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The President's Daily Brief

January 24, 1975

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INTERNATIONAL OIL DEVELOPMENTS

Demand for oil in Western Europe and Japan is running below expected levels.

In Western Europe an unusually warm winter has resulted in an extraordinary buildup of heating oil stocks, and the economic slump has reduced demand for industrial fuels. In Japan, industrial output is continuing to fall and with it the demand for oil products. Industry accounts for the bulk of Japan's oil consumption.

The reduction of oil demand in Western Europe and Japan has led to a virtual collapse of the oil product spot markets and a major slowdown in refinery operations. Refiners geared to export markets have been particularly hard hit. Rotterdam and English Channel refineries are down to about 55 percent of capacity, while those in the Mediterranean and Singapore are operating at about 50 percent. Some Persian Gulf refineries are operating at 75 percent of capacity, but the market is forcing them to offer substantial discounts on some products.

Refineries supplying the US market are an exception to this trend. Relatively high US demand has kept domestic refineries running at 90 percent of capacity, while Caribbean refineries that supply the US market are running at nearly 85 percent.

On the supply side, we are seeing some readjustments in the crude oil market. Iraq, Algeria, and Libya cut prices on their government-owned crude oil effective January 1. This action reduces the now overvalued transportation and quality differentials these countries maintained last year and is designed to restore their competitiveness with crudes produced in the Persian Gulf. All three countries saw their exports and market share decline and are lowering prices to increase sales.

Venezuela also slashed its freight premium by 77 cents per barrel, but increased its income tax rate. As a result of these adjustments, its government revenue will increase 38 cents per barrel, and its competitive position relative to Persian Gulf producers will not change materially.

The transportation differentials built into the prices of Mediterranean, Caribbean, and West African crude oil were undercut by the sharp decline in long-haul tanker rates. Tanker business is so bad that a very large new French tanker was laid up immediately after it was launched.

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Free World crude oil output dropped more than 1 million barrels per day last month, partly as a result of reduced demand. Kuwait and Libya cut production 220,000 and 125,000 barrels per day, respectively, because of reduced liftings. According to Aramco, a reduction of 750,000 barrels per day in Saudi oil production was caused by storms at its loading ports.

According to press reports, Kuwait is attempting to stimulate its oil sales by offering more liberal credit terms. Gulf producers had been allowing a maximum of 30 days to pay for their oil without incurring additional charges, but Kuwait now is allowing 60 days' credit on its open market sales. The extra 30 days' credit is equivalent to a price discount of about 10 cents per barrel on Kuwaiti crude.

If the price adjustments in Iraq, Algeria, Libya, and Kuwait lead to increased oil sales in those countries, other OPEC producers will have to make additional production cuts to hold the line on prices. Last month we estimated that by late spring there would be a surplus of at least 3 million barrels per day on the world crude market unless production were further reduced. The cuts made in December go part of the way toward eliminating the surplus, but more cuts will be needed. With several producers now trying to boost sales, it is not clear where these cuts are likely to occur.

A special meeting of OPEC's oil ministers, finance ministers, and foreign ministers opens in Algiers today. The meeting is expected to focus on establishing a coordinated OPEC position on a wide range of oil-related economic issues in preparation for a summit meeting of OPEC chiefs of state later this year. Items on the agenda for the meeting include mechanisms for recycling petrodollars, oil price levels, a joint strategy for the proposed meeting of oil producers and consumers, and the relation of oil prices to the prices of other commodities through indexing.

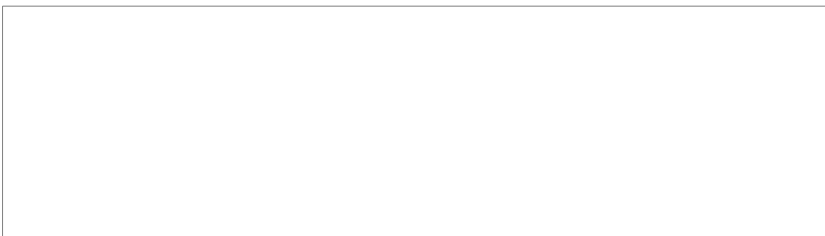
The OPEC ministers are also likely to discuss recent actions by the US that affect their interests. The Latin American members are still up in arms over their exclusion from the trade benefits in the recent Trade Reform Act. The Middle Eastern producers have so far made little comment about either the trade bill or your tariff of \$3 a barrel on imported oil. Presumably the OPEC members will develop a position on these matters at their meeting.

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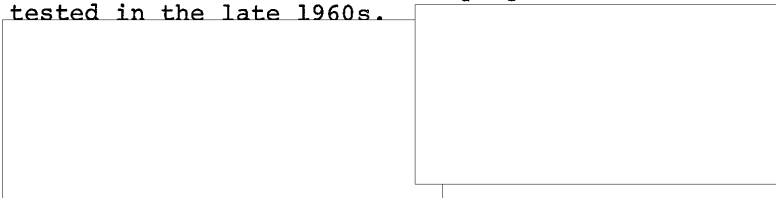
USSR

The Soviets conducted the fourth flight test of their new solid-propellant IRBM--the SS-X-20--from Kapustin Yar yesterday.



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The new missile may be mobile. It is apparently being fired from a launch site used in tests of the SS-14, a mobile, solid-propellant IRBM tested in the late 1960s.



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A canister similar to the one used to launch the SS-X-16 was seen recently on the launch pad where the SS-X-20 is apparently being tested. The SS-X-20, although smaller than the SS-X-16, may use the same size canister. If so, it may be difficult to distinguish between the two missile systems when they are assigned to operational units.

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THAILAND

Thai parliamentary elections on Sunday will conclude a 15-month transition from military to paramilitary rule. The new government is likely to be a conservative coalition.

The US embassy predicts that no one party will gain a majority in the elections but that four conservative parties will win the largest bloc of seats. Of these four, the Social Justice Party--backed by army strongman Krit Siwara--is likely to poll the greatest number of votes.

Should this forecast prove accurate, Krit, who is also supporting two other conservative parties, will remain the power behind the scenes, and the military will retain its considerable influence over the government. Politicians will find it difficult to form any government that will last very long without Krit's blessing.

Whatever the leadership of the next cabinet, there is little chance that the new government will alter radically Thai domestic or foreign policies. On the domestic front, the new government must continue to grapple with nagging economic issues such as inflation and land reform. In the foreign policy field, it will want to preserve Thailand's close relationship with the US, while at the same time appearing responsive to domestic pressures for greater independence of the US. The new government would probably be reluctant to give active support to US policy objectives in Indochina if this would seriously retard Thailand's efforts to improve relations with its neighbors, particularly Hanoi and Peking.

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NOTES

Jordan will pay its way this year on both defense and development programs as the result of increased Arab aid and record foreign exchange earnings from the country's major industry--phosphate production.

Arab transfer payments in 1975 will probably exceed \$340 million--over two and a half times the support received last year from Arab sources. US budget and military support for 1975 will push total payments to Jordan to more than \$500 million. With world demand for phosphate fertilizers soaring, Jordan's earnings from phosphates are expected to increase from \$60 million last year to \$150 million in 1975.

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The Palestine Liberation Organization has asked the UN for permission to establish an observer mission in Geneva. Once the UN forwards the request to the Swiss government, Bern will have little choice but to comply.

The PLO has focused on Geneva because the city serves as European headquarters for the UN and because it is frequently the site of major international conferences. The PLO, which already has observer status at some UN specialized agencies, would use its Geneva base to try to attain full membership in them. The PLO may aim first at the World Health Organization, which requires only a simple majority vote for admission.

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Turkey's First Army in Thrace was placed on alert on January 20 [redacted]

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The alert reportedly is intended as a gesture to support Turkey's announced intention to resume oil exploration in the Aegean in February [redacted]

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[redacted] That alert followed the exchange by Turkish and Greek leaders of tough statements on their rights in the Aegean.

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A high Cuban official who knew that his comments would reach the US government has elaborated on the approach now being considered among Cuban leaders for reaching a rapprochement with the US.

He spoke in hypothetical terms, and his ideas were expressed vaguely. He thought some arrangement could be found to solve the issue of reparations to US citizens and companies whose properties had been seized, and he said Cuba might "respond favorably" to a gradual lifting of the US embargo. This is the first evidence that senior Cuban officials are considering concessions as a step toward normalizing relations with the US.

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