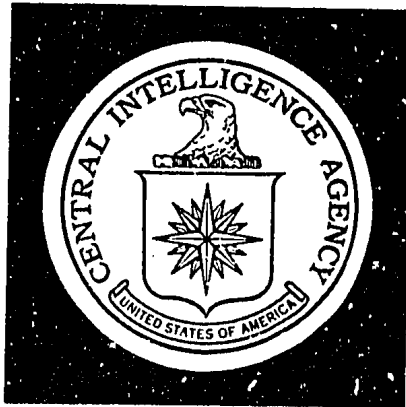


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*The Soviet Petroleum Position
and Interest in Middle East Oil*

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
June 1968

INTELLIGENCE MEMORANDUM

The Soviet Petroleum Position
and Interest in Middle East OilSummary

Soviet activities in the Middle East have not led to any control over petroleum supplies, and there are no indications that such control is a near-term prospect. In general, Soviet objectives in the Middle East include the reduction of Western influence and, through Communist trade and aid promotion, the growth of Soviet influence. The USSR does not now need to establish control over Middle East oil to satisfy its own current or foreseeable requirements. The USSR is the second largest producer of crude oil in the world, and its output has been growing at an average rate of about 20 million tons* per year since 1960. This level of production enabled it to satisfy domestic consumption as well as to export substantial quantities to the Free World and, to a lesser but important extent, to other Communist countries.

Soviet proved reserves of crude oil were estimated at about 4.7 billion tons at the end of 1967, more than adequate for attainment of the planned production of 470 million tons per year by 1975. In addition to its large proved reserves, the USSR

* All tonnages are given in metric tons.

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has huge potential reserves of oil and of natural gas. The latter, for many uses, can be substituted for oil.

The USSR now supplies about 85 percent of the oil required by the Communist countries of Eastern Europe other than Rumania, which is a net exporter of petroleum. Expansion of pipeline facilities now in progress indicates that it intends to continue to be the major supplier of this market for the indefinite future. The Communist countries of Eastern Europe are arranging to import small quantities of Middle East oil. Although such diversification will give these countries some economic independence from the USSR, particularly as the ratio of Free World oil imports increases, they will continue to be heavily dependent on the Soviet Union.

Soviet oil exported to the Free World in 1967 was equal to about 7 percent of the demand of Free World countries, not including the United States. The USSR has emphasized exports to the industrialized West to earn foreign exchange for import of Western technology and equipment. Exports to less developed countries have dropped during the past two years and now constitute only about 15 percent of total Soviet exports to the Free World, compared with 22 percent in 1965. The rate of growth now anticipated for Free World demand is higher than that in availability of Soviet oil for export to the Free World, and the USSR will experience difficulty in maintaining its present share of the Free World market through 1975. The entrenched position of Free World oil companies in the principal markets also constitutes a formidable obstacle to rapid Soviet penetration in the Industrial West.

Recently, the USSR has shown increased willingness to cooperate with Western governments and oil companies. To minimize transport costs that have been driven up by closure of the Suez Canal, the USSR has agreed to provide oil to British Petroleum, Shell Oil, and Compagnie Francaise des Petroles at the Black Sea for delivery to markets in Europe in exchange for Persian Gulf oil to supply the small Soviet markets east of Suez. It also has entered

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into formation of a joint Soviet-Belgian oil company, Nafta (B), which has leased land in the Antwerp harbor area and plans construction of an oil import and distribution facility. This is the first time that the USSR is known to have invested in such an oil facility abroad, and in doing so it has indicated its willingness to adapt to foreign government restrictions and to Western commercial procedures.

Access to Middle East oil would be a valuable economic and political asset which the USSR no doubt finds attractive. There is no evidence, however, that the USSR is exerting pressure to gain such access. Thus far, it has limited its oil activities in the area to assisting certain Middle East countries with petroleum exploration and development. It has concluded a mutually beneficial economic agreement with Iran to exchange military and industrial equipment for natural gas.

SECRETSoviet Petroleum Supply and Demand

1. The Soviet Union is the second largest producer of crude oil in the world, being surpassed only by the United States. In 1967, Soviet production was 288 million tons, about 16 percent of total world output. US production was about 440 million tons, or 25 percent of world output. Since 1960, the average annual increase in Soviet production has been about 20 million tons. It is estimated that the average annual increment through 1975 will be about 23 million tons.

2. Production in the USSR is based on large proved reserves estimated at about 4.7 billion tons at the end of 1967, approximately 8 percent of the world's proved reserves of crude oil. About 60 percent of the world's proved reserves of crude oil are located in the Middle East and about 9 percent in the United States. The Soviet reserves are adequate to support achievement of announced goals for production of 350 million tons in 1970 and 470 million tons in 1975. The discovery and development of new reserves of crude oil in the USSR has not been keeping pace with the increase in production, and the ratio of reserves to production which was 20 to 1 in 1958 had fallen to 16 to 1 by 1967. The USSR has, however, huge potential reserves, and the development of West Siberian deposits may lead to considerable improvement in the reserve to production ratio by 1975.

3. The USSR also ranks second in the world in petroleum refining capacity. At the beginning of 1968, it had a total primary distillation capacity of about 255 million tons, not enough to process all of the crude oil produced domestically. According to the original seven-year plan for the years 1959-65, primary distillation capacity was to reach 250 million to 260 million tons in 1965, which would have been adequate to process the 243 million tons of crude oil produced in that year. During the seven-year period, however, refinery construction lagged, particularly construction of the secondary refining facilities necessary for improvement of product quality and for greater flexibility

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in the product mix. Exports of crude oil increased significantly, and refinery construction goals were lowered so that excess primary refining capacity would not be built. During the present five-year plan period, 1966-70, emphasis is being placed on construction of secondary refining units, and primary distillation capacity probably will increase to about 300 million tons per year.

4. The supply of petroleum products in the USSR has in general been adequate to satisfy the steadily growing domestic demand. There has been an excess supply of gasoline, although in recent years steps have been taken to improve quality. The supply of diesel fuel, the basic fuel of the Soviet economy, has been tight, partially as a result of the fact that 10 to 15 percent of the diesel fuel produced is exported to earn foreign exchange. Consumption of diesel fuel has risen rapidly with the widespread use of diesel equipment in agriculture and transport. Apparent consumption rose from about 18 million tons in 1958 to 45 million tons in 1966, while production rose from 21 million tons to 53 million tons, an increase of 150 percent in both cases. Sporadic local shortages have occurred, usually as a result of transport difficulties during periods of peak demand, such as at the time of the grain harvest. Consumption of petroleum products increased in the USSR at an average annual rate of about 9 percent during 1959-65. It is estimated that the average annual increase will be about 7 percent during the present five-year plan period, 1966-70, and about 6 percent during 1971-75. Estimates of the total supply and demand for petroleum products in the USSR are compared for various years in the following tabulation:

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	Million Tons					
	<u>1958</u>	<u>1960</u>	<u>1965</u>	<u>1967</u>	<u>1970</u>	<u>1975</u>
<u>Supply</u>						
Yield from refining	93	116	177	207	248	326
Imports	3	3	2	1	1	1
Natural gas liquids and synthetics	1	1	3	3	5	10
<i>Total</i>	<i>97</i>	<i>120</i>	<i>182</i>	<i>211</i>	<i>254</i>	<i>337</i>
<u>Demand</u>						
Domestic consumption	88	105	161	186	227	305
Exports	9	15	21	25	27	32
<i>Total</i>	<i>97</i>	<i>120</i>	<i>182</i>	<i>211</i>	<i>254</i>	<i>337</i>

5. In addition to its huge resources of oil, the USSR has between one-third and one-half of the world's potential resources of natural gas, which for many uses can be substituted for oil. The proved natural gas reserves of the USSR at the beginning of 1966 were estimated at 2 trillion cubic meters (cu. m.), about 18 percent of the proved reserves in the world. Production in 1967 was 159 billion cu. m., equivalent to about 190 million tons of oil. By 1970, gas production is scheduled to reach 215 billion cu. m., and by 1975 about 350 billion cu. m. Attainment of these goals appears doubtful. Soviet goals for production of natural gas have frequently been underfulfilled, and achievement of the targets for 1970 and 1975 would require average annual increments in production nearly twice the increase of 14 billion cu. m. recorded in 1967. Nevertheless, production of natural gas can be expected to increase significantly and by 1970 it may be equivalent to between 230 million and 240 million tons of oil. Consumption of gas in the USSR has nearly equalled production. Small quantities have been exported, primarily to Poland and Czechoslovakia, and agreements signed in 1966 and 1967 provide for the first imports of gas from Afghanistan and Iran.

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6. Deliveries from Afghanistan began with 0.7 billion cu. m. during the last half of 1967 and are to increase gradually to 2 billion cu. m. in 1970, 3.5 billion in 1973, and 4 billion annually during 1976-84. Deliveries from Iran will commence at the rate of 6 billion cu. m. in 1970, will increase to 10 billion by 1974, and will remain at that level until 1985. The USSR probably will be a net importer of gas during 1970-74. However, by satisfying part of the domestic need by importing low-cost gas from Afghanistan and Iran, the USSR may be able to make available some domestic gas for profitable export to markets in the Free World. Proposals for exporting 2 billion cu. m. to Japan and 6 billion to 8 billion cu. m. to markets in Western Europe by 1975 have been under discussion. If these proposals are implemented, Soviet trade in natural gas will be approximately in balance in 1975. The USSR probably will then export about 5 billion cu. m. annually to the Communist countries of Eastern Europe* and will import about 14 billion cu. m. annually from Afghanistan and Iran.

7. In recent months, Austria has agreed to import Soviet natural gas through a proposed extension of the existing 28-inch gas line from the USSR to Czechoslovakia. About 500 million cu. m. per year are to be supplied to Austria, probably beginning in 1969, in exchange for 40-inch and 48-inch pipe for use in the USSR. Soviet negotiations with Italy have been under way for more than 18 months. The Italians are reluctant to extend credits for pipe and equipment at the low rate of interest proposed by the USSR. Italy also is unwilling to accept the Soviet request that part of the gas be paid for with hard currency. Italy may be attempting to gain time in which to negotiate for gas from the Netherlands at more favorable prices.

The USSR as an Exporter of Oil

8. The USSR has been a net exporter of oil since 1955. Exports have risen from 8 million tons in that year to an estimated 79 million tons in 1967, an average annual increase of about 21 percent. In 1967, exports of petroleum were equivalent

* *The Communist countries of Eastern Europe include Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania.*

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to 27 percent of total Soviet production of crude oil. A shift in the composition of exports has occurred over the years. In 1955, crude oil represented only 36 percent of total petroleum exports. The share of crude oil has been more than 50 percent of the total, however, since 1960 and reached 69 percent in 1967. Estimated Soviet exports of crude oil and petroleum products for selected years are compared below.

	Million Tons						
	<u>1955</u>	<u>1960</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1970</u>	<u>1975</u>
Crude oil	2.9	17.8	43.4	50.3	54.0	73	103
Petroleum products	5.1	15.4	21.0	23.3	24.7	27	32
<i>Total</i>	<i>8.0</i>	<i>33.2</i>	<i>64.4</i>	<i>73.6</i>	<i>78.7</i>	<i>100</i>	<i>135</i>

9. The USSR has been the major source of petroleum for other Communist countries except Rumania and Communist China. Rumania has been self-sufficient in petroleum, and Communist China has been essentially self-sufficient in recent years. Exports to other Communist countries have increased from about 4 million tons in 1955 to about 35 million tons in 1967. However, the share of other Communist countries in total Soviet exports of petroleum declined during this period from 52 percent to 44 percent. Approximately 80 percent of the petroleum exported by the USSR to other Communist countries goes to Eastern Europe. Oil from the USSR satisfies approximately 85 percent of Eastern Europe's demand, excluding that of Rumania. In 1967, when the USSR produced 288 million tons of crude oil, it exported 79 million tons of petroleum. Of this amount 35 million tons were shipped to other Communist countries, including 28 million to Eastern Europe. The level of exports to other Communist countries in 1966 and 1967 is indicated below:

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<u>Importing Area</u>	<u>Million Tons</u>					
	<u>1966</u>			<u>1967</u>		
	<u>Crude Oil</u>	<u>Petro- leum Prod- ucts</u>	<u>Total</u>	<u>Crude Oil</u>	<u>Petro- leum Prod- ucts</u>	<u>Total</u>
Eastern Europe	21.0	4.3	25.3	22.7	5.0	27.7
Cuba	3.8	1.2	5.0	3.8	1.4	5.2
Yugoslavia	0.7	0.5	1.2	0.6	0.5	1.1
Communist China	0	Negl.	Negl.	0	Negl.	Negl.
North Vietnam	0	0.2	0.2	0	0.2	0.2
North Korea	0	0.4	0.4	0	0.4	0.4
Mongolia	Negl.	0.2	0.2	0	0.2	0.2
<i>Total</i>	<i>25.5</i>	<i>6.8</i>	<i>32.3</i>	<i>27.1</i>	<i>7.7</i>	<i>34.8</i>

10. The USSR has emphasized exports of oil to the Free World, especially to the industrialized Free World countries, to earn foreign exchange for the purchase of equipment and technology. In 1967, Soviet exports to the Free World were valued at about \$510 million, of which approximately \$340 million was in hard currency. During 1966-67, Soviet sales of oil to Western Europe accounted for more than three-fourths of its oil exports to the Free World and about 43 percent of all petroleum exported from the USSR. Imports by Italy, West Germany, and Finland represented more than half of all the oil sold by the USSR to the Free World in 1967. Soviet exports to Western Europe currently represent a little less than 8 percent of this area's rising demand. The largest importer of Soviet oil outside of Western Europe is Japan which in 1967 imported 3.9 million tons of petroleum from the USSR, thereby satisfying nearly 4 percent of its demand for oil. The estimated division of Soviet petroleum exports between Communist and Free World countries is shown in the following tabulation.

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	<u>Other Communist Countries</u>	<u>Free World</u>	<u>Total</u>
1955			
Million tons	4.2	3.8	8.0
Percent	52.5	47.5	100.0
1960			
Million tons	15.2	18.0	33.2
Percent	45.8	54.2	100.0
1965			
Million tons	28.9	35.5	64.4
Percent	44.9	55.1	100.0
1966			
Million tons	32.3	41.3	73.6
Percent	43.9	56.1	100.0
1967			
Million tons	34.8	43.9	78.7
Percent	44.2	55.8	100.0
1970			
Million tons	47	53	100
Percent	47	53	100
1975			
Million tons	65	70	135
Percent	48	52	100

11. Soviet sales of petroleum to the less developed countries accounted for only 15 percent of total Soviet exports to the Free World in 1967, compared with 22 percent in 1965. The 6.6 million tons of petroleum sold to the less developed countries by the USSR in 1967 represented only about

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6 percent of their collective demand for oil. In some countries, however, such as Somalia, Ghana, Ceylon, and Yemen, the small quantities of Soviet oil represented a significant portion of their supply. The less developed countries are not attractive markets for Soviet oil for a number of reasons. Their demand is uneven; the small quantities involve uneconomical shipments; they lack hard currency; and the goods that they offer in exchange for oil are not essential to the Soviet economy.

Future Patterns of Soviet Oil Exports

12. The ability of the USSR to increase exports of oil to the Free World will be limited by the Soviet level of production; by the growing demand within the USSR; by Soviet commitments to supply larger quantities of oil to other Communist countries, especially those of Eastern Europe; and by the lack of Soviet marketing and distribution facilities in the industrialized Free World countries. The Soviet plan for production of crude oil in 1970 is about 350 million tons. In that year the USSR may export about 100 million tons of crude oil and petroleum products -- about 47 million to other Communist countries and 53 million to the Free World. It is anticipated that by 1970, Soviet exports to Communist countries outside Eastern Europe will be around 9 million tons, 2 million tons above the level of 1966-67. Plans and agreements already exist whereby the Communist countries of Eastern Europe will import between 33 million and 34 million tons of crude oil from the USSR in 1970. It is estimated that in that year these countries will also produce about 18 million tons of crude oil, import 4 million to 5 million tons of petroleum products from the USSR, and procure perhaps 5 million to 7 million tons of crude oil from Free World sources. Rumania, which until the present has always met its own needs for crude oil and has been a net exporter of petroleum products, probably will import about half of this Free World oil.

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13. The plans and estimates of imports by the Eastern European Communist countries are compatible with plans for expansion of pipeline and refining facilities. The capacity of the Friendship crude oil pipeline system, which links Eastern Europe to the oilfields of the Urals-Volga region in the USSR, is being expanded. This system is now operating near capacity, about 8 million to 9 million tons through the northern branch to Poland and East Germany and 9 million tons through the southern branch to Czechoslovakia and Hungary. A second line, parallel to the first, is to be laid throughout the entire system which eventually will have an annual capacity of about 47 million tons. This capacity probably will not be fully attained until the mid-1970's. The laying of the second line has been completed within Czechoslovakia, and work is in progress in the USSR. The combined capacity of the southern branch probably will be about 22 million to 23 million tons per year when all pumping stations are installed. On the basis of plans for expansion of refining capacity in Czechoslovakia and Hungary, it does not appear that the new portion of the southern line will be fully utilized or needed until about 1975. By 1970, however, the capacities of refineries served by the southern line are to be expanded by about 7 million tons and the capacities of refineries in Poland and East Germany served by the northern branch by 7 million to 8 million tons. Czechoslovakia and Poland have agreed to provide equipment for Soviet industry in return for increased deliveries of Soviet oil after 1970.

14. The USSR may export about 135 million tons of petroleum in 1975 -- 65 million tons to other Communist countries and 70 million tons to the Free World. Of the 65 million tons exported to other Communist countries, nearly 55 million tons probably will be delivered to Eastern Europe. In addition, the Communist countries of Eastern Europe may produce about 24 million tons domestically and import 16 million to 20 million tons from the Free World. Estimated East European supplies of crude oil for selected years during 1962-75 are shown in the following tabulation:

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<u>Year</u>	<u>Total Supply</u>	<u>Indigenous Production</u>	<u>Imports</u>	
			<u>From the USSR</u>	<u>From the Free World</u>
1962	22.9	14.1	8.7	0.1
1966	37.4	15.6	21.0	0.8
1967	39.9	16.2	22.7	1.0
1970	56 to 59	18	33 to 34	5 to 7
1975	93 to 98	24	53 to 54	16 to 20

15. In an apparent effort to diversify sources of supply, the East European Communist countries have made or are seeking to make arrangements to import crude oil, on a barter basis, from various Middle East countries -- Iran, Saudi Arabia, and Kuwait. Thus far, however, no East European country has taken delivery of any Middle East oil, probably because of the prohibitive transport costs caused by the closing of the Suez Canal. The quantity of non-Soviet oil that Eastern Europe can obtain may also be limited, in part, by the willingness of Free World countries to accept Eastern European goods in exchange. Rumania has concluded agreements whereby it will import 3.5 million tons of crude oil from Iran during 1968-70 and 9 million tons of crude oil from Saudi Arabia during 1968-71. Czechoslovakia is negotiating with Iran to obtain 15 million to 20 million tons of crude oil during 1970-80 in exchange for Czechoslovak capital goods valued at \$200 million, and it is possible that for political reasons Czechoslovakia may also seek to obtain oil from other Free World sources. If existing agreements are honored, however, the USSR will continue to supply 80 to 85 percent of the oil required by Czechoslovakia through 1975. Although obtaining an alternative source of supply might give the Czechs a feeling of independence, they will, in any case still remain heavily dependent

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on the USSR. Any oil that Czechoslovakia obtained from Iran would be expensive because of the high cost of transporting it to this land-locked country. Moreover, a requirement for hard currency might restrict Czechoslovakia's ability to import oil it needed.

16. The USSR now supplies about 7 percent of the oil required by Free World countries other than the United States. The Soviet commitment to supply the major part of the increasing quantities of oil required by Eastern Europe and the entrenched position of Free World oil companies make it unlikely that the USSR will increase its share in the Free World market, at least through the mid-1970's. In fact, if as is expected the demand for petroleum in the Free World, excluding the United States, increases at a rate of about 8 percent per year and the availability of Soviet oil for export to the Free World increases at about 6 percent per year through 1975, the Soviet Union will not even be able to maintain its present share in the Free World market.

17. The USSR recently has begun a new policy of cooperating with Western oil operators and of investing in oil activities abroad. The continued closure of the Suez Canal has increased the cost to the USSR of transporting Soviet oil to markets east of Suez and the cost to Western oil companies of supplying Middle East oil to markets west of Suez. The USSR has agreed to provide oil to British Petroleum, Shell Oil, and Compagnie Francaise des Petroles at the Black Sea for markets in Europe in exchange for oil in the Persian Gulf to supply Soviet markets east of Suez. Although the quantities involved in these accommodations are small (only 2 million tons are involved thus far) and are limited by the small size of Soviet markets east of Suez, the arrangement is economically beneficial to all parties. Having established its willingness to cooperate, the USSR may continue the arrangements even after the Canal reopens.

18. Recently, the USSR participated in the formation of a joint Soviet-Belgian oil company -- Nafta (B) -- in which the USSR owns a majority

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interest. This company has leased land in the Antwerp harbor area and plans construction of an oil import and distribution facility. In addition, Nafta (B) attempted to purchase a small refinery from an established independent Belgian oil company. The USSR has not previously invested in such oil facilities abroad. The USSR also has announced plans to expand the retail sales of Nafta (GB) in the United Kingdom. This company is the successor to a Soviet company that has sold locally procured petroleum products through its retail outlets since before World War II. The immediate effect will be to enhance the Soviet image as a reasonable, cooperative oil supplier capable of adapting to Western commercial practices and of competing in a foreign country with established Free World oil companies.

Soviet Activities in the Middle East

19. In the Middle East, overt Soviet involvement in oil has been limited essentially to exploratory activities in Egypt, in the Iranian territorial waters of the Caspian Sea, and in Syria. (Soviet technicians also have engaged in exploratory activities in Algeria.) None of these activities appears designed to achieve control of Middle East oil. The USSR has assisted in oil exploration in Egypt, but Egypt relies principally on Western oil companies for expansion of its oil industry. Acting as a contractor for Iran, the USSR has explored the Iranian offshore areas of the Caspian Sea. Although the findings reportedly are promising, neither the USSR nor Iran now is willing to risk capital in exploiting the area. The Soviet aid to Syria's oil industry has contributed to a level of production that exceeds Syria's needs, and the USSR may have to assist in the disposal of some of the surplus.

20. The Soviet-Iranian agreements involving the exchange of Soviet capital and military goods for Iranian natural gas are economically advantageous to both parties and may be a factor for stability in the area. The Iranian gas that would otherwise be burned as waste (flared) can be used

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to supplement, at low cost, declining supplies in the contiguous areas of the USSR. The successful fulfillment of the contract to supply gas to the USSR depends on the uninterrupted production and marketing of oil as the gas occurs in association with oil controlled by a combination of Free World oil companies, the Consortium.

21. The USSR also has offered to assist Iraq in expanding its oil industry. [redacted] Iraq has invited bids from Western contractors for help in developing its rich deposits in North Rumaila. This suggests that Iraq may prefer Western assistance.

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25X1Importance of Middle East Oil

22. Annual oil revenues for the Middle East oil-producing states currently are approaching \$3 billion. These revenues comprise about 90 percent of total export income and, on the average, represent about two-thirds of total government income. Revenues to these oil producing states will grow as Free World demand for oil increases. Moreover, individual states continue to press for increased oil sales and for a greater share in the revenues from oil sales. It is unlikely that this dependence on oil income will decrease significantly in the foreseeable future.

23. About one-third of the oil produced in the Free World now comes from the Middle East. This region supplies about one-half of the Free World oil produced outside of the United States. These shares may decrease slightly in the mid-1970's, as production of oil is expected to increase somewhat more rapidly in North Africa than in the Middle East. The United States consumes a negligible amount of oil from the Middle East and has access to oil at home and elsewhere in the Western Hemisphere adequate to meet its estimated requirements through about 1980. Western Europe and Japan, however, will continue to be heavily dependent on Middle East oil for the foreseeable future. In 1966, Western Europe received slightly more than one-half of its oil imports from the Middle East.

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By the mid-1970's, when Western Europe's demand will have increased by about 80 percent, it is expected that the Middle East will supply slightly less than one-half of the oil imported into Western Europe. Imports of oil from North Africa will have increased substantially. Japan now depends on the Middle East for more than 80 percent of its oil supplies, and it is expected that this same degree of dependence will exist in the mid-1970's, by which time Japan's demand for oil will have more than doubled. The distances involved would make it difficult for Japan to reduce its dependence on Middle Eastern oil by shifting to oil from the Western Hemisphere or North Africa. The demand for petroleum in Western Europe and Japan and the sources of supply in 1966 are compared with forecasts for 1975 in the following tabulation.

	Million Tons			
	Western Europe		Japan	
	1966	1975	1966	1975
<u>Demand</u>	445	810	101	250
<u>Supply</u>				
Domestic production	20	50	1	1
Imports	425	760	100	249
<i>Total</i>	445	810	101	250
Origin of imports				
	Percent			
Middle East	53	46	83	83
North Africa	29	42	Negl.	Negl.
Communist countries	8	9	5	5
Latin America	10	3	2	2
United States	Negl.	Negl.	2	2
Far East	Negl.	Negl.	8	8

SECRETMiddle East Governments' Position on Exploitation
of Oil by Foreigners

24. The Middle East governments now tend to avoid granting exclusive concessions to foreigners to exploit their oil resources. Most Middle East governments, through national oil companies, now retain ownership and also control the development of areas, both onshore and offshore, where foreign oil companies do not now hold concessions. Moreover, they regain control of any areas relinquished by the companies. The Middle East governments now explore and develop oil resources under their control through service contracts with foreigners, through joint ventures or partnerships with foreigners, and to a negligible degree through their own resources. Under the provisions of the former two arrangements, the Middle East governments provide no risk capital, and the foreigners recover investment only if oil is found. Neither the USSR nor other Communist countries have provided risk capital for the development of oil resources abroad. Unless there is a change in this traditional policy, it is unlikely that Communist countries would be party to any partnership or service contract with the national oil companies in the Middle East. No Communist country would be eligible for a partnership in Iran unless an Iranian organization was permitted to conduct similar operations in the Communist country.

Control of Middle East Oil Production vs. Control
of Middle East Oil Movements

25. Control of the production of Middle East oil does not necessarily imply control of its ultimate disposition. Crude oil is of value to the extent that it can be transported, refined into suitable products for use by the consumers, and marketed. US agencies alone own or control about 25 percent of the world tanker fleet, and Free World oil companies also control a large share of the charter fleet; the USSR owns less than 5 percent; and the Middle East governments a negligible share. US and UK oil companies own, in whole or in part, about two-thirds of the refining capacity in Western Europe and Japan, the principal markets for Middle East oil. These same oil companies also

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control most of the oil storage and retail distribution facilities. These oil companies could be expected to oppose the transfer of control of Middle East oil to a hostile nation which would be able to introduce a new potential vulnerability into the normal flow of Middle East oil to Free World consumers. There is a limit, however, to the extent that these oil companies could deny their "downstream" facilities in consuming countries to Middle East oil. It is unlikely that any European country or Japan would permit US or UK oil companies to refuse to store, refine, and distribute Middle East oil if refusal meant a national oil shortage, particularly if Middle East oil continued to be available at reasonable prices.