

68-11-25670

Mr. John Noble/
Trans-Arabian Pipe Line Company
505 Park Avenue
New York 22, New York

Dear Mr. Noble:

I want to let you know that I have received and read with interest the speech given by Mr. Howard W. Page to the Middle East Institute which you were so thoughtful to send me.

I appreciate your making this available to me.

With kindest personal regards.

Sincerely,

SIGNED

Allen W. Dulles
Director

STAT

O/DCI/ [] dd 27 March 59

Distribution:

Orig - Addressee

1 - DCI

1 - AAB

1 - ER w/basic & encl.

DOCUMENT NO. 20
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S 3
NEXT REVIEW DATE: _____
AUTH: HR 30-2
DATE: 24 Feb 81 REVIEWS: []

STAT

"P.S. I have had a message sent you re B-L. about whom you inquired. 1st Lt. H. D."

MEMORANDUM TO: Mr. Dulles

SUBJECT : Brief of Howard W. Page's Talk before
the Middle East Institute

Howard W. Page, Director, Standard Oil Company (New Jersey) delivered a talk to the Middle East Institute, the subject of which was on economic aspirations in the Middle East. His talk concerned the oil industry in that area and he presented some proposals on improving the health, education and living standards of the local people. One plan is to assist in financing new locally owned businesses and industries throughout the Middle East and once the enterprise is established and its loan repaid, there would be no connection with the oil company. The ownership of homes which are subsidized by the companies as a means of providing housing for employees has spread the concept of property ownership and has encouraged the growth of a stable property owning class. Also, oil companies have assisted in the development of water resources and in town planning.

Mr. Page points out that the development of considerable interest is an Arab pipeline from the head of the Persian Gulf to the Mediterranean which is worthy of careful and understanding consideration by the oil industry. In view of the number of tankers available at the present time, he feels that such a project could not come into being very soon and also it requires several years for organizing, financing, engineering and building. This is, however, an unusual project in that from four to six countries are involved and no one oil company would feel justified in furnishing the capital.

Mr. Page mentions the fact that 1958 was a bad year for his company. Competition was unusually rough and the overall profit was less than the amount paid to Middle East Governments for the crude oil taken from that area. He also mentions the ever present competition from alternate energy sources, such as coal. He states that it is important to have good relations between the governments concerned and a dispute in a purely political sphere might quickly upset the arrangement. He points out that Russia is an oil exporter of some importance and that there is ample proof the Soviets do not hesitate to use economic instruments as political weapons.

Mr. Page concludes his talk by saying, "we should avoid the trap of going along with unsound or impractical projects even if they are tagged as National Aspirations attempting to buy good will by such expedients can, I feel; weaken the long-term relationship of mutual respect and basic identity of interests so important to both of us."

11-2567

TRANS-ARABIAN PIPE LINE COMPANY

A CORPORATION

505 PARK AVENUE

NEW YORK 22, NEW YORK

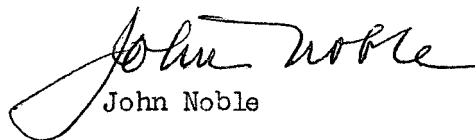
March 25, 1959

Mr. Allen Dulles,
Director,
Central Intelligence Agency,
2430 E Street, N. W.
Washington 25, D. C.

Dear Mr. Dulles:

I am enclosing a copy of Mr. Howard W. Page's
address to the Middle East Institute conference on
March 20, which I mentioned in our conversation yester-
day after lunch.

Sincerely yours,


John Noble

Enclosure

FROM: Standard Oil Company (New Jersey)

ROOM 1626, 30 ROCKEFELLER PLAZA
NEW YORK 20, NEW YORK • PLAZA 7-3000

For Release to Morning Papers
of Saturday, March 21, 1959

MIDDLE EAST ECONOMIC ASPIRATIONS

A speech by

Howard W. Page

Director

Standard Oil Company (New Jersey)

before

The Middle East Institute's Thirteenth Annual Conference

on Middle Eastern Affairs

Washington, D. C.

March 20, 1959

The subject of economic aspirations in the Middle East is almost unlimited. I propose to limit my discussion tonight to a few of the manifestations of so-called "Nationalist aspirations" in the area which directly affect the oil industry there. I can, of course, give you only my own views which may differ considerably from those of others in the industry.

First, I would like to examine the word aspiration. It seems to leave the impression of something desirable and also something to which the aspirer is entitled as a basic right with no obligation to earn. Quite often I have been confronted with the remark: "But that is a National aspiration, or an Arab aspiration" as if that settled it and there was nothing left to discuss. I was left with the vague feeling that even to question the validity of the aspiration was like damning motherhood. To shake off the mesmerizing effect of the word I find it desirable to recall that the Soviet aspiration is to dominate the world.

Many of the aspirations in the area are sound and proper by any standards. Desires to improve the health, education and living standards of the people certainly come in this category. The oil industry is bending every effort to assist in all of these. There is the aspiration for nationals to take positions of higher responsibility. The industry is often criticized for not pushing nationals fast enough. I am one who feels that the industry should not demand of them the same standards of education, experience and proven ability that we do of our own people. True, this may result in some lack of efficiency and some mistakes, but they may well be worth it if it speeds up the process of developing competent nationals for higher positions. A word of

-2-

caution though. Considerable harm can be done to a man, physically and mentally, as well as for his future, if he is placed in a position well beyond his capabilities. His failures can also unfairly reflect on the reputation of his countrymen as well. This is apparently not realized by those who want to place nationals in high positions willy-nilly.

There is the aspiration for better housing and particularly to own a home. Several of the home ownership programs in the industry are now moving like a prairie fire--and a lot more beneficially.

These are all aspirations common to mankind everywhere. They are reasonable and desirable and receive very sympathetic assistance.

There are other aspirations in the broader economic fields which need sorting out as to their justification.

One characteristic of non-industrialized countries seems to be the desire to industrialize regardless of the effect on the economy. It becomes a matter of national pride. The question of whether or not the resources and manpower of the country could be put to better use in improving the lives of the people is not even asked. There are fads in this. National pride demands, for example, a steel mill, an oil refinery and, more recently, a petrochemical plant. Now I do not want to imply that these are not desirable. They are--in the right place and at the right time. But to build one of these plants which could never pay its way is a waste of valuable materials and manpower which could have been put to better use for the benefit of the people of the country.

I have had it argued, for example, that because natural gas is being flared and thus wasted, a very costly petrochemical plant should be built

-3-

to use the gas. However, if such a plant would continually operate at a loss, the economic waste in building may be far greater than the economic waste of flared gas. To do something of this nature as a good-will gesture to satisfy a so-called national aspiration is basically unsound, and, therefore, could boomerang.

There are other cases where such a plant could be built with a return on investment equal to that on similar investments at home. Yet quite often such investments do not materialize because the instability of the area makes the return appear inadequate when evaluating relative risks. It is in such cases where I feel that a new approach should be considered by oil companies with large investments already in the area. If, for example, such a project might help to improve the stability of the area, then the potential gain for the larger existing investment might well offset the risk factor in the smaller new investment. In other words, the evaluation of the risk factor can be viewed in quite a different light by an established company than by one whose interest is confined to only the project in question. This is an approach which might help to break the vicious cycle of instability caused by economic stagnation, and of economic stagnation caused by a lack of projects sufficiently attractive to justify the risks of the instability.

Often aspirations conflict and the oil industry finds itself in the middle. I mentioned before that most every country seems to want at least one oil refinery. Sometimes this is merely a matter of national pride. However, in most cases the government concerned has problems of balance of payments and this is one method of reducing the drain on its foreign exchange. That is, crude

-4-

oil requires considerably less foreign exchange than finished products. As a result of this factor, most countries, when oil consumption is of any magnitude, require all or a large part of their requirements to be refined locally. At the same time, the countries where oil is produced for export want the refining to be done in their country. We are innocent by-standers but get quite a kicking around from the consuming countries for not building or expanding refineries fast enough and from the producing countries for not refining all the crude at the source. In a situation where there is more than adequate supply, it is the consumer that calls the tune. The national aspiration to perform all functions of the industry 100 per cent cannot be fulfilled merely because some of the raw material happens to be there.

The failure to realize the facts of life as in this case causes irritations, suspicions and emotional reactions. One major job of the industry is to keep trying to bring the full information to the people involved and explain it carefully and patiently. This is not easy because of the complexities of the oil industry and international trade generally, but it is a job which we must not shirk.

In several countries in the Middle East there is a desire to participate more and more in oil operations themselves. However, there appears to be a growing recognition that obtaining an export market for crude oil, or for products, involves time, effort, experience and plenty of money. For example, the capital required to provide the facilities to move crude from the Persian Gulf to Northern Europe, refine it and distribute the products is in the order of 3 billion dollars for 1 million barrels a day of crude--that is, for the

-5-

export outlet of only one of the four large producing countries in the Persian Gulf. Without these facilities the crude oil is virtually worthless. As a result, the interest in participation seems to be turning to the things which can be done at home. In Iran, a government company is drilling for oil itself and has apparently found some. It is handling nation-wide distribution and marketing, as well as some of the refining, itself. It is also developing projects to utilize gas, both as fuel and as a raw material for fertilizers, etc.

A recent new development of considerable interest is an Arab pipe line project for a pipe line from the head of the Persian Gulf to the Mediterranean. This is being considered by the Arab League's Economic Committee. This is a participation aspiration and if a definite proposal finally emerges which is realistic and competitive, I feel the industry should give it careful and understanding consideration.

Basically a large diameter pipe line from the Persian Gulf to the Mediterranean should show a better return on investment than for tankers to do the same job. The problems of fitting a large pipe line into the transportation pattern and organizing the commitments for use of the line is not an easy one. At present there are some 300 tankers tied up and many operating at reduced speeds to keep them in service and their crews employed. New tankers are coming off the ways in record numbers. Tapline is operating well below maximum capacity. Therefore, this is not a project which could come into being very soon. However, such a project needs several years for organizing, financing, engineering and building and in several years the transportation picture could be considerably different, particularly if it were planned that way to fit additional pipe line capacity.

-6-

This is an unusual project in that from four to six countries would be involved. No one oil company would feel justified in furnishing the capital nor could one company utilize more than a small part of the capacity. Therefore, an oil industry project would require participation by a large group of companies of different nationalities and different sources of supply. From experience, I can say that to organize such a company, except in the case of dire necessity, is an almost impossible task. But many of the problems of joint oil company ownership would be eliminated if the project were organized and financed by an Arab entity with the agreement and backing of the governments concerned. Therefore this may possibly be a unique opportunity for Arab cooperation to carry out a project which can have a natural advantage over competitive forms of transportation and also one which could not easily be accomplished by the oil industry. To my mind, its success will depend almost entirely on a realistic approach by its promoters. For example, they must meet competitive conditions and provide adequate assurances of performance to wean shippers away from more flexible tankers and induce them to make the throughput commitments necessary to obtain financing.

Such a project would involve as participants several of the countries which have no oil revenue and therefore would provide an improvement in the relative sharing of benefits from oil in the area among the several countries involved.

With so many good uses for their talents and money at home, I am surprised to find a continuing, although decreasing, aspiration to operate abroad. Several countries--or perhaps I should say certain people in several countries--

-7-

have felt the urge to get into the competitive jungle of transportation, refining, distribution and marketing of oil in other countries. As I mentioned before, the capital required for this is enormous and, unfortunately, the returns are quite low. Last year, for example, the over-all profit of our company in the entire Eastern Hemisphere was less than the amount paid to Middle East governments for the crude oil we took from the Middle East, all of which was used in the Eastern Hemisphere. Admittedly 1958 was a bad year and competition was unusually rough. However, even in good years the percentage return on investment for the most efficient is less than the return which can be made on some development projects in the Middle East. Actually, it was the willingness of the oil industry with Middle East interests to make these investments in other parts of the world over a period of more than half a century which is the greatest asset the Middle East producing countries have. It would seem to me that the oil producing countries would have the best of both worlds by taking advantage of the oil industry outlets, as they generally do today, and using the proceeds to develop needed projects in their own countries before branching out.

There are other aspirations, often quite ill-defined, that seem to be based on a theory that runs as follows: Firstly, oil is an essential fuel the occurrence of which is confined to only a few places in the world. Secondly, joint action by the governments of these areas to control supplies would make it possible to (a) exercise control over the price at which oil is sold, and (b) whether the customer must take the oil in the form of products instead of crude, and (c) whose transportation would be used. Thirdly, that the oil companies would welcome--or at least agree to--such controls. In this connection, I am

-8-

sometimes reminded of the cartoons of the small boy who exists in a dream world. In his air castles, he does as he likes, unhampered by the usual restraints. Unfortunately, these dreams vanish before the hard realism of everyday life.

The trouble with the theory I have just outlined is in its premise. Oil is certainly a desirable fuel but it is by no means irreplaceable. There are certain areas with large reserves that have become major exporting centers, but as the developments in Canada and North Africa show, oil in quantity continues to be discovered elsewhere. Governments throughout the world in one way or another already are encouraging exploration of their territory in the hope of saving foreign exchange, adding to national security and promoting domestic industry.

The oil business also faces ever-present competition from alternative energy sources. The principal one at present is coal. Consumers in many countries can and do switch rapidly from oil to coal on what we in the oil business consider to be very slight provocation. There also are enormous fuel resources in oil shale and tar sands which could and would be tapped today if the economic incentive were sufficient. Still further down the road is atomic energy. Oil has an inherent advantage over these other sources of energy which can be retained for many years but only if supply and prices are not artificially controlled. Without such interference both producing companies and governments should continue to prosper.

What we have then is a situation where oil from one area competes not only with oil from other areas but also with alternative fuel sources, both existing and producing

countries to control production for their own ends would be as bad as joint action by the companies for the same purpose. Over the short run, there might be some gain in artificially creating a short supply and putting a floor under prices. But it would last only as long as it would take the consuming areas to develop the necessary supplies elsewhere, either other oil or some alternative source of energy such as I have mentioned. Once developed the other sources would not be shutback even if oil again became competitive. In other words, the loss of business would be permanent.

There sometimes is a rather bland tendency to assume that the oil companies would be happy to go along with this sort of arrangement and that if they don't, they are, to say the least, ungrateful. But the oil companies-- and I believe in addition those government officials who have thought the question through--know that it won't work. There are any number of examples of the complete breakdown of attempts to control production of a commodity through international agreements. The only exception that comes to mind is diamonds, but here the buyers are interested in scarcity and high value. Furthermore, in the case of industrial diamonds, producers have encountered competition in the form of synthetics.

Production control schemes such as I am discussing cannot even be attempted without the support of most of the more important producing countries. They depend on continued good relations between the governments concerned, or at least a sincere intention to cooperate. It is easy to see how a dispute in the purely political sphere might quickly upset the arrangement. In this respect, I believe we have to bear in mind that Russia is becoming an oil exporter of

-10-

some importance, and there is ample proof the Soviets do not hesitate to use economic instruments as political weapons. It only takes one maverick to undermine the entire scheme even before it begins to work its inevitable and disastrous effect in loss of markets.

Aspirations based on such artificial control of supplies and prices can hardly be put in the "sound and proper" category of aspirations.

To sum up these comments, we find that some proposals for satisfying aspirations are practical; others are not. Some require further consideration and study of all the factors involved. I believe the governments and people in the Middle East will find the oil companies willing and anxious to assist where they can in developing a sound economy. The main contribution these companies make is in the money they pay the governments and which they hope is used for constructive purposes. In addition, however, there are other ways in which the companies can help and they sometimes go far afield from the oil business to do so. They are acting partly out of self-interest because they know that they will benefit from the stability which comes with a healthy economy.

Along this line I might mention that one company in the Middle East is considering a plan to assist in financing new locally-owned businesses and industries throughout the country. Once the enterprise is established and its loan repaid, there would be no connection with the oil company. All the major operating companies in the Middle East have a policy of developing local contractors and businesses to provide the services they need, but this plan goes farther in that it will assist enterprises unrelated to its operations.

There are a number of instances of where the oil companies have acted to solve their own problems with a substantial resulting benefit to the

-11-

local economy. The home-ownership plans I mentioned before, which are subsidized by the companies as a means of providing housing for employees, have spread the concept of property ownership and encouraged the growth of a stable property-owning class in some areas of operation. Oil companies have assisted in the development of water resources and assisted in town planning. Their clinics and hospitals have given medical treatment to many non-employees as well as employees who have never known it before. They have helped non-company clinics and hospitals to get started and to operate on a sound basis. National employees have gone through company training programs and then left to use their newly learned skills elsewhere in the country.

What we have in these countries is a real desire to industrialize and improve as rapidly as possible, and there may be other areas of proper oil company cooperation in addition to what the industry is now doing. The main impetus must come from within the country itself, but those of us who know this part of the world and like these people can help by encouraging the many projects of real value, whether directly related to the oil industry or not.

Conversely, I feel we should avoid the trap of going along with unsound or impractical projects even if they are tagged as National aspirations. Attempting to buy good will by such expedients can, I feel, weaken the long-term relationship of mutual respect and basic identity of interests so important to both of us."

Middle East Economic Aspirations

A speech by Howard W. Page, Director,

Standard Oil Company (New Jersey)

Before the Middle East Institute's Thirteenth Annual Conference

on Middle Eastern Affairs

Washington, D. C.

March 20, 1959