with huge extra capital and equipment; and the plans had soon borne oil. By early 1973, the Saudis were producing 6½ million barrels a day, and the prospects were even more dazzling: 10 million by 1974, 20 million by 1983. Iran, too, was preparing for the additional production which the Shah had always demanded. As other parts of the world became more uncertain, these two nations became more crucial; but most of all, Saudi Arabia.

Yet the very fact that Saudi Arabia was becoming far the biggest supplier of oil made King Faisal more vulnerable in the face of his Arab colleagues, and the danger of an embargo more likely. A few American experts, but very few, worried that the Saudis would not indefinitely stand apart from the other countries of OPEC: one of them was Jim Akins, 'Mr Oil' in the State Department, who wrote an article called 'The Wolf is Here' in May 1973 in *Foreign Affairs*, warning that the Saudis would stand by the other Arabs. But Akins was discounted by his superiors as a committed Arabist.

King Faisal was showing signs of becoming much more worried by the continued American support for Israel, and he was taking some trouble to influence Washington, both through the oil companies and through Akins, who provided the chief link between the Arabs and Washington. But Akins had to go to odd lengths to convey the Saudis' views. In January 1973, John Ehrlichman, President Nixon's aide at the time, was preparing a visit to Saudi Arabia: Akins asked Aramco to arrange for Sheikh Yamani to 'take Ehrlichman under his wing' and see to it that Ehrlichman was given the message: 'We Saudis love you people but your American policy is hurting us.'

Akins was accused of being anti-Israeli, and of positively encouraging the Arabs towards boycott: particularly by Professor Adelman, the oil economist from MIT, the scourge of the 'Oil Cartel,' and Akins's bitterest critic. For Adelman, writing in the autumn of 1972, the talk of shortage merely reflected the interests of the big oil companies, in cahoots with the Arabs: 'The oil companies are now the agents of a foreign Power,' he wrote. There was 'absolutely no basis to fear an acute oil scarcity over the next 15 years.'

Adelman, like many other oil experts at the time, was confident that an Arab embargo could not be sustained, as the attempt in 1967 had indicated, and his view was supported by a special task force on oil imports, headed by George Schultz (later Secretary of the Treasury) which had reported in 1970. The report was sceptical about an Arab shutdown and was complacent that imports could safely be increased.

But a few other experts were convinced that American oil foreign policy was headed for disaster. Walter Levy, the oil consultant in New York who advises both companies and Governments, warned the annual meeting of the American Petroleum Institute, in November 1972, that the US, as a major world Power, could not afford to be dependent for oil on 'a handful of foreign countries.' He proposed changes in the taxation system, including a possible extra tax on gasoline, and urged the Western Governments to co-ordinate their policies.

But the American predicament was very deep-rooted. As Howard Page, Exxon's former Middle East negotiator, put it: 'Our economic policy was ensuring that we became increasingly dependent on Middle East oil, while our foreign policy was ensuring that the oil would be cut off.' Those two opposite American policies in the Middle East had been divergent ever since the setting up of the State of Israel. They had been kept so remarkably separate for 25 years: but they were now face to face with each other.

On 3 May 1973, Frank Jungers, President of Aramco in Saudi Arabia, paid a courtesy call on King Faisal, for half an hour. The King was cordial (Jungers reported back to New York) but his tone was quite different from that of earlier meetings. The King touched only briefly on his usual hobbyhorse of the Zionist-Communist conspiracy. Only in Saudi Arabia, the King stressed, were American interests relatively safe; but even in his kingdom it 'would be more and more difficult to hold off the tide of opinion.'

The King was amazed that Washington failed to perceive its own interests. 'It was almost inconceivable in any democratic State' (he told Jungers) 'for a Government to be so far away from the interests of its people.' But it was easily put right, he went on: 'A simple disavowal of Israeli policies and actions by the US Government would go a long way. . . .'

Jungers then went on to see Kamal Adham, the King's chamberlain and close adviser, who gave a more ominous message. The Saudis, he said, in spite of their problems with the Egyptians, could not stand alone when hostilities broke out: they had expected that after President Sadat had expelled the Russians from Egypt, the Americans would have persuaded the Israelis to negotiate with the Arabs. Adham was sure that Sadat, a courageous and far-sighted man, would have to 'embark on some sort of hostilities' in order to marshal American opinion to press for a Middle East settlement.

It was a very specific and accurate warning, and Jungers quickly passed it on to his four parent companies in New York and California. Three weeks later the warning was repeated more directly: the four Middle East directors of the parent companies—Hedlund of Exxon, Moses of Mobil, Decrane of Texaco, and McQuinn of Socal—were at the Geneva International Hotel for a meeting with Sheikh Yamani, the Saudi Arabian oil Minister, to negotiate about participation.

Yamani suggested that they might pay a courtesy call on the King, who had just been to Paris and Cairo, where Sadat had given him 'a bad time' (as Yamani put it), pressing him to step up his political support. The King, after a few pleasantries, was much more curt and abrupt than usual; he warned the four directors that time was running out. He would not allow his kingdom to become isolated, because of America's failure to support him, and he used the phrase 'you will lose everything'—which to the visitors could only mean that their oil concession was at risk. The King asked them to make sure that the American public were told where their true interests lay, instead of being 'misled by controlled news media.'

The Aramco men lost no time: a week later they were all four of them in Washington, to lobby top Government officials: to each they repeated the King's message, that unless action was taken urgently, everything would be lost. On 30

'Four huge oil companies, with billions of assets ...had no influence whatever'

May, they called first on the State Department, to see a team led by Joseph Sisco, in charge of Middle Eastern affairs; but Sisco had heard such warnings before, and he assured them that his information was otherwise. The CIA had reported through its own contacts, including close relatives of the King, that Faisal was only bluffing: he had resisted pressure from Nasser in the past, and could resist pressure from Sadat now.

Then the four went to the White House, hoping to see Kissinger; but they were fobbed off with General Scowcroft and other advisers, including Charles Debono, then the [illegible] Scowcroft was attentive, and Debono was struck by the apparent change in the King's mood: but he wasn't sure what could be done about it.

Finally, they went to the Pentagon to see Bill Clements, who was then acting Secretary of Defence, while James Schlesinger was awaiting confirmation. Clements had been an oil man himself, with his own drilling company, and was widely regarded in Washington as a key figure in the oil lobby. But he made clear to his visitors that he had his own information and views about the Arabs: they would never unite, the companies' fears were unfounded, and King Faisal was dependent on America.

At the end of their day in Washington, the Aramco men cabled sadly back to Jungers in Saudi Arabia that there was 'a large degree of disbelief' that any drastic action was imminent. 'Some believe that His Majesty is calling wolf where no wolf exists except in his imagination.'

But the four companies still wanted to show the King that they were trying to influence American opinion; each wanted to protect its future share of the concession, and they soon vied with one another to show their helpfulness. The most assiduous was Mobil, who had the smallest share in Aramco and the most urgent need for oil.

Mobil, always the most publicity-minded, prepared an advertisement for the *New York Times* on 21 June. It was very cautiously worded: it explained how America was becoming increasingly dependent on imports from Saudi Arabia, how relations were deteriorating, concluding that it was 'time now for the world to insist on a settlement in the Middle East.' But the *New York Times* thought it too inflammatory to go opposite the editorial page, the usual position for Mobil's advertisements. In Saudi Arabia, nevertheless, the advertisement had the required effect: Yamani wrote a letter to Mobil recognising this 'positive step.'

Exxon were rather more discreet in their support of the Saudis. They decided against advertising, but their chairman, Ken Jamieson, pressed their case in Washington, and Howard Page gave a speech in New York to alumni of the American University in Beirut, about the need to relieve the strained political relationships between the US and the Arab countries.

Over in California, Socal became worried that *they* were slipping behind. Consequently, Socal's very conservative chairman, Otto Miller, wrote a letter to shareholders on 26 July, urging that the

US should work more closely with the Arab Governments, and should acknowledge the legitimate interests of all the peoples of the Middle East. . . . The letter was well-publicised, and caused a small furore among Jewish communities, especially in San Francisco.

There was also plenty of activity from Jack McCloy, the 78-year-old elder statesman of the oil industry, and the lawyer representing all seven of the 'sisters,' from his august law firm above the Chase Manhattan Bank. He talked to his friends in Washington; he warned Sisco that the Saudis meant what they said, and he urged Kissinger to try to mediate: that 'the Administration mustn't just think in terms of the next New York election.'

The companies were certainly persistent enough in their attempts to influence foreign policy; why, then, did they have no discernible effect? What had happened to the legendary power of the American oil lobby? Had not the Texan leaders, Sam Rayburn and Lyndon Johnson, ensured for years that the oil industry maintained its tax benefits? Had not the oil companies given at least $2.7 million to President Nixon's campaign? Had not Otto Miller of Socal himself given $40,000? Had not Gulf Oil directors given over $1 million, including a secret gift of $100,000, with the express understanding that they would be 'on the inside track'?

Yet, when the moment came and four huge global companies, with billions of assets behind them, wanted to pass on a simple critical message from King Faisal—a message which turned out to be perfectly correct—they apparently had no influence whatever.

There were several explanations. First, the Israeli lobby in Washington was undoubtedly far stronger, and far better organised, than the oil lobby; and American intelligence about both the embargo and the prospects of war was heavily influenced by the Israelis, who turned out to be so strikingly wrong. Second, the Administration, having successfully separated the two strands of Middle East foreign policy for so long, found it hard to imagine their coming together.

But, third, the American oilmen—as some of them wryly admit—had lost nearly all of their credibility in the previous years. Their information was clearly self-interested, and they had been crying wolf for too long. The ultimate roots of the public distrust went right back to the foundation of the industry, to the arrogance and mendacity of the original Rockefeller monopoly: and more recent abuses, including the arrogance of the Texan oil lobby and the studied secrecy of Aramco, had all contributed to it. Since the early sixties Congress, with more big-city members, had become much more sceptical about oil company pressure. So it was not altogether surprising that when the companies *did* have something serious to say, hardly anyone believed them.

While Washington was thus uninformed, in Egypt President Sadat was significantly shifting his alignments. At the end of August he had been expected to consummate the merger between Egypt and Libya for which Qadhafi had been pressing; but Sadat agreed only to a general statement of unity, which left Qadhafi disgruntled, and after the talks Sadat flew to Saudi Arabia for a secret visit to King Faisal. The meeting was momentous: Faisal promised Sadat that, if American policy in the Middle East didn't change, he would restrict the increases of oil production to 10 per cent a year—far short of Aramco's requirements. Thus Egypt, for the first time, began to have effective oil pressure behind her diplomacy.

Just after the visit, Qadhafi, celebrating the fourth anniversary of the Libyan revolution on 1 September, announced that he would nationalise 51 per cent of all the oil companies operating in Libya, including the subsidiaries of Exxon, Mobil, Texaco, Socal and Shell. Two days later, the Libyans announced that the price of Libyan oil would go up to $6 a barrel—twice the Persian Gulf price—and threatened to cut off all exports to America if Washington continued to support Israel. Two days later, all 10 Foreign Ministers of the Arab oil-exporting countries (OAPEC) met to discuss the possible use of oil as a weapon to change American policy: and a fortnight afterwards Sheikh Yamani formally warned the US that there could be a cut-back of Saudi Arabian oil.

President Nixon appeared on television to warn the Libyans of the dangers of a boycott of oil, reminding them of the experience of Mussadeq in Iran 20 years before; but nearly everyone knew that the threat was hollow. As Ian Seymour wrote in the *New York Times*: 'Could it really be that the President of the US had not yet grasped the predominant fact of life in the energy picture over the coming decade, that the problem is not whether oil will find markets, but whether markets will find oil?'

The Libyan crisis injected a new element of urgency; and the European Governments, being more dangerously dependent on Arab oil, made clear their concern to Washington.

At just this time—the very worst time—the 1971 Tehran agreement over oil prices, which had lasted two and a half years but had already been modified beyond recognition, was finally breaking down. On 16 September, the 11 members of OPEC asked the oil companies to attend a special conference in Vienna on 8 October to discuss substantial increases.

The oil producers knew that they were in a powerful position, in the face of a potential shortage, and that the companies' own bargaining position was weak. But it was some time before they realised the full extent of that weakness.

And then, two days before the OPEC conference assembled, Egypt and Syria invaded. It was now all too clear why King Faisal's warnings had been so emphatic; for his own position, as the lonely Arab champion of American policy, was now untenable; and oil and politics were now totally intermixed. The war and the negotiation coincided, with a timing that was soon to prove expensive for the oil consuming countries, beyond their worst nightmares.

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OIL WAR \ THE ARABS' GRAND SLAM

WHEN the Middle East War was two days old, on 9 October 1973, the delegates of 20 oil companies, led by George Piercy of Exxon (Esso), met at Vienna to discuss oil prices with six members of OPEC. The timing, from the companies' point of view, was disastrous. It was clear that oil and politics were now suddenly thoroughly intermixed. The Arab representatives were excited and unified by the war, and were soon passing round newspaper photographs of American supplies to Israel. The war had added fervour and unity to their bargaining.

But with or without a war, the companies were in a very feeble bargaining position. The Teheran agreement of 1971, which had fixed the oil-price at $3 a barrel, was now clearly, as one oilman put it, a 'house of cards' which had already tumbled. The Iranians had already made it clear that they wanted to go up to $5 a barrel.

The grievances of OPEC were, in fact, very real; the inflation factor of 2½ per cent a year had not kept pace with actual inflation, and the price of other commodities, as the Shah never ceased to point out, was far outstripping oil. And OPEC was now in a position—which the companies took some time to realise—to enforce their own price. OPEC's 13 years of disunity and humiliation were over, and the day of reckoning was near.

After four fruitless days in Vienna, with the war gathering force in the background, the six OPEC countries were still standing firm, and it was clear that they would not settle for less than $5 a barrel. Soon after midnight on the fourth day George Piercy called on Sheikh Yamani, the Saudi Arabian Oil Minister, at the Intercontinental Hotel, and explained that the companies could not give way further without consulting their home governments—which would take two weeks.

Yamani was silent for 10 minutes, offered Piercy a Coke, slowly poured it, slowly squeezed a lemon: he seemed surprised and distressed, and later began pointedly looking at plane timetables for his journey back to Riyadh. But Piercy insisted: he must have two weeks to consult.

The next day the conference disbanded, and was never recalled; the OPEC countries announced that they would meet on their own the next week in Kuwait. The news of this critical breakdown, which had such historic results, was swamped by the war news; it was buried on the business pages of *The Times* and the *New York Times*, and even the *Financial Times* printed it on page 13. What would have happened if the companies had agreed, there and then, on a $5 increase? It is a question that haunts at least one of the negotiators.

Meantime in New York the Aramco delegates were now desperate about their companies' survival, and they turned once again to Jack McCloy, their veteran legal adviser, to press home their case to Washington. McCloy promised to get a letter to the President, and wrote to General Haig at the White House, by special messenger, enclosing a memorandum to be passed on to both Nixon and Kissinger.

The memo was signed by all four chairmen of the Aramco group, Jamieson of Exxon, Granville of Texaco, Miller of Socal and Warner of Mobil—and it emphasised that any increased American military aid to Israel 'will have a critical and adverse effect on our relations with the moderate Arab producing countries.' The Europeans, warned the chairmen, could not face a serious shut-in, and 'may be forced to expand their Middle East supply positions at our expense.' Japanese, European, and perhaps Russian interests might well supplant United States presence in the area, 'to the detriment of both our economy and our security.' It was a characteristic confusion of arguments, military and commercial: American oil must be protected from both European competition and a Russian invasion.

General Haig took his time in dealing with the letter; three days after its delivery, he replied to McCloy ('Dear John') saying, 'I will see that the letter is forwarded to the President and to Secretary Kissinger.' But in the intervening weekend Kissinger and Nixon, alarmed by reports of Soviet shipments to the Arabs and the Israeli predicament, had authorised the immediate airlift of military supplies to Israel.

The next week, on 16 October, four Arab Foreign Ministers arrived in Washington, led by the most crucial, Omar Saqqaf, then the Foreign Minister of Saudi Arabia—who was much more influential with the King than Sheikh Yamani. Saqqaf was in a very bad mood; Nixon hadn't been able to see him that day, and at a press conference one American reporter said that the US didn't need Saudi Arabian oil, that the Saudis could drink it; Saqqaf replied bitterly 'All right, we will.'

The next day, after a last minute warning from Aramco, Nixon and Kissinger agreed to see Saqqaf and the other three Foreign Ministers for a long talk and a lunch, followed by a talk with Kissinger. Saqqaf gave Nixon a letter from King Faisal, stating that if the US did not stop supplying Israel within two days there would be an embargo. But Nixon explained that he was committed to supporting Israel; and on the same day the Senate voted by two thirds to send reinforcements. Saqqaf came out of his meetings, as he explained privately, convinced that his whole visit had been a waste of time.

In Kuwait, meanwhile, the members of OPEC were beginning to realise their strength: on 16 October they announced that they would raise the oil price to $5.12 a barrel—a figure which then seemed appalling to the West. The next day they voted to cut their production by five per cent per month, until Israel withdrew to her 1967 frontiers.

Three days later, after Saqqaf's return from America, came the real bombshell. Washington never believed it would happen. Saudi Arabia, far from distancing herself from OPEC, announced a cut-back of *ten per cent*, plus an embargo on all oil to the US and the Netherlands. The OPEC ring had now closed tightly round the consumer countries, and the producing country that Americans had regarded as the safest was now the most determined to show its firmness.

The implementation was to be immediate, and the next day the Saudis cut back production by more than 20 per cent. In Riyadh, Yamani and other Saudi Ministers summoned Jungers of Aramco to discuss the enforcement of the embargo: the Saudis (Jungers noted) appeared glum and disillusioned with the US. They had already worked out the embargo in some detail, and they insisted that apart from the 10 per cent cut-back, Aramco must also subtract all shipments to the US including to the military: Aramco would have to police the whole complex operation, and any deviations from the ground rules would be harshly dealt with.

Jungers pointed out some of the effects of the rules; for instance, that Italy and Japan would be specially hard hit. Yamani remarked that this was deliberate, implying that they were being punished for pro-Israeli attitudes. If this embargo didn't change American policy, Yamani explained, the next step would 'not just be more of the same': Jungers had no doubt that he meant complete nationalisation, if not a break in diplomatic relations.

It was a crisis of identity for the Aramcans (as the employees of Aramco call themselves), for where was their ultimate loyalty? At the height of a war, with highly-charged American public opinion, they were required to be the agents of an Arab Government in enforcing an embargo, including a military embargo, designed openly to change US foreign policy. The whole past justification for Washington's diplomatic support of the companies in the Middle East—that they were essential to national security—was undermined, just when the US Sixth Fleet was being held in readiness in the midst of a war.

The cut-back [illegible] astrous for Aramco, but in engineering terms it may (as one of their company engineers put it) have 'taken them off the hook.' Back in June the Aramco engineers had been having some difficulties with the technique of forcing oil out through water-injection: the vast expansion of production was proving rather harder than expected, and the temporary reduction forced by the embargo would have technological advantages. But the long-term prospects for Aramco's expansion were still glittering—provided they could keep the trust of the King.

'Oil producers were convinced they had been diddled for decades'

In the meantime Kissinger was in Moscow, where he and Brezhnev each agreed to bring pressure on his client-state. By 21 October, when the embargo was proclaimed, the Israelis had agreed to a cease-fire in place, and the next day in New York the Security Council unanimously adopted the call for a cease-fire by the two super-powers.

The Aramco directors heaved a sigh of relief, and by 24 October their man Jungers was able to send a more optimistic message back from Saudi Arabia. 'No question that Saudi Arabian Government mood now more relaxed,' he cabled to Socal, 'but one of cautious anticipation.' But, he warned, the King was still radical on the point of Jerusalem, 'always the most sensitive and uncompromising issue with His Majesty' and there was 'absolutely no question that the oil cut-back would remain in effect until the entire implementation was worked out.' One Saudi contact told Jungers that there was 'great satisfaction' with Aramco for its pro-Arab stand, and remarked 'we hope to reward you'—which Jungers interpreted as a promise to allow future growth.

Aramco was closely in touch with Jim Akins, the former oil expert in the State Department who was now Ambassador to Saudi Arabia. On 25 October Akins sent a confidential message to Aramco, that the oil tycoons in America should hammer home to their friends in government that oil restrictions would not be lifted 'unless the political struggle is settled in a manner satisfactory to the Arabs [illegible] some communications problems,' Akins pointed out, with considerable understatement, between the industry and the Government; and the oil companies must put their views in a clear unequivocal way. Akins's message was duly transmitted the next day to the four Aramco partners in New York and San Francisco. It was an odd reversal of the diplomatic process, to find an Ambassador urging industrialists to exert pressure on his own department, knowing that he could not achieve it himself.

Meanwhile the Aramco directors still had to carry out the King's orders, even though these were directly against their own country's interests; and the Saudis soon asked them to give details, country by country, of all the Saudi Arabian crude oil used to supply the American military bases throughout the world—all to be supplied in two days.

In New York two company officials, from Mobil and Texaco, were reluctant to release such sensitive information. But Exxon, as always the senior sister, reassured them that they had consulted with the Defence Department. It was, in fact, a very peremptory consultation; Admiral Oller, who was in charge of Defence Fuel, was concerned about such information reaching the Saudis, particularly at the time of the world-wide alert; but he did not hear about it until it was a *fait accompli.*

The details went back to the Saudis, and the companies were duly instructed to stop the supplies to the military. Exactly how serious was the cutting-off remains obscure, and surrounded by secrecy. The Sixth Fleet certainly continued to receive enough supplies from other sources. But the Aramco partners were now very exposed to the charge that had so often been made against oil companies in the past: that in a crisis they were not ultimately patriotic.

In New York, it was all too evident that they were carrying out the instructions of a foreign Government; and however much they insisted that they had no alternative, short of being confiscated, they had few public figures on their side. In the midst of the most Jewish city, they stood out as a pro-Arab enclave.

The topography seemed symbolic: on one side of Sixth Avenue in Manhattan stood the three skyscrapers of the three TV networks—CBS, NBC, ABC—all of them very sympathetic to the Israeli cause, and deeply critical of the oil companies. On the other side stood the headquarters of the two key companies: Exxon's new skyscraper and the two floors of Aramco, at Fifty-fourth Street.

It was as if the Avenue was an impassable frontier, like the River Jordan itself. Inside the Aramco [illegible] young Arab trainees, pictures of King Faisal, engravings of Arabia, and rows of those bleak colour photographs of pipelines in the desert, so much favoured in oilmen's offices.

To the media, across the avenue, Aramco appeared an all-powerful supra-government, a consortium of four of the richest companies in the world in league with an alien sovereign State. But the Aramco men in New York saw themselves as persecuted and encircled; anonymous telephone callers rang up with bomb scares to make them troop out of the building, and with threats and insults against the oil traitors.

There was little middle ground: each side had its own view of the priorities of foreign policy, and each had a profound distrust of the other. The clash was inevitable; for the opposing interests which Washington had so carefully kept apart for the last 25 years, could no longer be kept separate. What was remarkable was how few people had foreseen the clash, and the disaster that followed.

The shock caused by the oil shortage was so acute—particularly in America—that it was some time before people realised that the embargo was only part of the trouble: what was more important was that the OPEC countries were now united, and could raise the oil-price as high as they wished. And as if to make the point clear to OPEC, the smaller oil companies now began hectically buying oil at any price they could; at an auction in Iran in December they went up to $17.

The moderates in OPEC were now more convinced that the radicals were right: that for decades they had been diddled.

The major oil companies by now realised that they were not now negotiating at all; they were waiting for unilateral demands. By 23 December the Persian Gulf members of OPEC, encouraged by the auctions, announced that their oil-price would be doubled again, to $11.65 a barrel. In New York the oilmen had a sour joke with their returning negotiators: 'Congratulations on not accepting more than the Arabs demanded.'

What, in fact, was the chief cause of the huge leap in the oil price has been argued by oilmen ever since. There is little doubt that the Middle East war had accelerated and precipitated the crisis; it unified the Arab members of OPEC, and brought the Saudis into line; without it, the price could have stayed around $5 for some time. 'The Arabs' became a kind of synonym for the OPEC cartel, but it was a misleading description: for the most militant figure in the demands for high prices had not been an Arab at all, but the Shah of Iran; and the other most demanding country in OPEC was Venezuela, 8,000 miles away from the Persian Gulf.

Even without the war, the basic fact could not have eluded the members of OPEC for very long: that the consuming countries were dependent on a small group of exporters, who were able by restricting production to control the price. It was the same basic fact that had been discovered by John D. Rockefeller a century before, when the whole oil monopoly had been controlled by 'a handful of men': now it was a handful of countries. The oil companies had seen the weapon which they themselves had forged turned suddenly back on themselves.

But a critical question remains to be answered: will the OPEC cartel still hold together after the immediate cause of its unity has disappeared and the Arab-Israel conflict is resolved with a settlement?

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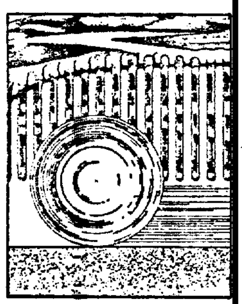
By Billy Baldwin
Interior decorator to the elite for as long as anyone wants to remember, Billy Baldwin is ready to do some remembering himself. In this chapter from his forthcoming *Billy Baldwin Remembers*, Billy summons up the weird hassling he's been through at the hands of some of his illustrious clients. The list includes the late Billy Rose, along with several others whom, still being alive, the author has mercifully draped in anonymity.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War—The Ultimate Antitrust Action

CPYRGHT

By Andrew Tobias

"... *Could* we, technically, pull off an invasion of one of the nations belonging to O.P.E.C.? If so, *should* we do such a thing? And in any case, might we, or some other country, try it?..."

With the world walking along the edge of financial collapse, depression, and massive human suffering (in the less-developed countries), a number of influential people—most notably the president of the United States and his secretary of state—have recently begun talking about how unthinkable, as a solution to our oil-related economic problems, military action would be. That in turn has started some people thinking about military action.

Even before the twin Ford/Kissinger speeches of September 23, which a Kissinger aide confirms were indeed coordinated, serious people were considering—and almost unanimously rejecting—war as a solution to our problems. They are still almost unanimously rejecting it. But that they would consider it at all is a measure of the gravity of the world situation.

And there are those few serious people who have considered it and, privately, advocate it. (Whether they would actually give the command if it were theirs to give is another story.) Early in September, before talk of confrontation was making headlines, the director of research of a prominent Wall Street firm told me that he thought the United States should, now, seize the Saudi Arabian oil fields, or get someone else to do it for us. A well-respected leader of the financial community, strictly off the record, agreed. And while neither anticipated immediate action, both thought that a violent outbreak over the Persian Gulf oil treasure, in one form or another, was almost inevitable.

Walter Levy, the best-known international oil expert, while he does not advocate the use of force, fears that nations may be driven to irrational acts—and in the not too distant future—if what he calls "unmanageable oil prices" are not reduced.

"My initial reaction to that whole military scenario," a Federal Energy Administration official told me, "is that it's a bunch of goddamned New York bankers trying to protect their investments overseas."

In fact, opinions among New York bankers vary. But it's true that they have been thinking about the problem. "Jesus, your timing is uncanny," one investment banker told me, again before the president's speech in Detroit. "We had a long debate about that last night." I interviewed both sides of the debate and offer them as being fairly typical of what's being said these days:

NAVY PINSTRIPE: "If things really get bad in this country, the potential social upheavals will force the government to look outside. And if the government wants to preserve itself, or if the system wants to preserve itself, it will naturally have to take into consideration what the hell are 6 million people in Saudi Arabia or 3 million people in Libya or 1 million people in the Trucial States—what the hell right do they have, as it would be put, to put us out of business, in effect? And when people get desperate, they can find plenty of rationalizations. 'We found that oil, we invested in it, we had contracts for it. . . .' You can make thousands of arguments.

"The American people are just not going to put up with not owning their own houses, with high unemployment . . . the American people will turn, aggressively, to look for the cause. ["My clients are really enraged," an institutional salesman told me, "that we could have lost so much in Vietnam, and then here, where our vital interests are at stake, we do nothing."]

"I don't see this happening in the immediate future because there are a lot of steps that can be taken in the interim to conserve energy in this country. And I think Ford is setting up these summits as a way of preparing the public for severe measures that have to be taken. As a result, there will be a period of a year, or whatever, while these measures are being taken, and while there is still hope of getting this thing under control. But I think it will be very hard to reorient a ship that's so far turned. (I'm not saying, by the way, that I think the Arabs are the only ones responsible for our problems; American economic policies—guns *and* butter, etc.—are responsible, too. Not to mention just the weather.)

"You know, six months ago this would have been looked on as totally unacceptable conversation, okay? Today it's acceptable, and almost reasonable, but people have an emotional revulsion to war and it's talked about in muted tones. Six months from now I think it's something that will be talked about among serious people as a serious alternative. And a year from now I think it might be fashionable."

CHARCOAL PINSTRIPE: "I think it's a totally crazy idea. There might conceivably be a scenario where it could be justified—if they refused to sell us any oil at all, for example—and the argument might have some more weight after we had gone through some very austere moments . . . but to consider it now?

"The argument for doing it, you know, can best be summed up: 'Are we going to let a bunch of desert *nomads* hold us ransom and hold the *whole world* ransom—these people who live in *tents*?' And in fact I heard that expressed with a certain amount of sincerity by the president of an international copper company.

"But besides its being offensive, it's ludicrous. Saudi Arabia happens to be one of our close allies. We would so shock and horrify our friends the Iranians they would wonder what good it is to be an ally of these guys. Not to mention the rest of the oil-producing countries.

"You know, invading Saudi Arabia is not what the cold war equation is all about. The Soviet Union would probably oppose us and oppose us very strongly were we to consider such a thing."

NAVY PINSTRIPE: "It's my personal point of view that the Russians will never fight a war with the Americans over something other than an invasion of Eastern Europe or the Soviet Union. The Russians, in my negotiations with them [Navy Pinstripe does a lot of East-West trade-deals], are very prudent and cautious people. They drive a hard bargain and are full of bluster—until they see that you are really walking away. And I think they would do the same thing here. If they knew that it meant survival to the West, and that we meant business, the Russians would never fight a war over people that they themselves don't respect. Remember, the Arabs are not liked in Russia. You don't think the Russians are going to risk their whole country for Libya, do you? [A variant of this argument is that we would "simply make a deal with the Russians." Another wheat deal, perhaps.]

"There is no question in my mind that seizing and maintaining the Saudi oil fields would be a minor operation from our point of view."

CHARCOAL PINSTRIPE: "Bullshit. You can't get marines over there until you start flying them, and you can't produce a massive airlift without mobilizing a certain amount of our own forces; or else you would have to send the bloody Sixth Fleet [Charcoal Pinstripe is a lieutenant commander in the reserves] all the way around the horn of Africa and get it off the coast of Saudi Arabia—unless you wanted to march them across Egypt and across the canal and down the Sinai Peninsula, and eventually into Saudi Arabia. If you did manage to take it over, you would have a tremendous amount of patrolling to do to try to prevent sabotage of the pipelines, which extend all over the country, and you'd end up with a mini-Algeria.

"And I think from a cold war point of view this would have horrendous results. And it would have absolutely no justification in fact! This inflation problem has been largely self-created, and we cannot blame the Arabs for it. In Italy it's the militant trade unions, more than the Arabs, who have gotten things so messed up. The Arabs have done something that is perfectly rational from their standpoint—they've got a dwindling asset and they're trying to make it as valuable as they can.

"You know, one of the things that traditionally happen—it happened in Germany, it happened in Japan—is the foreign-devil theory, where people take internal domestic problems and say these are caused by the foreign devils who are raping the country, and all that sort of thing. I would be very concerned if we had some demagogue say that the way to get out of this is to beat the Arabs up and get cheap, abundant oil. It's a dangerous topic; people get easily carried away."

Around this point in the typical debate one party starts talking about the United States as a diabetic and the Arabs as withholding our insulin unless we pay outrageous prices; the other party talks of the United States as a heroin addict about to mug the Middle East; and the first party insists that it's the Middle East mugging the heroin addict—and that being hooked on energy is more constructive than being hooked on heroin.

But it is time to open the discussion to the rest of the wardrobe of opinion. *Could* we, technically, pull off an invasion of one of the nations belonging to the Organization of Petroleum Exporting Countries (O.P.E.C.) and keep the oil flowing? (Saudia Arabia is the country most often considered, because it has most of the world's oil, a small population, and an even smaller army. Though, in fact, it is the Venezuelans and the Iranians who seem to be putting the screws to us most tightly.) If so, *should* we do such a thing? And in any case, might we or some other country try it?

Herman Kahn, the futurist: "It would be fairly easy to knock over any one of those countries—but you got to go in and kill people to do it. It's very difficult to kill people on an enterprise that's immoral, illegal, and long-lasting. Day after day those pictures would show up on television: two Arabs killed, ten Arabs killed." Herman Kahn doesn't see it happening. We haven't the stomach to mount such an enterprise now, he says.

Tad Szulc, the journalist: "It would be a terribly foolish thing to do, open a can of worms—but having said that, there is always someone who is foolish enough to do something like this."

Someone like us, perhaps? "Look," Szulc says, "there's contingency planning for anything you want to mention, because there are an awful lot of colonels and generals who do nothing but plan contingencies, you know. And I think every government has got a contingency plan for invading the moon, with conventional forces. But I just don't see anybody at this stage making such a decision. Now, what happens six months from now. . . . Obviously there is no policy here."

A noted British financier: "Well, I would think it's unlikely in the course of a year. I would think the time for that kind of talk would have been back when the increases were put on. America doesn't suffer enough from this, and America is really the power that is most likely to get round to that line of thought. Japan is the other one.

Professor M. A. Adelman, of M.I.T., has never been considered "soft" on what he terms "Arab blackmail." In fact *Forbes* labeled him a "gunboat professor." But under most circumstances, he would not advocate an attempt to seize the oil.

"What I am told," he says, "is that such an operation would be feasible if you mounted a sufficiently large effort from the beginning. Which means you've got to have all your technicians on board, land them quickly, and get started. You can restore oil fields that have been blown up. Experience in World War II indicates that.

"But whether it should be done all depends on what the alternatives are. If you had a cutback of 25 per cent of the oil production in most of these countries, the way you had last fall, I would suppose that it would be an overreaction, and you wouldn't want to do it. If there had been a 100 per cent cutback, or even a good deal less than that, then it's not a question anymore of should it be done—it just would be done. Because the nations wouldn't let themselves starve and freeze in the dark. Period. And you can quote me on that, because it seems just obvious. I'm not even advocating anything. There's nothing to advocate. The consuming countries would just move in. It's just like predicting a change in the weather, only with a much greater chance of success."

And what if production were not cut back substantially, but prices were kept at the current level or even raised a bit? Send in the marines? "It's just not true," insists the gunboat professor, "that we can't live over the next five years with these prices. You can keep these figures in mind, and you can quote them: the O.P.E.C. loot amounts to about $100 billion a year, and world G.N.P. is about $5,000 billion. So it's a matter of 2 per cent. Well, the world can live with that. Now, for countries like the U.S.A., it just means that we pay a bit more. We transfer our wealth abroad in return for oil. In countries like India, it really is an acute crisis and undoubtedly it means starvation for many thousands of Indians. But rightly or wrong [illegible] like it do not have the political power to do much about it, and indeed they've been almost as painfully obsequious and lickspittle to the producing countries as the United States has.

"So, like it or not, the world can take it perfectly well, and will take it, and I would say nobody can have much confidence in whether prices go much higher or much lower, but I give a slight edge to prices going higher."

As for the damage that massive "petrodollar" accumulations are causing the world financial system, Adelman agrees the damage is real, but maintains it is "essentially a temporary problem."

If you can't get a gunboat professor to salute when you run this invasion scenario up the flagpole, you won't get as much as a click-of-the-heels from within the State Department itself. "It makes no sense whatsoever," My Source told me with what *appeared* to be spontaneous sincerity. (After reading *Tinker, Tailor, Soldier, Spy*—or, come to think of it, the Watergate tape transcripts—I take nothing at face value.) "People talk about seizing the Saudi oil fields? There are so many reasons . . . it's the most absurd thing I've ever heard of. That's my problem. I guess [in being a little at a loss for words], because in the first place, I can't conceive of a situation so shortly after Vietnam where this would be generally accepted by the American people—unless it, you know, I could, I suppose, imagine a situation if our industry had ground to a halt because we didn't have oil that maybe if it got bad enough the frustration level might reach a point where it might be acceptable, but certainly it would take a great deal more than the currently foreseeable problems. Beyond that, the number of forces that would necessarily be involved would be great. Quite great. And beyond that, nobody in his right mind would expect the Soviets to stand by and watch it happen. So I just think there are any number of reasons why it's patently absurd."

In his speech to the U.N. last month Kissinger scared hell out of some people when he said, "What has gone up by political decision [O.P.E.C. oil prices] can be reduced by political decision [the question is, whose?]." But My Source, who "worked closely with Henry on this speech," says that "in the first place, it never entered our heads that the speech in *any way* implied any form of military intervention. In fact, I can read through the entire thing and not find a veiled threat anywhere, though I will admit that that's to a degree because I'm too close to it, and maybe fresh eyes can read it and [illegible] there [illegible]

"I think it was a gloomy speech—I think it was a gloomy subject. But I don't accept that it was threatening in any way."

And, in fact, taken at face value and read in its entirety—not in snippets out of context—the speech seems more an urgent call to cooperation than a call to arms. Talking about nuclear proliferation, massive starvation, and the breakdown of world economic order, Kissinger was pointing out, urgently, that these are threats inherent in the present world situation—and that therefore cooperation is essential. You can read that "Cooperate or we'll beat your brains out." Or you can read it "We must all cooperate, or we shall sink together." The only thing is, admittedly—and, really, it goes without saying—if the O.P.E.C. countries gave us no alternative but to fight or sink, we would certainly fight.

"I just can't believe that they would be that uncompromising," a vice-president of Morgan Guaranty Trust with considerable expertise in the Middle East told me, "and that they would fail to recognize the threat they would be posing to the world economy. Because they would certainly be running themselves into the ground. I mean, I don't think they have a sort of suicidal urge to bring everybody down—quite the contrary. I think the chances are good that reason will prevail. I get the impression that the decision-makers on both sides are pretty responsible, in the final analysis, and realize that we are interdependent. I'm not alarmed, in other words, personally.

"Take the open letter to President Ford from the president of Venezuela. It's pretty verbose, if you like, but in the middle of all that it's pretty conciliatory. He's saying, 'We're willing to work things out.' He didn't promise anything, but he certainly didn't say, you know, 'Forget it.' And I think his letter is representative of most of the thinking in O.P.E.C."

There are, in all, thirteen members of O.P.E.C., but the two most important are Saudi Arabia and Iran:

Saudi Arabia has most of the world's oil and is a traditional ally, staunchly anti-Communist. We have 6,000 military advisers in Saudi Arabia, ranging from generals to master sergeants, and we are building an air defense system for them, which will be ready around 1978 or 1979. The Saudis have said they want to lower the cost of oil. One reason is to help us; the other reason is to hurt Iran, whom the Saudis fear. Iran, with 30 million people, a sophisticated army, and the beginning of a powerful economy, can use all the money its oil will bring, and so a cut in price [illegible] its military and economic expansion, whereas a cut in oil revenue for the Saudis means nothing. There are two reasons why the Saudis have not pushed down the price. First, they are afraid of their more populous and more militant neighbors. Second, King Faisal is a very religious man. "I think the religious thing is probably dominant," says an official of the Federal Energy Administration involved in international affairs. "It's not economics. You know, King Faisal is old, and praying in Jerusalem may be his life's goal at this stage. That's why some people think we are going to have a renewal of the embargo this winter. And that's not at all impossible if things don't progress politically.

"I think Yamani [the oil minister] would genuinely like to lower prices. He's more Western oriented [Harvard Law, 1955-56], and he has a better appreciation of the Iranian threat. But the power, of course, is with the king. And he sees things more in terms of Arab brotherhood."

Iran is not an Arab country. The shah has visions (literally) of Iran's becoming a major power, and to that end, I'm told, either has in hand or on order two destroyers from Litton Industries, a couple of aircraft carriers he is trying to lease, 850 Chieftain tanks from Britain, 600 helicopters, about 110 Phantoms, 80 F-14's, and so forth and so on. In the words of one war buff, "This guy's building up an incredible military force."

Which means if we ever wanted to invade Iran, we had best waste no time whatever. However, it is unlikely we would ever want to invade Iran. Inasmuch as she, also, is a close ally and staunchly anti-Communist. More likely, Iran will in a few years (if not sooner) invade her unfriendly, Communist neighbor to the west, Iraq (an oil producer of modest proportions), and then, while she's at it, perhaps knock off Kuwait, too—perhaps splitting these two prizes with Saudi Arabia, to keep that country quiet, or even going all the way and attempting to seize the Saudi oil fields (which are conveniently in the eastern part of the country, on the Gulf), plus Abu Dhabi, Oman, and Qatar. That would leave Iran, in the words of novelist Paul Erdman, who has been working on all this for his next book, "with (a) all the oil in the world, (b) all the money in the world, and (c) the most important real estate in the Middle East."

It is precisely the Saudi dependence on us to keep such a thing from happening that should be our point of leverage in this situation—but so far it hasn't done us much good.

There is no question that the consuming countries are in a bind. *The New York Times* has said, repeatedly, that we "must take effective economic action against the international oil cartel" to force down the price of oil. Unfortunately, there is no very effective economic action we can take. A food boycott would never work—the relatively little food O.P.E.C. needs would come from someone; perhaps even the Russians. *The Wall Street Journal* is not the only one to have called *The Times*'s proposal to limit the amount of funds O.P.E.C. could invest in any one consuming country "silly." And while it is certainly vital for us to cut back energy consumption and pull out all stops in increasing production—this may not be enough to force down oil prices. About the only way to "force" prices down is with what you might call the ultimate antitrust action. Force. But even that, if it were done half-heartedly, could prove unsuccessful or disastrous. Less dramatic, but more probable, perhaps, are the peaceful ways in which the world may muddle through:

In the first place, there is the possibility, simply, of compromise between producers and consumers. Even if that compromise is reached with the threat of war lurking in the background. As Walter Levy puts it: "Fundamentally, you know, I take the position: you do not produce oil sitting on bayonets. I don't know what you do when you take over a country by force. You have guerrilla movements, you have destruction of facilities and all these kinds of problems. But who knows what happens when people are desperate? I believe the important thing from our side as well as the producing side is to avoid it. And the mere fact that certain things may occur that make no sense whatever, but which would be extremely destructive to us as well as the producing countries—that may be the means through which agreement is achieved. You know, the deterrent effect of, what should I say, potentially irrational behavior. Which I would never advocate, but it's there, the danger."

Second, there is the possibility of the United States' guaranteeing Israel's pre-1967 borders, both to protect Israel from attack from without, and to protect her neighbors from attack from within. Along with, presumably, some compromise on Jerusalem. This might mollify much of the Arab intransigence on oil prices and production. It would be an expensive and unpleasant position to be put in, but less so than the position we're currently in.

Third, there is the possibility that the cartel will simply fall apart, as cartels have been known to do. So far this one has proved surprisingly strong. But if the world cuts back its oil demands sharply, through conservation measures, then the cartel would in turn have to cut back its production (and revenues) sharply in order to maintain the price. And it is in allocating cutbacks that cartels generally fail. Iran, for example, might be unwilling to cut back very much at all. Why then would Saudi Arabia and Kuwait agree to cut back? They have no interest in strengthening Iran; and to Saudi Arabia, with oil reserves of perhaps 100 years, a barrel not sold today is in effect put at the end of the line and not sold for 100 years—which in current dollars makes it virtually worthless. "This idea that a barrel of oil in the ground is as valuable as a barrel in the bank is a lot of crap," says Herman Kahn, of the Hudson Institute, who expects the price of oil to *decline* steadily over the next few years—even if, for face-saving reasons, the price remains constant while world inflation gradually eats away at the real price.

(Even if a program of stringent energy conservation did not actually force a price reduction from the cartel, it would go a long way to solving the problem, at least in this country. According to the Federal Energy Administration, for example, in 1972, the latest year for which figures are available, there were 34 million "small" passenger cars on the road, and 62 million "standards," which includes everything else. The small cars averaged just under 22 miles per gallon; the standards, just over eleven. Simply by switching from standards to small cars—from Impalas to Vegas—we would save 1.8 million barrels of oil a day, give or take—or about *30 per cent* of our total imports. And 30 per cent of the outflow of our wealth into O.P.E.C. hands. Obviously this switch cannot be made overnight. But while it's happening, the same oil could be saved by driving slower, driving smoother, and, as a last resort, actually—dare I say it?—driving less. Adding similar energy savings from heating, air conditioning, lighting, and industry, one can imagine that the "unconscionable ransom" we are being forced to pay for oil might be reduced to next to nothing. This is why measures like a really large excise tax on gasoline, the proceeds of which could be returned in the form of a tax credit to low- and middle-income taxpayers, might be a good idea.)

Fourth, there is some reason to think that even if the price does not come down, we can live with it. Rimmer de Vries, vice-president of the Morgan bank, outlined this case persuasively on September 23 at a conference in Beirut. De Vries does not believe that actual dollar accumulations will be anything like the World Bank forecast, by which O.P.E.C. member countries would build up $650 billion in excess reserves by 1980 and $1.2 trillion by 1985. He assumes that demand for O.P.E.C. oil will grow more slowly than was projected when prices were one-fifth their current level, whereas imports by the O.P.E.C. countries from consuming countries will rise very rapidly. He also expects foreign aid from O.P.E.C. countries to the less-developed countries to rise substantially. Under his assumptions, the O.P.E.C. reserve funds would peak four or five years from now at around $300 billion, by which time O.P.E.C. expenditures would equal revenues. Huge as this figure is, de Vries thinks it is not beyond the ability of the world financial system to handle.

If, in fact, the world can manage for the next four or five years, then prospects may improve substantially. By then oil from the North Slope of Alaska and from the North Sea should be flowing (Britain hopes to be an *exporter* of oil by 1980), and much of the exploration that is going on now will undoubtedly be bearing fruit. Five years from now we might also have made some progress running our nuclear plants, or even in exploiting in greater amounts our 3.2 trillion tons of coal.

Such a mess. It's enough to make the stock market go down and down, while stock in Northrop, a defense contractor with a lot of Middle Eastern contracts, hits new highs.

It is frustrating that our friends the Arabs and the Venezuelans and the Canadians, et al., seem so unsympathetic to what we perceive as urgent global problems; and frustrating that we consuming countries, with all our economic power, can do relatively little about it. And in frustration lie the seeds of irrationality.

Nor do the Arabs make it easier for us to keep our heads when they say they have raised oil prices to compensate for the inflation of *our* exports, and that if we lower our prices, they will consider lowering theirs. Number one, oil prices have vastly outstripped world prices as a whole. Number two, the O.P.E.C. countries broke long-term contracts and allowed consumers no time whatever to adjust—which, when the commodity is as indispensable as oil and the screws are turned as tight as they have been, would seem to qualify as a highly hostile act. Number three, the O.P.E.C. countries export so much more than they import that Western inflation does not even begin to justify the 400 per cent hike in the price of oil. We could give the Saudis *free* food if they cut oil prices 5 per cent!

One hopes that out of the jawboning and posturing and outrageous demands will come a good old-fashioned compromise. But it is almost as though we were being baited. If and when America will lose its collective temper, however unjustified we might be, and however imperialistic or callous that might make us look, is not an idle question. And that it is not—that war could be considered by serious people as a last resort to our economic problems—is almost enough to make you join a car pool.

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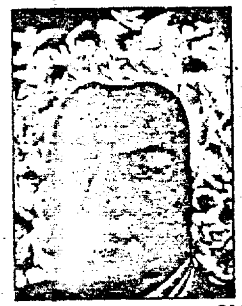

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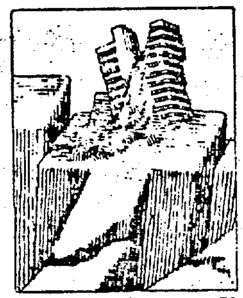

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Cover: Hovercraft are coming in the oil war of 1976, by Julian Allen.

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The Oil War of 1976: How the Shah Won the World

Tiburon, California, 1984.

I have decided to put on paper an account of exactly what happened in 1976, although these days nobody seems to care anymore. After all, such things as gasoline, automobiles, airplanes, wars, the United States—they all belong to the past. And good riddance. We should let the past rest.

This is typical of the attitude of the people who have survived here in California. All they are interested in is tilling their fields, raising their horses, drinking their wine. They have forgotten about the fate of most of the other people on this earth during the past eight years. Well, I am a historian of a sort (when I'm not a farmer), and I do not choose to forget. Because history tells me that it can occur again. All it will take is the reappearance of yet another powerful madman in our midst.

History also shows us that the dangerous ones are not difficult to identify: and we must listen to them. Then, after listening, we must act before they do. In this regard, I must admit that I am not terribly optimistic. Because we always seem to behave like naïve fools. Until it is too late to act wisely.

Many people read *Mein Kampf* in the 1930's. Yet almost all of them were surprised when Hitler set out to conquer half the world and to kill off all the Jews—doing, in other words, exactly what he had already told everybody he was going to do. How can this be explained?

The most likely answer is that at the beginning most people thought that Hitler was just some kind of nut, and not really to be taken seriously.

In 1974 William Simon, the secretary of the treasury, spotted a new such nut on the horizon. The new crazy was His Imperial Majesty Mohammad Reza Pahlavi Aryamehr, sometimes known as the shahanshah of Iran. Specifically, Mr. Simon was quoted by *Time* as describing the shah as "an irresponsible and reckless . . . nut."

Since Simon, at that time, was a cabinet officer of the United States of America, he of course promptly denied that he had ever thought, much less said, any such thing. Which was perfectly understandable, because Mr. Simon, otherwise, might have had to go back to his old job in New York selling bonds.

Why would a cautious man like Bill Simon not say such a thing? Probably because he was one of the few men in high places in America who had been keeping up with the sayings of the shahanshah, of which there are many. One of the most telling was a statement made on ITV television in early 1974: "I think," said Mohammad Reza Pahlavi, "that our country in the next ten years will be what you [the British] are today; and in the next 25 years, according to other people, Iran will be amongst the five most prosperous countries in the world. When you become something like that, you start to act accordingly . . . that is, on a world basis, without complexes, and understanding the geopolitics of the world."

The syntax was not too clear, but the message certainly was. When dictators cast aside complexes and start speculating publicly about the geopolitics of the world—look out! The problem was that only a few, like Mr. Simon, took notice of the developing megalomania of that Middle Eastern potentate. Which, in retrospect, was a great pity. If more people had taken the shah seriously, we might well have been spared the War of 1976. Because, of course, the shah did not wait 25 or even five years to start to "act accordingly." He was already going full tilt with his war preparations in 1974.

First, he bought himself $1.1-billion worth of nuclear reactors from France; not for the plutonium, but for the energy, he said, which seemed a bit peculiar to some observers at the time, since if there was anything that Iran definitely did not need—holding, as it did, the fourth-largest known oil reserves in the world—it was more energy. Then, in a great act of generosity, he lent Britain $2 billion to keep that island afloat financially, and promised that more would be available if the need arose. And, under the leadership of Harold Wilson, of course that need arose. With the result that Her Majesty's government in London suddenly found itself in hock to His Majesty's government in Teheran. England, the protector of the peace in the Middle East for two centuries, now suddenly found itself a client state of Iran.

Then the shahanshah bought 25 per cent of that grand old company of the Ruhr, Fried. Krupp Hüttenwerk. It was only a matter of time before he took over complete control. Old Hitler buffs thought they had spotted a trend developing, but nobody paid attention to them, even when the shah, in a further act of generosity, offered to bail out a little company in the United States that made the type of toys that Reza Pahlavi liked to play with—warplanes. It seemed that, next to the Pentagon, the shah was Grumman's largest customer. It further seemed that he was very worried about getting delivery of 80-odd F-14 interceptors on time from Grumman. Because he needed them for the War of 1976.

As it turned out, he got them right on schedule, plus 70 more Phantoms from McDonnell Douglas, a number of which were equipped with nuclear bomb racks.

Now he was in a position to make the Persian Gulf an Iranian lake, and have the entire world at his mercy thereafter. But first he had to convince his big brother to the north, the Soviet Union, that all this was a great idea—and also attend to a few other details. That's why he went to Switzerland.

I

On February 13, 1976, the shah of Iran arrived quietly in Zurich. As usual, he moved into the Dolder Grand Hotel; it was close to the clinic where he had his annual medical checkup. His entourage was not large: his young wife, Farah Diba, their children, her lady-in-waiting, his aide-de-camp, and about twenty security men. Few people took notice of them. It was, after all, the shah's twelfth consecutive winter visit to Switzerland.

On February 18, apparently in good health, he and his family left by private jet for St. Moritz. Just before takeoff, two men, who had arrived at Kloten airport from Teheran just an hour earlier, joined the flight. The shah was at the controls of the jet most of the way, but turned the plane over to the Swiss pilot before landing. The shah knew the small airport at Samedan: it was squeezed between the mountains behind Pontresina to the south and those of St. Moritz to the north, and averaged 1.6 fatal crashes a year. Most of the security men had gone on ahead the day before in three Mercedes 600's. All three were on the tarmac when the Lear's engines were turned off.

About twenty minutes later, the shah's party moved through the gates leading onto the grounds of the Suvretta House on the eastern outskirts of St. Moritz. In this city, the *nouveaux riches* stayed at the Palace; those who inherited wealth or title, or succeeded to both through marriage, stayed at the Suvretta. The shah, while still married to Soraya in the 1950's, had learned to love skiing in the Swiss Alps, and also to appreciate the setting of this particular Swiss hotel with its pine forests and the towering Piz Nair beyond. But he especially enjoyed the solitude, beyond the rude stares of German tourists with knapsacks full of leberwurst sandwiches and sauergurken. In 1968 or 1969, the shah had purchased a villa on the grounds of the Suvretta. It made things easier for the security men, and it added a further dimension of privacy. Yet it did not involve sacrificing the superb service and cuisine offered by one of Europe's finest hostelries. The manager of the Suvretta, Herr R. F. Mueller, flanked by two assistants standing well to his rear, was waiting outside the main entrance to the hotel. The welcome was brief. The window at the back of the first Mercedes was open not more than one minute while the pleasantries were exchanged. Then the convoy of three limousines moved on.

Both the windows and the curtains on the windows at the rear of the second limo remained closed. The third car was wide open, much to the discomfort of the shah's six bodyguards inside, who were not used to the air of the Engadin Valley in February, which hovered around the freezing level even at noon.

The shah and his family had a brief lunch, and by 1:30 were out on the small practice slope, about 75 meters from the villa. Herr Mueller had discreetly arranged that they have exclusive use of the tow lift for the afternoon. Two veteran ski guides were there to assist. A good dozen security men, half on skis, posted themselves along the slope. The children, of course, protested the need for spending any warm-up time on what the Swiss term an "idiot hill"; they preferred to move right up to the main slopes of the Piz Nair. But papa remained firm. At 3:30, as the temperature began to dip radically and patches of ice started to appear, everyone returned to the lodge. They all had cheese fondue that evening.

Thus ended a typical day in the life of His Imperial Majesty, the shahanshah of Iran—devoted husband, dutiful father, sportsman. A day perfectly set against the background of tranquil, neutral, clean, moral Switzerland.

It was, in fact, the perfect place to plan a war.

Which was exactly what the two men who had remained so secluded in the back seat of the second limousine had been doing in the south wing of the shah's villa, while the Pahlavi family cavorted in the snow. They were General Mohammed Khatami, head of Iran's air force, and Commander Fereydoun Shahandeh, the Iranian air-sea strike chief for the western part of the Persian Gulf. As military men are prone to do, one of their first acts upon settling into their St. Moritz billet had been to pin a huge map to the wall. Its dimensions were illuminating, stretching from India in the east to the Mediterranean in the west; from the southern perimeters of Russia to the north to as far south as Yemen and the Sudan.

Both the general and the commander had the appearance of happy men. And why not? They controlled the biggest and best-trained army in the Middle East; the largest and most sophisticated air force; a flexible, modern navy.

In addition, Iran possessed the world's most extensive operational military Hovercraft fleet (British-built SR.N-6's and BH.7's), and an awesome arsenal of missiles, ranging from the U.S.-built Hawks to the British Rapier to the French Crotale, but its most dangerous weapon was, of course, the American Phoenix stand-off missile—the laser-guided smart bomb. To man all this equipment, Iran had an army of 460,000 men (including reserves), reputed to be the most efficient fighting force in the Middle East (with the exception of Israel), thanks in part to the training provided by over 1,000 American military personnel who were sent to Iran in the early 1970's for that purpose. (The total military hardware that was at Iran's disposal is shown in the inventory list on this page.)

All the Iranians lacked was a nuclear capability. And they would even have that, provided the shah pulled off his final deal in St. Moritz. The penultimate one had to be with the Russians. That was scheduled for the following day.

Around 10 A.M. on the morning of February 19, 1976, another limousine came through the Maloja Pass, which connects the Italian-speaking part of Switzerland, Ticino, with the Engadin Valley in the Grisons. This time it was a Fiat, the driver an Italian, and the two passengers Russians—the minister of defense of the Soviet Union, Marshal Andrei Grechko, and his interpreter.

The trip had originated in Turin, where Grechko had been spending the week as the guest of Fiat. The Russians knew that the huge truck plant which Fiat built in Togliattigrad in the early 1970's was also eminently suitable for manufacturing such items as tanks, armored personnel carriers, even aircraft frames in a pinch. It required only a conversion job costing around a billion dollars, and a contractor that had the know-how and the spare engineering capacity. Fiat had both, thanks to the fact that for decades it had been one of the major suppliers of arms to NATO, and the further fact that as a result of Italy's disastrous economic situation, half of Fiat's capacity lay idle. So Fiat had tendered a bid that at best would cover its overhead. The Russians knew this, and Grechko had been fully prepared to sign the deal the very first day in Turin. But Russians never sign anything the first day. So the five-day visit. This Thursday had been scheduled as Grechko's day off, a day to be spent privately, enjoying the unique beauty of the Alps in winter.

At 11:15 the Fiat entered the grounds of the Suvretta House, and headed directly for the shah's villa. The two Russians had barely emerged from the car when General Khatami and Commander Fereydoun Shahandeh appeared. Four handshakes, a dozen words, and they disappeared inside.

The shah was standing in front of the fireplace in the library when they entered. He extended a hand to each Russian, and indicated that they would be seated on the sofa behind a massive wooden coffee table. He himself chose an armchair on the opposite side. The two Iranian military men remained standing to the shah's rear.

"We shall speak English," were his first words. Marshal Grechko nodded his agreement, so the shahanshah continued. "I do appreciate your agreeing to this rather unusual arrangement. You understand that it would have been impossible for me to come to Moscow, and very awkward to receive you in Teheran."

"We fully understand, Your Majesty," replied Grechko through his interpreter, and both nodded their heads slightly as the words were being repeated. Russians are as much in awe of royalty as are Americans.

"The subject I wish to discuss is Iraq. It is not the first time that that country has come up in our talks over the years."

Silence from the sofa.

"You are, of course, aware that Iraq has attacked Iran at least a dozen times during the past five years. It is preparing to attack again, this time on a massive scale."

Still silence.

"We further believe that the Americans will use this military conflict as an excuse for intervention, in order—as they so nicely put it—to 'stabilize' the Middle East."

"How?" asked Grechko through his translator.

"There are 12,000 American military 'advisers' in Saudi Arabia. For years they have been trying to convince Faisal that Iran, not the United States, is the real enemy of the Arab people. And what better proof than a major Iranian-Iraqi armed conflict? Now to answer your question: the Saudi/American armed forces would move immediately to 'secure their northern flank.' Which means their occupation of the entire western coast of the Persian Gulf, up to and including Kuwait. But, all this can be prevented."

"How?" repeated Grechko.

"Very simply, though at great sacrifice to my country. Iran would make a preemptive strike. Not just against Iraq. We would simultaneously neutralize Kuwait, Bahrain, Qatar, Abu Dhabi, Dubai, as well as the northern tip of Oman. We will have the entire Persian Gulf—both sides—in our hands before the Americans even find out. After that they, and their friends the Saudis, will be finished in the Middle East." The shah paused, and then added six further words: "provided your country does not intervene."

"We could not stand idly by," said Grechko immediately. "Iraq is our friend."

"But so is Iran. And it is I, only I, who can stop the Americans from gaining control of the Gulf."

Iran's Military Inventory, 1976

Combat Aircraft

Type	*Characteristics*	*Number*
F-14	Variable-geometry high-speed interceptor. World's most advanced combat aircraft. Supplied by U.S.A. (Grumman).	80
F-4	The Phantom (McDonnell Douglas) is, next to the F-14, the U.S.A.'s best missile-armed aircraft, with nuclear capability as a long-range, all-weather fighter-bomber.	170
F-5	Supplied by Northrop. A highly maneuverable fighter aircraft, carrying highly sophisticated electronic equipment. Ordnance capability: 3.5 tons.	221
RT-33	Another American product. Used for tactical reconnaissance.	15
	TOTAL	486

Helicopters

Type	*Characteristics*	*Number*
UH-1H214A	Carries 16 armed personnel; cruise speed, 150 m.p.h.; gross weight, 13,000 pounds. Very successful as attack helicopter in Vietnam.	287
AH-1J	The "Sea Cobra," which started to come off American assembly lines in 1974, is noted as "the world's only fully integrated helicopter gunship with a stabilized multisensor fire-control system for day and night delivery of weapons." The U.S. Army will not have any until 1978.	202
Other	Including AB-206A's, CH-47C's, AB-212's, Huskies, and Whirlwinds.	250 (est.)
	TOTAL	739

Tanks

Type	*Characteristics*	*Number*
M-47	American workhorse-type tank, with a reputation for mechanical reliability and good mobility. Has 90-mm gun, speed of 35 m.p.h.	400
M-60	The main battle tank of the U.S. Army, with 105-mm high-velocity gun; speed of 30 m.p.h. It can cross water up to 13 feet in depth, has night-vision equipment.	460
Chieftain	World's most modern battle tank, supplied by Great Britain. Has an exceptionally accurate 120-mm gun which can hit and destroy any tank within 2,000 meters. Speed, 30 m.p.h.; night vision equipped; with snorkel, can wade up to 16 feet.	800
	TOTAL	1,660

Armored Personnel Carriers

Type	*Characteristics*	*Number*
BTR-60	Soviet-built. Carries 13 infantrymen. Speed, 50 m.p.h. Has a 14.5-mm heavy machine gun and a 7.62-mm machine gun, turret mounted. Equipped with rocket launchers (including antitank).	1,000
BTR-50	Soviet-built light amphibious tank. Carries 15 men plus 4 machine guns of 14.5, 12.7, or 7.62-mm caliber.	500
M-113	U.S.-built standard current U.S. Army armored personnel carrier. Carries 13 men, has .50-caliber machine guns. Variants include mountings for antitank missiles, mortars, and flame throwers.	500
	TOTAL	2,000

Type	Characteristics	Number
	Naval Vessels	
Aircraft Carriers*	*Kitty Hawk* and *Constellation*, on lease from the United States. Both are 1,062 meters long, can carry 80–90 Phantom fighter-bombers.	2
Destroyers	Two are of the Spruance class, supplied by Litton Industries, Pascagula, Mississippi. World's most sophisticated attack ship, with helicopter, missile, and antisubmarine capability.	5
Frigates		4
Corvettes		4
Patrol Boats		14
Minesweepers		4
Other	Including landing craft, inshore minesweepers, etc.	6
	TOTAL	39

*[*Based on current (1974) speculation, not fact. However, sources in Washington, D.C., suggest that talks concerning such a deal have taken place.—P. E.]*

"There are other reasons," continued the shahanshah. "For example, would it be in your interest if we were forced to suspend shipments of natural gas to your country, especially now that the second pipeline is in operation?"

"Why should you have to do that? We have very firm agreements!" Grechko was getting angry.

"Because," replied the shah, calmly, "if *we* allow Iraq to attack, its first target on Iranian soil will be Abadan. The refinery complex there is the largest in the world, and Iran's prime source of energy. It's within artillery range of Iraq. But our gas fields are beyond Iraq's reach. I think it should be obvious that after Abadan is destroyed, we will have to immediately stop all exports of gas. We will desperately require every cubic foot for domestic consumption."

The shah raised both hands in a gesture of impatience.

"But why should I dwell on circumstances which need not ever develop? With the agreement of your government, I can prevent such a catastrophe. Then not only will you have your gas, but much more. I will be prepared to enter into a five-year agreement on shipments of crude oil to the Soviet Union—at a fixed price. Ten dollars a barrel. Up to half a billion barrels a year."

"It is too dangerous," said Grechko.

"I am also in a position to lend you an F-14. Or two, if you need them."

Now Grechko's eyes flickered. The American F-14 was the only aircraft superior to the MiG-25, and both planes were planned as the top-performance interceptors of their respective countries in the 1980's. That Grechko understood. Let the people back in the Kremlin calcu[illegible]

"How soon do you need an answer?"

"Within three days."

"And if it is negative?"

"Then you had better find your own way of coping with the Americans."

The shahanshah rose. The audience was over. But Grechko, though also rising, persisted. "How do you know the Iraqis are about to attack?"

The shah's hand motioned to General Khatami. Out of his briefcase came two aerial photographs, compliments of a camera built by Kodak, as mounted in an aircraft built by McDonnell Douglas—a total package for which the shah had paid $15 million in 1974.

"This," said Khatami, taking the first photograph and pointing at the river forming the border between Iraq and Iran where the two countries meet at the northern tip of the Persian Gulf, "is the Shatt al-Arab River. Note the incredible concentration of artillery displacements and missile launching sites here, opposite Abadan, and there, vis-à-vis Khorramshahr."

Khatami presented his second photo. "Now this is the territory immediately to the north—the narrow plain between the Tigris and the Iranian border. You can quite clearly see the armor. Here, ready to move on Ahvaz. There, poised at Dezful. The idea, obviously, is to sweep east and then south to secure Abadan and its surrounding oil fields."

He put the photographs aside. "All in all we have counted about 1,700 tanks in that corridor east of the Tigris—800 T-55's, 450 M-60's, and around 500 BTR-152's. They represent 90 per cent of the total tank force Iraq possesses. This type of concentration has never occurred before. At least half of the Iraqi forces have always been kept in the north, to contain and destroy [illegible]

Air Force has been on alert since last Wednesday. The army reserves were recalled last Monday. All this is, of course, quite easy for you to verify."

The marshal spoke: "I shall be leaving Italy for Moscow tomorrow afternoon. You will hear from us immediately thereafter."

Grechko bowed, turned, and left. Minutes later the shah walked out of the chalet with his wife and children. It was a perfect day for skiing.

II

The French began arriving at nine the following morning, in black Citroëns, of course. The first group was from the Dassault-Breguet Aviation Company, the largest French aircraft producer. The subject under discussion: the Mirage F 1's. In fact, 120 of them. In addition to the aircraft, the package Dassault hoped to sell included 1,500 Matra R.550 missiles (some with radar, and others with infrared homing heads), as well as 500 of the new French laser-guided stand-off weapon (its characteristics being very similar to the American Phoenix), which tested out with a better than 95 per cent hit rate even on targets as small as single armored vehicles, or parked aircraft. If accepted, this deal would have major long-term consequences for France. It, not the United States or Russia, would become the chief supplier of arms to the biggest single customer for weapons that had ever existed—the shahanshah. The French asking price for this initial package was $5.1 billion. They proposed that 50 per cent be paid on signing, the other half on delivery. The shah, in the preliminary discussion earlier that year, had indicated he would prefer another mode of payment. For the shah was very cash-flow-conscious (his cash was earning him 15 per cent per annum at Chase Manhattan in London). He preferred to pay in kind. And kind, in Iran, means crude oil.

This was the reason for the second delegation, which arrived at a little past ten, only minutes after the Dassault presentation, flip charts and all, had been completed. The second group was typical of French negotiation teams in that it included a mix of both private and governmental interests—in this case, the heads of the Commissariat au Plan, the French National Energy Office, the Compagnie Nationale Française de Pétrole, and Gaz de France. The deal being offered them? Seven billion barrels of Iranian crude, over seven years, at a base price of $11.50 a barrel, to rise at the rate of only 6.5 per cent per annum for the length of the contract. Not as good as the offer to the Russians, but the French didn't know that.

The second stage of the French-Iranian conference was brief. The French accepted, without reservation, the shah's proposal. They were prepared to sign on the spot. But the shah was not. All depended on the outcome of yet a further meeting. But he merely told both the oil and arms men that his final decision would be given the following Monday. It would be communicated to them by his ambassador in Paris. They could now leave. So they left.

It was only after the grounds of the Suvretta had been completely cleared of black Citroëns that the final delegation arrived. They came in an Alouette military helicopter provided courtesy of the Swiss government, which had also guaranteed the complete secrecy of the operation.

This final meeting involved only five men: the shah, his two military advisers, the personal delegate of Premier Giscard d'Estaing, and the chief of staff of the French military forces. The shah wasted no time in making his proposal, which, he said, required only a *oui* or a *non*.

He wanted to borrow a half-dozen atomic bombs from France. He would return them on December 31, 1976.

"Why this particular date?" asked Giscard's right-hand man.

"Because by then we will have built some of our own," replied the king of kings.

The problem was that he, the shahanshah, was under dire threat of nuclear blackmail right now, in February of 1976, and he could hardly counter such a threat with bombs that he would not have until the end of the year. Thus the need for this short-term loan.

Were there any possible circumstances under which the French bombs might be used?

Of course not! You could not fight and win a nuclear war with only six bombs! He needed them only to be able to "honestly" counter a probable Iraqi-Soviet nuclear bluff. If he could not, the chances were very high indeed that Iran would become yet another satellite within the Soviet orbit. Such was obviously not in France's interest, especially now when Iran was about to develop into France's largest single export market on the one hand, while guaranteeing France's future petroleum supply on the other. *N'est-ce pas?*

The two Frenchmen demurred from offering any opinion whatsoever. But they did guarantee that the shah's thoughts would be communicated to Paris forthwith. This time it was the shah's guests who rose first. You must grant the French at least one thing: they understand upmanship.

So by noon of that Friday, February 20, the shah was once again alone with his generals. But by this point he had had enough of them. He'd also had enough of skiing. So he dismissed his military aides, ignored his family, strolled out of the chalet, and disappeared into the north wing of the Suvretta House.

He always reserved 40 rooms there during his sojourns in St. Moritz for his entourage—security men, communications people, hangers-on. It also served, rumor had it, as the shah's indoor-winter-sports center. More specifically, it was suggested that the shah had an ongoing penchant for dark-haired German girls, along Soraya lines, and that he maintained a fairly sizable stable of such in the north wing. And why not? The Old Testament is full of emperors and kings who did the same thing: Solomon, David, Ahasuerus, to name but a few. And the shah was a great believer in tradition—in the *obligation* of tradition.

Thus it was that the shah only emerged once again into the daylight around 2 P.M. that Sunday. He returned to the chalet just in time to receive two messages: a *da* from Moscow, a *oui* from Paris.

Now he could return to Teheran and start his war.

III

The Two-Day War began at 6:30 A.M. on Sunday, February 29, 1976. The shah's astrologer had approved of this date, and his court historians had concurred. No ruler, to their knowledge, had ever chosen an intercalary day to begin a war. And it was the reestablishment of an empire—the ancient Sassanid Empire—that was at stake. The king of kings was 56, and before he died he intended that the glory of ancient Persia be restored.

His first move was right out of the Israeli book: 100 Phantoms, equipped with their Phoenix stand-off missiles, made low-level dawn raids on all eight major Iraqi military bases. Iraq at this time had 30 MiG-23's, 90 MiG-21's, 50 MiG-17's, and 36 old British-made Hunters. All but 33 of these aircraft were destroyed on the ground before the sun was up, thanks to the remarkable accuracy of the Phoenixes and to the skill of the Iranian pilots, all of whom had been schooled by the United States Air Force.

The second air strike was directed at Umm Qasr, the port city just off the Iraqi-Kuwait border, where the Russians had built a naval base for the Iraqis, designed to guard the mouth of the Shatt al-Arab River. One hundred and twenty Northrop F-5's leveled the place within an hour. By 7:30 A.M. battalion after battalion of Iranian troops were being landed by helicopter. It was a walkover.

The third strike, in which both Phantoms and F-5's were employed, was the most massive of all. It was directed at the artillery and missile sites just across the Shatt al-Arab from Abadan and Khorramshahr. A great deal of napalm was used—with devastating effect.

The Iranian Air Force had proved itself the most efficient in the entire Middle East, exceeding even the Israeli performance of a few years back in terms of turnaround time and operational techniques.

The key tactical move, however, first began around 9 A.M. after all three air-strike operations had proved successful. Military historians today refer to it as "the Shatt al-Arab end run." It was conceived and implemented by Commander Fereydoun Shahandeh as the first major military offensive based primarily upon the use of Hovercraft. The idea was tailor-made for the geography of the area. Remember all those Iraqi tanks in the corridor between the Tigris River and the Iranian border? Well, behind them—to the west—were the swamps of the Tigris-Euphrates delta, impassable terrain from the military standpoint. Impassable, that is, for every military vehicle known to man except the Hovercraft, which could move on top of its air cushion across anything that was reasonably flat—water, swamp, or beach—and at a speed of 40 m.p.h., fully loaded. These remarkable machines (all built for the shah in Britain, the world's leader in Hovercraft technology) could move an entire armored battalion: in their cavernous bowels were tanks (Chieftains, also British-built) and armored personnel carriers (BTR-50's and BTR-60's, of Soviet origin) plus a full complement of military personnel in the wings and on the upper decks. They had a range of 150 miles. But they could not move until the naval base at Umm Qasr had been put out of action, and until the Iraqi fire power on the west bank of the Shatt al-Arab—the gateway to the Tigris–Euphrates delta—had been eliminated. By 9 A.M. it was. Immediately, the beaches on the Persian Gulf to the east of Abadan were filled with the howl of Hovercraft engines, as the air pressure was raised within the skirts beneath the vehicles. By 9:15 all 45 craft were under way. As these grotesque weapons of war moved around the corner, and up the Shatt al-Arab channel, the scene resembled a Martian invasion.

Only two hours later, they began opening up their ramps on firm ground to the rear of the Iraqi forces. At the same time the main body of Iranian panzers, which had been grouped between Dezful and Ahvaz, began a frontal assault from the east. It was nothing less than a massacre. Already by early afternoon the vast majority of the Iraqi forces chose surrender.

IV

Meanwhile, back in Washington, Secretary of Defense Schlesinger and his chairman of the Joint Chiefs of Staff, General Brown, were having drinks at a cocktail party, in Chevy Chase, being thrown by Senator Stennis of Mississippi in honor of himself.

The first hint that something was going on started coming in around 8 P.M. Eastern Standard Time, on this 29th of February. The word came from the Aramco communications center in Riyadh, was sent to the Standard Oil people in New York, and then relayed to the Pentagon. Since it was a weekend, they sat on it there for a while, and then some colonel decided that he'd better cover his back just in case. So Schlesinger was alerted by telephone out at Chevy Chase.

"Goddamned Iraqis," was Schlesinger's comment to Brown after hanging up, "they've attacked Iran again. But this time in real style, apparently."

Brown did not trust either the defense secretary or Standard Oil, so he immediately arranged for an aerial reconnaissance sweep of the region. Schlesinger thought he'd better call Henry. Nancy answered the phone and said Henry was at the office. So Schlesinger called the State Department.

"You have a problem, James?" It was pronounced "Chames."

"Yes, Henry. Apparently Iraq has attacked Iran. And this time the shah is shooting back."

"We have nothing on this at State."

"It does not surprise me."

Henry did not think that deserved comment. "When will you have more?" Kissinger asked.

"Within the hour."

At the end of that hour, Schlesinger and Brown were on their way to the White House. Henry, William Simon, and Nelson Rockefeller were in the Oval Office with the president when they arrived. All were drinking bourbon and branch water, so Schlesinger and Brown also drank bourbon.

Mr. Ford asked the chairman of the Joint Chiefs of Staff to brief the group. Brown told of the air strikes around Baghdad, of the destruction of the Soviet-built naval base at Umm Qasr, and of the Shatt al-Arab end run. He did not consider these developments unfavorable for the United States. Quite the contrary. Iraq was a client state of the Soviet Union's. Iran was a client state of the Pentagon's. What was good for the shah was therefore good for America.

James Schlesinger endorsed this statement "without any reservations whatsoever." It was totally consistent with American policy as initiated by Johnson in 1968, and continued by the Nixon and Ford administrations ever since.

Kissinger, biting his fingernails more than usual, remained silent. Simon also said nothing, but seemed to have an "I told you so" look on his face. Only Rockefeller dissented: "I don't like this one damn bit." (Was Standard Oil telling Rocky more than it was telling the Pentagon?)

At this juncture, Henry, of course, began to tilt in the direction of Rockefeller. "Nor do I," he stated, firmly.

Then the president's phone rang. Apparently some new action had started on the gulf. The C.I.A. would have a full report later. Jerry Ford actually looked relieved after he hung up. He had hardly wanted to take sides against his friends in the Pentagon, but he also could not afford to buck Rockefeller-Kissinger. So he said: "Gentlemen, we need a lot more information about the situation over there before we can decide anything. Let's meet again first thing tomorrow morning. In the meantime, I want all of you to get everything you can on what's going on."

V

Actually, quite a bit was going on. At 6 A.M. on March 1, Middle Eastern time (which was eight time zones ahead of Washington), the Iranian takeover of Kuwait, Bahrain, Qatar, Abu Dhabi, Dubai, and Oman began.

The Kuwaiti operation was simple. The Iranian forces, which now completely controlled the entire southeastern corner of Iraq, simply turned south. By noon Kuwait's 3,000-man army surrendered. The next place to go was Bahrain. For years, the large and powerful Iranian minority in Bahrain had been demanding Anschluss with the mother country. On this March 1, the local Iranians—who in the meantime had been molded together in a well-organized and superbly armed paramilitary force—took the country over. No more than 100 shots were fired.

The takeover of Qatar, Abu Dhabi, and Dubai involved a combination of betrayal from within and invasion from the sea. In all three sheikdoms there were large numbers of Iranian immigrants who had brought with them the skills and work ethic necessary for the building of a modern economy—attributes which the local Arab population lacked. These immigrants, who had been organized along Bahrainian lines, occupied the strategic military points at dawn. When the Iranian regular troops arrived from the islands of Abu Musa and Greater and Lesser Tanb, they had very little left to do.

In Oman no invasion was necessary. Starting in 1972, the shah had generously provided the Omani government with military assistance to help it counter the Dhofar rebels in the strategic northern tip of Oman, situated between the Persian Gulf and the Gulf of Oman. By 1976, Iran had 2,000 paratroopers and 60 helicopters in that region. In addition, the majority of the Omani army there were Baluchis, recruited for the most part from southern Iran. The paratroopers and Baluchis simply got together and ran up the Iranian flag.

While all this was happening on the ground, a major redeployment of Iranian air and sea forces was taking place. It involved a massive shift of equipment to the new naval/air bases at Bandar Abbas (guarding the mouth of the Persian Gulf from the west coast of Iran) and especially to Chah Bahar on the Iranian coast, just west of the Pakistani border. Chah Bahar was by far the largest military base anywhere in the Indian Ocean. It was built by American contractors in the early 1970's, at a cost of $1 billion.

By nightfall of March 1, 1976, Iran controlled the entire Persian Gulf. The Two-Day War was over. Now Iran's forces were poised around the mouth of the Gulf in anticipation of a challenge from the United States.

When the six men reconvened in the White House early on March 2, it was Bill Simon who pointed out the enormous gravity of the situation. The shah, he said, now controlled all the oil in the Middle East, except for that of Saudi Arabia. And there was little doubt in his mind that the shah could now grab the Ghawani oil fields (from which Saudi Arabia got 90 per cent of its crude-oil output).

"Okay," said Ford, "how do we respond, General Brown?"

General Brown frowned. "Sir, what exactly did you have in mind?"

"The marines, the navy. I don't care. I just want the shah to pull back. All the way. And right away."

"Uh, that's going to be a bit difficult. I mean, doing it right away."

"What do you mean?"

"Well actually, sir, we've got nothing in that area. Our closest strike force would be the Sixth Fleet, I guess. But that's in the Mediterranean, of course. And the Seventh Fleet's off Formosa right now. If we moved either one, it would be about a week before we'd be ready to hit the Gulf. But even then I'm not sure we would want to do it."

"Why not, for Christ's sake?"

"Well, the shah has an enormous amount of fire power ready to go against the first one of our carriers cruising off Char Bahar—the *Kitty Hawk* and the *Constellation*. They've each got 90 Phantoms on board. Then there's Char Bahar proper. He's got 80 F-14's there —more than we have in all of Europe. And take those missile sites on Abu Musa. Assuming we could get into the Gulf, I'm not sure we'd get past them."

"You mean to tell me that we, the United States of America, cannot take on the shah militarily?" thundered Ford.

"Well, we could. But our casualty rate would be astronomic. And then there's something else to think about. In order to get the shah back out of the Gulf, we'd have to mobilize a type of landing on the scale of Normandy in World War II. With the exception that our supply lines would not be fifteen miles across the English Channel, but about 5,000 miles, from Western Europe. I'm not sure that course of action is to be recommended."

"What course of action is?"

"We'd probably have to go nuclear."

One of the president's aides entered the Oval Office at this point, and handed Henry Kissinger a note.

"It's Ardeshir Zahedi," said Kissinger.

"Who?" asked Ford.

"The Iranian ambassador. He wants to talk to me."

"On the phone?"

"Yes."

"Well, talk to him."

Henry left the room. While he was gone, General Brown explained that, in his judgment, it would be best to use B-52's from Guam for the job. The Europeans would get upset, he thought, if any nuclear attack force based on their territory was used to bluff the shah. Of course, he went on to explain, the threat of such weaponry would not by any means preclude the necessity of occupying the Gulf with American troops. Which would require a major naval operation, and, as he had already pointed out, considerable risk. On the other hand, since the shah had no means of nuclear retaliation. no doubt he would just give up the moment the B-52's appeared over Iran.

Then Henry came back in, looking a bit pale.

"Our Iranian friend called just to pass along a little message from the shah. He wants to assure us that he remains a staunch friend of the United States, and can now insure stability in the Middle East, an objective which, he says, our two nations have been jointly pursuing during the past decade. He added a P.S.," continued Kissinger. "He wants to calm any fears we might have concerning a possible attempt by the Soviet Union to take advantage of the situation by trying to move into the area through nuclear blackmail. Fortunately Iran possesses a quite adequate nuclear capability, thanks to the help of his two best friends: the French, who helped him get the bombs, and America, which has provided him such efficient delivery systems. He sends his best regards to you, Mr. President."

"He'd never use them against *us* even if he really had them," stated Schlesinger.

"What do you think, Henry?" asked Ford.

"I don't know him well enough. But I do know somebody who does."

"Who?"

"Bill Rogers. Right after he resigned as secretary of state, he went to work for the Pahlavi Foundation."

"Call him."

So Henry did. Rogers's answer was slow to come, prudently worded, but quite clear: the shah probably had nuclear weapons, and if he was threatened by B-52's and the Sixth Fleet, he'd use them as a last resort. There was a carefully couched suggestion that an element of irrationality in the shah's character should not be ignored.

When Henry had finished, somebody muttered: "We should have given that bastard the Allende treatment years ago." But nobody heard it.

Three hours later a message was on the way to the shahanshah of Iran from the president of the United States. It expressed the hope that Iran and America would work as partners toward peace in the Middle East in the future, as they had in the past.

The next day the shah issued a statement. In it he explained that the liberation of his fellow Moslems on the Persian Gulf had involved tremendous financial sacrifices. The Iranian people had a right to just compensation. He went on to state that it was his intention not only to reconstruct the war-ravaged areas, but to make them models of the advanced civilization that Iran offered the world.

This would all cost money. Therefore, as of March 3, 1976, the price of Persian Gulf oil would double.

That did it.

Within two months Italy and Britain were bankrupt. The dollar had collapsed, along with a few thousand banks. Wall Street lay in ruins. And these were only the first dominoes to fall. The Crash of '76 was inevitably followed by the Revolution of 1977, the Famine of 1978, the Collapse of Society in 1979 . . . and ultimately, the End of the Industrial Era.

Today, in 1984, most survivors say that it has all been for the good. At least the ones here in California who don't have to worry about starving or freezing to death. I'm not sure. Sometimes I like to stop and think back on the old world—but, right now, the cows need milking. ■