Oil, the Arab-Israel Dispute, and the Industrial World
Horizons of Crisis
This book is the product of a multinational project, sponsored by the Middle East Institute of Columbia University in cooperation with the World Peace Foundation (Boston), the Atlantic Institute for International Affairs (Paris), and the Asia-Pacific Association of Japan (Tokyo). It focuses on the principal unresolved issues of the energy crisis, the Arab-Israel dispute, and their tangled effects that feed back to and feed upon relations with the North Atlantic countries and Japan. Since almost all the papers were originally presented for discussion to three study groups—North American (US and Canada), Western European, and Japanese—it was possible to assess the domestic interests and pressures that inhibit and those that promote cooperation among the major nonsocialist industrial states and to illuminate the linkages between the domestic influences and the national policymaking processes. The book thus provides a uniquely balanced analysis that draws upon national, regional, and international perspectives.

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One of the most stubborn global problems in the last quarter of the twentieth century, a problem that affects the rich states and the poor, the industrial and the nonindustrial, is the use of energy. The management of the problem entails a great deal more than just the search for new sources of oil, the conversion of other fossil fuels, and the development of new forms of energy. It requires the framing of comprehensive policies on conservation by national governments in cooperation with international agencies, policies that will take into account the ways in which we have become locked into wasteful uses of wasting natural resources. This is particularly true of the industrial states, which are by far the largest energy consumers. In the United States alone, which accounts for one-third of the world's daily energy use, it will probably take the rest of the century to reshape the systems of transportation, the heating and cooling of buildings, and the running of industrial machinery—to mention only the major forms of energy use.

The project, of which this book is the product, was not expressly interested in these aspects of the energy crisis. The technical issues have been the concern of the US Federal Energy Administration and the Energy Research and Development Agency and their counterparts in other countries as well as the International Energy Agency, the OECD, the Common Market, oil companies, academic institutions, and individual scholars. Their work has been used as part of the evidence. The participants in this project considered, primarily, the political economy of the energy crisis.

Most of the growing attention given to the problems under review has focused on the aftermath in the Middle East of the turning point which occurred when the oil issues in the Persian Gulf and North Africa interlocked with the issues that continue to divide the Arab states and Israel. In the judgment of the project's sponsors, the oil-exporting states and their neighbors were as deeply affected by the dramatic changes in the industry after October 1973 as were the
major oil-importing or industrial states. It was, therefore, decided to evaluate the causes in the Middle East and their impact on the industrial states as well as the interplay between them.

The project was a multinational one, sponsored in the United States by the Middle East Institute of Columbia University and the World Peace Foundation, in Western Europe by the Atlantic Institute for International Affairs (Paris), and in Japan by the Asia-Pacific Association of Japan (Tokyo). The Middle East, as the sponsors have defined it, embraces the oil states in the Persian Gulf and North Africa and the Arab-Israel zone lying between. In that region, the principal unresolved issues that feed back to and upon relations with the North Atlantic countries and Japan are the energy crisis, the Arab-Israel dispute, and their tangled effects.

Because of the complexity of the issues, the sponsors created study groups in North America, Western Europe, and Japan to evaluate the interaction of the domestic influences and the pertinent foreign policies and policymaking processes. The study-group procedure made it possible to inquire into the domestic interests and pressures that inhibit or frustrate and those that promote cooperation among the major noncommunist industrial states. An attempt was also made to illuminate the linkages between the domestic influences and the national policymaking processes.

The North American Study Group included participants from Canada and the United States. At the first meeting, the study group explored the domestic aspects in the United States and Canada of the Arab-Israel dispute; at the second meeting, the domestic aspects of the energy crisis; and at the third meeting, the international economic and political effects of that crisis. The two other study groups looked into comparable problems from their perspectives. To encourage movement along parallel lines, the three groups exchanged papers and summary minutes of meetings, with some overlapping participation.

Most of the papers in this book were originally prepared for meetings of the study groups and were later revised in the light of the discussion they provoked or put together on the basis of those discussions. The Western European Study Group investigated the responses to the energy crisis and the changing attitudes toward the Arab-Israel dispute on a national basis in selected countries, and the
repercussions on Western European economic and military security. While these discussions yielded a great deal of useful information, there is not sufficient room in a book of this length for such detailed analysis. Instead, in chapters somewhat longer than the average, the authors concentrate on domestic trends in selected Western European countries and on related efforts at interstate coordination.

The sponsoring institutions endorse no particular judgments on the issues to which the chapters in this book are addressed. The authors are affiliated here and abroad with universities, research institutes, government agencies, and private business corporations. The stands they take are their own and cannot be said to reflect the positions of their institutional employers. Nor do these views represent any consensus among the study groups or even among the authors themselves, who may on various points contradict one another. Such integration as the book may boast is one of structure and substance but not necessarily of belief.

A symposium of this complexity, which sets out to examine the bewildering worldwide interaction after October 1973 between the highly dynamic conditions in the Middle East and in the non-communist industrial states, has invited continuing difficulties of inquiry, analysis, and balance of treatment and has required the help of many people in many professions in many countries. The members of the three study groups, drawn from scattered callings and too numerous to list by name, served as informed and stimulating respondents to the discussion papers. In the lively exchange of ideas, they helped sharpen the analysis and called attention to errors of fact or interpretation. For their cooperation, the project sponsors are especially grateful.

As coordinator of the venture, I am under particular obligation, for selfless aid at every critical juncture, to my colleagues representing the sponsoring consortium: Alfred O. Hero, Joseph E. Johnson, and Stephen Stamas of the World Peace Foundation; Joseph W. Harned, Jr., Judith D. Trunzo, John W. Tuthill, and Pierre Uri of the Atlantic Institute; and Kazushige Hirasawa, Shoichi Kobayashi, and Mitsuya Okano of the Asia-Pacific Association of Japan. As editor of the book, I have the further pleasure of thanking, besides Messrs. Hero, Hirasawa, and Johnson, the other members of the editorial review committee: Joseph N. Greene, Jr.,
Wolfgang Hager, and Hans Maull as well as Naomi J. Williams, the committee's rapporteur. I am also greatly indebted to Sarah Jackson, as rapporteur of the North American Study Group and a source of constant counsel in the unfolding enterprise.

The multinational project could not have been undertaken without generous gifts in the United States, Europe, and Japan. The Asia-Pacific Association of Japan, the Atlantic Institute, and the World Peace Foundation made direct grants and, together with the Middle East Institute at Columbia University, provided essential services to the study groups and to the preparation of the publication. To the Lilly Endowment for an enabling grant, to the Exxon, Texaco, and Aminoil corporations for helping to cover the costs of individual meetings of the North American Study Group, and to Robert K. Straus for his generosity at the study-group and publication stages of the project, the sponsors are especially beholden. The Western European Study Group acknowledges with gratitude grants in support of its work from Alfried Krupp von Bohlen und Halbach-Stiftung, British Petroleum (London), and Shell (London). The multinational and diversified support insulated the broadly-based assessment against partisan influences.

To Jane Herman, for standardizing the papers for an American publication, and to Judith McQuown, for preparing the index, I am most grateful. For the attentive concern to details in every phase of the enterprise, which helped speed the transformation of individual papers into chapters of a book, I wish to thank Jan Davison and Lenora Procope.

J. C. Hurewitz
Westport, Connecticut
March 1976
Glossary

ACAAR  Action Committee on American Arab Relations
ADL   Anti-Defamation League
AFARCO Afro-Arab Company for Investment and International Trade
AFESD Arab Fund for Economic and Social Development
AFLAC Arab Fund for Loans to African Countries
AIC   Arab Investment Company (Saudi Arabia)
AIPAC American-Israel Public Affairs Committee
AMF   Arab Monetary Fund
APIC  Arab Petroleum Investment Company
ARAMCO Arabian American Oil Company
BP    British Petroleum Company
CAPLOT Canadians Against PLO Terrorism
CFP   Compagnie Française des Pétroles
CIDA  Canadian International Development Agency
CIEC  Conference on International Economic Cooperation
COMECON Council for Mutual Economic Assistance
DAC   Development Assistance Committee
DC    Democrazia Cristiana party (Italy)
EC    European Community
ECG   Energy Coordinating Group
EDC   Export Development Corporation
EEC   European Economic Community
ELF-ERAP Marketing trademark and acronym for Entreprise de Recherches et d'Activités Pétrolières
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ENI</td>
<td>Ente Nazionale Idrocarburi (Italy)</td>
</tr>
<tr>
<td>ERDA</td>
<td>Energy Research and Development Administration (United States)</td>
</tr>
<tr>
<td>FDP</td>
<td>Freie Demokratische Partei (West Germany)</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>GNP</td>
<td>Gross National Product</td>
</tr>
<tr>
<td>IAEC</td>
<td>International Atomic Energy Commission</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development (World Bank)</td>
</tr>
<tr>
<td>ICSC</td>
<td>International Commission for Supervision and Control (Vietnam)</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association (UN)</td>
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<tr>
<td>IEA</td>
<td>International Energy Agency</td>
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<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation (UN)</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>KFAED</td>
<td>Kuwait Fund for Arab Economic Development</td>
</tr>
<tr>
<td>KFTCIC</td>
<td>Kuwait Foreign, Trading, Contracting, and Investment Company</td>
</tr>
<tr>
<td>LDC</td>
<td>Less developed countries</td>
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<tr>
<td>LLDC</td>
<td>Least developed countries</td>
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<tr>
<td>MITI</td>
<td>Ministry of International Trade and Industry (Japan)</td>
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<tr>
<td>MNC</td>
<td>Multinational corporation</td>
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<tr>
<td>MSA</td>
<td>Most seriously affected</td>
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<tr>
<td>MSP</td>
<td>Minimum safeguard price</td>
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<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
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<tr>
<td>NRC</td>
<td>Nuclear Regulatory Commission (US)</td>
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<tr>
<td>OAPEC</td>
<td>Organization of Arab Petroleum Exporting Countries</td>
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<td>OAU</td>
<td>Organization of African Unity</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
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<tr>
<td>PGM</td>
<td>Precision-guided munitions</td>
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<tr>
<td>PLO</td>
<td>Palestine Liberation Organization</td>
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<tr>
<td>SDR</td>
<td>Special drawing rights</td>
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<tr>
<td>SPD</td>
<td>Sozialdemokratische Partei Deutschlands</td>
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<tr>
<td>STABEX</td>
<td>Export Earnings Stabilization Scheme</td>
</tr>
<tr>
<td>UAA</td>
<td>United Arab Emirates</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Council on Trade and Development</td>
</tr>
<tr>
<td>UNDOF</td>
<td>United Nations Disengagement Observer Force</td>
</tr>
<tr>
<td>UNEF</td>
<td>United Nations Emergency Force</td>
</tr>
<tr>
<td>UNESCO</td>
<td>United Nations Educational, Scientific, and Cultural Organization</td>
</tr>
<tr>
<td>UNRWA</td>
<td>United Nations Relief and Works Agency (for Palestine Refugees in the Near East)</td>
</tr>
<tr>
<td>UNTSO</td>
<td>United Nations Truce Supervision Organization</td>
</tr>
<tr>
<td>WHO</td>
<td>World Health Organization</td>
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The present book examines the interplay between the energy crisis, the Arab-Israel dispute, and the industrial states after the outbreak of the Arab-Israel war on 6 October 1973. The institutionalization of the industrial alliance had proliferated in the postwar years, as the multiplying acronyms—IMF, IBRD, NATO, GATT, EEC, and many others—bear ample witness. A growing number of these institutions were losing vitality by the early 1970s, for they had been called into being in a season of domination by the United States, which took major responsibility for upholding the interests of the industrial world, immodestly labeled by some the First World. The United States had shaped the alliance, among other purposes, to promote the development of a stable system of international relations. The weakening of the industrial alliance contributed to the growing instability of the international system. In a word, the linkage in the October War of the energy crisis and the Arab-Israel dispute did not start the process of institutional decay in the alliance; it accelerated it. Similarly, the linkage, popularly known as the Middle East problem, did not create the tensions among the industrial allies; it exacerbated them.

This symposium thus comes into focus as a study, not of one issue, but of the intersection of three. For analytical purposes, the energy crisis and the Arab-Israel dispute have been decoupled, and the papers about each have been grouped together, so as to give the reader insight into the national responses and the changing national perspectives among the industrial states. The decoupled analysis forms the subject matter of the first two parts of the book. Thereafter, the Middle East problem of popular perception is reconstituted. The chapters of the third part of the book inquire into major effects in the Middle East of the mixing of oil and politics and speculate on likely developments in the coming decade of this still potent mixture. The fourth part considers primary aspects of the evolving patterns of international political economy, as influenced by the energy crisis or its linkage to the Arab-Israel dispute.
The attention to national concerns was deliberate. All too common is the practice of assuming that the Organization for Economic Co-operation and Development (OECD)—shorthand for the industrial alliance or the First World—is a monolith. The variable national responses to the energy crisis underline the diversity of OECD membership. So, too, do the variable national effects of the October War. The industrial states include all the major oil importers. But the United States, Canada, and potentially, Britain are also major producers, and Norway is a net exporter. Nor did the OECD states uniformly experience negative international payments balances as a result of the quadrupling of the price of crude oil in the last quarter of 1973. The US and West Germany showed positive balances in 1974 and 1975, despite the high oil imports.

Analysts have been prone also to contend that the members of the Organization of Petroleum Exporting Countries (OPEC)—which are progressively preempting the title of the Third World—have enjoyed identical benefits from the multiplying oil revenues. In the discussion of the problem of revenue surplus (that is, revenues in excess of a country's capacity for their prudent use), the pertinent literature all too often lumps the OPEC members together, as if their experiences were undifferentiated. Even in the Middle East, where most of the OPEC members are located, distinctions have to be taken into account. At the start of the monumental rise in oil income, Iran, the second-largest oil producer with by far the largest population, had in being an economic infrastructure that constituted a base for potentially solid economic growth at a more rapid pace than in the past. It was also populous enough to entertain realistic expectations for diversifying its economy. By contrast, the economic organization of Saudi Arabia, the largest producer, with only one-eighth Iran's population, was much less developed, so that sound economic growth could only be slower and the limits to variety much narrower. Among the Arab ministates in the Persian Gulf, Saudi Arabia was a superpower. Yet Kuwait, with less than one-fourth the Saudi population, had by 1973 developed a fiscal infrastructure that enabled it more speedily to integrate part of its swollen revenues into the internal economy and funnel much of the rest into carefully weighed external economic activity.

The energy crisis, in popular usage, has come to have at least five different meanings. For many, it occurred in a specific time frame, starting in mid-October 1973 when the Organization of Arab
Petroleum Exporting Countries (OAPEC), at a meeting in Kuwait, reduced oil production at once by 5.0 percent and imposed further cuts at intervals, so that by the start of 1974 daily output in those Arab oil states adhering to the plan had diminished by 25 percent. Though vociferous advocates of the cutback policy, Iraq and Libya did not in fact abide by it; they did, however, join the rest of OAPEC in mounting an embargo of oil exports to the United States and the Netherlands. Ever since 1947 when the Palestine problem first appeared on the agenda of a principal United Nations organ, the Arab oil states had been threatening to use oil as a political weapon. But the recurrent threats proved abortive. The earlier failures lulled the leaders of the industrial states into skepticism about the efficacy of the oil weapon. But when it worked in 1973, the industrial governments, instead of pooling information and uniting on action, scrambled, each for its own parochial needs. The scramble produced an immediate fear and an overall immobilism that seemed to place every major importing state in bondage to the major exporters. Those who favor this definition of the energy crisis assume that it ended in mid-March 1974, when OAPEC restored free exports. In this judgment, the crisis derived from the panicked response of the political leaders in the industrial states to the Arab use of the oil weapon and the inferences drawn from the manipulation of the oil industry for political ends having little or nothing to do with oil economics.

According to a second view, related to the first, the energy crisis is one of irrepressible anxiety among the OECD governments, especially in Western Europe and Japan, that springs from a stubborn fear of renewed war and of future embargoes and production cutbacks by the Arab oil states. This fear was still determining, long after March 1974, Western European and Japanese policies on the Arab-Israel dispute as a means of preventing a future resort to the oil weapon. In brief, the politicians appeared to be girding their countries for a recurrence of the last crisis, which was probably unique and nonrepetitive, instead of taking adequate measure of intervening changes.

A third view, this one open-ended, holds that the crisis was already gathering before the October War. As early as 1970, the world oil industry had passed from a buyers' to a sellers' market. Between then and the October War, OPEC and individual members of the organization concluded agreements on price increases and on
participation—a euphemism, as seen in the industrial world, for slow-motion nationalization—in upstream operations, that is, in the exploration for and development of oil resources in the OPEC states by outside concessionary companies. In this phase, the public awareness spread among OECD and OPEC members that oil and gas were wasting resources. What loomed as crisis in the OECD looked like opportunity to the OPEC, where the governments and the public were coming to espouse the belief that they had a right to charge whatever the traffic might bear. By such means, they would hope to offset “past exploitation” by the major international oil companies. Moreover, with the added revenues the OPEC members would be able to develop their economies so that, when the natural fossil fuels had run out, their economies would be industrialized and their societies correspondingly raised.

A fourth meaning of the energy crisis, also open-ended, relates wholly to the continuing negotiations between the OECD and the OPEC, which were ostensibly intended to reshape world oil and related energy industries in the common interest. The negotiations on the OECD side, after November 1975, largely became the responsibility of the International Energy Agency (IEA). France cooperated with the IEA without formally joining it. Instead, France saw itself as mediator between the industrial states and the oil-exporting states, and later between the industrial “North” and the nonindustrial “South.” The range of the talks, broadened on the insistence of the South to embrace the terms of production and the prices of raw materials no less than those of oil and gas, turned on the creation of a new world economic order.

Finally, there was the crisis of OECD management of the complex of energy problems (the rational development and use of the world’s diminishing oil and gas supplies and the search for and development of substitute forms of energy) and the international economic and political side effects of the steep 1973 price rises of crude oil on trade, investment, aid, monetary affairs, and arms transfers. So long as the industrial alliance had preserved its vigor, the US acted as the uncontested crisis manager. But Vietnam, Watergate, a congressional president in search of a public mandate, the reactivated contest between the Congress and the Executive over the distribution of constitutional powers, the continuing disarray of the economy, and above all in matters of energy the growing dependence of the economy on imported oil—all these factors and
many more were draining the United States of its capacity to lead the OECD. More than that, there appeared to be no replacement for the leadership role of the United States.

The variety of popular meanings of the energy crisis is reflected in the chapters that follow. The authors were not bound by a strict construction; where pertinent, they evaluated national perceptions in the local idiom. The book thus combines the totality of these interpretations and, taking the chapters together, treats the crisis as open-ended. It accepts OPEC as largely centered in the Middle East and influenced by its Saudi-led Arab bloc. And insofar as the industrial allies have shown ability to cope with the unfolding challenge and to plan for the future, it views the OECD as still largely led by an uncertain and self-indulgent United States, with a strong residual inclination of the Western European states and Japan to fend for themselves.

The political leaders of the industrial states, collectively and severally, were thus still caught in the mid-1970s without agreed comprehensive energy policies or even the plans that should have preceded the policies. Yet in this predicament they were not alone, for no government, not even the communist governments of the Second World, had framed such plans as the basis for policies. But the governments of the Second World had not yet become heavily reliant on oil imports from outside the communist orbit. They thereby escaped the most serious consequences of the dramatic developments of the winter of 1973-74. Still, it should be recorded, their escape, attributable more to the accidents of history and geography than to prudent planning, was no more than temporary.

The communist countries, however, did have a clear set of policy guidelines on the Arab-Israel dispute. They followed the lead of the Soviet Union in supporting the Arab states and the Palestine Arabs in the quarrel with Israel. It was mostly in the extended sense of the politicization of the energy crisis by its linkage to the Arab-Israel contest that the lingering rivalry between the industrial and the communist states was affected. To put it differently, the energy crisis did not grow directly out of the Cold War or the flaws in détente or the continuing strained relations between the superpowers or between the industrial and communist spheres. This explains the absence in the present book of a systematic analysis of the impact of energy problems on the USSR and its communist allies.
Finally, the Middle East oil states, after 1973, were learning the hard lesson that sudden affluence could create as many difficulties as sudden poverty. The institutional creativity of these states faced an instant challenge. They had too few trained economists for the kinds of financial operations thrust upon them. All the Middle East oil states, the ministates in the Persian Gulf among them, had formulated development plans before the fall of 1973. But attempts to speed up the plans overtaxed the transportation facilities and clogged the ports with unloaded ships and, more seriously, overheated the economies, producing immediate inflation. Externally, the oil governments fell under rising pressure to provide foreign aid, particularly to the Fourth World, as the oil-dry nonindustrial states were coming to be known. The attempted use of such aid as a political instrument, they soon realized, could easily boomerang if it were not handled deftly. Yet the trained technicians in the oil states, even in Kuwayt and Iran, were too few to administer elaborate foreign aid programs—to receive applications, to assess them, and to supervise their execution.

To problems such as these, the authors address themselves.


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