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ON MIXING OIL AND MONEY

(The Impact of the Energy Crisis on Monetary Relations Among the Industrial Countries)

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The energy crisis has posed a fundamental challenge to the ability and will of the countries of the industrial world to act together in response to common problems. All dimensions of relations among the North Atlantic countries and Japan have been affected by the oil-price increases that have occurred since the October War of 1973 -- not just economic relations, but political and military relations as well. This paper focuses on just one aspect of economic relations among the industrial countries -- the aspect of monetary relations -- treating these as a case study of industrial-country relations in general. Monetary relations are defined to comprise the two issues of current macroeconomic management and structural monetary reform. With respect to both of these issues, the questions are asked : How have the industrial countries reacted to the impact of higher oil prices ? Have they met the test of international cooperation ? In each case, I shall argue, the answer is : no, so far, they have failed to meet the test.

The plan of the paper is as follows. Part I outlines the over-all economic implications of the recent increases of oil prices. The following two parts of the paper discuss the impacts of these price increases on the two issues of current macroeconomic management and structural monetary reform. Part IV briefly summarizes the conclusions of this discussion.

I.

The story of the oil-price increases of late 1973 is of course well known. Following the outbreak of the October War, Arab oil nations temporarily embargoed exports to the United States and the Netherlands, and reduced supply to other customers. In the seller's market that ensued, the Organization of Petroleum Exporting Countries (OPEC) imposed a nearly four-fold increase in world crude-oil prices. The posted price of a typical Persian Gulf crude rose, in a bewildering succession of steps, from $3.01 a barrel at the start of October to $11.65 by January 1, 1974. (The posted price is a theoretical price used by the petroleum industry to calculate tax payments to producing nations for the bulk of oil produced in OPEC.) And during 1974 and 1975 additional increases of OPEC revenues were extracted from consumers and companies through changes of tax and royalty rates and expanded equity participation in producing operations, and through an additional posted-price rise of 10 percent this past October. "The era of cheap oil for the industrialized world is finished", said the Shah of Iran in a memorable understatement. He need hardly have added : the era of higher revenues for producers has begun. From a level of $15 billion in 1972 and $30 billion in 1973, the revenues of OPEC countries soared to about $110 billion in 1974 and are expected to go even higher in 1975 and beyond. Arab nations will account for well over half of this total, and Iran for about a fifth.

The world has never before been confronted with such an immense transfer of wealth. The situation is unprecedented. As Winston Churchill said in another context, never before have

so many owed so much to so few. The massive shift of the international terms of trade in OPEC's favor means that consuming countries must necessarily give up more goods, services, and assets in exchange for each barrel of oil they import. The effect is like a giant excise tax. The higher revenues of oil producers simultaneously raise prices in consuming countries, both directly (through their impact on the price of all forms of energy) and indirectly (through their impact on wage demands and other cost elements in the production structure) ; and reduce demand, through the withdrawal of active purchasing power. The result is a relative lowering of living standards in consuming countries.

The transfer of wealth to OPEC has both "real" and monetary implications. On the real side, a considerable reallocation of resources in consuming countries will be required to the extent that OPEC's higher revenues are returned to consumers in the form of increased demand for their goods and services. Inevitably there will be severe dislocations in many non-OPEC economies as their production structures are redirected to generate a greater net volume of exports. Some countries with economies at or near full capacity may find it difficult to curtail internal demand in order to make room for additional exports ; some countries may simply have little or no potential to expand exports at all in the near future. (This is especially likely to be true of many less developed countries.) In addition, further resource reallocations in consuming countries will be dictated by the differential impact of increased energy

costs on the comparative efficiency and profitability of various domestic industries. Energy-using industries (e.g. automobiles) will be under pressure either to adjust their product mix or to release resources to energy-saving industries (e.g. mass transit).

On the monetary side, problems arise to the extent that OPEC's higher revenues are returned to consumers not in the form of increased demand for their exports but rather in the form of increased demand for their assets. It is well known that the "absorptive capacity" of some of the biggest oil producers is limited : they simply are unable to increase their imports of goods and services at the same rate as their revenues. This may be less true of such countries as Algeria, Iraq, and the non-Arab members of OPEC. These countries are all relatively densely populated with attractive development prospects, diversified natural resources, and trained administrative capacity ; they each have the capacity to absorb virtually all of their higher incomes, even in the comparatively short term. But these nations do not account for even half of total oil exports. The bulk of oil revenues presently accrue to Saudi Arabia, Kuwait, the smaller Persian Gulf states, and Libya -- thinly populated, largely barren countries that for a long time to come can reasonably be expected to spend just a small part of their higher income on foreign goods and services. The remainder -- their "investable surplus" -- will perforce be invested in foreign assets or otherwise lent back to consuming countries as a group.

Oil consumers, therefore, as a group may anticipate extremely large current-account deficits in their future relations with the oil producers. In 1974 alone, OPEC's current surplus amounted to approximately $70 billion (as compared with $6 billion in 1973) ; another surplus of $45-50 billion is predicted for 1975, and further financial accumulations are expected in 1976 and thereafter,at least until 1978-80. Estimates differ concerning the prospective magnitude of the cumulative build-up of OPEC assets. As Table I indicates, projections of OPEC's investable surplus that have been made since the energy crisis broke have differed greatly, from an early World Bank suggestion of some $650 billion (current dollars) in 1980 to some more recent calculations running as low as $180-190 billion. The wide range of variation among these projections reflects their high degree of sensitivity to the assumptions that are made regarding inter alia the absorptive capacity of producing nations, the price and income elasticity of oil demand, and the prospects for expansion of alternative sources of energy supply. But even the figures at the lower end of the range, it will be admitted, represent a non-negligible sum of money. OPEC's growing financial accumulations obviously create serious problems for international monetary relations.

Some observers have attempted to belittle the monetary implications of the energy crisis. Fred Bergsten, for example, has written :

> There are indeed extremely serious consequences of the oil crisis.... But the international monetary situation adds relatively little to the problem. No industrial

> country will go bankrupt. The monetary system will not collapse.... /T/he prophets of doom confuse the balance of trade and the balance of payments. They ignore the simple but central fact that the oil exporters must invest in the industrial world any of their increased earnings that they do not spend. The Arabs will not bury the money in the ground. Thus, there can be no deficit in the balance of payments of the industrial world as a whole(1).

Such arguments are, at the very least, simplistic. Certainly it is true that there can be no deficit in the balance of payments of oil consumers as a group. (NB. This includes more than just the industrial world.) The combined current-account deficits of non-OPEC nations must, by definition, be offset by aggregate capital-account surpluses. But one does not have to be a prophet of doom to see signs of danger in this prospect of huge, sustained capital movements between producing and consuming countries. At least four specific problems for international monetary relations may be emphasized here.

1 - First, there is the problem of how to maintain full employment in the consuming countries. I have said that the transfer of wealth to OPEC countries is like a giant excise tax, reducing demand through a withdrawal of active purchasing power. Coupled with the limited absorptive capacity of the biggest oil producers, this may be thought of as a net outward shift of the world's savings schedule : global spending on goods and services is reduced, and global investment in financial assets (saving) is

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(1) C. Fred Bergsten, "Oil and the Cash Flow", The New York Times, June 3, 1974, reproduced in C. Fred Bergsten, Toward a New International Economic Order : Selected Papers of C. Fred Bergsten, 1972-1974 (Lexington, Mass. : D.C. Heath, 1975), ch. 8.

increased. It is well known that a sudden increase of thrift can generate a circular contraction of incomes if real capital formation is not perfectly responsive to the greater availability of savings. From the point of view of oil consumers, the problem is to translate the financial savings of oil producers into productive job-creating activities. These savings must find their counterpart in additional real investment in the non-OPEC world or in a reduction of savings there. Otherwise, consuming countries will experience a sustained increase of resource unemployment and retardation of economic growth.

2- Second, there is the problem of how to distribute the current-account deficits of oil consumers. The aggregate surplus of oil producers must be reflected in a pattern of current-account deficits that is acceptable to the individual countries concerned. (An alternative way to express this : since current-account deficits must be financed, OPEC's financial accumulations must be reflected in a pattern of increased debt and equity claims that is acceptable to the individual countries concerned.) In the absence of an understanding regarding the allocation of these deficits, consumers could pursue inconsistent payments policies. Such competitive policies are bound to be mutually frustrating, since in the face of the limited absorptive capacity of OPEC countries, any single consuming country can reduce its own trade deficit only by increasing the trade deficits of others. If such policies are generally followed, the net result could well be a serious misallocation of resources and a destructive contraction of effective demand and world trade.

3- Third, there is the problem of how to finance the desirable pattern of current-account deficits among consuming countries. This is the problem of petro-dollar recycling. I have said that the combined current deficits of consumers must, by definition, be offset by capital-account surpluses. But what is true for consumers as a group is not necessarily true for each consumer individually. (That is the fallacy of composition.) As is well known, reflows of funds from OPEC nations do not tend to match up with the distribution of current deficits among consumers. OPEC nations do not invest in consuming countries in proportion to their current deficits : some countries are simply more attractive than others as places to invest. Consequently, some consuming countries have enjoyed relatively healthy external accounts since the energy crisis broke, while others have found themselves in serious over-all payments difficulties. From the point of view of oil consumers, the problem is to ensure that countries that do have over-all payments deficits will somehow be able to finance them by borrowing at reasonable terms. This requires secondary flows of capital among the non-OPEC nations to channel oil revenues from consumers who benefit disproportionately from OPEC investments to those who are most in need of them -- in other words, a recycling of OPEC's surplus revenues. In the absence of adequate petro-dollar recycling facilities, some countries might well find it impossible to borrow at any terms at all. The danger of international bankruptcy cannot be dismissed so lightly.

secondary recycling is the point

4- Fourth, there is the problem of the disposition of OPEC's surplus revenues. Even in 1974 OPEC countries were

beginning to diversify a portion of their investments, both geographically and in terms of asset structure. Yet as Table 2 indicates, roughly two-thirds of their total surplus was, following tradition, still concentrated in very liquid assets -- one half in bank deposits and one-sixth in government securities. This is a tradition that will undoubtedly continue for a long time to come, given the high liquidity preference of the biggest oil producers. In mid-1975, the official monetary reserves of Saudi Arabia had soared to above $20 billion, second only to Germany's ; reserves of the oil producers as a group had risen to $55 billion -- one quarter of the world total. In the next several years, given their prospective surplus earnings, OPEC countries could accumulate reserves in excess of $100 billion ; most will be concentrated in the hands of five Persian Gulf nations and Lybia. An international monetary order can hardly remain stable in which such a large proportion of the world's liquidity is unilaterally controlled by such a small number of countries -- particularly countries with such a record for economic and political volatility. In the interest of assuring monetary stability, some kind of action would be desirable to ensure that these funds are not shifted about frequently in a chaotic and irresponsible fashion. The objective would be to induce OPEC nations to treat their surpluses, in effect, as long-term savings rather than as short-term investments.

anti OPEC Take over and invest. attitudes

Of these four problems, the first two -- the problem of maintaining full employment and that of distributing current deficits among consuming countries -- are closely related analytically. The level of domestic demand is one of the prin-

cipal determinants of a country's trade balance ; a country's trade balance is one of the principal constraints on policies for controlling domestic demand. In fact, the two problems really collapse into the single issue of current macroeconomic management within the parameters of the existing international monetary system, and are best discussed as one. Likewise, the two problems of recycling and of the disposition of OPEC's surplus revenues are closely related analytically, though these are more concerned with changing the parameters of the existing monetary system. Each involves considerations not just of current macroeconomic management but, more importantly, of institutional and structural reform. Analytically, these two problems blend into the broader issue of world monetary reform.

Thus, the monetary implications of the energy crisis encompass both the issue of current macroeconomic management and that of structural monetary reform. The question for this paper is : how have the industrial countries reacted to the monetary implications of the energy crisis ?

II.

Consider the issue of current macroeconomic management. A radical reordering of the traditional payments objectives of industrial countries is called for as a result of the raising of oil prices. Traditionally, most industrial countries have

aimed for surpluses in their current account -- partly for old-fashioned mercantilist reasons, and partly in order to facilitate net acquisitions of assets overseas. Today, these same countries must (together with other oil consumers) plan for large current-account deficits vis-à-vis the oil producers, at least into the foreseeable future. It is a cliché that the biggest payments adjustment problem generated by higher oil prices will be among the consuming countries themselves, rather than between consumers and producers. The test for the industrial countries in this connection is how well they can share out the potential burdens of this adjustment problem.

There are two burdens in particular to worry about. One consists of the increased debt and equity claims implied by the present and prospective current deficits of oil consumers. If
A consumers collectively are successful in maintaining full employment, current deficits per se cannot be regarded as undesirable. Quite the contrary, the deficits mean a delay in the required net outward transfer of resources to oil producers, in effect postponing the relative lowering of living standards in consuming countries. The problem, however, is that current deficits must be financed : consumers must either give up external assets or incur additional liabilities. In a full-employment world, the burden of adjusting to OPEC's current surpluses is the burden of increased debt.

The second potential burden reflects the possibility
B that consumers collectively may not be successful in maintaining

full employment. To the extent that some countries are unwilling or unable to incur increased debt, they may be tempted to try to reduce their current deficits by domestic deflation, or by exchange depreciation or trade and capital controls. Domestic deflation will mainly depress the level of employment at home ; depreciation or controls will mainly have the effect of depressing the level of employment abroad (unless offset by expansionary policies in countries willing to incur additional external debt). As indicated earlier, such competitive policies are bound to be mutually frustrating and ultimately destructive. The burden in this event is the greater amount of output foregone in consuming countries.

If this second burden is to be minimized, an understanding must be reached regarding allocation of the first burden (i. e., the burden of increased debt). The test for industrial countries, therefore, has been to coordinate their macroeconomic and external payments policies in such a way as to achieve an acceptable distribution of current-account deficits.

Coordination could be based on a variety of criteria. There is no single measure of optimality in burden-sharing. Deficits could be allocated, for example :

(1) In inverse proportion to the ability of consuming countries to curtail internal demand in order to make room for additional exports. This would presumably mean larger deficits for the poorest consuming countries, who would benefit most from a delay in the required transfer of wealth to OPEC.

(2) In direct proportion to the ability of countries to incur increased debt. This would presumably mean larger deficits for richer countries.

(3) In direct proportion to the marginal rate of social return on capital in consuming countries (the marginal efficiency of investment). This would presumably mean larger deficits for rich and/or rapidly growing countries.

(4) In direct proportion to the potential in different consuming countries for producing substitutes for OPEC oil (on the grounds that development of substitute sources of energy will require considerable outlays for investment in coming years). This would presumably mean larger deficits for such countries as the United States, Canada, and Britain.

(5) In direct proportion to some notion of "normal" current balances of consuming countries -- for example, pre-1974 surpluses or deficits adjusted for net "oil deficits" (i.e., increased imports of OPEC oil less increased exports to OPEC). This would presumably mean larger deficits for the biggest consumers of imported oil, such as the United States and Japan. (This measure is a relatively narrow definition of oil-induced current deficits. A broader definition might take into account the shift in international competitiveness of individual national industries with varying degrees of dependence on imported oil.)

What has been the reaction of the industrial countries ? In fact, they have failed to meet the test. Coordination of macro-economic and external payments policies has so far been negligible;

there has little consultation and no public agreement at all on the distribution of current-account deficits. Instead, the situation has been : every man for himself -- and the devil take the hindmost.

Consider Table 3, which shows the net changes of current balances that were experienced by OECD countries in 1974, the first full year of the energy crisis. It is difficult to find any coherent pattern in these figures. Were the increased deficits allocated in proportion to ability to curtail internal demand ? Then how does one explain the relatively small declines in the current accounts of some of the poorest OECD countries, such as Greece, Iceland, Portugal, and Turkey ? Were the deficits allocated in proportion to ability to incur debt ? Then how does one explain the net improvement in the current balances of Germany and Switzerland ? Deficits certainly were not allocated by such sophisticated criteria as the marginal efficiency of investment or the potential for producing substitutes for OPEC oil. And in relation to the criterion of normal surpluses adjusted for net oil deficits, current deficits in 1974 were actually distributed in a strikingly perverse fashion, as Table 4 demonstrates. The six biggest OECD countries together managed to improve their current balances, net of increased oil deficits, by some $30 billion. (The Big Three -- the United States, Germany,and Japan -- alone accounted for nearly all of this improvement.) All other oil consumers as a group (including non-OECD consumers) were forced to accept a deterioration of their current balances, over and above their net oil deficits,

by a similar amount.

In effect, therefore, smaller countries as a group bore the burden not just of their own higher-priced oil imports but also that of the biggest consuming countries. Ex post, such a pattern of deficits could perhaps be justified in terms of the criterion of ability to curtain internal demand, the smaller countries benefitting most from the delay in the required transfer of wealth to OPEC. But ex ante such a pattern was justifiable only if, in addition, adequate recycling facilities were made available to the smaller countries to finance their current deficits on a sustained basis. In fact, as we shall see below, this was simply not the case. The biggest countries did not accept -- and still have not fully accepted -- the responsibility of helping the smaller countries to bear up under the burden of their increased debt, even while forcing that increased debt upon them. In terms of burden-sharing, the contribution of the biggest countries was actually heavily negative.

Why was such a situation tolerated by the smaller countries ? In part it was because, in 1974 at least, most were still able to finance their current deficits by borrowing at more or less reasonable terms ; some also had fairly ample foreign exchange reserves that they could run down for a time. But mainly it was because they had little choice in the face of the superior market power of the biggest countries. Some observers have called this "muddling through", I would call it "power economics". In the absence of effective collaboration among sovereign states, ultimately what determines the outcome in a competitive situation

such as this is power -- the ability to manipulate the particular situation to advantage. The biggest countries had the ability to increase their export values sharply, both to oil producers and consumers, as well as to reduce the value of their non-oil imports. They were thereby able to minimize the burden of increased debt for themselves, by shifting it onto others.

In fact, what occurred in 1974 was a cascading of the burden of adjustment among consuming countries, from the more powerful to the less powerful to the least powerful -- with the weakest being forced to bear the greatest burden of all (in relation to their ability to incur increased debt). We can think of three groups of consumers : the six biggest OECD countries (the Big Six) ; the remaining 18 members of OECD (the Middle 18); and the non-oil developing countries (now known popularly as the Fourth World). For the Big Six as a group, as I have said, the adjusted current balance improved by $30 billion. For the Middle 18, there was only a relatively moderate deterioration in their adjusted current balance. (The OECD reports that about half of the observed $17.5 billion decline of the aggregate current balance of this group was accounted for by higher payments for oil ; at the same time, the Middle 18 increased exports to OPEC by $1.75 billion.) For the Fourth World, virtually all primary producers, adjusted current balances deteriorated sharply, by almost $18 billion (an observed change of $27.8 billion adjusted for a net oil deficit with OPEC reported in the vicinity of $10 billion). In effect, it was really the Fourth World that had to bear the largest share of the burden of adjustment. The

Middle 18 were saddled with some of it by the Big Six, but the major portion was successfully transferred onward. It is an old adage in political science that in any collectivity of diverse interests, there is always an inherent tendency to reconcile conflicts among their separate ambitions, as much as possible, at the expense of outsiders. This is apparently what the collectivity of industrial countries did in 1974.

In fact, fully 80 percent of the combined current-account deficit of oil consumers in 1974 was borne by primary producing countries, including primary producers in the periphery of Europe and in Australasia. The main reason was the precipituous drop in the terms of trade of primary producers -- some 15 percent between 1973 and early 1975. This was due in part to the high rate of inflation in industrial countries, as well as to the oil-price increases, which raised the prices of their imports ; but mainly it was due to the severity of the recession in industrial countries, which sharply reduced the prices of their exports. Recession in the industrial world was the principal means by which the burden of increased debt was transferred to primary producers. The corresponding burden of unemployment in industrial countries was considered acceptable on the grounds that it was an essential part of the fight against inflation.

How long can such a situation persist ? In my opinion, not for very long. An aggregate deficit of $35 billion has been projected for the Fourth World in 1975, continuing the pattern begun in 1974. But some of these countries are already finding

it difficult to obtain external financing at reasonable terms (again, see below). It may not be long before some are forced to take action seriously to cut their deficits, most likely by depreciation or trade and capital controls. The alternative, a substantial belt-tightening at home, could cause widespread starvation and would probably be politically disastrous.

Similar problems also exist in some of the industrial countries, where workers are becoming increasingly restive about prevailing high levels of unemployment. To promote domestic recovery while avoiding deterioration of their current accounts, a few industrial countries might be tempted to resort to competitive exchange depreciation or to trade and capital controls of their own (current pledges to the contrary, in the IMF and OECD, notwithstanding). The British government, for example, recently discussed quite openly the possibility of imposing emergency import controls. The Italian government, which has already used such controls once, could soon feel obliged to use them again. And relations between the United States and the European Community have been considerably strained this year by a running series of trade disputes. Isolated incidents of this kind could easily escalate into genuine economic warfare, unless an understanding can be reached regarding a more acceptable distribution of deficits. The risk of disruption, even chaos, is real. Close and frequent consultations in institutions such as the IMF and OECD are required to ensure continuing consistency of national macroeconomic policies. As I have said, this calls for a radical reordering of the

traditional payments objectives of industrial countries. Such changes may be distasteful to some, perhaps even painful to others. But it is only necessary to consider the alternatives -- at the best, more "power economics" ; at the worst, a possible breakdown of the world trading system. These are even more unpleasant contingencies to contemplate.

III.

The issue of world monetary reform is broader than just the energy crisis. But the energy crisis clearly impinges on the ongoing process of monetary reform. If the international monetary order is to be made stable, it must have facilities to effectively recycle OPEC's surplus revenues to the oil consumers that are most in need of them. It must also be structured to ensure that the growing financial accumulations of producers will not become a new source of instability in world monetary affairs. The test for the industrial countries in this connection is how well they can help in organizing an institutional response to these two systemic imperatives.

As far as the recycling problem is concerned, the initial response of the industrial countries was : let's leave it to the market. Private international financial institutions alone, most thought, could be relied upon to do the job of channeling petro-dollar to needy consumers. But it was soon

obvious that in fact the markets were not capable of performing this financial-intermediation function entirely on their own. There was no assurance at all that an allocation of loans based on traditional banking considerations (creditworthiness, relative interest rates, etc.) would in any way coincide with the requirements of global balance-of-payments equilibrium. Banks always prefer to lend to those who least need to borrow. They are naturally reluctant to lend to poor financial risks. Especially in times of crisis, credit tends to flow in inverse proportion to need. In the words of the managing director of the IMF, Johannes Witteveen, early in 1974 : "/T/he Euro-currency markets alone cannot cope with the new situation /because/ they cannot channel funds on reasonable terms to countries whose economic position is precarious. The need of these countries is perhaps the most urgent, but precisely for this reason their ability to attract private funds is weakest"(2).

Thus it quickly became clear that the private markets would necessarily have to be supplemented by bilateral and multilateral recycling facilities among governments. The reaction of governments so far has not been impressive. At the bilateral level, there has been only one significant accomplishment -- the West German $2 billion loan to Italy in 1974, backed by a portion of Italy's gold reserve. At the multilateral level, only two new facilities have been established -- the "oil facility" in the IMF and the Financial Support Fund in the OECD. The IMF oil

(2) Quoted in IMF Survey, May 6, 1974.

facility, which was initially established in June 1974 on a scale of about $3.5 billion, was renewed in 1975 for a maximum of just $6 billion (though at the same time a modest interest subsidy was introduced for the benefit of the approximately 30 poorest countries of the Fourth World). The OECD Financial Support Fund is supposed to operate on a scale of $25 billion but is still awaiting ratification by governments. In addition, agreement in principle was reached last September on creation of a special Trust Fund in the IMF, also for the benefit of the poorest countries of the Fourth World, to be financed from the sale of part of the Fund's gold holdings. Implementation, however, is still awaiting formal amendment of the IMF's Articles of Agreement. (A European Community plan to borrow jointly up to $3 billion from oil-producing countries to help members cover their oil deficits has yet to even get off the ground.)

Until now, governmental recycling facilities have not been heavily used. This has led some observers to suggest that perhaps the private markets can after all be relied upon to handle the petro-dollar problem entirely on their own. But this would be an overly sanguine conclusion based on an unrepresentative sample of experience. In 1974, the first year of the energy crisis, there was still much scope in international financial markets for absorbing the higher cost of oil imports. The most seriously affected consuming countries were able to borrow extensively in the Euro-currency market and in the

traditional financial centers to cover their oil deficits. But now many of these same countries, particularly in the Fourth World, seem to be reaching the limit of their borrowing capacity. A possible straw in the wind was the default by Zaire in October on interest payments for some of its outstanding foreign loans. Most of the non-oil developing countries have already attracted about as much private money as they are capable of doing, and for most of them foreign-exchange reserves are by now simply too low to take up much of the remaining slack. Without access to governmental recycling facilities, some of them, as I have said, could soon be forced to endure cutbacks of imports and development programs, perhaps even starvation. LDCs are not participants in the OECD Financial Support Fund, and the amounts of funds committed to the IMF oil facility until now have been derisively small. For these poorest countries, an expansion of governmental recycling facilities is still a fundamental imperative. This is another test that the industrial countries have, so far, failed to meet.

The reason for this failure has to do with the other, related structural problem generated by the energy crisis -- the problem of the disposition of OPEC's surplus revenues. To induce OPEC nations to treat their surpluses as long-term savings will require new investment facilities capable of absorbing these huge amounts of funds. There has been no lack of proposals along these lines. The challenge is to ensure that such facilities are sufficiently attractive to induce OPEC participation. OPEC nations might have to be offered concessions to protect the

purchasing power of their investments against losses from exchange-rate depreciation or price inflation (taking the form of higher interest rates, exchange guarantees, or indexing), and perhaps also to protect the investments themselves against the risks of expropriation or default. They might, in addition, have to be offered a role in the administration of such investment facilities as well as some degree of control over the terms at which their funds are relent to final borrowers. Without some concessions along these lines, the oil producers simply might not consider it worthwhile to cooperate at all.

The difficulty so far has been disagreement among the industrial countries over the extent to which such concessions either must or should be offered. The European countries and Japan are far more dependent on OPEC oil than the United States. These countries are therefore far less reluctant to offer concessions to the oil producers in order to attract a reflow of their surplus earnings. America, by contrast, is in a position to make fewer concessions to producers because of its more favorable energy endowments. The result has been persistent deadlock on the financial issues raised by the energy crisis, nowhere more apparent than in the debate earlier this year over the relative merits of the IMF oil facility versus the OECD Financial Support Fund. The Europeans and Japanese were favorably disposed to a considerable expansion of the IMF oil facility, which would have offered OPEC countries not only a relatively riskless haven for funds but also a fairly substantial voice in administration. Precisely for these reasons,

however, Secretary of State Kissinger preferred to by-pass the IMF with his alternative proposal for a "safety net" to be established solely within the OECD. The Secretary was reluctant to take any action that might tend to sanction and consolidate OPEC's cartel behavior. Ultimately, the American position prevailed in an uneasy compromise solution. As one result, the poorest countries are still without adequate recycling facilities. Once again, conflict among the industrial countries was reconciled largely at the expense of outsiders.

IV.

The North Atlantic countries and Japan like to think of themselves as a loose sort of community, sharing certain interests and purposes in common that set them off from the rest of the world's nations. One test of this claim of community is the ability to act in harmony at times of severe crisis. One of the (few) benefits of the energy crisis is that it has exposed the hollowness of this claim. The industrial countries have not acted together as a community in response to their common monetary problems. In fact, their behavior has been in flat contradiction of even the weakest standards of international cooperation. They have failed to coordinate their macroeconomic and payments policies to achieve an acceptable distribution of current-account deficits ; they have failed to organize adequate facilities to recycle petro-dollars or stabilize OPEC's surplus revenues.

Instead, economic nationalism has reared its ugly head, each country doing as much as possible to avoid the burdens of adjustment. "Power economics", not cooperation, has prevailed. That this has not completely ruptured relations among the industrial countries is due largely to the fact that most of the burdens of adjustment could be shifted onto others -- namely, the poor countries of the Fourth World. It is these countries who have really had to pay the price for the failure of the industrial world to act as a community.

Can this conclusion be generalized to other dimensions of relations among the industrialized countries ? In my opinion, yes. At the rhetorical level, governments have paid lip service to the ideals of international cooperation ; they have even endorsed and joined together in new institutional initiatives, such as the International Energy Agency and the Financial Support Fund. But at the practical level, their priorities have been quite different -- with national interests always leading the list by a very wide margin. This has been as true in the political and military sphere as in economic relations. The situation is inherently unstable : it may not always be possible to reconcile conflicts at the expense of outsiders. Will the industrial countries then be able to prevent the game from becoming negative-sum ?

TABLE 1

ALTERNATIVE PROJECTIONS OF OPEC's INVESTABLE SURPLUS IN 1980

(in billions of dollars)

	Current dollars	Constant dollars (1974)
(1) World Bank (July 1974)	653	400[a]
(2) Chenery (January 1975)	495[b]	300
(3) Levy (June 1975)	449	286
(4) Willett (January 1975)	330-413[b]	200-250
(5) OECD (July 1975)	330-413[b]	200-250
(6) World Bank (April 1975)	330-371[b]	200-225
(7) Fried (1974)	251[b]	152.3[a]
(8) Irving Trust Company (March 1975)	248	148.8[c]
(9) Deutsche Bank (May 1975)	220	132[c]
(10) U.S. Treasury (September 1975)	195	117[c]
(11) First National City Bank (June 1975)	189	113.4[c]
(12) Morgan Guaranty Trust Company (Jan. 1975)	179	107.4[c]

a. Conversion to constant 1974 dollars was done by Willett.
b,c. Conversions (b) to current dollars and (c) to constant dollars were done by using World Bank price forecasts quoted by Committee for Economic Development (see source N° 6 below).

SOURCES :

(1) World Bank, "Prospects for the Developing Countries : An Analysis of the Effects of Recent Changes in the World Economy on Growth Prospects and Capital Requirements of the Developing Countries", Report of the Energy Task Force, July 8, 1974, p. 31.

(2) Hollis B. Chenery, "Restructuring the World Economy", Foreign Affairs, Vol. 53, N° 2 (January 1975), p. 254.

(3) W.J. Levy Consultants Corporation, Future OPEC Accumulation of Oil Money : A New Look at a Critical Problem (New York : June 1975).

(4) Thomas D. Willett, "The Oil Transfer Problem", Department of the Treasury News, January 30, 1975.

(5) OECD, Economic Outlook, N° 17 (Paris : July 1975), p. 78.

(6) World Bank, a revised projection quoted in Committee for Economic Development, International Economic Consequences of Higher-Priced Energy (New York : 1975), p. 17.

(7) Edward Fried, "Financial Implications", in Joseph A. Yager and Eleanor B. Steinberg (eds.), Energy and U.S. Foreign Policy (Cambridge, Mass.: Ballinger, 1974), p. 290.

(8) Irving Trust Company, The Economic View from One Wall Street, March 20, 1975.

(9) Deutsche Bank, OPEC : Facts, Figures and Analyses (Frankfurt : May 1975), p. 18.

(10) Quoted in The International Herald Tribune, September 11, 1975.

(11) First National City Bank, Monthly Economic Letter, June 1975.

(12) Morgan Guaranty Trust Company, World Financial Markets, January 21, 1975.

TABLE 2

ESTIMATED DISPOSITION OF OPEC SURPLUS REVENUES IN 1974
(in billions of dollars)

Bank deposits		$ 27.5
. Dollars in United States	$ 4.5	
. Sterling in United Kingdom	2.5	
. Eurocurrencies	20.5	
Marketable government securities		9.5
. United States	6.0	
. United Kingdom	3.5	
Direct investments in developed countries		0.8
Portfolio and real estate investments in developed countries		1.0
Direct loans to official institutions in developed countries		6.5
Loans to international financial institutions		4.2
. International Monetary Fund	2.0	
. World Bank and other development banks	2.2	
Direct grants and loans to developing countries		2.5
Other		3.0
. Military-assistance grants to Arab nations	1.8	
. Debt repayment	0.7	
. Participation payments to oil companies	0.5	
TOTAL		$ 55.0

Source : Morgan Guaranty Trust Company.

NB. The combined current-account surplus of OPEC nations in 1974 was $70 billion. A significant part of this total (as reported on an accrual basis customary for balance-of-payments statistics) represented export credits (in the nature of accounts receivable) for oil shipped out in 1974 and valued in their balance-of-payments statistics at the new prices that went into effect at the beginning of that year, but not yet received or paid for by importers within that same period. The surplus revenues of $55 billion shown in the table above correspond to the combined deficit of consuming nations as shown by their own balance-of-payments statistics (in which the higher-priced oil imports were reported appreciably later than in the statistics of the exporting countries).

TABLE 3

CURRENT BALANCES OF OECD COUNTRIES, 1973-1974

(in billions of dollars)

	1973	1974	Change from 1973 to 1974
Australia	+ 0.56	- 2.60	- 3.16
Austria	- 0.37	- 0.50	- 0.13
Belgium-Luxembourg	+ 1.29	+ 0.66	- 0.63
Canada	+ 0.02	- 1.68	- 1.70
Denmark	- 0.50	- 0.99	- 0.49
Finland	- 0.43	- 1.20	- 0.77
France	- 0.69	- 5.90	- 5.21
Germany	+ 4.31	+ 9.34	+ 5.03
Greece	- 1.19	- 1.22	- 0.03
Iceland	- 0.04	- 0.20	- 0.16
Ireland	- 0.21	- 0.68	- 0.47
Italy	- 2.67	- 7.92	- 5.25
Japan	- 0.14	- 4.69	- 4.55
Netherlands	+ 1.77	+ 1.61	- 0.16
New Zealand	+ 0.17	- 1.68	- 1.85
Norway	- 0.35	- 1.01	- 0.66
Portugal	+ 0.55	- 0.50	- 1.05
Spain	+ 0.56	- 3.15	- 3.71
Sweden	+ 1.13	- 0.99	- 2.12
Switzerland	+ 0.28	+ 1.00	+ 0.72
Turkey	+ 0.47	- 0.70	- 1.17
United Kingdom	- 2.88	- 9.00	- 6.12
United States	+ 0.34	- 0.87	- 1.21
	+ 1.98	- 32.87	- 34.85

Source : OECD, Economic Outlook, N° 17 (July 1975), pp. 57-58.

TABLE 4

CURRENT BALANCES, ADJUSTED FOR NET OIL DEFICITS, OF THE SIX BIGGEST OECD COUNTRIES, 1974

(in billions of dollars)

	Net change of current account	Net increase of oil imports (-)	Net increase of exports to OPEC (+)	Net change of current account adjusted for net oil deficit
	(1)	(2)	(3)	(4)=(1) - [(2)+(3)]
France	- 5.21	- 7.36[a]	+ 1.00	+ 1.15
Germany	+ 5.03	- 6.78	+ 1.75	+10.06
Italy	- 5.25	- 6.71[a]	+ 1.00	+ 0.46
Japan	- 4.55	-14.45	+ 2.75	+ 7.15
United Kingdom	- 6.12	- 6.49	+ 1.00	- 0.63
United States	- 1.21	-16.59	+ 3.25	+12.13
	-17.31	-58.38	+10.75	+30.32

a) Includes small amounts of other mineral fuels.

Sources : Column (1) from Table 3.
Column (2) from Committee for Economic Development, International Economic Consequences of High Priced Energy, Appendix A.
Column (3) from OECD, Economic Outlook, N° 17 (July 1975), Table 45.

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THE 1973-CRISIS AND INTRA-ALLIANCE RELATIONS

by

Johan Jørgen Holst

A discussion-paper prepared for the Third Meeting of the Western European Study Group on "The Middle East and the Crisis in Relations Among Industrial States", Paris, November 27-28, 1975.

THE 1973-CRISIS AND INTRA-ALLIANCE RELATIONS

1. INTRODUCTION

The purpose of the present paper is to outline for discussion some of the possible implications of the Yom-Kippur war and the "energy-crisis" which accompanied that war (hereafter referred to as "the 1973 crisis") for the structure and process of alliance relationships among the NATO-states. I shall make an attempt to identify several cross-cutting perspectives for purposes of focusing on some of the key problems presently confronting the Western alliance.

The 1973 crisis demonstrated some of the strains which may be engendered by non-traditional crises and contingencies. It is my contention that this class of crises constitutes a more likely set of contingencies in the years ahead than those which have structured NATO force planning and alliance decision procedures till now. Hence, my focus of interest is the future rather than the past. I propose to look back on events in 1973 in order to find building-blocks and suitable conceptual categories for assessing future options and constraints.

2. DIFFERENTIATED INTERESTS

The 1973 crisis constituted an example of the inadequacy of existing alliance procedures to handle extra-alliance

conflicts impacting on the interests of the members of the alliance in a differentiated manner. The United States' dependence on Middle East oil did not begin to approach that of Western Europe. The United States could better afford a policy of counter-confrontation. But the costs and the risks associated therewith would be borne by all of the members of the alliance. The West Europeans were most vulnerable to retaliation. The multiple asymmetries in leverage and vulnerability between the United States and Western Europe tended to accentuate the perception of disarray.

The threats conveyed by the "energy crisis" were focused on the economic security of industrial states. The threat to military security was not considered a clear and present danger by the states in Western Europe. The propensity in Western Europe to view the total crisis primarily in terms of economic security considerations reflected in part the European inability to influence the military situation in the Middle East. The 1956 Suez-crisis had demonstrated the end of Europe's ability to project decisive and independent military force outside its own area.

The European Community states viewed the crisis inter alia from the perspective of their regional interest in the structure of Mediterranean politics. The United States was concerned with the global dimensions of the conflict, primarily from the perspective of US - Soviet relations.

Did Soviet behaviour constitute a challenge to the Kissingerian notion of a code of reciprocal restraint ? The West Europeans tended to believe that the United States had failed to exercise leverage on Israel prior to the war. The Europeans feared the impact of Israeli intransigence on Arab-European relations and on the oil supplies. Another war could give the Soviet Union a foothold in the Middle East which could cause a further deterioration of the NATO security arrangements in the Mediterranean. The bipolarization of security arrangements along the superpower axis would be accentuated as would European dependence on US protection, particularly with respect to the security in the area upon which the formulation of a specifically European foreign policy was focussed.

The 1973-crisis provided a lesson in the limits of community solidarity. The behaviour of the Community states seemed predicated on the notion that the behaviour of the others would conform to the rule of sauve qui peut. Thus the political credibility of the European Community suffered a blow in the wake of the optimism generated by the enlargement of the Sven to the Nine. The political primacy of the United States was demonstrated and the post-crisis

initiatives of the United States to provide institutional protection against future boycotts, was viewed by the French as an attempt to preempt the formulation of a Community energy policy and institutionalize American preponderance. Mutual suspicion and rivalry came to dominate much of the negotiations leading up to the Atlantic declaration of 1974.

The differentiation of West European and American roles and perspectives, assessments of interests and risks, came as no surprise. The speed of events and the surprise eruption of the war itself conspired to make genuine alliance consultations ritualistic and largely meaningless. The world wide alert which was ordered for US forces on October 25, 1975, epitomized the difficulties. But this time Washington did not attempt to inform the West Europeans with the same courtesy as during the 1962 Cuban crisis.

The difficulties of alliance policy coordination in 1973 were only in part a function of the procedural characteristics of the Atlantic Alliance. They reflected rather basically divergent interests and roles. While it is clearly desirable that the NAC carry on consultations about foreign policy issues also outside the NATO area for purposes of clarifying views and communicating assessments and concerns, it is arguable that attempts to negotiate serious

differences could become rather disruptive. This is true above all when the United States and the major powers in Western Europe have substantial differences of view. Ad hoc consultations in a flexible and non-institutionalized manner would seem more desirable, primarily from the point of view of avoiding diplomatic posturing and public commitments.

3. THE LIMITS OF INTERDEPENDENCE

The United States provide military security to Western Europe. She cannot guarantee economic security. The concept of interdependence reflects compartmentalization. Military interdependence does not translate into economic interdependence nor does the latter elicit the same policy rationality as the former. While the Western industrial states obviously share a great deal of economic interdependence on the macro-economic level, that very interdependence provides numerous occasions for rivalry and conflict in specific connections. Preferential access to energy resources could provide a basis for comparative economic and political advantages which could be exploited for the furtherance of national objectives precisely because of the condition of economic interdependence. Outside of the interest in collective security which the NATO states have in common, each of them will preserve

their own interests, a desire for autonomy and a national perspective on the stakes and risks of any given situation which does not directly challenge the integrity of the collective security arrangement as such. There is little transitivity across functional fields with respect to interdependence. However, that does not mean that countries may not attempt to trade-off assets and concessions across issue areas. But such bargaining could weaken rather than strengthen alliance cohesion in the area for which it is structured, i.e. military security. A policy on part of the United States to make specific security commitments dependent on European concessions in the economic and energy fields would not only accentuate competitive behaviour, it would run the danger of constructing a sharpened contradiction between the European Community and the Atlantic Alliance.

The International Energy Agency constitutes an important institutional innovation designed to provide a forum for the coordination of energy policy among the industrial states. It is important that the organization function in several dimensions so as to maximize the disincentives to break out in spite of disagreements with the consensus view in a given area of policy-making. The IEA was

established for purposes of improving bargaining power in the oil-market and provide deterrence to boycot and substantial price increases. It may turn out to become a vehicle primarily for resource management and more equitable distribution also from a global perspective.

Initially negotiations focused on the rules for crisis behaviour. The semi-automatic decision procedures, outlined in what is one of the most poorly drafted major international agreements equalled only in recent years by the SALT-I agreement, were designed to maximize deterrence. They may become the source of friction and resentment if they ever be implemented under conditions in which political assessments diverge as much as they did among the NATO allies in 1973. However, should that situation occur, compromise high-policy decisions may come to substitute for automatic implementation. The latter seems likely to prevail only under circumstances of manifest agreement. Interests in maintaining the IEA are likely also to moderate policy differences. Finally, with respect to the Middle East the United States have since 1973 implemented what amounts to a basic change of policy in the direction of a more even-handed position. Should the peace-making effort break down, however, the Arabs may

once more turn against Washington and thus confront the West European states with difficult choices.

4. NON-TRADITIONAL CONFLICTS

The problem of extra-European conflict has been a recurring one on the NATO agenda. Algeria and Vietnam constitute the two primary examples of conflicts in which major NATO powers were engaged and received serious criticism and political opposition within the NAC. The Portuguese colonial wars in Africa provide similar examples. Nevertheless, it seems obvious that the security interests of the alliance may be affected by developments outside the areas for which the NATO commands have operational responsibility. In recent years the demands for joint attention to securing the maritime sea lanes of communications (SLOC) south of the Tropic of Cancer, particularly in the Indian Ocean and around the horn of Africa, have become more frequent. SACLANT has been asked to study the problems, but he is not permitted to engage in contingency planning in his capacity as a NATO commander. There are residual suspicions of imperialist policies, particularly in the smaller alliance states, and a reluctance to become committed in conflicts in which their

interests are not immediately at stake and where the ideological context could generate serious domestic opposition.

It seems quite possible that a similar differentiation in the assessment of interests and risks may arise also with respect to contingencies in Europe which do not grow directly out of the East-West confrontation. The conflict between state and society in Southern Europe and the possibility of a series of succession crises being superimposed on a volatile social order may provide occasions for competitive interventions which could prove politically divisive in the Western alliance. The East-West detente is accompanied, it appears, by a complex mosaic of novel instabilities which in some instances are only recently novel as they bear a strong resemblance to the dominant scenarios of 1947-49. As the primary threat of direct Soviet military attack recedes alliance cohesion becomes more difficult to maintain, particularly within the structure of decision-making designed to deal with maximum Soviet threats. The issue arises whether procedural innovations will not be needed for purposes of dealing effectively with non-traditional contingencies posing less than a clear cut challenge to the structure

of security in Europe. In this perspective the 1973 crisis constitutes a precursor of a systemic challenge to the established processes of alliance consultation and decision-making. I shall return to this matter below, because it is necessary first to consider some of the other changes in the security environment which were brought to light or suggested by the 1973 crisis.

5. THE NEW MILITARY TECHNOLOGIES

Much has been written on the military lessons of the Yom-Kippur war. The impact of precision guided anti-tank weapons (ATW) and surface-to-air missiles (SAM) have been analysed and scrutinized and I shall not attempt to duplicate such efforts here. For our purposes certain broad conclusions will suffice. It seems clear beyond doubt that a broad spectrum of new military technologies will have a dramatic impact on military planning and operations in the years ahead. The great improvements in guidance technology, surveillance capabilities, data handling systems, tailored weapons effects and versatility of weapon delivery will cause important changes in the NATO posture in the years ahead. The nuclear emphasis is likely to be softened. Most of the alliance countries are likely to obtain an improved capacity for initial response and thereby also for establishing the initial

rules of engagement. The capacity to deal with limited contingencies in limited and measured ways is likely to widen. Such developments are bound to affect intra-alliance relationships, perhaps almost as dramatically as the advent of nuclear plenty and nuclear parity.

The Yom-Kippur war did not only demonstrate the high efficacy of ATW's and SAM's in single engagements, it showed also how some of the new technologies imply an intensified expenditure of munitions. The high rate of munition consumption accelerated the advent of a need for resupply. On October 13th the US initiated a large scale resupply of Israel. The US attempt to make NATO signal clear dissatisfaction with Soviet behaviour brought about considerable confusion. That confusion was compounded by the announcement of the world wide US alert on October 25th. The Europeans were concerned about the dangers of escalation. The Arabs and the Israelis became painfully aware of their increased dependence on external sources of munition supplies. Control of supplies could be exploited for purposes of exercising pressure. The problem of supplier collusion could not be ignored.

But a rapidly occurring need for resupplies caused problems for the suppliers as well. The stocks were not invariably plentiful; and they were not all available without political cost as the US discovered when Washington wanted to draw down stocks in West Germany for purposes of resupplying Israel. Here we are at the core of an important dilemma: Prestocking of equipment for US forces constitutes an important measure of insurance for NATO countries in Europe for purposes of enabling the rapid transfer of effective trans-atlantic reinforcements and sustained combat effectiveness of the US troops committed to battle in Europe. However, if the US is unable to draw on such stocks in the event of extra-European engagements they become essentially frozen assets limiting the American freedom of manoeuvre. For the Europeans stocks upon which the US can draw freely may on the other hand represent rising domestic political costs associated with US global engagements. The asymmetry in roles and functions between the US and her European allies may thus generate renewed tension in the context of future contingencies.

The need for rapid resupply also made acute the question of access to allied areas and facilities, such

as air space and air fields. In the 1973 crisis only Portugal was willing to cooperate with the US in its resupply effort to Israel. In future the government in Lisbon may take a different stand. Other conflicts generating a differentiated assessment of interests and risks may impose similar or even more troublesome geographical constraints on the resupply effort.

In spite of the extensive US airlift to Israel in 1973, involving more than 500 sorties, 70% of the total tonnage was moved by sea. Hence, we are once again confronted with the importance of being able to secure the SLOC's. The rising power of the Soviet Navy may give rise to possible scenarios of harassment and competition in risk-taking with respect to interposition and penetration. The naval primacy of the superpowers will emphasize their controlling position with respect to the course of conflicts requiring external resupplies of substantial proportions.

6. TOWARDS PROCEDURAL FLEXIBILITY

It seems clear, as suggested above, that the members of the alliance will have to find ways of coping with challenges of a more limited but politically more complex

nature than the design contingencies around which the alliance has been structured in the past. I am not arguing, of course, that the contingency of a major Soviet assault in Central Europe or more limited attacks on the flanks should be forgotten. They will remain the focal points of defense planning in NATO, and most properly so. But what is needed are additional procedures for coping with more diffuse challenges which will affect the interests of the alliance states in differentiated ways.

What will be needed is a flexible response mechanism which will enable some allies to act in concert even in the absence of general agreement in the alliance without jeopardising the cohesiveness of the alliance with respect to East-West conflicts in Europe. Rather than establishing a permanent three power directorate, we may envisage a system of shifting and multiple task forces of alliance states studying possible options with respect to non-traditional contingencies. There is a serious danger here that the alliance structure will weaken as a result of alliance related contingency planning proceeding outside the alliance. Those who are not in on the process may develop suspicion about being unwillingly committed

and, alternatively, seek a seat in the deliberations for purposes of blocking undesirable plans and actions. There are no ways of avoiding the dilemmas posed by the need for both flexibility and cohesion.

The approach should focus on concrete problem solving rather than raise matters of principle and proposals for structural reform. A system of multi-bilateral and limited multilateral study groups the results from which will be chanelled into national bureaucracies would seem to constitute a promising approach. Decision-making in an actual contingency would remain a national responsibility. What is needed is a mechanism for injecting the perspectives and interests of allies into the process of policy planning and decision-making in each of the memberstates. The study groups could focus on specific bilateral issues and also on broader parameters such as possible contingencies and future technological options. The United States would be a key node in any system of multiple bilateral study groups. I have in mind a broader pattern of joint exploration of future issues than what is presently encompassed by the European bilateral staff-talks.

For the Europeans it is particularly important to provide inputs to US decision-making prior to the crystallization of American positions. The latter are very hard to unscramble once they have been bargained out. It has been suggested that the European NATO countries establish an Atlantic Security Studies Group in Washington. However, such a multilateral undertaking would constitute primarily an adjunct to US decision making and be swamped by the latter. A more flexible and less institutionalized informal program of structured communication and assessment would seem more tailored to the needs of the present. The approach needs to reflect also the potential need to deal with issues on which joint action by the whole alliance or even concerted perspectives on what ought to be done are unlikely to emerge. The program I have sketched would not produce decisions but rather provide some of the framework for decisions on the national and alliance levels.

Many of the contingencies which may arise in the years ahead will reflect economic and social instabilities. The framwork of security policy making will change. But any attempt to give NATO major functions

in areas not directly relevant to military security will lead to paralysis at best and would run the danger also of producing serious disintegration. What is needed are procedures and structures capable of maintaining both flexibility and cohesion. We should recognize the limitations of pragmatism. NATO is no longer obviously responsive to the domestic problems associated with the governability of democracies. The European Community is likely to become an important arena for innovative policy making precisely because its area of attention coincides with the domestic priorities. With the advent of detente and pluralistic communist strategies the external challenge no longer suffices as a structuring premise for western cooperation. There is a need for coherent structures, and pragmatism with respect to security related contingencies will succeed only in the event that the industrial states of the west manage to create some stable framework for the management of economic interdependence, and concert on the basic outline of the policies to be pursued vis-a-vis each other as well as with respect to the outside world. A joint framework and policy perspective with

respect to the economic order will facilitate the implementation of non-disruptive limited response options to crises which affect NATO security in an indirect way.

3

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KH/RAB

Rec'd & recorded 17-11-75

12th November 1975

Dr. Judith D. Trunzo,
Project Coordinator,
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120 rue de Longchamp,
75116 Paris.
France.

Dear Miss Trunzo,

Here is my paper. I am sorry that it is late but, as you know, I had to stay away for a few days and so got behind.

I did not find it easy to write and so it may not be entirely what you wanted. Perhaps though it will be sufficient as a vehicle for discussion.

Yours sincerely,

Brigadier K. Hunt
Deputy Director

Incorporated in England with limited liability under No. 615259

THE MIDDLE EAST & EUROPEAN SECURITY

INTRODUCTION

By KENNETH HUNT

European Security

First, a few words about European Security, just to give perspective. Political and military security is largely provided by the North Atlantic Alliance and NATO, in other words by the link between West Europe and the United States. Economic - and a measure of political - security is provided, as far as it can be by West Europe itself, largely by EEC, but there is linkage between the economic and the politico-military. The Atlantic relationship is obviously important in the economic field, if not so central as in the military.

Though there are stresses in the North Atlantic Alliance from time to time, on the whole they seem manageable because the alliance arrangements are seen by most governments as providing the best and cheapest form of defence available to them under present circumstances. But this does not mean that there are not many occasions when national aims or actions are unwelcome to allies; French policy in Algeria, or that of the United States in Vietnam are two examples. Though these clashes set up strains they are not normally sufficient to weaken

adherence to the Alliance since the claims of European defence either over-ride the issue or can be separated from it. Exceptions to this rule have been the withdrawal of France from NATO and the various conditions set by Greece and Turkey, as a result of the Cyprus dispute, over the assignment of forces to NATO and the use of bases by NATO or the United States. A serious clash of interests was that between most West European countries and the United States at the time of the October War, in which the whole purpose of the Alliance was called into question by some commentators in the United States.

NATO AND THE MEDITERRANEAN

So the broad aim of NATO, the containment of the Soviet Union, has not required the endorsement of national foreign policies except, and not always then, on clearly East-West issues. Though member countries may have been critical of others the Alliance as such has had no standing in most of the disputes and has therefore taken no action. A partial exception was the use of the good offices of the NATO Secretary General in the dispute between Greece and Turkey, in an attempt to avert war between two member states.

The Alliance benefits, of course, from national deployments in the Mediterranean area, as for example those of Britain in Cyprus and Gibraltar or the US 6th Fleet in the Eastern Mediterranean, while in no way endorsing national policy connected with such deployment. Indeed NATO accepts that some forces, navies in particular, which it may expect to have assigned in war will be used for national purposes in peace-time within the NATO area. And obviously certain countries have a special role in the Alliance, notably the United States. The strength of the 6th Fleet, the strong political, budgetary and other links, such as national bases, that the United States has with Greece and Turkey (and also with Spain, not a member of NATO but whose territory is effectively used on its behalf) give the United States a special place in the region. It is not too much to say that the United States has been the cement between those countries in the Centre not physically represented in the Mediterranean, and the South-Eastern flank. When looking at the relationship between European security and the Mediterranean, the United States inevitably looms large now that Britain and France have largely withdrawn from active involvement in the Middle East.

The United States & Israel

Nowhere in the Mediterranean has US influence loomed larger than in Israel. For a long time before the October War, American support of Israel has tended to polarise relationships in the Eastern Mediterranean. This support, given for good moral and domestic political reasons, in effect handed over on a plate to the Soviet Union that part of the Arab world involved in the conflict with Israel. It was always arguable that this policy was against both American and West European interests. The American economic stake in the Arab world was actually and potentially far greater than any comparable interest in Israel. The territory of the Arab countries that were alienated, along the southern shore of the Mediterranean or in the crescent around the south of the Soviet Union, was of great strategic importance to NATO and the USA. The one-sided support of Israel encouraged and enabled the Soviet Union to gain a foothold in such areas, that permitted of NATO being outflanked.

The October War and the accompanying oil boycott brought first a clash of interest between the United States and most of her European allies and then a modification of American policy. The clash was precipitated by the

unwillingness of most of the West European countries to permit American emergency re-supply flights to Israel to use their territory, bringing accusations from the United States that her allies could not be counted on in the confrontation with the Soviet Union.

The policies of the Western Europe states were somewhat differentiated but in general, because of the threat of the oil boycott to their economies, they shifted their political weight towards the Arabs, refusing to support American policy. (The Netherlands was a notable exception but was cushioned against the effects of her stand by the ability of the oil companies to divert to her supplies of non-Arab oil). As Karl Kaiser has put it: the United States provides military and political security for West Europe; what it cannot provide is economic security; when forced to choose between support of the United States (and Israel) and the Arabs, West Europe chose the Arabs.

This split between the Atlantic allies was clearly not for the health/security of european yet it could be argued that for European states to do the American bidding would not only risk economic disaster for them and thus military weakness, it would also strengthen the link between the

Soviet Union and the Arabs which would work against the real interests of European security. While the United States felt embittered by the failure of her allies to give support in what she claimed was an East-West dispute it is highly debatable whether such a claim was valid. West European policies may have been expedient, but in fact they worked to strengthen the West and undercut the Soviet Union.

Indeed the United States has now in effect accepted this reasoning by changing her own policy to a more even-handed one as between Israel and the Arabs. She has achieved a rapprochement with Egypt and gives strong support to Saudi Arabia and to other Gulf States. Henry Kissinger's diplomacy has worked against the Soviet Union and harmonised American policies with those of Europe. The potential embarrassment of having to ask to use European territory for any future emergency re-supply has no doubt been substantially removed by extensive restocking of Israel's armoury.

If American policy is successful in maintaining a strong link between Saudi Arabia, the financial centre of gravity and an important political centre in the Arab world, and Egypt and also exercising pressure on Israel

to make concessions in negotiation, no gap need reappear between American interests and those of West Europe and European security. There may, of course, be setbacks. The Egyptian interim settlement may not stick if it is not followed by political moves on other issues, much less tractable, such as the Golan Heights, or the Palestinian problem and Jerusalem. Or if the interim agreement does stick, Egypt may become isolated from part of the Arab world, which would then turn to the Soviet Union more strongly. How big a part of the Arab world this would be is another matter. Syria, Libya, and the Palestinians no doubt, probably Iraq. But even then something would have been gained in terms of the Western position, as distinct from furthering a settlement of the Arab-Israel problem as a whole. Without such a settlement there will always be risk of war.

Now that American policy has changed, American support of Israel, though still complete as to the commitment to Israeli survival will be more conditional in its willingness to underwrite Israeli government views on negotiation. If there was a reversion to the former policy, thus strengthening the Soviet hand once more, European security would be harmed. Harmed in terms of the

military advantage that would accrue to renewed Soviet access to Arab bases and territory and to the political influence with the Arabs that would be gained.

The October War started because the Arabs were dissatisfied with the political status quo and saw war as the best means of changing it. The military cost was high but they accepted this and succeeded in their political aims. Israel is now militarily relatively stronger than in October 1973 and so can make the cost of a new war even higher - but may not be able to make it too high if the pace or degree of political movement is considered inadequate by the Arabs. What then if war does occur? The US would be bound to intervene if there were any danger of Israel being defeated. European countries have also always been committed to the survival of Israel, but short of this extreme contingency they are now more clearly ranged on the side of a return by Israel to the pre-1967 boundaries. It is probable however that any division between the United States and Western Europe would be far less deep this time. The United States would now be more anxious to avoid a break with the Arabs and to allow the Soviet Union to regain influence.

Though any new war might bring a use of the oil weapon (or of petro dollars) again, it might be less useful in driving a wedge between the North Atlantic Alliance members. But if the oil weapon were used it would be harder to make it bite on the United States than on West Europeans, so indiscriminate use could well be contemplated for that reason.

CYPRUS

The Cyprus conflict is unique in being between two Alliance members, Greece and Turkey, and of concern to a third, the United Kingdom, as a co-guarantor under the Treaty of the Cyprus Constitution. NATO and the United States are drawn in as well because both have military facilities in Greece and Turkey, the denying of access to which has been used to give political leverage on them.

NATO and European security is obviously weakened by a clash between two member states and the resulting constraints placed on the use of facilities or the assignment of armed forces to the Alliance. Greece, in the unhappy position of being unable to reverse by force the Turkish military gains in Cyprus, announced her intention of withdrawing from NATO's integrated military alliance

in the hope of thereby having pressure brought by other members on Turkey. She also gave notice that she would expel the United States from US national facilities in Greece and in the Greek islands, so as to get the United States to apply the extra pressure that she was capable of bringing through her role as an arms supplier to Turkey. The powerful Greek lobby in the United States indeed persuaded the US Congress to ban, until very recently, arms shipments, causing Turkey to take action to deny the use of US facilities, an issue only now being re-negotiated. These actions had the additional advantage of strengthening the position of the Karamanlis government internally, since they fulfilled the national need to do something for self assertion (rather as happened in France in 1966, when the unhappy precedent of conditional membership of NATO was set by President de Gaulle).

Greece is obviously in the weaker position of the two. To leave NATO entirely could risk leaving Turkey remaining in and thus in a position to be the favoured nation. Turkey is also in possession of her gains in Cyprus and is militarily more important to the Alliance because of her unique strategic position. Her military facilities are also more important to the United States than those the United States has in Greece. Greek military

strength is weaker than that of Turkey. She is fast modernising her forces but they will have been somewhat demoralised by the events since the Cyprus coup. Greece will have to rely on continual pressure on the United States and NATO and to some extent on the United Kingdom, since she has little other alternative course of action.

The Soviet Union has not in the past supported the Greek case over Cyprus since this might have led to union between the two countries and thus to Cyprus becoming part of NATO. Her preference has been for an independent Cyprus, with a view to weaning the island away from its Western inclination and obtaining the removal of the United Kingdom from the Sovereign Base Areas (used in effect partly in support of NATO). To have supported the Turkish case could have led to a union between Turkey and the Eastern part of Cyprus. This might not be to the Soviet advantage, depending on how such an event occurred. If such a union caused a break between Turkey and NATO it could be in Soviet interests. In general, to work for an erosion of the American position in Turkey and a weakening of the link between Turkey and NATO would seem to be the preferred Soviet policy, but such a <u>renversement des alliances</u> by Turkey seems improbable.

Obviously NATO, the United States and the United Kingdom now have to make all the efforts they can towards a settlement in the Island on the basis, presumably, of federation and territorial adjustments to the present line of division. It is difficult however to see any settlement that will not leave Greece and Greek Cypriots dissatisfied, so there are bound to be frictions yet. The Soviet Union might profit by such frictions but perhaps only to a limited extent. Greece can hardly turn to the Soviet Union as an alternative to NATO or EEC, though the threat of doing so as a tactical bargaining counter could not be ruled out. Turkey could choose the Soviet alternative but is unlikely to, given the nature of her ruling elites and the efforts that NATO and the United States are bound to make to persuade her from such a course. Her territory is too important to the West and her leverage thus too great for her to be driven into such a drastic change of alignment.

There is thus a strong link between the Cyprus dispute and European security, both in the disarray it has caused and will continue to cause in the Alliance, and in the opportunity for the Soviet Union to exploit the Western problems of adjudicating in a dispute between

two members. The link is perhaps a peacetime rather than a wartime problem, since it is hard to see either Greece or Turkey being other than in the Western camp in the event of major war. It is of course militarily awkward in peacetime to have both Greece and Turkey behaving as conditional members of the Alliance and NATO commanders deplore it. The United States could conceivably be faced with costly relocation of facilities and might as a result reduce her presence in the region. The chief blow, however, is a political one and it is difficult to see what can be done about it beyond patient negotiation, on several fronts. The issue is one in which the United States and most of her European allies have broadly similar aims and ideas, though the United Kingdom has separate problems in relation to Greece because of her tenure of the Sovereign Base Areas, in the Greek-Cypriot part of the Island.

OTHER MEDITERRANEAN SECURITY PROBLEMS

Portugal. Portugal is potentially if not actually a very serious problem for European security in the fullest sense, yet it is very hard for her NATO allies to do much about it through NATO, since it hardly calls for military measures. It is not easy for her neighbours to influence events either;

to interfere in internal events, however volatile and unpredictable, may be to risk their taking a course in an unwanted direction. Careful diplomacy, both nationally and by EEC, seems about the limit for the time being. The country is in or on the brink of economic chaos and economic help is undoubtedly needed. This is clearly the most useful mechanism for endeavouring to keep Portugal in the Western community of nations, if a suitably democratic form of government is promised and is capable of using aid effectively. If the choice were made by a Portuguese government to withdraw from NATO and throw in its lot with the East, then the problem would be different and efforts have to be devoted to seeing that Western security interests were not damaged more than inevitable. If the Soviet Union attempted to exploit the change, by establishing for example, naval facilities in the country, it would have to be made clear that this would be regarded as a hostile act. Made clear by the United States in the context of bilateral relations and détente; by Western signatories to Helsinki; and, I would suppose, by the EEC. Economic aid to a moderate,pluralistic Portuguese government seems a desirable way of helping prevent a slide into chaos from going further, yet this clearly poses political difficulties if that government has strong links with, say,

communist parties in donor countries or with the Soviet communist party. But it seems, on the face of it, a much better alternative than letting such a government fall, to be replaced by a more extreme one on the Right or Left.

Spain. Spain is for the moment a question mark rather than a problem, since it is hard to see what form of government may emerge over the next few years and what influence events in Portugal will have in shaping it. While the United States retains important military bases there (and Rota is important to the maintenance of the 6th Fleet in the Mediterranean) Spain makes its indirect contribution to European security. It would strain the Atlantic Alliance too much to contemplate admitting Spain as a member unless its government changed its colour materially. From a NATO point of view there is no need for it since the Alliance gets what it wants via the American link anyway; only if Spain made it an absolute condition of allowing the use of the military facilities would the question become urgent. Should Portugal withdraw from the Atlantic Alliance, Spain's bargaining position would of course be greater. The dispute with the United Kingdom over Gibraltar, is an element as well however, which would presumably have to be settled at the same time.

The public awareness of the chaos in Portugal may make for a more stable transition in Spain than might once have been expected and Spain drawn closer to the West than it has been. The odds against it moving towards the East seem very much higher. There seems no real security threat here for the time being at least.

Malta. Malta is a recurring irritant because of the threat, implicit or otherwise, to allow the Soviet Union a foothold in the Island. The Soviet Union would obviously like this for both military and political reasons. Military because it would afford a convenient operating facility for the Soviet navy in the Western Mediterranean and, most important, an air field for maritime surveillance. Political because Malta has hitherto been a Western bastion. How real is the threat to allow such facilities is another matter, but United States is very sensitive to an increase in the Soviet naval ability to operate west of the 6th Fleet's main area of interest and near Naples. Italy and the Vatican are unhappy at the idea of a communist presence in a catholic country so near. So the Alliance has had to buy off Malta by one means or another. There is no military need for the island but it is important to keep the other side out of it.

Italy. The Italian problem, of a powerful communist party and political and economic instability, has been with us for a long time. Italy seems to have devised a political system capable of a continual precarious balance just this side of disaster. Events in Portugal may, however, have some electoral effect in the future; the communist party in Italy can hardly have welcomed some of the manifestations in Portugal.

This is a problem of security in the sense that the continual uncertainty makes for a lowered confidence in the Alliance, but also because the attitude of the communist party towards NATO and towards defence, however benign at the moment, is unlikely to become more favourable and could very well be much less so in the future. What effect this would have on Italian defence policy is hard to say but it is unpredictable and so disturbing. This is not something which NATO can easily address itself to, but a problem of internal political organisation for Italy and for economic and political co-operation and co-ordination with Italy via the EEC and other bodies.

Yugoslavia. Just as there is a question mark about the succession in Spain so is there, unspoken or otherwise, about Yugoslavia, with the added ingredient of speculation about the role that the Soviet Union might play in influencing

the form of a future government. If a new government made a marked shift in alignment towards the Soviet Union and this occurred peacefully, there would be little case for the West to do more than deplore it. If it were the result of external interference or pressures that would be another matter, particular if elements in the government appealed to the West for support.

It is not the purpose here to write scenarios about Jugoslavia and many people there insist that there is no problem; peaceful transition is assured. If that turns out to be the case, fine. If not, the post-Helsinki balance in Europe would be disturbed and diplomatic action would no doubt be taken as a result. In an extreme case, if military aid or supplies were requested, it is probable that NATO would find the problem difficult to agree upon other than on a very cautious, lowest common denominator basis. Effective action, military and diplomatic, might therefore have to be taken by those national governments robust enough to take decisions. The United States would be the key country, diplomatically because of her special leverage on the Soviet Union and militarily because of her ability to help with supplies and with the local means of transporting them. West European countries would no doubt attempt to concert their political and economic policies via EEC.

THE UTILITY & SCOPE OF INSTRUMENTS

It is clear that while the North Atlantic Alliance, as a political forum which includes the United States, has a considerable role to play in bringing about consultation, or hammering out or co-ordinating policies and national attitudes on all of the issues mentioned above, it is much less likely to take action as an Alliance, much less through the military expression of it, NATO. Political problems such as in Portugal, Spain, Italy or Yugoslavia are not really appropriate or susceptible to military action and to attempt to use the Alliance in, for example, the Portuguese case would be to give it an East-West character at this stage best avoided. And the Alliance rarely has any standing in issues which touch its members nationally even where there is a dispute between them. Even as a mediator it may well concede place to the United Nations, as in Cyprus. In general it is individual nations that take action. If actual military moves are required, or tension calls for precautionary measures, that is something else. Here NATO is the right mechanism, once the line between political and military action is to be crossed and has been agreed upon. If it is not agreed upon, individual nations may of course decide to take action themselves. There are ample precedents for this.

Political decision in EEC seems likely to be more relevant to the range of problems discussed here, partly because some have a West European as well as a European security angle, partly because diplomatic or economic action on a West European scale may be more appropriate and have the force that political consultation in NATO cannot have. The political importance of an agreement such as that between Israel and the EEC is evident. Decisions on energy, which are intimately bound up with security in the widest sense, political, military and economic, are in the first instance a matter for EEC consultation and co-ordination, whatever other forum might eventually be utilised.

All this is not to say that the political consultative role of the North Atlantic Alliance does not have an important place as an Atlantic forum or for developing strategic or military policies and implementing them. And bodies such as the Eurogroup or other unofficial outgrowths of defence consultation can be used in specific fields. An obvious example is the co-ordination of military equipment requirements and defence procurement in Western Europe or between West Europe and the United States. On occasion WEU could be a forum or a device for dealing with a particular issue. What does seem

plain however is that as political consultation in EEC grows, many West European political and economic views and decisions will be harmonised there. Mediterranean security problems, often in essence political or politico-economic, may as often as not find their real discussion in EEC where there is a definable West European rather than Atlantic content in them.

LE CONFLIT DU MOYEN-ORIENT, LA CRISE DE L'ENERGIE ET LEURS IMPLICATIONS POUR LA SECURITE DES PAYS D'EUROPE OCCIDENTALE

Jean Klein

Le rôle des Etats-Unis et de l'U.R.S.S. comme pourvoyeurs d'armements pendant la guerre d'octobre 1973 et le recours à l'arme du pétrole par les pays arabes ont eu un impact considérable sur la conduite des hostilités et sur les procédures employées pour y mettre un terme. Ultérieurement, l'augmentation du prix des hydrocarbures décidée par le cartel des pays producteurs a manifesté avec éclat la dépendance, voire la fragilité des économies occidentales dont la prospérité reposait sur la fourniture d'énergie à bon marché. Il en est résulté des perturbations graves dans l'ordre économique mondial, et un reclassement des Etats en fonction de leur capacité à relever le défi qui leur était lancé par les pays de l'O.P.E.P. Si les Etats-Unis et l'U.R.S.S. n'ont guère été affectés par la "crise de l'énergie", soit parce qu'ils disposaient de ressources propres, soit parce qu'ils contrôlaient les mécanismes du recyclage des excédents pétroliers, il n'en a pas été de même pour leurs alliés dont la situation était beaucoup plus vulnérable. En outre, comme la dépendance des pays européens en matière énergétique était très variable, c'est en ordre dispersé qu'ils ont tenté de résoudre les problèmes auxquels ils étaient confrontés. Et l'on peut dire que ce facteur, ainsi que la création de l'Agence Internationale de l'Energie, ont exacerbé les contradictions au sein de la Communauté Economique Européenne et

compromis la recherche d'une solution concertée.

Sans sous-estimer la dimension universelle des problèmes soulevés par la crise de l'énergie et sans nier la nécessité d'une réponse globale qui tiendrait compte de l'interdépendance des acteurs internationaux, force est de constater que c'est surtout sur une base nationale que les initiatives les plus marquantes ont été prises. Pour réduire l'impact de l'augmentation du prix du pétrole sur leur balance des paiements, les pays européens ont eu recours à divers moyens dont l'efficacité s'est révélée plus ou moins grande à court terme et dont les effets sont problématiques à moyen et à long termes. Ainsi les économies d'énergie volontairement consenties ont été insignifiantes et si la consommation au cours des deux années écoulées est légèrement inférieure à celle des années précédentes, cela s'explique par un hiver moins rigoureux et le ralentissement de l'activité économique[1]. Par ailleurs, des programmes tendant au développement de l'énergie électro-nucléaire se heurtent à des oppositions dans la plupart des pays qui ont pris cette option et leur mise en oeuvre ne se traduira par des résultats tangibles qu'au milieu de la prochaine décennie. En attendant que d'autres sources d'énergie aient pris le relais, les pays européens restent donc tributaires du pétrole et dans l'immédiat leur souci a été de ne pas heurter de front le cartel

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(1) V. The Economist, 4 octobre 1975, p. 90 : "Energy conservation : still burning it up".

des producteurs et de compenser par un accroissement du volume des exportations le quintuplement du prix du pétrole intervenu en 1973-74.

C'est dans ce contexte que s'est amorcé le dialogue euro-arabe et que fut entamée la préparation d'une conférence internationale en vue de réglementer le cours des produits énergétiques et des matières premières en général. Si le succès de ces entreprises est loin d'être assuré, le fait qu'elles aient été lancées a contribué à détendre l'atmosphère et la voie ainsi ouverte peut déboucher sur un aménagement des relations entre pays producteurs et consommateurs. D'ailleurs les contradictions au sein de l'O.P.E.P., en septembre 1975, lorsqu'il s'est agi de fixer le taux d'une nouvelle augmentation du prix du pétrole et notamment la position adoptée par l'Arabie Saoudite, justifient une appréciation moins pessimiste de la situation des pays européens qui seraient, à en croire certains, à la merci des moindres variations d'humeur du cartel des pays producteurs. En outre, l'accord égypto-israélien négocié par M. Kissinger pendant l'été de 1975 a introduit des données nouvelles dans l'énoncé du problème dans la mesure où le danger d'une confrontation militaire au Moyen-Orient s'éloigne et où les menaces qui pesaient sur la sécurité d'approvisionnement des pays européens s'estompent.

En revanche, l'incidence de l'augmentation du prix des hydrocarbures sur l'équilibre de la balance des paiements des pays consommateurs a conduit ceux-ci à intensifier

leurs échanges avec les pays producteurs et à conclure avec eux des accords de coopération en vue du développement de leurs ressources et de la modernisation de leur société. Cette évolution, souhaitée par les deux parties, n'aurait que des effets bénéfiques si le matériel de guerre ne constituait une part importante des livraisons de biens d'équipement aux Etats de la région. Ainsi, l'accumulation d'armements dans la zone du golfe persique suscite l'inquiétude compte tenu des conflits latents et des différends entre Etats de la région. En outre, le conflit israélo-arabe reste ouvert, et si l'on se fie aux informations parues dans la presse américaine, le réglement partiel conclu en septembre 1975 est assorti de promesses relatives à la livraison d'armes sophistiquées aux ex-belligérants. Enfin, la plupart des pays arabes et des Etats du golfe persique se soucient de diversifier leur approvisionnement de matériel de guerre en ayant recours à plusieurs fournisseurs, ce qui favorise la concurrence commerciale et offre des possibilités d'action à certains pays européens. Certes, le Moyen-Orient est depuis longtemps le champ clos d'une compétition acharnée entre les industriels de l'armement, mais la tendance a été exacerbée à la fois par les disponibilités financières des pays producteurs de pétrole et l'impératif de l'exportation qui s'impose aux pays consommateurs. La course aux armements qui s'y développe mérite donc un examen attentif non seulement du point de vue de la sécurité des pays qui y sont engagés, mais également de celui des relations intra-européennes, euro-arabes et euro-atlantiques.

La promesse de vente de réacteurs nucléaires à des pays arabes et à l'Iran a également provoqué des réactions négatives, surtout aux Etats-Unis, où l'on craint que de telles transactions favorisent la prolifération des armes nucléaires. Théoriquement ces craintes sont justifiées dans la mesure où les éventuels acquéreurs ne sont pas tous partie au traité de non-prolifération (TNP) et que le système de contrôle de l'Agence Internationale de l'Energie Atomique (A.I.E.A.) n'offre pas de garanties absolues contre le détournement de matières fissiles à des fins militaires. Par ailleurs les informations scientifiques nécessaires pour fabriquer l'explosif nucléaire sont quasiment tombées dans le domaine public et, moyennant un minimum d'infrastructure industrielle, il est relativement aisé d'accéder à l'arme atomique. Pratiquement la situation est moins dramatique car les producteurs d'équipements et de combustibles nucléaires disposent de moyens de persuasion qui ont pour effet de pallier les carences du système de garanties de l'A.I.E.A. et sont susceptibles de refréner les ambitions nucléaires de certains Etats. En outre, comme ils sont conscients des inconvénients d'une prolifération anarchique des armements nucléaires, ils subordonnent généralement la vente des réacteurs à l'acceptation de dispositifs de contrôle souvent plus contraignants que ceux prévus par l'Agence de Vienne. Le débat qui s'est instauré aux Etats-Unis à propos des promesses faites par le President Nixon, en juin 1974, de vendre un réacteur nucléaire respectivement à Israël et à l'Egypte a mis en évidence cette préoccupation des autorités américaines et si l'affaire n'a pas

encore été conclue, c'est sans doute en raison des réticences d'Israël à l'encontre d'un contrôle étroit de l'ensemble de ses activités nucléaires.

Une autre considération, sans doute déterminante, est la concurrence commerciale à laquelle se livrent les industriels des 7 grands pays producteurs d'équipements nucléaires, (Canada, Etats-Unis, France, Grande-Bretagne, Japon, République fédérale d'Allemagne et Union soviétique). Ainsi on a expliqué la décision du President Nixon de vendre des réacteurs à l'Egypte et à Israël par la volonté de couper l'herbe sous le pied des Français et des Allemands qui avaient également répondu à un appel d'offres. Par ailleurs, on laisse entendre que pour enlever un marché, les vendeurs d'équipements nucléaires pourraient ne pas exiger de leurs clients le respect de la clause d'affectation à des fins exclusivement pacifiques, imputation qui est souvent proférée gratuitement à l'encontre des firmes françaises. Quoi qu'il en soit, le développement de l'énergie électro-nucléaire et les ventes de réacteurs posent des problèmes particuliers de sécurité et il y a lieu de leur accorder une place dans l'analyse des implications de la situation conflictuelle au Moyen-Orient, d'autant que la guerre d'octobre 1973 a mis en évidence les risques d'une trop grande dépendance par rapport au pétrole et stimulé la recherche de substituts, notamment en direction de l'énergie nucléaire qui offre à cet égard les solutions les plus attrayantes. C'est donc sous l'angle des ventes d'armes et

du transfert de la technologie nucléaire que nous tenterons d'apprécier la politique des puissances occidentales dans la région, étant entendu que les démarches des pays européens ne sauraient faire l'objet d'un traitement sélectif et que leur sens est éclairé par la politique globale des Etats-Unis, voire par la concertation soviéto-américaine pour éviter l'ascension aux extrêmes de conflits locaux.

I. Crise de l'énergie, réacteurs nucléaires et risques de prolifération

Le conflit du Moyen-Orient et son incidence sur la politique énergétique des pays importateurs de pétrole n'ont fait qu'accentuer une tendance dont les signes étaient perceptibles avant la crise. En effet, dans la plupart des pays européens, le choix en faveur de l'électricité nucléaire et le développement de l'infrastructure correspondante sont antérieurs aux évènements d'octobre 1973 et aux décisions de l'OPEP. En France, par exemple, le programme d'implantation de centrales nucléaires rendu public en 1974 s'inscrivait dans le fil d'une politique menée avec constance depuis le début des années 60[(2)]. Bien entendu, le renchérissement du pétrole a confirmé la pertinence d'un tel choix et depuis lors des considérations économiques et politiques ont incité

(2) V. l'article de MM. Albouy et Bessière : "Le tournant nucléaire d'E.D.F. était annoncé depuis 15 ans", Le Monde, 8 juillet 1975.

de nombreux pays qui ne songeaient pas au nucléaire à s'engager dans la même voie. Même des pays exportateurs de pétrole ont entrepris de se doter de centrales nucléaires, pour ménager la transition vers l'âge où les réserves d'hydrocarbures seraient en voie d'épuisement (ex. de l'Iran).

Avec l'accroissement du nombre des clients potentiels, les pays producteurs d'équipements nucléaires se trouvent engagés dans une compétition qui débouche souvent sur un affrontement entre entreprises américaines et européennes. Du fait de la subordination étroite de la stratégie commerciale des firmes aux impératifs politiques des Etats, il en résulte des frictions, voire des conflits dont le plus significatif est celui qui a surgi entre la R.F.A. et les Etats-Unis à l'occasion de la vente d'un cycle nucléaire complet au Brésil. Quant à la France, on lui reproche souvent outre-Atlantique un certain laxisme en matière de contrôle des équipements nucléaires proposés ou vendus à des pays comme l'Iran, le Pakistan, l'Egypte, la Corée du Sud, le Japon, sans que l'on sache exactement si ces imputations expriment le souci des dirigeants américains de réduire au minimum les risques de prolifération ou réflètent la rancoeur des entreprises américaines vis-à-vis de la concurrence. Quoi qu'il en soit, les autorités françaises ont réfuté les allégations relatives à l'absence de contrôle des équipements vendus et rappelé que les clients des industries françaises se soumet-

taient aux contrôles de l'A.I.E.A.[3].

Certes, on peut émettre des doutes sur l'efficacité du système de vérification mis en oeuvre par l'Agence de Vienne et considérer que les moyens limités dont elle dispose ne lui permettent pas d'accomplir utilement sa mission. Toutefois, ce constat vise moins la politique française que les carences de la réglementation internationale et pour y remédier, il est nécessaire de mettre en place un dispositif plus contraignant que celui qui découle du TNP. C'est la tâche que se sont assignée les représentants des 7 grands pays producteurs d'équipements nucléaires et, au cours de réunions informelles qui se sont tenues à Washington et à Londres en 1975[4], on a tenté de définir un code de bonne conduite pour

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(3) Le démenti apporté le 6 juin 1975 par l'ambassade de France à Washington aux allégations du Sénateur Ribicoff selon lesquelles la France communiquerait au Pakistan, à Formose, à l'Argentine et à la Corée du Sud des informations en vue de la mise au point d'armes nucléaires (Frankfurter Allgemeine Zeitung (FAZ) du 7 juin 1975). Voir également la mise au point du gouvernement français sur la vente d'un atelier-pilote de retraitement de combustibles irradiés à la Corée du Sud dans une réponse à une question écrite de M. Odru (Journal Officiel. Débats parlementaires. Assemblée Nationale du 9 août 1975). La politique française a été attaquée récemment dans un éditorial du New York Times (30 octobre 1975), mais les autorités françaises ont contesté le bien-fondé des critiques émises (le Figaro du même jour).

(4) On trouve des indications sur les réunions des pays producteurs d'équipements nucléaires dans le International Herald Tribune (IHT) : 19 et 27 juin, 24 septembre, 1-2 novembre ; Les Echos du 30 octobre et Le Monde du 6 novembre 1975.

éviter qu'une compétition sans bornes favorise la prolifération des armes nucléaires. Il semble bien que la structure de l'industrie électro-nucléaire et des impératifs d'ordre commercial fassent obstacle au renforcement du système de vérification en vigueur[5]. Cependant, on ne saurait exclure a priori l'adoption de mesures destinées à freiner la prolifération par des actions sélectives sur des points stratégiques (retraitement des combustibles irradiés, par exemple). En l'occurrence, il existe un consensus sur l'objectif à atteindre et bien que la France n'ait pas adhéré au TNP, elle n'a cessé de proclamer qu'elle se comporterait comme si elle y était partie. Il ressort du discours de M. Sauvagnargues à l'O.N.U. en septembre et du communiqué franco-soviétique d'octobre 1975 qu'elle se soucie de garantir la non-prolifération des armes nucléaires par des méthodes plus contraignantes que celles qui sont actuellement en vigueur.

Il serait hasardeux de spéculer sur des politiques européennes communes dans le domaine de l'énergie atomique, bien que des tentatives aient été faites dans ce sens sous l'égide de l'Euratom. Dans le passé, du fait de l'antagonisme entre les agences communautaires et les organismes gouvernementaux, les programmes destinés à promouvoir une politique communautaire en matière de recherche et de

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(5) Voir la communication de M. Bertrand Goldschmidt présentée à un colloque organisé par le S.I.P.R.I. en juin 1973 et reproduite dans "Nuclear Proliferation Problems".

développement n'ont pas abouti à des résultats satisfaisants (90 % des opérations ont été réalisées sur une base nationale). Aujourd'hui, nous entrons dans une nouvelle période qui sera dominée par les impératifs de la production industrielle et de la commercialisation des réacteurs à des prix compétitifs. Aussi les pays européens qui ont opté pour le nucléaire doivent-ils se doter des moyens d'une telle politique et adapter leur appareil industriel aux exigences du marché[6].

A cet égard, leur dépendance vis-à-vis des Etats-Unis pour l'approvisionnement d'uranium enrichi est un handicap sérieux. En effet, elle risque de compromettre le fonctionnement des centrales nucléaires installées sur leur territoire, dans la mesure où les capacités américaines sont insuffisantes pour satisfaire toutes les demandes à partir de 1985[7]. En outre, la vente des réacteurs en serait rendue plus difficile puisque la fourniture du combustible ne pourrait être garantie aux clients. C'est pour remédier à ces carences que les pays européens se sont regroupés en vue de la construction d'installations d'enrichissement d'uranium en France, en Grande-Bretagne et aux Pays-Bas et que se sont constituées les sociétés EURODIF (Belgique, Espagne, France et Italie) et URENCO (Grande-Bretagne, Pays-Bas et R.F.A.). Par ailleurs, la France et la R.F.A. ont entrepris depuis

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(6) Sur ces problèmes, nous renvoyons au rapport de M. Kahn-Ackermann présenté à la 19ème session de l'Assemblée de l'UEO: "Les politiques nucléaires en Europe".

(7) Voir l'étude de M. Victor Gilinsky "Fueling the Western World's reactors : problems and issues" (Juillet 1974). Arms control and foreign policy seminar de l'Université de la Californie du Sud.

quelques années de diversifier leur approvisionnement en recourant aux services d'enrichissement de l'U.R.S.S. Enfin, il est question de créer des usines d'enrichissement dans les pays dont le sous-sol est riche en uranium comme le Canada, l'Australie et la République Sud-Africaine. Ces projets ont déjà suscité l'intérêt de pays du Tiers Monde et notamment de l'Iran qui participe au financement de l'usine de Tricastin[8].

L'annonce en mars 1975 de la suspension de l'exportation de matières fissiles par la "Nuclear Regulatory Commission" américaine a provoqué des remous en Europe et suscité une note de protestation de la Commission de Bruxelles[9]. Le gouvernement français pour sa part n'a pas voulu grossir l'importance de l'incident et y a surtout vu un avertissement et un encouragement à persévérer dans la voie qu'il avait choisie. En réponse à une question écrite de M. Michel Debré, le Ministère des Affaires Etrangères s'est exprimé dans ces termes : "Cette affaire illustre de façon frappante l'importance économique, mais aussi politique qu'il convient d'accorder à l'effort accompli sur un plan national et européen pour établir sur notre continent les installations lui permettant de disposer de sa propre capacité d'enrichissement d'uranium. Cet effort doit d'ailleurs être poursuivi autant pour répondre aux besoins

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(8) Voir "Entreprise", 9-15 janvier 1975, p. 39. Le I.H.T. du 13 octobre 1975 a fait état d'une coopération dans le domaine nucléaire entre l'Iran et la République Sud-Africaine, l'objectif étant toujours une diversification de l'approvisionnement de l'uranium.

(9) Voir "Trente Jours d'Europe", avril 1975.

domestiques français et européens que pour honorer les nombreuses commandes passées par les clients de nos matériels et de nos techniques nucléaires"[10].

Un problème particulier a été soulevé par la vente de réacteurs nucléaires à des pays du Moyen-Orient et du Golfe Persique, compte tenu des risques que comporterait la dissémination de l'arme nucléaire dans une zone aussi instable. En promettant de livrer deux réacteurs nucléaires à l'Egypte et à Israël lors de son voyage au Moyen-Orient en juin 1974, le Président Nixon devait toucher une corde sensible aux Etats-Unis et il s'ensuivit un débat public où toutes les opinions purent se faire entendre et où l'Administration précisa sa politique en la matière. Sans entrer dans le détail de l'argumentation développée par les représentants du gouvernement au cours de hearings organisés par la commission des affaires étrangères de la Chambre des représentants[11], on retiendra que les motivations de la vente étaient essentiellement politiques et qu'en subordonnant la livraison des équipements vendus à des contrôles plus stricts que ceux prévus par l'AIEA, les Etats-Unis prenaient une contre-assurance contre les risques de prolifération tout en renforçant leur influence dans la région.

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(10) Journal Officiel, Débats parlementaires, Assemblée Nationale, 7 juin 1975.

(11) "U.S. Foreign Policy and the Export of Nuclear Technology to the Middle East", 25 juin, 9 et 18 juillet, 16 septembre 1975.

Lors de la visite aux Etats-Unis du ministre des finances iranien, M. Hushang Ansary, on a fait état d'un accord commercial comportant notamment la vente de huit réacteurs nucléaires à l'Iran au cours de la prochaine décennie et il semblerait que l'on se soit montré moins exigeant qu'avec l'Egypte et Israël en ce qui concerne le retraitement du combustible irradié[12]. Dans ces conditions il conviendrait de dépassionner le débat relatif à la politique des pays européens qui n'ont pas remporté les mêmes succès commerciaux dans la région et qui jusqu'à présent n'ont traité qu'avec l'Iran qui est partie au T.N.P.

II. Renchérissement du pétrole, ventes d'armes et conflits au Moyen-Orient

Depuis la guerre d'octobre 1973, les pays du Moyen-Orient et du Golfe Persique ont absorbé la part la plus importante des matériels de guerre offerts sur le marché international. Le phénomène s'explique à la fois par le souci des belligérants de regarnir leurs arsenaux à l'issue d'un affrontement qui avait usé leurs forces blindées et aériennes et par les disponibilités financières des pays exportateurs de pétrole. Ceux-ci ont désormais les moyens d'accrocher à leur panoplie les armes les plus

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(12) "International Herald Tribune", 8-9 mars 1975.

sophistiquées, sinon de se doter d'une force moderne et ils contribuent au réarmement des "pays-frères" moins bien pourvus. Face à cette demande potentielle, les pays industrialisés, tributaires pour la plupart des pays du Golfe pour leur approvisionnement énergétique, trouvent avantage à leur vendre des armes pour se concilier leurs faveurs et réduire le déficit de leur balance des paiements. Tout conspire donc à une accumulation d'armements dans une zone conflictuelle et l'on est en droit de s'interroger sur les risques de l'évolution en cours, aussi bien en ce qui concerne le maintien des fragiles équilibres régionaux que la sécurité dans des aires plus vastes englobant l'Océan Indien et ses riverains, à l'est, la Méditerranée et l'ensemble des pays européens à l'ouest. Notre propos n'est pas de répondre à une question aussi compréhensive, mais d'attirer l'attention sur les traits spécifiques de la course aux armements dans la région et de la situer dans le contexte plus général du commerce mondial du matériel de guerre. A cet effet, il convient de fournir des données sur le volume des transactions, d'indiquer les motivations des parties contractantes - vendeurs et acheteurs - et de mesurer les risques d'une compétition sans frein. Ce n'est qu'au terme d'une telle démarche que l'on peut se prononcer sur les chances d'une réglementation du commerce des armes dans la région par une concertation des principaux fournisseurs.

1. Croissance en volume du commerce des armes

Au cours des deux dernières années, les transactions d'armements dans le monde ont enregistré un accroissement sensible et la tendance à la dissémination des matériels les plus modernes a été largement confirmée. Ainsi le montant global des ventes d'armes dans le monde a été estimé à 18 milliards de dollars en 1974 ce qui représente une augmentation de plus de 550 % par rapport au chiffre de 1964[13]. Les parts des grands pays exportateurs étaient approximativement les suivantes : Etats-Unis (43 %), U.R.S.S. (30 %), France (9 %), Grande-Bretagne (8 %), autres pays (10 %). Si l'on examine le chiffre d'affaires des deux principaux exportateurs occidentaux, les Etats-Unis et la France, on peut faire les observations suivantes :

En 1974, les commandes enregistrées par les Etats-Unis au titre des "foreign military sales" s'élevaient à 8,3 milliards de dollars (chiffre porté à près de 10 milliards, si l'on tient compte de l'ensemble des transactions portant sur du matériel de guerre) ce qui représentait un doublement par rapport aux commandes de 1973. Sur ces commandes, les pays du Moyen-Orient en avaient placé pour 6,5 milliards (dont 3,8 milliards par l'Iran et 2,1 milliards par Israël[14]). Lors d'un hearing organisé par la Commission des Affaires Etrangères de la Chambre des Représentants sur la vente d'un système anti-aérien (Hawk et Redeye) à la

(13) Time , 3 mars 1975, "The World Arms Trade".
(14) IHT, 28 avril 1975, "Arms boom in Mideast keeps US plants busy".

Jordanie, M. Fisher, directeur de la "Defense Security Assistance Agency", avait confirmé qu'en 1974,80 % des armes vendues l'avaient été à des pays du Moyen-Orient[15]. Au cours de l'année fiscale qui s'est achevée le 30 juin 1975, le montant global des ventes américaines s'est élevé à 9,1 milliards de dollars, soit une augmentation de 831,5 millions par rapport à l'année précédente. Les pays du Moyen-Orient se taillent toujours la part du lion bien que l'Iran et Israël aient passé des commandes moins importantes qu'en 1973/74. Elles se répartissent comme suit :

. Iran ..... 2,4 milliards (- 1,3 milliard)
. Arabie Saoudite ..... 1,3 milliard (+ 587 millions)
. Koweit ..... 366 millions (+ 348 millions)
. Israël ..... 863 milliards (- 1,2 milliard)[16]

S'agissant de la France, le montant des commandes en 1974 s'élève à 19,7 milliards de francs soit plus du double de celui de 1973 (9,5 milliards). Elles se répartissent ainsi : 8,70 % (pays de la C.E.E.), 2,10 % (zone franc), 2,40 % (Etats-Unis) et 86,8 % pour le reste du monde dont "plusieurs pays du Moyen-Orient disposant de ressources financières importantes fondées sur leur richesse en pétrole"[17]. Pour l'année 1975, on ne note aucun fléchissement

(15) I.H.T., 18 juillet 1975.

(16) I.H.T., 28 juillet 1975.

(17) Avis de M. d'Aillières sur le projet de la loi de finances pour 1975, N° 1233, Assemblée Nationale, Défense (annexe du procès-verbal de la séance du 11 octobre 1974).

de la demande puisque les commandes enregistrées pendant le premier semestre se chiffrent à 10,375 milliards de francs, soit une augmentation de plus de 36 % par rapport à la même période de 1974. Les livraisons de matériels militaires à l'étranger en 1974 ont représenté environ 3,5 % de l'ensemble des exportations et ~~25~~ 16 % des ventes de biens d'équipement. En outre, on estime qu'en 1975, les exportations représenteront environ le tiers du chiffre d'affaires d'armements contre 17 % en 1971[18]. Pour compléter ce tableau, il faut tenir compte des ventes effectuées par la Grande-Bretagne qui occupe le quatrième rang dans le commerce mondial, sans oublier les vendeurs d'armements d'un moindre acabit qui prospectent également avec succès les marchés du Moyen-Orient, et ce, non sans succès.

2. Les motivations des parties contractantes

Il ne saurait être question d'analyser en détail les facteurs qui conditionnent la politique des Etats engagés dans le commerce des armes, cette question ayant fait l'objet de nombreuses études et monographies. Certes, le flux des armements vers le Moyen-Orient s'explique par référence aux critères traditionnels - gains économiques et influence politique liés aux transactions d'armes -

(18) Entretien avec M. Jean-Laurens Delpech, délégué ministériel pour l'armement - "Défense Nationale", juin 1975.

mais il importe de dégager les traits spécifiques du comportement des acteurs depuis la guerre de 1973. A cet égard, on se bornera à trois séries de considérations.

(a) Du fait du renchérissement du pétrole et du coût croissant de la recherche et du développement militaires, l'exportation du matériel de guerre est devenue un impératif économique pour la plupart des pays industrialisés. Ainsi aux Etats-Unis où l'aide militaire aux alliés et aux "clients" représentait traditionnellement une part importante des livraisons d'armes à l'étranger, on s'est orienté vers la vente commerciale. L'une des manifestations les plus significatives de ce parti pris est la directive du Président Nixon du 20 décembre 1973 relative à la création d'une commission interministérielle pour la promotion des exportations[19]. Une argumentation analogue est développée en France[20] et l'intention déclarée des autorités ouest-allemandes d'assouplir la réglementation du commerce des matériels de guerre procède du même esprit[21].

(b) Par-delà la diversité des motivations politiques des pays vendeurs et acheteurs, il convient de relever les liens particuliers qui unissent Israël à son principal

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(19) V. l'éditorial du New York Times reproduit dans I.H.T. du 29 janvier 1975 : "Merchants of death".

(20) V. l'avis de M. d'Aillières, cité précédemment.

(21) V. "Der Spiegel" N° 38, 15 septembre 1975 : "Waffen für die Welt ? Deutsche Rüstungsindustrie", et les articles parus dans la FAZ des 16, 19 et 24 septembre 1975.

fournisseur d'armements, les Etats-Unis. Les ventes d'armes sont en l'occurrence un élément déterminant de la mise en oeuvre de la politique des "petits pas" vers un règlement négocié du problème israélo-arabe, mais il ne semble pas que cette démarche soit susceptible d'entraîner une diminution du commerce des armes entre les deux pays. S'agissant du Golfe Persique, les Etats-Unis se sont engagés délibérément dans la voie du renforcement de la capacité militaire des pays riverains, ce qui n'a pas manqué de soulever des questions sur la visée de la politique américaine dans la région. Quant à la France, on ne saurait faire abstraction du fait que les exportations de matériel de guerre conditionnent la survie de son industrie d'armement et la conduite d'une politique étrangère indépendante. L'exigence d'une capacité nationale de recherche et de production des armements a été réaffirmée récemment par le Premier Ministre français, Jacques Chirac, dans une allocution à l'Institut des Hautes Etudes de Défense Nationale[22] de sorte que des limites strictes sont imposées à la coopération avec les industries d'armements des pays alliés ou amis. En outre, les ventes d'armes françaises aux pays du Moyen-Orient s'inscrivent dans le cadre d'une politique méditerranéenne qui revêt une signification particulière depuis l'ouverture du dialogue Nord-Sud. Or, c'est en fonction de l'indépendance

(22) "Défense Nationale", novembre 1975.

de la politique française que les pays du Moyen-Orient se déterminent en faveur des matériels français et ils pourraient s'en détourner si la France rompait avec sa politique actuelle. Au demeurant, la fermeture des marchés européens aux produits de son industrie aéronautique et de ses arsenaux, la contraint de porter son effort dans d'autres secteurs géographiques.

(c) Au cours des dernières années, les Etats-Unis et l'Union Soviétique étaient les principaux fournisseurs de matériel militaire aux pays de la région, les autres vendeurs ne jouant qu'un rôle secondaire. Depuis 1973, l'Union Soviétique a perdu de son influence en Egypte et les liens qui l'unissent à l'Irak pourraient se distendre à la suite du règlement du conflit irako-iranien au printemps de 1975. Par ailleurs, la plupart des pays acheteurs aspirent à réduire leur dépendance par rapport aux Grands en diversifiant leur approvisionnement en armements, voire en créant des industries locales avec l'appui financier des pays exportateurs de pétrole et le concours technique des pays industrialisés. Cette évolution accroît les chances des puissances moyennes dans la compétition pour la vente d'armes mais favorise les surenchères et complique davantage l'adoption d'une réglementation quelconque.

3. Les risques et les remèdes

L'accumulation d'armements au Moyen-Orient a généralement été interprétée comme un facteur de tension, voire un ferment de conflits. Aux Etats-Unis, un ancien ministre de la défense, M. Melvin Laird, s'est inquiété des ventes d'armes en quantités massives dans la zone du golfe[23] et depuis que le Congrès a obtenu un droit de regard sur les ventes dont le montant dépasse 25 millions de dollars, il en a usé pour entraver la réalisation de marchés avec les pays arabes (la Jordanie par exemple)[24]. En Europe, certains ont également perçu les risques d'une compétition sans frein pour la vente de matériels militaires, mais on y demeure sceptique quant aux chances de modifier profondément la situation présente. Certes, l'acquisition de matériels de grandes performances par les pays de la région peut introduire des éléments d'instabilité dans les équilibres régionaux et dans l'hypothèse d'un conflit, les conséquences en seraient désastreuses non seulement pour les Etats qui y seraient impliqués mais également pour les pays industrialisés dont l'approvisionnement en pétrole serait interrompu[25]. En outre, l'accroissement du potentiel militaire des pays arabes pourrait entraîner à la longue une modification de la balance au détriment d'Israël et les transferts d'armements

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(23) Dans sa préface à l'essai de M. Dale Tahtinen : "Arms in the Persian Gulf", American Enterprise Institute for Public Policy.

(24) IHT, 8 août 1975, "Conflict on U.S. arms deals".

(25) V. "Oil and Influence. The oil weapon examined", par Hanns Maull, Adelphi Paper, N° 117, été 1975.

intra-régionaux auxquels on assiste depuis un an (de l'Iran vers la Jordanie, de l'Arabie Saoudite et du Koweit vers l'Egypte)[26] sont de nature à alimenter des spéculations de cet ordre. Enfin, on ne saurait exclure une extension d'un conflit régional surtout si l'on considère que les moyens fournis aux Etats de la zone leur permettent théoriquement d'intervenir sur des théâtres d'opération extérieurs. Mais à cet égard, il convient de distinguer la zone du Golfe où l'Iran est appelé à jouer un rôle important et autonome de celle où se déploie le conflit israélo-arabe qui est plus ou moins contrôlé par les grandes puissances.

Si le développement des ventes d'armes dans cette région présente incontestablement des risques, il n'est pas établi qu'il doive nécessairement engendrer des conflits[27]. De surcroît, l'arms control, dans lequel certains voient une panacée, ne se traduirait pas forcément par une réduction du volume du commerce des armes. Les SALT, dont l'objet est la maîtrise des armements stratégiques des deux protagonistes nucléaires, n'ont pas conduit à une limitation des stocks existants et n'ont nullement entravé la course qualitative aux armements. Il y a donc peu de chances que ce modèle appliqué à la "limitation des armements de type classique" produise

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(26) IHT, 9 janvier 1975.

(27) S'agissant des ventes d'armes au Moyen-Orient, M. Geoffrey Kemp a présenté les arguments développés respectivement par les tenants de l'arms control et les partisans de la "libre concurrence" : "The military build-up : arms control or arms trade ?" in "The Middle-East and the international system. I- The impact of the 1973 war" - Adelphi Paper N° 114, printemps 1975.

des résultats plus satisfaisants. Enfin, il est permis de douter de la volonté des principaux pays vendeurs d'édicter une réglementation stricte des livraisons d'armes dans une région déterminée. Même s'ils y parvenaient, il faudrait que le système de contrôle soit d'une efficacité à toute épreuve et que tous les pays fournisseurs acceptent de s'y soumettre. Sinon les pays acheteurs trouveraient aisément le moyen de tourner les dispositions prises en dénonçant leur caractère discriminatoire et en s'adressant à des vendeurs qui auraient conservé leur liberté d'action. Le précédent de l'accord tripartite de 1950 ne saurait être invoqué utilement à l'appui de la thèse de l'arms control puisque les arrangements pris par la Grande-Bretagne, les Etats-Unis et la France s'apparentaient davantage à un partage des marchés qu'à une politique de limitation des ventes d'armes. A moins d'un arrêt de la course aux armements, sinon d'un désarmement général, il est donc peu probable que l'on puisse contenir la prolifération des armes classiques par le biais d'une réglementation du commerce des armes.

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Les considérations qui précèdent sont trop sommaires pour qu'on puisse en tirer des conclusions quant à la définition d'une politique de sécurité des pays qui sont impliqués directement ou indirectement dans le conflit du Moyen-Orient. Il est clair que les ripostes des pays européens, voire de l'ensemble des pays occidentaux, ne sont

pas ajustées à l'ampleur du défi que leur ont lancé les pays exportateurs de pétrole. Par ailleurs, le recyclage des excédents pétroliers par des achats d'armes et le développement des applications pacifiques de l'énergie nucléaire ont créé des risques nouveaux et il est nécessaire de les conjurer si l'on veut éviter de nouveaux conflits et une prolifération anarchique des armes atomiques. Il semble que tous les Etats intéressés aient pris conscience des dangers inhérents à la multiplication des centrales nucléaires et soient résolus à prendre des dispositions susceptibles de prévenir le détournement des matières fissiles à des fins militaires. En revanche la situation est moins rassurante en ce qui concerne le commerce des armes dont on ne voit pas comment il pourrait être réglementé à moins d'une mutation radicale dans l'organisation de la sécurité des Etats et du monde.

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(5)

Discussion Paper

The Superpowers in the Middle East: Stakes, Incentives and Obstacles for Coordinating West European Policies

By Uwe Nerlich

I. The Problem

The Yom Kippur War has a lasting impact on Western Europe and its relations with the United States. Yet given the capacity in Western societies to adapt to changed circumstances, the impact is less obvious today than two years ago. Soviet gains in terms of Western cleavages were then thought to offset and, at least in the longer run, even outweigh Soviet losses in the Middle East. Today a sense of complacency, if not arrogance is spreading in Western Europe that tends to regard embarrassing West European reflexes as policies, inaction as political wisdom and trans-Atlantic policy rifts as 'List der Vernunft' or else the result of mistaken US policies. If there is a recovery from the Yom Kippur War and its political and economic consequences, it is now often charged above all to West European policies. Admittedly on a number of recent occasions EEC countries have performed somewhat less embarrassing than prior to fall 1973. In fact, economic security may well be improved vis-a-vis the Arabs and OPEC, while military security is still provided by the US. However, optimistic judgements are likely to be based on assumptions which by themselves could well turn out to be ingredients of future crises.

A brief survey of currently prevailing optimistic assessments may help to bring out this fact:

1. The War resulted largely from stubbornly onesided US support for Israel. -Yet while over the years US efforts to manage the British heritage in the Middle East may not have been any wiser than US efforts to manage the French heritage in South-east Asia, the desastrous British-French expedition in 1956 was the last West European attempt to project power into the region and never since has there been a West European Middle East diplomacy distinctly different from or more promising than stubborn US support for Israel.

   As for the one-sidedness, it should be noted that the prima. causa was Golda Meir's notion of dragging in the Soviet Union by threatening the Arabs, thereby forcing the US to offset Soviet influence by siding forcefully with Israel which in turn would not only preempt potential American efforts to deal directly with Arabs other than Jordan or the oil producing countries, but would jeopardize existing ties between Washington and most Arab countries. Golda Meir's confrontation diplomacy which for whatever reason was given up by her succe ssor was, indeed, desastrous even from Israel's point of view, leave alone US and West European interests. But except for softspoken attempts by Willy Brandt to sell Ostpolitik as a model for a more flexible Israeli approach and French pro Arab posturing which was above all yet another way of demonstrating 'independence' with favorable boosts for its arms industry as a welcome bonus, West Europeans never before fall of 1973 discovered ways or even reasons to advise the Americans to pursue a different policy towards Israel. In fact, it was Nixon (n. b. not Kissinger) who tried to escape this confrontation mechanism ever since he came to office, but while his earlier proposals were more dramatic than what Kissinger proposed in 1973 and since, they were tied to diffe rent priorities (Vietnam) and personalities (Rogers).

2. During the War the US had come around to sharing what is now considered the more balanced West European approach. - But while the prospect of collapsing economies in Western Europe and Japan was undoubtedly meant to impress the United States so as to take Arab interests 'seriously for the first time since World War Two' [1] and thus to increase pressure on Israel, there was very little Western Europe could do in order to affect Arab intentions and eventual outcomes. When the embargo was eventually removed this too was essentially the result of Kissinger's crisis diplomacy. Even more importantly, the US did not simply adhere to the opportunism of taking a neutral stand, but got actively involved under most delicate domestic circumstances by first saving Israel through its airlift and then saving Egypt through a combination of manœuvres that included the alert. It was in the middle of the war on October 14 that a military stalemate was conceived as the preferred outcome in order to give the US a singular role as the only mediator in post war negotiations. It was only a consequence of this that the balanced West European approach did not turn out to be more painful.

3. The United States failed to coordinate its actions with Western Europe thus allowing for most serious policy rifts. - Yet while there were serious cleavages indeed between the US and its European Allies, the divergencies arising from narrowly conceived nationalistic reflexes of West European countries were much more embarrassing. Western Europe never had a Middle East policy of its own between the second and the fourth war.

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1) William B. Quandt (then a member in Kissinger's staff who was mainly in charge of coordinating US efforts during the War on the working levels), Washington's 'Arab Connection', Europa Archiv, 9/1975, p. 296

The US, on the other hand, did develop a new diplomatic approach ever since a Republican Administration took over in 1969. But it failed to put enough pressure on Israel and it was vetoed by the Soviet Union which at that stage could still control most US-Arab developments relevant to the conflict. The change on October 14, 1973, affected priorities, not policies. In fact, earlier proposals of the Nixon Administration were more far-reaching than what Kissinger brought to Cairo.

But in order to save Israel first a massive airlift became necessary which not only turned out to be a complex decision in Washington [1], but one which had to be implemented without significant assistance from West European Allies (Portugal being the most noticeable exception). In addition the US tried to arrange a cease fire during those early rounds which looked so dangerous to Israel - again without West European support (the British above all failed to act regardless of whether the US initiative might have been served better by more diplomatic intercourse with London at that stage). This was prior to the embargo which began when the situation had already deteriorated from an Arab point of view (October 20).

To the extent there were West European misgivings over the alert [2]

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1) Cf. Marvin and Bernhard Kalb's account of the decision making process on the airlift (Kissinger. Boston-Toronto 1974, chapt. 17). While this account obviously reflects Kissinger's rather than Schlesinger's story, it gives clear evidence of the complexity of the process.

2) On the decision making on the alert cf. again the Kalb brothers (p. 488-499), whose account on this point is even supported by otherwise extreme Kissinger critics like Adm. Zumwalt. This account shows that even if there had been more responsive West European attitudes, it was close to impossible to consult West Europeans rather than inform them afterwards. It seems that even Israeli Ambassador Simcha Dinitz was informed only afterwards on the decisions of October 24. Supposedly this teaches some important lessons on requirements for future crisis contingency planning. But even today it may be a farfetched idea to have major or interested Allies discuss jointly the implications for future crisis diplomacy.

or the more complex US effort to save Egypt and keep out the Soviet Union at the same time, it may be worse considering what impact a failure of this American effort might have had on Western Europe: If Egypt had been hurt more decisively the oil weapon would have been the last Arab resort in a desperate situation. If the Soviet Union had returned to Egypt unilaterally (called in by a desperate Sadat) or under a UN cover (not unlike the one that until recently was legitimizing US presence in Korea) Soviet political control over Western Europe's oil supplies would most likely have increased intolerably[3].

Thus the discrepancy was between US policy making on the one hand and reflexes rather than policies in Western Europe on the other. Yet NATO seems to have survived those cleavages reasonably well even though it is hardly any better equipped for future instances of crisis diplomacy than in fall of 1973, whereas naked West European nationalisms that dominated governments during the crisis may well have forclosed any meaningful prospect of political community building in Western Europe.

4. There was no Soviet threat anyway and the US response took unnecessary risks. - Evidence is overwhelming that Soviet reluctance in the years before the Yom Kippur War to support Sadat's war preparations caused the expulsion from Egypt territory in July 1972, and that Moscow was anything but catalytic

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3) While West Europeans now seem to accept the outcome without fully recognizing the dynamics of US crisis diplomacy during and after the Yom Kippur War, criticism of Kissinger's successful effort to save Egypt is now mounting inside the US. Among the more outspoken recent publications cf. Gil Carl AlRoy, The Kissinger Experience. American Policy in the Middle East (New York: Horizon Press. 1975) or Edward Friedland, Paul Seabury and Aaron Wildavsky, The Great Detente Desaster. Oil and the Decline of American Foreign Policy (New York: Basic Books. 1975)

in the outbreak of the war. But once the war started it massively supported the Arabs by preventing a cease fire favorable to Israel, by big airlifts into the region plus visibly alerting substantial forces, and by encouraging Arab solidarity. Moreover it threatened to move into the area alone or with the US following under pressure. Either outcome would have had desastrous consequences for Western Europe: If the Russians rather than the US had saved Egypt, Moscow would have regained not only military presence but its political leverage in the area would have been vastly improved. The Russians rather than the US would have influenced decisions on lifting the embargo. And a loft-sided superpower condominium in the area which would clearly have favored Soviet rather than American interests would have been the least unfavorable outcome for West Europeans.

Curiously enough, the American effort was not seldom blamed by the same West Europeans who had launched outrageous criticism of the Soviet-American San Clemente agreement on the prevention of nuclear war only a few months earlier: The San Clemente agreement was seen as reducing American commitments abroad, whereas the airlift and even more the alert were blamed for exactly the opposite reasons [1].

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1) While the San Clemente agreement was by and large uncontroversial in the US, both the airlift and the alert were complex domestic issues, yet for opposite reasons: When Kissinger and Schlesinger failed to agree on how to implement the airlift decision, Nixon eventually resolved it because he realized that a failure to assist Israel could have toppled his Administration. When, on the other hand, the measures of October 24 (above all the alert) were initiated they were widely regarded as efforts to divert public attention away from the Saturday night massacre which then shattered the Administration.

5. The major Soviet role in the area is more or less eliminated, the new American Middle Eastern diplomacy has established firm ties with the Arabs, and thus the scope for future US-West European discrepancies arising over Middle East issues is rather limited anyway. - Yet while West Europeans thus tend to welcome some of the consequences of a policy they either condemned or else took undeserved credit for, the stability of the situation depends on numerous factors not all of which can be controlled by political action: Domestic changes in major Arab countries, or in the US (a Democratic Administration after 1976 could well turn out to be more pro-Israeli again), a failure to cope with Arab demands for follow-on negotiations, new Soviet diplomatic incursions into the area possibly in conjunction with a stiffer overall posture and less regard for superpower detente. If there is another major crisis in the area - leave alone war - than the conditions for more trans-Atlantic cleavages will also exist unless policies and machinery are set up in the meantime which will allow to cope jointly with the situation. This is particularly so because military outcomes are likely to be less predictable than in the past thus making superpower crisis diplomacy even more mandatory than in fall of 1976.

If these five judgements do reflect prevailing West European assessments, there is thus every reason to believe that if there is a next time trans-Atlantic disarray may be even worse than in fall 1973. Progress has been made among Western nations on peace-time issues like price and supply of oil, on chanellizing petrodollars and on providing alternate energy sources. Moreover, the notion of complementarity of US and West European roles in the area and, on a different plane, of NATO and the EEC may well help to stabilize the situation. And here the US too had to learn some lessons (e.g. with regard to the Community's association policy). But with

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- the Middle East Conflict unresolved,
- the stability of cooperative Arab governments unassured,
- the Soviet Union likely to use opportunities to reassert its role and influence in the area,
- the Israelite government's manoeuverability being limited by its own parliament.
- and the currently active US diplomacy being crucially dependent not only on personalties, but on a variety of domestic factors which may well surface after next year's election again,

West European governments ought to look more closely into

- what caused the present seemingly comfortable situation,
- the conditions on which the stability of this situation may rest,
- the prospects of once more getting away simply through inaction,

  and finally
- the requirements for a more concerted Western approach if another crisis should develop.

II. Towards Understanding the Impact of the Superpowers

The scope of this paper is much more limited. It is confined to the role of the superpowers and their interactions as they have conditioned West European foreign policies in the past or may affect them in future developments. Following is a series of observations which may help to focus discussions on requirements for West European policy harmonization.

1. Superpower bilateralism (detente) has survived the Yom Kippur War as it has survived earlier American action in Vietnam in the wake of the first summit or the collaps of the Vietnam settlement afterwards. But while both superpowers continue to pursue detente diplomacies, the politics of detente seems to have been affected by the war and its diplomatic aftermath in both countries. This is bount to have repercussions on the diplomatic level and some are already noticeable for quite some time.

Soviet failure to cooperate with the US in the early phases of the War (with Arab forces still doing surprisingly well) and later Soviet efforts to pressure the US into a kind of joint venture which obviously was detrimental to Western interests (highlighted by the drama of the US alert) appeared to be inconsistent with both the Moscow Agreement on Principles and the San Clemente Agreement on the Prevention of War, even though at some critical junctures during the war cooperation between the two superpowers was instrumental in ways which would have been inconceivable without the realities of superpower detente (above all the first cease fire which at that stage was in the interest of both superpowers: The Soviet Union hoped to save Egypt, the US was satisfied with the military stalemate on the basis of a changed political status quo).

In Washington this coincided with the formation of an anti-Nixon coalition which cut deeply into Democratic support for the Administration's detente with Moscow: It damaged the notion of bipartisan support for detente in ways which ever since affected Washingtonian politics. When Nixon began his second term detente was expected to have a lower priority than during the two preceeding years, but with the Watergate affair unfolding it was being reemphasized during the summer of 1973. The

weakening of bipartisan support was only a logical consequence. Yet without the circumstances of the Yom Kippur War this might have taken much longer.

In Moscow Soviet behavior during the War may have appeared consistent with superpower detente. In fact, some Soviet restraints seem to be motivated by Soviet interests in continued detente in very much the same way the Soviets accepted setbacks in the Middle East in 1972/73 (by withholding modern weaponry Sadat was asking for) in order not to jeopardize detente with the US. But the emerging military stalemate was crucially important for Moscow, and by backing down after the US alert Moscow accepted a war outcome which invited unilateral US diplomacy in ways Moscow may not have fully anticipated at the time but which reduced Soviet influence in the area dramatically - at least for the time being. In Soviet politics of detente this fact is likely to weigh heavily, especially during the preparatory reassessments that are likely to preceed the 25th Party Congress.

2. During the War as well as in post war diplomacy the competitive aspects of superpower relations were clearly dominant whereas detente played instrumental roles at certain junctures. Both sides have always stressed the ambivalent nature of superpower detente as a means of controlling the other side's power and influence. During the War it could have gone either way. It happened to turn favorably from Western points of view. Constraining the Soviet Union in the area was Kissinger's overriding objective during the war, and reducing Soviet influence without Moscow losing its face was the major aim and outcome of Kissinger's recent Middle East diplomacy.

3. Both superpowers' behavior in the area is thus characterized by unilateralism rather than bilateralism, but at certain junctures bilateralism is instrumental and at others it is worth being preserved as an option by exercising restraint.

4. Unilateralism, however, does by no means imply vigor or dynamism. In fact, both superpowers pursued their Middle East policies mostly with remarkable caution and at times they came close to being inactive. In the years preceding the Yom Kippur War Soviet diplomacy might have penetrated Egypt and a number of other Arab countries in ways similar to what happened in India [1]. But while Sadat could watch Soviet support for India against Pakistan or for the North Vietnamese offensive preceeding the first summit, the Russians were withholding military support from Sadat so as to invite Soviet expulsion from Egypt territory. It was only when Washington seemed to take advantage that Moscow became more cooperative towards Cairo: When Sadat eliminated the pro-Soviet opposition around Ali Sabri, Podgorny almost imposed the Soviet-Egyptian treaty Cairo had unsuccessfully asked for at earlier stages. When the first Moscow summit was coming about with its prospects for more coordinated superpower action in areas like the Middle East (which did not fail to impress Sadat so as to convince him that from thereon he would have to deal with both superpowers) Gretchko payed a demonstrative visit to Cairo. Or when Kissinger had his first contacts with Hafis Ismail in Paris in February 1973 Moscow signed a new agreement on arms supply with Cairo and, in fact, started delivering some of the items

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1) After all for many years Vinogradov's access in Cairo looked quite similar to Simcha Dinitz' access in Washington: From 1967-1970 Vinogradow met without special invitations on a weekly basis (each Monday) with Sadat in order to review decisions and events.

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it had been withholding from Sadat for so long[1]. Soviet diplomacy could conceivably have avoided its expulsion from Egypt on July 8, 1973, by meeting Arab demands half way. There may have been complex reasons and gross misjudgements on Moscow's part, but Soviet disinterest in the area was certainly not part of it.

Similarily the US had a deplorable tradition of missed opportunities ranging from Dulles' failure to support the Assuan dam to Kissinger's failure to respond encouragingly to Sadat's decision to pull out Soviet military personal. (It took several weeks before Kissinger sent a note to Cairo and it failed completely to induce Sadat to turn towards the US even though this obviously was what Sadat wanted to do.) But, as William B. Quandt put it, Washington never took the Arab world seriously prior to the Yom Kippur War.

5. It is only in crisis diplomacy that the two superpowers got fully involved in the area and as soon as that happened they crucially dominated the process. The theory does not sound implausible that Sadat had hoped to get the two superpowers involved in order to have them imposing a settlement on the basis of a militarily changed status quo. (In fact, if this was Sadat's theory for the last war he turned out to be right even though he came close to Egypt's total collaps.)

Thus on pre-crises situations middle range powers like the West European aggregate are likely to make their influence more strongly felt than in times of crises where it comes close to zero. On the other hand, superpower inaction in pre-crises situations may well reinforce trends that make conflict more likely. Most

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1) Cf. President Sadat's own account of Soviet-Egyptian relations in his speech on September 28, 1975 (Monitor Dienst/ Nahost September 30, October 1, 2, 3, 6, 7, 8, 9, 10)

importantly, however, the Middle Eastern powers pursue regional interests and if they try to involve the superpowers this too is in regional rather than global perspective even though it tends to invite a dynamics which regional powers can hope to control or influence only up to a certain point.

6. Domestic factors play important yet ambivalent roles in superpower approaches to the Middle East. While this is obvious in the American case, there is also some evidence on the Soviet part although on a much smaller scale and more confined to particular phases of Soviet politics. When Sadat payed his first visit as President to Moscow on March 1 and 2, 1971, his demands were turned down for the first time and in unprecedented ways. It was pointed out to Sadat that the 24th Party Congress had reached its final preparatory stages, and, as Sadat put it, on "such occasions they tend to think in unbearable categories" [1].

Domestic factors are likely to affect the superpowers' Middle Eastern diplomacy differently in times of crisis or relative restraint. There is a propensity in American politics to constrain US diplomacy severely in pre-crisis situations whereas American crisis diplomacy may well be capable even of overreacting without domestic factors always interfering. (Since Vietnam and Watergate gate this too may be questionable, especially with a less powerful Secretary of State than Kissinger.) In the Soviet Union to some extent the opposite may be true: In selective ways the expansion of Soviet military power occasionally proceeds quite rapidly in the absence of prospects for superpower confrontation, but if a crisis emerges that involves both superpowers the Soviets by and large exercise considerable restraint.

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1) Speech of September 28, 1975, ibid., October 2, p. 1

However, a closer look indicates that this still is too crude a judgement. The comparison of the politics behind the US airlift and the alert during the Yom Kippur War shows just how ambivalent domestic factors can turn out to be.

7. While the notion of asserting influence in the area is certainly important from both superpowers' point of view, they both are likely to have discovered that all Middle Eastern powers try to involve the superpowers for no other than regional purposes. Thus Sadat was desperately trying to get saved by major Soviet efforts which were bound to be detrimental to American interests only in order to get saved by the US at the expense of Soviet interests. This may have been different in Nasser's days, but it is certainly true for Sadat and other Middle Eastern leaders in present circumstances [1]. If there is a concept of order it may well be a trilateral grouping of Egypt as the largest Arab state with Saudi Arabia and Iran as the two major oil producing countries in order to stabilize the situation in a nonrevolutionary fashion.

Regionalism may thus be in the interest of one or both superpowers. While Sadat clearly has not become an American ally, his regionalism nevertheless is in the American and Western interest - if only because it tends to contain Soviet influences. Moreover, in order to pursue this regionalist policy, Sadat and other Arab leaders may figure that closer cooperation with the US on a longterm basis may best serve Arab interests. Since crisis diplomacy unavoidably changes this pattern of influence, regionalism in itself can be considered a stabilizing element. But since regionalist interests rather than globalist loyalties

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1) On Nasser's alledged globalism cf. Barthold Witte, Fünf Jahre Sadat - Eine Bilanz, Europa Archiv 21/1975, p. 676

determine Arab connections with the US, one should be prepared to see the Arabs "make blunders, such as trying to get Israel suspended from the U. N. General Assembly or getting the Assembly to condemn as 'racist', which may well wreck their recent gains in US public opinion" [1].

8. The current situation in the Middle East is dominated by non-revolutionary Arab governments and forces in conjunction with a remarkable increase of American influence and an even more remarkable decrease of Soviet influence. Most Arab countries seem to realize that their well being is related to the viability of Western economies. The US are the only major mediator in the area. And the Soviet Union not only lost ground but feels constrained in view of penalties elsewhere (e. g. in US-Soviet relations). Nevertheless the stability of this situation rests on a number of conditions all of which could conceivably change within a few years.

Recent experience teaches some lessons - above all Soviet experience. Few people had predicted the manner in which Sadat was capable of eliminating his pro-Soviet opposition. Few people had foreseen the dramatic decline of Soviet power and influence in the region [2]. And the accidental outcome of the Yom Kippur War certainly brings home this point: It took very little to shape the outcome in terms of what Breshnev was driving at when he put pressure on the US on October 24, 1975. The Soviet standing in the region probably would be totally different from what it is now if Breshnev had had his way.

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1) William E. Griffith in a forthcoming article on the decline of Soviet Influence in the Middle East (unpublished manuscript, p. 20; to be published in Europa Archiv)

2) Cf. William E. Griffith, loc. cit.; also Oles M. Smolansky, Soviet Policy in the Middle East, in: Current History, Vol. 69, October 1975, p. 117-120, 148; and Malcolm Mackintosh in: London (Ed.), The Soviet Impact on World Politics. Regional Case Studies on the Impact of Soviet Foreign Policy (... 1975)

Stability of the current situation rests with the stability of major Arab governments and the continuing US capacity to project power and influence into the area. Neither condition can be taken for granted. The more immediate threat may be that a continued negotiating process with at least modestly visible outcomes is vital for the political survival of more cooperative Arab governments and/or the prevention of splits among major Arab countries that would reduce their manœuverability severely.

This could happen simply because the US is no longer able to deliver Israeli minimum concessions because the Israeli government is deadlocked domestically or because US leverage on Israel has weakened (a real possibility in 1977). It could also happen because some Arab leaders may face domestic tensions which would require more visible progress on the Middle East issue than could possibly be expected from Israel and/or the US. Reasserting his power both domestically and within the Arab nation was certainly Sadat's principal reason for starting the Yom Kippur War[1]. Whatever the scenario of such a breakdown of the negotiating process may be, its outcome would hardly be predictable. In a number of ways such developments could help to reassert Soviet influence if only because American politics is forcing US diplomacy once more to creating a gap.

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1) Spreading defaitism in Egypt in 1972/73 and the assumption that Sadat would not go to war without massive Soviet support (which looked unlikely in view of Moscow's dilatory handling of its arms' supply commitments to Cairo) were prominent among Washington's failure to grasp the opportunity after Sadat's spectacular move on July 8, 1972, to establish cooperative relations with Cairo which most probably would have prevented the Yom Kippur War.

The more serious issues of stability are, however, not directly related to the pace and outcome of the negotiating process. Numerous attempts to assassinate the Shah of Iran or, indeed, the death of King Feisal may signal potential future crises which may well put the viability and survival of those conservative regimes in most major oil producing countries in the area to the brink. As Sheik Yamani put it, the Soviets could move in over night if they want to do so [1]. The same is certainly true for Iran. These regimes are wholly dependent on Western or, more specifically, American protection, and even though they did not engage in the classical French game of enjoying US protection while hitting the protector who got no other choice, they have hardly understood the interrelations between security, oil prices and energy supply [2]. Thus while these countries continue their senseless effort to spend petrodollars on all kinds of fancy weaponry, only very few have begun to pursue this with a view to what may be at stake.

If major succession crises should unfold in the Middle East (and in the Gulf area) with a prospect of more revolutionary political forces gaining control and/or Soviet interference, the risks of American inaction or overreaction may be equally serious. In fact, they may stem from the same reasons which make peace time preparation for protective policies in the area extremely difficult so as to either possibly prevent actions or

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1) Cf. the Fallaci interview in New York Times Magazine, September 14, 1975

2) See Robert Ellsworth (US Assistant Secretary of Defense for International Security Affairs), Folgen des Energieproblems für das strategische Gleichgewicht, in: Europa Archiv, vol. 30/21, October 11, 1975

else withhold them until a crisis has developed up to a point where massive US response could be considered necessary in Washington. A governmental stalemate or changed priorities of subsequent administrations or simply weak administrations may all contribute towards such outcomes. Either way the implications for Western Europe are enormous, not simply in terms of its energy supply but in view of potential Soviet control over Western Europe's energy supply.

9. Nobody can say for sure how the Soviet Union would react in situations of instability and turmoil in the area. While overt Soviet attempts to deliberately take over some of the oil producing countries in the Middle East and Gulf area may remain a rather remote contingency, emerging crises outside its own orbit will always confront Moscow with difficult choices. There are all sorts of conceivable reasons why this may be so in the Middle East. In this respect the continuity or discontinuity of superpower detente as a key element of Soviet foreign policy may be crucially important.

On balance, superpower detente in recent years may have its most important impact in the Middle East: Nixon's early efforts to get an American Middle East initiative started were vetoed by Moscow. Along with the emerging context of superpower detente, however, Moscow first began to urge the Arabs to take a more positive stand on Rogers' efforts and then restrained increasingly its support for Sadat. Sadat observed that the Moscow Declaration of Principles with its references to joint superpower action in the Middle East was regarded a severe shock in Cairo and other Arab capitals. On the other hand, when Kissinger's Middle East diplomacy was leaving the Soviets with little more than the role of a bystander, Soviet responses were rather guarded (some bitter press reactions were really a minimum response).

Increasing Soviet restraint and declining Soviet influence in Egypt and, to some extent, Iraq and Syria, probably went hand and glove. To some extent Moscow simply could not deliver what the Arabs were looking for both with regard to their economies and the Middle East conflict. To some extent Moscow may not have trusted Sadat and it did not expect Sadat to survive the withholding of Soviet support as well as he did. But while the War displayed the ambivalence of detente, high priority for superpower detente obviously played a major role in Moscow's Middle Eastern pre- and post-war policy.

Thus the continuity of superpower detente is crucial. It may well happen that current American influence in the Middle East and continued superpower detente on present scales are going to be jeopardized for the same reasons: new realities of American domestic politics. It is also conceivable that the Soviets can get the best out of both worlds because a Democratic administration with a strong liberal component could move in in 1977 which wishes to pursue superpower detente at an even faster pace and with more readiness to make concessions while at the same time taking a more one-sided pro-Israeli stand or else losing the capacity to maintain the present influence.

But detente not only raised thresholds for Soviet behavior in terms of penalties elsewhere, but it helped to protect American unilateralism by depriving it of the characteristics of previous confrontation diplomacy: The very notion of line-ups with one superpower or the other has lost most of its importance so as not to compromise those Arab governments which decided to cooperate fully with the United States. It is conceivable that this is a more lasting impact of detente, if only because it coincided with existing Arab preferences for regionalism.

Since the stability of the present situation and the continuity of superpower detente and its impact on the Middle East to some extent rest on the same conditions, the prospect of vigorous Soviet efforts to exploit potential major crises in the area may emerge as one of the most serious issues on the European security agenda. At this stage West European governments do not even seem to be fully aware of the implications this has. On the other hand, any effort on the American part to focus European attentions on this issue is likely to produce unfavourable reactions in West European capitals even though more West European than American interests would be at stake. Alarmism would not be a prudent response. But in all probability the currently prevailing sense of complacency is not either.

NOT FOR PUBLICATION OR FOR QUOTATION

copy of paper sent to J Hurewitz for
11 December meeting of N. American study
group

16

THE INDUSTRIAL STATES, OPEC AND THE POLITICS OF THE MIDDLE EAST IN THE COMING DECADE

IAN SMART

Introduction

It goes without saying that this paper must be "futuristic". The interdependent variables are so numerous and reciprocally sensitive that, within a short text, there must be made a choice of particular values for them which is largely subjective, and even capricious. This, moreover, is futurism on an appallingly wide canvas.

I do not know what will happen in the politics of the Middle East, the wider politics of OPEC, the equally extensive politics of the OECD world or the relations between those groups during the next ten years. If I did, I might become richer and I would already be happier. The fact is that the available evidence will equally support an indefinite range of scenarios, including scenarios which are directly contradictory. The rate and timing of economic recovery in the industrial nations, the partly associated evolution of the world demand for Arab, Middle Eastern or OPEC oil, the interaction between oil prices and the rate of investment in alternative energy sources, the future path of Arab-Israel relations: all are matters of necessary uncertainty, just as all are central to any prediction of the situation in which we shall all find ourselves in 1985.

Confronted by such uncertainties, I shall do no more than offer an outline of the ways in which my instinct, rather than my evidence, prompts me to think politics may move in the decade ahead. I shall begin with the domestic politics of the major oil-exporting states in the Middle East, and especially of Saudi Arabia, Iran, Iraq, Kuwait, the UAE and the smaller producers of the Gulf. I shall turn from that to the future of political relations between the principal Middle Eastern states, within OPEC and, briefly, between oil exporters

/and the oil-consuming

and the oil-consuming nations of the OECD. As will be seen, my instinctive expectation in each of those cases is relatively moderate; I doubt the imminence of either Armageddon or Utopia. I must add that, if I am asked whether I feel absolutely certain that my expectation of moderate outcomes is plausible, I am forced to reply, like the monks of Shangri-La, that I feel only moderately certain.

The Oil Producers

The impact of events in and since October 1973 upon politics within the individual oil-exporting states of the Middle East may have been less urgent than their impact on politics in the oil-importing world, but it is unlikely, in the longer term, to be less traumatic. Within a few months, a group of countries with enormous territory but, in the aggregate, a comparatively tiny population has been catapulted into a new economic era. Even for those like Iraq or Iran (or Algeria) whose populations are relatively large and whose external balances of payment may soon be in deficit, the traditional constraint upon economic development imposed by the availability of investment capital has ceased to have much meaning. With the contraction of world demand for oil since 1973, some must resort again to borrowing (in which activity the problem of collateral security is unlikely to be serious) and some will have to trim or defer particular development projects. The fact remains that, for all practical purposes, their ability to buy the wherewithal of economic development is effectively unlimited.

That is not to say that no serious obstacles will stand in the way of the economic development of oil-exporting states. There will be large obstacles in the shape of deficiencies of human and inanimate infrastructure: the shortcomings of administration, the lack of manpower, and especially skilled manpower, or the absence of adequate fixed assets such as port or overland transport facilities.

/In almost all

In almost all cases, it will take many years to overcome those obstacles. Delay will not, however, be caused by lack of money.

It is too easy to over-estimate the importance of limitations upon the shorter-term ability of oil-exporters to absorb their current incomes domestically, or to argue that the full domestic effect of their apparent increase in earning power will await a transfer to them of "real" income from the industrial nations in the 1980s. In the first place, as we have now seen, the ability of OPEC countries to expand their imports of goods and services is considerably greater than was initially expected. In the second place, the difficulty of converting all new foreign exchange earnings instantly into productive investment has, if anything, encouraged the direct import of consumer goods, including consumer luxuries, which themselves have a more immediate, if superficial, impact on the life-style of the countries concerned. In the third place, either the expectation of imminent prosperity or the frustration associated with its delay may have as powerful a political effect as prosperity itself (as British politics in anticipation of North Sea oil earnings amply illustrate.) It is by no means too early, therefore, to weigh the likely political effects of new wealth upon the domestic politics of the Middle Eastern producers.

Three levels of effect can reasonably be distinguished. The first is that of effect upon the governmental, administrative and decision-making systems of the countries concerned. The second is that of effect upon the political process at large of greatly accelerated plans for economic development. The third is that of the more diffuse effect of new wealth - or the confident anticipation of new wealth - upon political attitudes within the societies of those countries.

The first of these levels is easy, but dangerous, to overlook. New earning power imposes new demands upon governments, semi-governmental organizations and private business. In all the countries to be considered, those demands are greatly reinforced, indeed multiplied, by another factor coincidental with the achievement of new earning power: the assumption of far greater responsibility for the management of oil production itself. In this connection, the course of events leading

/through stages of

stages of "participation" to national control of oil
ion (and oil pricing) is at least as important as the
e of events generated by the dramatic increase in the
OPEC oil. In the face of these pressures, the governments
have no choice but to become more complex and more variously
t entitities. In the great majority of cases (Iran and Kuwait
rtial exceptions), they face serious shortages of adequately
administrative manpower. They must nevertheless assume the
ibilities which they have seized or had thrust upon them. In the
, they must undergo substantial change and substantial expansion.
ocess will inevitably offer more scope for political competition
ntially more routes to political power, especially as it will
y entail some diffusion of substantial governmental authority
the limits of the familial or inter-familial élites within
in many countries, it has formerly been concentrated. At the
me, as the small supply of highly competent administrative
r is spread more thinly over an expanding governmental machine,
aucratic efficiency of particular components of the machine
n the short term, decline. There will become more apparent
r a tension between the expansive tendency of governmental
ions in the aggregate and the urge to centralize real admin-
ve authority in the hands of the few men whose capabilities and
re outstanding. One result will be to impose an ever-growing
strain upon members of that small group; the incidence of
failure may well become a political problem in its own right.

The second level - the effect of accelerating economic
ent on the political process at large - is more familiar
o students of development. Few general comments are needed.
e, however, some points that demand emphasis. All the countries
d will, for example, face a well-known need to strike some
on political as well as economic grounds, between the long-
ns to be expected from large-scale industrial development and
ter-term benefits of developing social services and public
. But some countries will find that more difficult than
A relatively small diversion of resources will provide a social
system in Kuwait, where the process is already well advanced
y, Qatar or Abu Dhabi, where population is small and territory
vast. A much larger diversion will be needed in countries

/like Saudi Arabia

like Saudi Arabia and Oman, because of territorial area, or Iran and Iraq, because of population size. Unless some overall consistency is maintained in this context, however, the failure of some governments to keep up with others in the provision of social services may become a political issue. Countries will also differ widely in their need to import labour for development purposes. All will have to import highly skilled technicians and managers - even if Iran and, possibly, Iraq will be less subject than others to that pressure. Many, including Saudi Arabia, Kuwait, Qatar, Oman and members of the UAE, will also have to import more or less large quantitities of unskilled or semi-skilled labour. The potential domestic political significance of such imports needs no elaboration. The point is that, in all the oil-producing states of the area, foreign presence, in one form or another, is likely to become paradoxically more, rather than less, obtrusive as an indirect result of the elimination of foreign control over the oil industry.

A more general point is relevant to this second level of effect. The process of development - and especially of longer-term industrial development - entails the reinforcement and proliferation of vested interests in the maintenance of the process itself. The number of groups and individuals directly or indirectly in debt to the development process will steadily increase - as will the opportunities for influence or profit to which individuals or groups may aspire. On the one hand, the development process constitutes a new and rich field for competition, between both 'insiders' and 'outsiders'. On the other hand, it creates a new level of long-term interest in stability. The two are inevitably countervailing. My own view, for what it is worth, is that, in most of the countries here considered, the interest in stability will come to be of prevailing importance for the régimes and for governmental and social elites. I suspect that the much-advertised 'conservatism' of régimes in such countries as Saudi Arabia or Oman has often been misinterpreted. It has not, on the whole, been conservatism as we know it in the West, where conservatism is based upon a desire to maintain the existing

/distribution of

distribution of immoveable property, but rather a conservatism which reflects a desire to preserve the political power of particular groups but has been combined with considerable flexibility in regard to both property and policy. In part, this may have been because so much of the property adjoined to power in the 'desert' Arab states was itself, in the past, moveable and personal, so that it could readily be abandoned or exchanged. This will now, however, change rapidly as a function of economic development. Property and power will come to be linked in new ways for the régimes concerned, and both will become largely dependent upon the continued implementation of long-term plans. I suspect the result in all these countries, not excluding Iraq or Kuwait, will be a new form of "conservatism" - the conservative aspects of capitalism in its Western sense - and that the set of values which that implies will divorce members of élites from some of their traditional social values while attaching them more firmly to the maintenance of the political status quo.

The third level of effect, involving the diffuse impact of new wealth upon political attitudes, is obviously touched by that last remark. That is only, however, a small part of the story. The larger part is again, in a sense, familiar. Rapid development will involve the rapid expansion of higher and technical education in the countries affected; both industry and government will need their graduates, their accountants, their engineers to cope with development demands. At the same time, the aggregate of wealth both fuelling and arising from development will increase sharply. So will familiarity with the rewards that such wealth can obtain - in terms of both power and property. However, there is no chance that the diffusion of new wealth through the whole of society will proceed at the same pace. Nor is there any chance of real power being diffused so swiftly; indeed, as I have remarked, the need for rapid decisions by a small number of people may actually provoke a re-centralization of authority. We shall thus see the familiar picture of the economic differentials within societies widening as the corporate wealth of those societies grows. Meanwhile, more and more members of the societies will be acquiring new qualifications and skills and witnessing from a distance the fruits of a prosperity to which those qualifications seem to

/entitle them

entitle them but from which "the system" seems to be separating them yet further. Simultaneously, the élite groups which run "the system" are acquiring a stronger interest in the maintenance of the political status quo. If the picture seems over-familiar, even hackneyed, I make no apology.

Into this soup of general effects, there must now be injected the factor of specific psychology. If I refer to an 'Arab' psychology, it is neither because I am insensitive to the frailty of such generalization nor because I have any claim to any special knowledge. There are, however, certain attitudes characteristic of Arab - and especially Arabian - society which seem relevant. One characteristic attitude is a high regard for intellectual achievements and literacy or legal learning, exceeding any regard for physical or executive skills. It will be surprising if this does not affect the bias of aspiration in the field of higher education; by making it much easier to find ready candidates for training as doctors, lawyers, economic analysts and scientists than to find that larger number who must emerge as foremen, shop floor managers or skilled technicians. Another characteristic attitude is pride in individualism. Not only does this make it difficult to attain effective co-ordination of effort in a collective cause; it also dictates a preference for achievement in the private, rather than the public, sector. In a country such as Saudi Arabia, one problem is already that such a high proportion of younger men who have been trained at the state's expense, largely abroad, in administrative and analytical skills seek to devote those skills to private enterprise rather than governmental service. A third characteristic attitude, closely associated with that of individualism, is the inclination to perceive success in terms of personal authority rather than participation in a collective authority, and, as a result, to perceive personal ambition as something to be pursued through the acquisition of rights, including a right to command, rather than through labour. It has sometimes been common to speak of the 'Puritanism' of the Bedu. In any sense other than that of a superficial moral fervour, nothing could be more misleading. If some paradigm must be found in English history, it should be that not of the Roundhead

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but of the Cavalier: individually rather than corporately proud, tightly bound by rules of traditional and religious convention, preferring intellectual prowess and cultural sophistication to the joys of productive labour in the common cause, persuaded of a hierarchy based upon rights but extraordinarily mobile in social relationships, aspiring to command but not to belong.

All of this I have said in more or less general terms. Obviously, the utility of such generalizations is limited. The countries and societies under examination are, in many repsects, extraordinarily varied. Yet it seems to me that some generalizations may still be useful. I do, for example, believe that, while the intractable individualism of Arab - and, indeed, Iranian - society will always leave open the possibility of maverick figures such as Qaddafi seizing control, the general tendency amongst régimes and élites in the oil-exporting countries of the Middle East, as they become more deeply implicated in long-term economic development, will be towards a new conservatism founded in a widening consensus in favour of the political status quo. I also believe there will be a general tendency for the gaps between rich and poor and between powerful and powerless to widen, just as the stakes in the competition which that implies increase. In one form or another, I expect that all the countries concerned will face increasingly difficult problems of infrastructural deficiency as they pursue their economic development plans, and that the deficiency of middle-level executive and technical manpower will be the most serious of all such problems. Finally, I believe that the inevitable expansion and elaboration of decision-making structures in these countries will multiply the apparent routes to personal authority and greatly extend the field for personal and inter-group competition for political power.

The implication of this general vision is reasonably obvious. I think it likely, in fact, that the next decade will witness a considerable increase in domestic ferment and civil unrest within many of the countries I have mentioned. It will, moreover, be a rather

/different sort

different sort of unrest from that which many Middle Eastern states have experienced in the recent past. Most of the successful and unsuccessful revolutions and coups in the area since the 1940s have reflected efforts to make some more or less radical change in the character of the national political system (and/or international political alignments) rather than a competition over who will control the existing system. In the future, however, it is the latter type of competition that seems likely to become of dominant importance. The concern of those who will promote civil unrest - often, I suspect, by violent means - will be the control, rather than the re-distribution of the national cake. To put it crudely, in fact, the Middle East may turn out to be importing not only a new version of capitalist conservatism from the industrial West but also a new version of insurgency from Latin America.

Such phenomena will clearly take on a different guise in different countries, if only because the various pressures I have described will bear differently upon them. In the 'low-population' states of the Arabian peninsula and the lower Gulf, I would expect the agonizing choice between accepting manpower shortage as a decisive constraint on economic development and inviting a possibly uncontrollable increase in immigration to be particularly disruptive, just as I would expect a growing danger of 'palace revolutions', ostensibly over policy, but actually over the control of the existing system. In the'high-population' Arab oil-producing states of the area (Iraq and probably Kuwait), I would expect the more serious danger to lie in the obtrusiveness of economic differentials and the over-elaboration of decision-making structures, leading to a mugh higher risk than elsewhere of broadly-based social and political disorder. Outside the Gulf, the case of Libya may resemble the former model, while that of Algeria may resemble the latter. As to Iran, the pattern may resemble that of the 'high-population' Arab states, but there may be more resilience in the face of such pressures simply because of the longer Iranian experience of ambitious development plans. Against this, Iran may over the next decade be more vulnerable than any of the Arab oil producers (except possibly Iraq) to the activity of radical groups

/frustrated by the

frustrated by the increasingly strong orientation of the existing régime towards maintenance of the political status quo.

I do not mean to paint too black a picture. I see no reason why the pressure of domestic ferment should not be contained - and, in the much longer term, dissipated - in most of the countries concerned. Meanwhile, as will be seen, I expect some reduction in the level of international conflict in the region. The fact remains that I foresee a decade of rising domestic turbulence within many of these countries, just as I expect an increasing conservatism in the formal domestic and external policies of their governments.

International Relations

On the one hand, the acquisition of greater wealth and the embarkation upon more ambitious development plans is likely to strengthen the forces of nationalism in Middle Eastern oil-producing states: to each, as it were, his own. Certainly, I would be surprised to see any rapid progress towards political integration in the area or any politically effective resurrection of pan-Arab (still less pan-Islamic) ideas. On the other hand, the mutuality of interest in economic development and the recognition of the extent to which 'producer solidarity' in OPEC and OAPEC is a pre-condition of that process will militate against the exacerbation of conflict between oil-exporting countries. OPEC is a reason, rather than a mechanism, for containing political conflicts between its members; it is no less effective for that.

None of this means that the traditional rivalries and underlying conflicts of the region will be definitively resolved. Iran and Saudi Arabia will continue to watch each other like hawks, as will Iran and Iraq or Iraq and Kuwait. In the foreseeable future, however, I would expect active conflict between such near neighbours to occur rarely, if at all. The general inclination, as more attention is demanded by domestic development and, perhaps, domestic dissent, will be to

/live and let

live and let live internationally. Two caveats must nevertheless be entered. First, the acceleration of economic progress in the oil-rich states may excite new envy and renewed emnity on the part of some without oil of their own. I am sceptical about this leading to a renewal of Saudi-Egyptian conflict, but I am much less sceptical about the possibility of renewed conflicts between Egypt and Libya or between Syria and Iraq. Second, as the decade wears on, the difficulty into which some oil-producing states may run in sustaining their economic development programmes may create some risk of the refurbishment of old ambitions. Two cases stand out: Algeria and Iran, both of which may well find their oil production tapering off within the next ten years. In the former case, an Algerian government facing rising domestic expectations but declining income might be sorely tempted to look enviously towards whatever position Morocco then holds in relation to the Sahara phosphates. In the latter case, an Iranian government in similar straits would hardly seek to bid for the resources of Iraq, but might well adopt a more aggressive policy towards the exploitation of off-shore resources in the Gulf itself. Either case might, in other words, represent a possibility of conflict provoked by a threat of disappointed expectations.

The idea that, particular cases of potential envy or desperation aside, oil-producers will remain at least reciprocally tolerant over the next ten tears may seem to ignore the prospect that world demand for OPEC oil will decline in the late 1970s and remain at lower than the current level during the first half of the 1980s. It is that prospect, after all, which supports anticipatory advertisements of serious stress within OPEC during that period, involving conflicting and competitive tendencies to raise real prices (to maintain revenue) or to reduce them (to increase market share) in a falling market.*

/It is not,

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* See, for example, Thomas O. Enders "OPEC and the Industrial Countries: the Next Ten Years" (Foreign Affairs, LIII. 4, July 1975, pp. 625-637).

It is not, of course, impossible that that may happen. The thesis, however, is based upon premises concerning demand restraint and the rate of alternative supply development which I consider personally to be implausible. Without being able to argue the case in detail in this paper, I am inclined to expect instead a slow increase in world demand for OPEC oil from 1976, reaching a level in the early 1980s slightly above that of 1973 and generating pressure to minimise, but not reverse, the gradual fall in the real price. In those circumstances, there will be little, if any general pressure for OPEC countries to compete more viciously for market shares.

As that indicates, I suspect that, in the context of the next decade, OPEC is here to stay. In such circumstances, the economic arguments in favour of reciprocal restraint and common action as between oil-exporting countries will dominate any political divergences deriving from the reinforcement of nationalisms. In other words, Middle Eastern oil-producing countries are unlikely to feel much sense of political community but will become increasingly conscious of economic inter-dependence. The hope is that the same thing will apply to the relations between those countries and their customers, especially in the developed world. There is every reason why it should. As I have argued elsewhere, the oil-producers, in as far as they attach importance to their own economic development, have no choice in the longer term but to convert the dependence of the industrial countries on their oil into a reciprocal dependence in which they themselves rely upon industrial countries (and other developing resource-exporters) to facilitate and sustain their own industrialization.**

Whether relations between the exporters and importers of oil will evolve in that rational manner is still, of course, uncertain. Several dangers certainly threaten the prognosis. One is the continuing inclination of some in the industrial world to regard the economic aspirations of oil exporters or the operational solidarity of OPEC as both a threat to their prosperity and a challenge to their virility.

/ I am depressed

** See Ian Smart "Uniqueness and Generality" in The Oil Crisis: In Perspective (Daedalus, CIV, 4, Fall 1975), pp. 259-281

I am depressed, for example, when I read a sentence such as:

> "It is in the interest of the industrial countries - indeed of all consuming countries - that conditions be created in which OPEC loses and cannot subsequently regain the power to set oil prices at artificially high levels."***

For one thing, the word 'artificially' is surely meaningless in this connection unless, through a system of administered prices within an integrated economy, some seller is being forced to sell, or some buyer to buy, against his will. For another thing, it is by no means obvious that a situation of unco-ordinated pricing, with all that might imply about international competition for preferential access, about potential effects on energy usage and development or about economic welfare in both particular producing and particular consuming countries, would be 'better'. For a third thing, such assertions are exactly calculated to inhibit the emergence of a sense of genuine economic interdependence between oil-exporters and oil-importers, on which 'the interest of the industrial countries' is far more likely, in fact, to depend.

Even if slogans of divergent interest, on both sides of the oil equation, fade away, there will remain an even more pathetic threat to the prognosis of relative international harmony. I refer, of course, to the Arab-Israel conflict. Neither the paper nor the meeting provides scope to consider that circumstance in detail. I must at least admit, however, that I see little prospect of the Arab-Israel conflict being finally resolved or of it being totally divorced from the issue of oil supply within the next decade.

It follows from this that the threat of a new OAPEC embargo on supplies to Western consumers will persist. Personally, however, I expect it to diminish as the next decade grows older. One reason is that, whether or not there is renewed fighting on Israel's borders,

/I think it

*** Enders, op. cit., p. 628

I think it likely that the tendency towards progressive inter-state accommodation which began in 1973 will continue and grow stronger. Another reason is that, as that happens, the focus will shift - as it is already shifting - from the hostility between states to the problem of the Palestinians, on whose account OAPEC members are much less likely to employ the 'oil weapon' in its 1973 form. A third reason is implicit in my optimistic expectation of greater economic interdependence between OAPEC countries and their industrial customers. In 1973, OAPEC had, as it were, a 'free shot'; little, if anything, was lost by cutting off supplies or expropriating Western assets. By 1980, and even before, as industrialization proceeds and as OAPEC states become more dependent on Western technology, Western capital goods and, ultimately, Western markets, a great deal will stand to be lost. That will not invalidate the 'oil weapon'. It will, however, tend to convert it, in Arab eyes, from a weapon of compellance to one of ultimate deterrence, less likely to be used in an attempt to change Western policy towards Israel than to prevent a direct Western intervention on Israel's behalf.

None of these arguments persuades me that a new embargo is impossible. The possibility will remain, in fact, as one limit upon the extent of Arab-OECD shared interests. For that reason and others, the relationship will, at best, be one of qualified harmony, founded upon a recognition of reciprocal economic advantage but insufficiently substantial to resist all political imperatives.

That last remark applies not only to relations between Western industrial countries and OAPEC states but also to those between the former and Iran. There is little risk that Iran would, in fact, join a supply embargo in the context of the Arab-Israel conflict. Nor, however, is there a susbstantial probability that Iran will seek a closer alignment with the West, in political or strategic terms, than it has at present. Partly because of the possible international repercussions (vis-à-vis the Soviet Union and/or Iraq) but also because of domestic considerations, it seems exceedingly unlikely that the Shah will, in

/in any formal

in any formal or general way, place his country's naval or military capabilities at the disposal of Western strategy - and still less likely that he will accept the sort of more specific association with British, French, US, Australian and even South African forces which has recently been mooted.****

One of the few factors which might significantly alter Iranian calculations would be a marked change in Soviet policy or in the character of US-Soviet relations. The strategic imminence of the Soviet Union remains the primary preoccupation of the Iranian Government. If the Soviet Union were, in the next decade, to revert to a policy of more active hostility, towards the West in general or towards Iran in particular, the Shah might seek a closer involvement with the West, and especially the United States. Short of that contingency, he is likely to keep a polite distance.

The possibility of a radical change in Soviet policy aside, the interest of the Soviet Union in the Middle East must represent another of the doubts about the moderately optimistic prognosis outlined earlier. Again, the subject is too large to explore. Once more, however, I am inclined to expect a moderate outcome: neither a more sympathetic Soviet attitude to Western interests in the Middle East nor a more determined effort to undermine them. Something may, of course, depend on the emergence of any more direct Soviet interest in Middle Eastern oil. Recent research has demonstrated rather persuasively that the Soviet Union, far from becoming a larger supplier of oil to Western markets in the next ten years, is likely to find more of its production required within Comecon between now and 1980 and may actually have to become a net importer in order to supply Comecon needs in 1980-85. In that latter period, therefore, the Soviet Union may become a more active purchaser of Middle Eastern oil. The volume

/is likely, however,

**** See The Economist: Survey: 'Out of the Fire: Oil, the Gulf and the West', May 1975, pp. 75-77.

is likely, however, to be relatively small - possibly only 1 million barrels per day at the peak. In the first instance, the Soviet Government would, no doubt, seek to obtain this on preferential barter terms from Iraq, and especially from North Rumaila. If, as I suspect, the Iraqi regime has by then become rather more conventional and conservative in its attitudes and rather more detached in its relations with Moscow, the Soviet Union will probably be happy enough, however, to buy its oil on market terms - incidentally contributing to the maintenance of overall demand for OPEC oil in the process. All in all, therefore, my personal view is that Soviet interests and policies, provided there is no radical change of Soviet international purpose, are likely to shadow, but not modify, the general prognosis stated earlier.

Conclusion

The arbitrary and instinctive projection which I promised has, as I also promised, been moderate: moderate turmoil within oil-exporting countries, moderate restraint between them, moderate reciprocity in relations with the West. I have not, of course, touched upon the third side of the international triangle: the relations between oil-importing countries. There, I am sometimes less optimistic that moderation will prevail. In particular, I am deeply troubled by the possibility that attempts to defeat the policies of OPEC and OAPEC, rather than to adapt in order to moderate them, will not only disturb relations with producers but also enormously exacerbate friction between consumers, whose interests must, in those circumstances, be sharply divergent. That, however, is a subject for a different paper. As to this one, I adhere to my moderate view. I do so, nevertheless, in the full knowledge that one or another accident is overwhelmingly likely to subvert it, at least in part. If I were forced to select the accidents whose possibility concerns me most, the list would include a new OAPEC embargo on supply (especially in the earlier part of the decade), a radical revolution in Iran (or possibly Iraq), a collapse into political factionalism and conflict in Saudi Arabia, a violent Syrian-Iraqi conflict

/and, I fear,

and, I fear, an epidemic of folly in the industrial world. None of these things is impossible. All of them we shall, no doubt, discuss. Each of them is more likely to be averted by prayer than by analysis.

Ian Smart
12.XI.75

D I S C U S S I O N S U M M A R Y

SECOND MEETING OF THE WESTERN EUROPEAN STUDY GROUP EXAMINING "THE MIDDLE EAST AND THE CRISIS IN RELATIONS AMONG THE INDUSTRIAL STATES"

TOPIC : The Impact of the Energy Crisis upon Western European Foreign Policies : Convergence/Divergence in Foreign Policy among Industrial States

MAY 15-16, 1975

INTRODUCTION

The Western European Study Group held its second meeting in Paris on May 15-16, 1975. The report which follows attempts to link the discussion, its findings and the papers prepared to the Group's prior meeting in February 1975 and to its final session, tentatively scheduled for October. In order to facilitate the parallel development of analyses, which is one of the methods of the overall project, the report also reflects relevant findings or questions raised in the two working sessions of the North American Study Group.

The purpose of the meeting and how it is integrated with the wider project on "The Middle East and the Crisis in Relations among Industrial States" are summarized in the initial section of this report. Major findings of the May meeting will be discussed in a second section while a third, concluding section will attempt to elaborate the significance of these findings to the aims and progress of the overall project.

I. ROLE/FOCUS OF MAY MEETING

The second meeting was held in order to examine foreign policies of selected governments which emerged from the energy crisis opened by the 1973 OAPEC/OPEC decisions. Relevant foreign policies were viewed from three optics : 1) their domestic and international sources (e.g. impact on domestic economy, pressures),

.../...

2) the implications of the resultant foreign policies for relations among industrial states and 3) assessment of hindrances to joint action by Western governments as reflected in divergent foreign policies and/or of possibilities for cooperation suggested by convergence in their foreign policies.

The focus on foreign policy sources and interactions corresponds objectively to the dimension of the energy crisis which spills over national boundaries and escapes management by any one nation. The focus permits the study group to identify the major features of the impact of this problem having its origin in Middle Eastern politics. In accordance with the aim of the overall project, the focus mirrors analyses of domestic influences and descriptions of objectively-different national situations which constrain or mold national energy policies.

The agenda sought to pace the work of the study group both in terms of the matters which the group is constituted to investigate and in terms of "cross-fertilization" with its North American and Japanese counterparts. The initial meeting had served to introduce the subject of the relationship between the two principal Middle Eastern problems and the "crisis in relations" among industrialized nations. The narrower focus of the second meeting, i.e. the foreign policy and inter-state dimensions of reactions to the energy crisis, was designed to advance an understanding of the framework within which the reactions of the North Atlantic countries and Japan might be harmonized and a joint program of action to energy problems elaborated.

The other principal problem overflowing regional politics in the Middle East, i.e. the continuing tension of the Arab/Israeli conflict, will provide a similarly taut focus for a third meeting. The divergence and convergence of pertinent foreign policy positions will be examined for what they indicate about the health, evolved purposes, limitations, et cetera of the Western alliance. An analysis of the interrelationship of foreign policy positions on both problems being studied will be conducted, again in view of judging the possibilities and forms of cooperation among North America, Western Europe and Japan.

Such a program is intended to permit the Western European Study Group to complete, within a useful prism, its examination of the project topic, consolidating in subsequent meetings its prior assessments and analyses. As its work reflects the real-life evolution of problems or redefines their impact, the group should be prepared to contribute rather precise findings to a final joint conference of selected members of the three study groups.

II. FINDINGS

Three findings of particular relevance to the project may be drawn from the Group's discussion. First, it would appear that, within the Western European nations studied, the "energy crisis" has had little particular effect upon their long-standing internal and international attitudes. Rather, the "crisis" has been one among many diffuse influences affecting policy-making. Secondly, the EC framework seems almost irrelevant in seeking solutions to the changed energy situation. Indeed, a split within the organizatio along northeast/southern lines is being bruited. The third finding concerns international cooperation among the North Atlantic countries and Japan. Not only the extent of cooperation but also its instruments and fora are disputed. If at a certain level of reasoning industrialized countries share a common problem, it should not be deduced from this that their interests are the same nor that common solutions are thereby dictated. Rather, as discussed in February, the energy decisions of the oil producers affected consumers unevenly. The objective national situations of the latter differ, causing them to define the problems at hand in varying ways. Such de facto divergence cannot but have important implications for joint responses.

"Little Particular Effect"

For several reasons the energy crisis is not deemed to have left a sharp or a radical imprint upon domestic and foreign policies in Western Europe. The economic situation in which several nations then found themselves had been evolving prior to and independent of the OAPEC/OPEC decisions, providing other bases for policy. The initial shock was largely of a psychological order and existent economic and political structures continued to function much as before. At the international level, the necessity of a dialogue with producer governments was given greater actuality although, of course, the underlying problem of resource ownership and management was not a new one. The major configurations of economic and military power within the international system were largely unaffected - or, indeed, may have consolidated - by the conjuncture of events and motives fostering the 1973 decisions. The need for radically new foreign policy pronouncements was thereby obviated. (This brief analysis may suggest that any crisis in relations among industrial states also has prior sources. To the degree that Middle Eastern politics exacerbate or interact with that crisis, our study may contribute to an understanding of the difficulties and of the dimensions of fundamental strains within the Western alliance.)

British foreign policy has had to undergo relatively few modifications as an explicit result of the 1973 decisions taken by oil producers. Like Norway, Great Britain was led to

focus more attention on exploitation of the North Sea petroleum deposits. These deposits, however, could not cushion immediate effects of the threat to oil supply and the subsequent British balance of payments deficit. The effects were much sharper in Britain than in Norway given the latter's pattern of energy consumption(1) which rendered it largely immune to the OAPEC/ OPEC decisions.

Both nations will experience a long-term benefit as those decisions revaluate the North Sea holdings, a fact that weighs in considerations of an international floor price. Britain's very development of those fields has, perhaps ironically, increased its balance of payments difficulties in the short-term since part of the equipment needed for that development must be imported. Indirectly then, the OAPEC/OPEC decisions might be held responsible both for the additional difficulties and for the internal political debate which the North Sea program represents.

The British balance of payments was headed toward a deficit before the rapid rise in oil. Similarly, inflation was independently gathering momentum, fueled by domestic wage settlements beyond the nation's economic performance. Continuing inflation there is attributed more to domestic causes than to the oil bill (TAPSELL). As Britain attacks its payments situation, it may be led to steps such as controls on imports. Such a measure would certainly sour its international economic relations to some degree having some vague relationship to the 1973 oil price rises.

Unaffected by threats to supply, Norway is affected by the sharp climb in value for its oil reserves which followed the oil cartel's mark-up. The debate already underway about how to integrate those riches was given new life and the government was forced to clarify its position. This position was based on concerns peculiar to Norwegian politics and largely independent of the energy crisis per se. For instance, deliberate constraints on further development of petroleum resources is based on local fears about a future radical re-structuring of Norwegian society and goes against the commercial argument for enlarging Norway's production. Control over the native and foreign enterprises has been reinforced with a growing role for the state oil complex, Statoil.

No revision in foreign policy stances was necessitated. The fundamental problem with an international aspect remains the disputed, mineral-rich continental shelf. Norwegian tendencies continue to run preferentially to Nordic neighbors, to the extent that international cooperation imposes itself. The debate about how its resources could aid Western Europe has remained most theoretical. To procure this alternate source, would Europeans be willing to underwrite the costs of opening fields and holding them in reserve ? Without any formal link to the oil cartel,

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(1) Hydroelectricity alone accounted for 51 % of Norwegian consumption.

Norway benefits from price rises and avoids a foreign policy decision on alignment. Participation in the International Energy Agency was declined given the loss of decisional authority which its clauses on automatic responses required. Her new riches encourage discussion of wider aid relations with Third World countries.

The Dutch economy had been developing its natural-gas reserves in Groningen prior to the 1973 scare on the basis that it was a commercially-sound policy. Not only was it able to avoid important shortages due to this on-going energy program (and to the distribution assured by the international oil companies during the relatively short period of the boycott) but it was prepared and able to become a net exporter of energy in 1974. While Rotterdam harbor has been able to resume much of its activity, with its important role in the health of the Dutch economy, planners cannot overlook a future need for re-structuring should the domestic energy programs of the Dutch "economic hinterland", i.e. Belgium and Germany, reduce their need for Rotterdam's transit and transformation services (HELDRING).

In the Federal Republic of Germany, the reaction to the oil price hike was contained within the wider disciplinary measures being pursued along the entire economic front. Cyclical factors rather than the energy squeeze were said to be responsible for difficulties then being encountered in certain industrial sectors such as construction and automobiles (BIRNER). This more general analysis inspired corrective programs. Similarly independent of the energy crisis which broke in the aftermath of the October 1973 war between Israel and certain of its neighbors, the German government had been urging reconsideration of energy consumption allotments. The crisis naturally increased the urgency of such an endeavor. Since the energy crisis made itself felt only within relatively narrow limits,there were no overriding domestic or foreign pressures for major policy alterations (BIRNER). While the crisis offered the possibility of a more active role for central planning, it should be noted that German governments have long exercised discreet authority in economic matters ; no real re-adjustment in either political or economic structures seems to have occurred.

The French government has been active in policy-making as a result of the crisis but neither the policies nor the crisis seem to have left a clear or peculiar imprint on domestic economic and political patterns. Externally, there has been little need for revision in foreign policy ; even the new question of remaining out of the US-backed IEA found its response rooted in prior French assessments of the nature of international relations.

Much has been made of the "correct" French attitude toward Arab governments, an attitude which brought exemption from the OAPEC oil boycott in 1973 and 1974. The general French position, of course, had been enunciated six years earlier without explicit reference to ownership rights of natural energy resources and

prior to the shift from a buyer's to a seller's market in oil. Interestingly, despite this favorable stance, France is the country which elaborated the strongest program aimed at reducing its dependence on imported oil (BACK). That program, however, has had little impact on existent patterns of consumption or energy purchases. Several reasons are cited for this. The very drawing up of programs served a political purpose throughout consumer nations as it filled the need for governments to "do something" while avoiding any real restraints on consumption, restraints which lacked public support (e.g. the U.S. "Project Independence"). Another political purpose was served to the degree that the elaboration of a program was seen as a signal to the oil cartel that their client would not endlessly submit. The striking idea in the French program of setting a monetary ceiling on oil imports served such purposes.

In other ways, however, the ceiling did not need to function. It was set at such a level (51 billion francs) as to prove "théorique" (BERNARD) in view of the effortless reduction in the use of fuel due to a mild winter and to slower industrial demand plus the reduction in price due to the decline in the dollar. The ceiling, nevertheless, appears a desirable instrument and will probably be retained (although perhaps at a new figure) in 1976 (BERNARD).

As with Germany, Britain, etc. the impact of the higher oil note was enfolded in general inflationary pressures. Gasoline prices did rise and fluctuating policies about speed limits were first imposed then withdrawn to avoid damage to an already nervous automotive industry.

A domestic debate about the nuclear alternative featured in the government's energy statement is underway. As the debate rejoins prior and independent concern with a nuclear program, raising the nuclear option does not represent any change in French policy. Indeed, substitutability for oil is only one of the issues being discussed. Rather, reliance on foreign technology, environmental effects, and so on are raised.

Compared with other Western European economies, the Italian economy was more pointedly hurt by the limitations on supply and the new price level stemming from the 1973/74 boycott and related oil decisions. Yet, like other consumer nations, Italy has not reversed long-standing policies either internal or foreign. Except for policies of limited application, e.g. restrictive measures on credit policy, few policies with a wide and thorough influence were adopted. Deflationary measures imposed were aimed at a general phenomenon of inflation as well as the particular stimulus represented by the higher oil bill. Although the discussion did not attempt to pinpoint the more narrow effect of this stimulus, the oil note is held responsible for about three-fifths of the 1974 balance of payments deficit.

Internally, the government's policies of monetary restrictions, penalties on many imports and tax increases have combatted wider inflationary pressures all along the economic front. Reassuring signs of economic health can be spotted although the price of oil has not diminished. Like the French energy program established in the shock of the 1973 decisions by the oil cartel, the Italian program has not become operative (CASADIO). Conservation is not a politically safe policy in a nation so heavily dependent on the health of its motor vehicle industry. Research for native deposits of gas and oil has been stimulated, raising the hope that by 1980 Italy could fulfill 30 % of its needs (CASADIO, FORTE). Yet, as in the British case, domestic exploration may include new pressures on the balance of payments as Italy tries to procure specialized drilling equipment. That material is now in world-wide short supply (2), thus retarding Italian exploitation to some degree. Other independent factors act upon Italian efforts in the energy field,efforts determined in part prior to the oil price hike and destined to procure modern sources of energy such as nuclear-powered plants. Contracts with General Electric, the USSR and EURODIF had been signed or were being discussed before the strictures on oil supply and price occurred in late 1973. Similarly distinct from the changing fortunes of the international oil companies in their relations with OPEC, the Italian government moved to rationalize the number of gasoline distributor networks and acquired the Shell holdings in Italy (SKEET, FORTE).

Internationally, the Italian government was forced into specific actions but these, too, represented no major departures from long-standing foreign policy attitudes. Italy has long seen itself as a bridge between North Africa and Europe; its participation in the November 6, 1973 EC declaration did not, unlike the Dutch signature, necessitate public explanations at home. Indeed, the government has been able to avoid boxing itself in through too-clear statements and, has, pragmatically, also made statements in favor of certain Israeli positions (CASADIO). Beyond its worries of Arab reprisals, Italy continues to block progress on a Common Market accord with the Maghreb countries which would compete with Italian citrus and wine sales. Italy has joined the IEA while maintaining that it opposes confrontation with the North African and Middle Eastern producers.

Italian business has established several trilateral deals whereby Italian skills put, for example, Saudi Arabia money to work in a third country as in the SUMED project in Egypt. Along with French exporters, Italian sales to Mediterranean and Middle Eastern producers climbed in 1974 as part of the effort to counterbalance the nation's oil note. Bilateral arrangements permitted Italy to double its exports to the OPEC countries, exports which began from a modest base (BARATTIERI, CASADIO).

In summary, the countries of Western Europe have shown that they can live with the high oil bills. In 1974-75, industrialized countries increased their foreign exchange reserves despite

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(2) Demand on equipment seems to have been growing prior to the late 1973 decisions but with the scurrying to expand oil fields elsewhere, the small number of manufacturers cannot meet current demand, in part due to the length of time involved in making the equipment (FORTE to Project Coordinator).

the $40-60 billion paid to the oil producers (GEER). Little restructuring within economic and political patterns seems to have occurred which can be clearly attributed to the energy crisis opened by the OAPEC/OPEC decisions in October and December 1973. Rather, it would appear that strains upon social fabric or political and economic organization result from a more general phenomenon of inflation and represent part of inflation's political and social costs although, as in Italy, public opinion may relate the oil crisis to difficulties in the job market and demand policies which restore the prior situation (FORTE).

"EC - Surpassed and Divided ?"

The efforts of the European Community to set up its own energy program have not been furthered by the way in which the 1973 crisis broke. Beyond dissension among its members, the geological and financial resources of the EC members are inadequate to meet the problem. Its attributions in the field of foreign policy are so limited as to prohibit the organization from taking a common or positive stance. These realizations, perhaps more than the energy crisis itself, have moved the spotlight off Brussels in regard to solutions to the energy problem. Proclivities for smaller formations, either within the Nine or including non-EC states, are voiced but have not yet taken any concrete form.

Just as Great Britain might "go North", so do some Italian thinkers caress the notion that Italy "go South" or east or west in order to alide itself to sources of finance and oil (FORTE). The Mediterranean vocation is the strongest and recalls Eurafrican proposals often heard in Italy in the early 1930s. The German loan of $2 billion to the Italian state acted to revalue the EC connection, however.

Membership in the Common Market entails participation in agricultural programs which, in times of economic difficulty, appear onerous (even though they were generally viewed with approval in times of economic expansion ; FORTE). It follows that belonging to the EEC is now interpreted as being an obstacle to the development of Italian agriculture. At present, complaints focus on the inadequate protection of Common Market structures for Italian products such as oranges. The "Southern option", however, is at its weakest in regard to agriculture for Italy's chief competitors are its Mediterranean neighbors (BIRNER).

A trend can be noted within British preferences to strengthen its relations with Germany and to reconstruct a relationship with France. This trend largely emerged separate from the energy crisis. Since 1973, and due to that crisis, Britain has been led to focus on its North Sea holdings and to discover affinities with northern European countries (SMART), reinforcing the earlier preferences.

Objectively, the Nine and the United States do not have the same interests to protect in regard to the energy crisis. While the Europeans define the problem at the level of the market, the US must also define it and treat it within a vaster interest in a certain world order, including global strategic competition with the Soviet Union (3). Europeans were - and remain - convinced of the necessity of a dialogue with producers. They recognize that a mere EC/OPEC pact can have little validity in assuring either supply or price level without support from the United States, hence the general willingness to join the US-sponsored IEA. This "economic security alliance" responds to certain European worries about supply but, in keeping with the inadequacy of the EC framework, the Europeans can have little control over events which would trigger the alliance provisions (HAGER). Just as individual EC members envisage alternative fora for action, so do EC officials urge that alternatives other than the IEA be followed or that concerted efforts to sway US policy be made on a joint EC level. Open communications with oil-rich Arab states, an IMF role (rather than a platform limited to industry-rich states) and insistence on the non-confrontational aims of the IEA represent several of the supplements which have the general approval of the EC Nine ; none of these, of course, represents a positive program aimed at resolving the actual problems experienced.

In short, the EC framework is challenged by smaller and larger formations. Internally, the difference in national situations has been heightened, e.g. by British prospects for self-sufficiency in contrast to the German, French and Italian necessity to assure, through their diplomacy, the supply of energy needed to keep their economies afloat as well as to further social peace. (The discussion summary of the February 3-4 meeting pointed to a similar - if hypothetical - split within NATO if all of its members' concerns could not be reconciled in policy ; page 7). While cooperation within the larger IEA framework has its problems, to be discussed below, the IEA challenges the competence of the EC in the matter of energy and in other questions to the degree that it organizes its members to do research together or to negotiate with less developed countries or to collate information from the international oil companies, et cetera.

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(3) A similar conclusion was drawn by the North American Study Group ; see Summary Record, March 21-22, 1975, p. I-2.

The EC emerges from this discussion as shaken indirectly by the energy crisis. As was the case for several national governments, this crisis seems to have melded itself into other strains upon the European organization. While a verdict is far from clear, it seems safe to say that as long as the energy crisis has global dimensions, the EC and other regional organizations do not have the appropriate breadth to play a determining role.

"Cooperation - A Debatable Instrument"

Judgements concerning the value and form of cooperation among the industrialized countries differ within Western European governments. As pointed out in the February meeting, neither are the ends of cooperation, especially those attributed to IEA, agreed. It follows that instruments of cooperation are contested. Cooperation at the level of consumer countries represents a two-edged sword. It may help producer organizations to overcome internal differences by providing them with a "common enemy". Internally, the form and instruments of cooperation may prove politically divisive both within the consumer group and within national politics of each member.

The attitudes of European governments toward international cooperation are established within certain perimeters. All but Norway and perhaps the Netherlands are convinced that in the short run there is no alternative to dialogue with the producers. Secondly, the governments recognize the difference cited above in the definition of the energy crisis between the U.S. on the one hand and Japan and Europe on the other. Thirdly, inability to cooperate meaningfully within the EC has sharpened each government's awareness of the different national conditions upon which the energy crisis acted. Finally, the Western European governments are conscious of their differences in relating the energy situation and ensuing US efforts to organize consumer response to other economic and security interests.

The bilateral route has been followed by several Western European nations just as the U.S. did. This sort of response to the energy crisis, however, works to assure short-term supply only and cannot constitute leverage on the price level. It will be recalled that Europeans initially defined the energy crisis as a problem of supply then later as a problem of price. The

the anarchism of bilateral contacts was judged insufficient, like the EC framework, rendering most governments susceptible to action at the level being sponsored by the US. (The February meeting summarized attitudes of those European governments, France and Norway, which declined membership in the IEA.)

The utility of consumer unity is still being questioned. Discussion during the meeting pointed out, as indicated above, that the industrial nations do not represent a "collectivity" ; serious risks may therefore exist in attempting unity on fundamentally different bases (SMART). In a market controlled by a cartel, for instance, consumers logically should "stay loose" and minimize individual losses. Yet, if industrial nations don't attempt to harmonize their dealings with the cartel, one result may be competition among consumers (SMART). Cohesion here takes on its greatest sense although its purpose is largely negative and does not attack the real problem.

A limited vehicle for consumer response is the International Energy Agency. Its chief purposes, to "reduce the participants' dependence on imported oil and achieve a better balance of world energy supply and consumption" (TORRENS), do not cover all the relevant aspects of the energy crisis and do not affect the immediate situation. Like national energy programs, however, the IEA represents a political statement to producers that the cartel's hold over industrial economies will not be tolerated indefinitely.

The utility of the IEA is generally seen as limited or even counter-productive. It has no competence to deal with important aspects of the energy crisis, e.g. recycling (FORTE, SMART). Nor is it currently accepted or competent to act as the spokesman for consumers in their discussions with OPEC or the Third World. As its existence antagonizes producers or creates political divisions among consumers, it may be judged counter-productive (TAPSELL, GEER). Some of its programs may endanger other levels of international organization.Its research functions, for instance, could supplant EC activities and create a dependence of the latter upon the IEA (FORTE).

Months after its establishment, its role is still disputed. Price and supply guarantees were said to be the two questions that the IEA was qualified to negotiate with producers on the part of consumer nations (SMART). Such negotiation itself would represent a new function of the Agency. If one rejects the existence of a price problem, one would deny that function (GEER). The Agency might find a role in collaboration on conservation with producers (GEER) or, in a future boycott, play the part of the international oil companies in assuring distribution (SMART). From the point of view of its members, the IEA could take on responsibilities for conducting discussions with the organization of producer governments (GEER, SMART, BIRNER).

The Agency might not find a useful role. It is not a proven device for coordinating consumers and perhaps should be replaced by a committee of international oil companies reporting to governments (GEER). To the degree that producers view the Agency as the consumers' chosen instrument of confronta-

tion, it may not be permitted to take on negotiating tasks. It should not be overlooked that its status at the April 1975 preliminary conference of producers and consumers was only that of an observer. Until the ends of international cooperation limited to consumers are clarified, any organization of those nations may be less important for its functions than for the significance of its existence.

Within the IEA framework, one instrument of cooperation being discussed is a floor price. Several concepts of a floor price are held and reflect varying assessments of consumer and other international cooperation. Is an agreed floor price intended to lower the price of oil practiced internationally (HAGER) or is it a device to secure supplies (HUREWITZ, BIRNER, LANTZKE) and/or to protect investments in alternate resources ? As a floor price acted to lower the international price, it would endanger itself (LANTZKE). In regard to the last function, it should be kept in mind that OPEC policies can act independently on investments decided by its industrial clients (BIRNER). In any event, the device is not a pricing system (LANTZKE).

The instrument itself may be politically divisive (COCKLE), both in regard to IEA's relations with OPEC and within the IEA membership. The confusion about the purpose of the floor price fosters interpretation of it as an instrument of confrontation. Nor is it seen as an instrument of cooperation within IEA especially when its level is discussed. Italy seeks a floor price as low as possible ; Britain and the IEA associate Norway must keep in mind their own future exports of oil when considering level and form of any floor price. Certain investments in alternate energy resources will go forward regardless of whether the instrument is adopted and regardless of its level ; e.g. the development of nuclear energy in Germany is unrelated to a floor price (BIRNER).

The instrument has certain other dangers. A floor price set at too low a level may be more harmful than doing nothing if it acts to decrease confidence by demonstrating that governments can envisage such a drop in value (LANTZKE). Too high a level would levy financial charges that would have political ramifications, for instance, for Italian and Japanese governments.

A consumer/producer dialogue is widely supported. Its participants and subjects, however, are not agreed. The Paris preliminary conference of April 1975 is the epitome of this disagreement. Conducted on an inter-governmental basis, the conference brought together a variegated grouping of countries. The premises upon which they were selected were not based upon economic interests alone and already represented political compromises (e.g. separate participation for France, the OECD and IEA in observer status, the apparent role of Algeria as spokesman for the Fourth World).

A report on this conference and subsequent discussion highlighted the feebleness of the consumers' position due to a lack of cohesion and to advance development of proposals both among the consumer delegations (BELGRAVE) and within delegations, such as the US team (d'AMECOURT). The representatives of the industrial group had no agreed position which might have suggested the strength of the group (e.g. on the development of alternative energy supplies) or permitted discussion on a particular problem, such as indexing. The EC was not able to put forward agreed positions nor could it carry discussion to any useful conclusion, confirming the study group's finding of EC inappropriateness in energy matters. Neither in regard to energy nor to raw materials in general did there seem to be a coherent US position (d'AMECOURT) ; two strains revealed themselves reflecting division in the US Administration between the "purs et durs" (KISSINGER/ENDERS) and those willing to examine the wider questions with more flexibility (ROBINSON/SIMON). Given the weight that the US brings to bear both in energy matters and larger considerations of raw materials markets, the conference could not but be affected by the absence of clear positions.

The study group discussed briefly whether the conference should be interpreted as a failure and, if so, to whom might the blame be attributed. To the extent that the conference was a useful exercise in clarifying issues while avoiding the making of an unworkable pact, it might be judged positively (d'AMECOURT). From the point of view of internal US politics, the adjourning of the conference without agreement on an agenda might be seen as a success for Kissinger (FORTE).

At the level of politics among industrial states, this ending to the conference might be interpreted as a French success and a failure for IEA since it proved the lack of agreement among France's industrial colleagues (FORTE). Contesting the implication in Mr. Back's paper that the US "had jeopardized the conference by its uncompromising stand" (p.4), another view attached the blame for the perceived failure of the conference to the raising of expanded agenda issue (TORRENS).

It was argued that the US had taken a low profile and had left most of the negotiations to the EC. Why this was the case, in view of the inverse weight of these delegations, was not discussed.

In summarizing this section on international cooperation, an observation and many questions impose themselves. There is as yet no forceful joint action. The purpose and level of action remain disputed ; should industrial consumers unify ? On what basis? Is unity desirable only on the oil issue or must it be paralleled

in regard to other raw materials ? Among whom will negotiations on these matters be conducted ?

The discussions during the two-day meeting sketched an array of economic interests among North Atlantic countries. They revealed the inappropriateness for action of existent international organizations and of ad hoc fora such as the Paris Conference. Going beyond an examination of the effect of divergent and convergent foreign policies on industrial states' cooperation, the discussions challenge the very notion of purposeful international action.

III. CODA

The investigation by the Western European Study Group of foreign policy sources and interactions has brought it close to the question suggested at the end of section II, "is cooperation necessary or desirable ?". The question finds its basis in the tentative indication that divergence outweighs convergence in international responses to the 1973/74 energy decisions. This divergence is based on differing economic situations and upon varied political calculations which, in turn, are molded by the play of domestic politics or visions of international relations. An underlying presumption of the overall project is that greater convergence phenomena in foreign policies of industrial states would inspire their cooperation on the energy issue. This hypothetical result is hindered since the purposes of such cooperation are not agreed, another manifestation of the divergence phenomena. Indeed, the very effort to achieve cooperation on an inappropriate issue and level may contribute to the crisis in relations among industrial states.

4.6.75

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March 18, 1975

DISCUSSION SUMMARY:

Initial Meeting of Western European Study Group examining "The Middle East and the Crisis in Relations among the Industrial States"

February 3-5, 1975

Introduction

Within the framework of the larger study preceding concurrently in Japan and North America, an initial session of Western European scholars, businessmen and civil servants met to discuss the impact of problems originating in the Middle East upon relations among Western European governments and among these governments, North America and Japan. The principal problems are seen as the energy situation emerging from OAPEC/OPEC decisions of October and December 1973 and the continuing non-resolution of the Arab/Israeli conflict. The energy decisions by the oil producers affected Western European consumers unevenly since their objective national situations differ in major ways, their preoccupations with related issues (i.e. security) differ and their definitions of the problems to be handled vary. Not surprisingly, their recommendations for action at the international level are divergent and to the degree that coordination among industrial states is seen as requisite, pose a first order of difficulty in interstate relations.

In order to create a foundation for understanding a crisis in relations among the industrialized countries, brief statements of attempts to elaborate national energy policies and views on cooperative efforts were tabled from six Western European nations. They described the varying domestic economic and political circumstances upon which the energy crisis struck and how they were affected as well as how they molded the government's responses, both internally and in external relations. These statements have been culled for their primary concerns and, after an abstraction of distinctive bases for national positions, are presented in chart form. (It should be kept in mind that no effort was made, at this point, for the analyses to be strictly comparable). Representatives of the newest vehicle for cooperation among industrial consumer governments attended the meeting and described the intent of the International Energy Agency (IEA) its emergency program and other functions it has been attributed.

The discussion of these concerns quickly revealed not only the integral relationship between the energy crisis and the non-resolution of the Arab/Israeli conflict, but the interrelationship between these issues and problems of military security, economic prosperity, social stability, et cetera besetting Western European governments. Recycling, in particular, seems to carry within itself a threat to Western societies as their style and standard of living might lead to a transfer of wealth or to a mortgage on their future to the benefit of their oil creditors if continued. Alternatively, painful social upheaval or re-structuring may be required. The choices are "political" in the highest sense.

That the energy and financial problems are linked to the Arab/Israeli conflict draws its significance from the uncomfortable fact that if Western Europeans and Japan are condemmned to do something about energy supply and financial drains, they can do little about the armed antagonism. Agreement that the issues are interrelated does not lead to agreement on the best responses or negotiating strategy for either set of problems, either jointly or singly.

National Situations

The very source of alternative supply to Middle East oil which the North Sea holds for Britain and Norway is a source of internal problems in defining a new relationship between governments and oil companies. Because these prospects feature importantly in both nations' energy policies, the dispute has a wider importance both in terms of domestic political choices and of the governments' participation in international programs. Both nations, for instance, must take the North Sea prospects and control over companies exploiting these finds into consideration when envisioning membership in any international agency, such as the IEA, which includes an automatic allocation procedure in case of shortfalls. Norway, in fact, refused this obligation and negotiated a special association agreement which preserves its decisional authority. The unresolved debate on what is an appropriate role for government in regard to evolving a national energy has also affected Germany and the Netherlands to some extent, resulting in some change in Bonn's traditional non-involvement in oil supply by private enterprise. Other brakes on governments' incentives to elaborate energy policies are the view that despite the 1973/74 Arab embargo international companies performed their distribution function most satisfactorily and the expectation that they would continue to do in collaboration with IEA if another embargo were attempted. While satisfied with the allocation process at that period, the Italian government wonders if its squeezing down on the part of international companies in its internal market to the benefit of its own oil company will reduce their aid in the future.

Of the several national situations described, the Italian predicament was perhaps the most bleak. With uncertain energy alternatives and a budget in deficit, Italy both fears disruption in supply and is forced to seek financial aid externally from both EEC partners and the US. Its support is therefore rapidly given to a wide range of initiatives for international cooperation, particularly those pressed by the US and Germany. For its part, Germany sees little alternative to action on an international basis for its North Sea holdings are not blessed with oil reserves apparently and its territory is seen as "difficult", for the building of bridgeheads for oil and gas pipelines.

French readiness to see in the European Economic Community an appropriate forum for transnational cooperation contrasts with Italian and German views of the EEC as only one of several possible platforms for response. The Netherlands reject the EEC framework as too small. French insistence on the European dimension in the specific task of reducing dependence on Middle East oil is likewise singular, a stress on a "European interest" that re-surfaced but was not clearly defined, in regard to the need for haste in resolving the Arab/Israeli conflict interlocked as it is to the energy situation. France is not alone, however, in believing that the IEA is addressing its efforts to the wrong problems; Norway, too, sees the emphasis on shortages as mistaking the concerns of the recent past for those of the future.

Interestingly, given the distance between France and the IEA, both emerge as possible international conciliators between producers and consumers. The French determination to avoid offensive action toward current producers place it in a diplomatic position where it has a certain audience with both groups (although the idea was also aired that the French position could lead to competition for oil supplies between France and the IEA; similarly, some IEA members wish to assure that France's non-membership does not achieve for it the same benefits that accrue to nations accepting the costs and risks of unity (e.g. Arab retaliation) of membership in IEA. To the extent that some IEA members become net energy exporters, the IEA framework would doubtless take on a mediation role, a role which could well extend to non-member producers.

Chart No. 1

DOMESTIC CONSIDERATIONS AFFECTED BY ENERGY CRISIS / AFFECTING ENERGY POLICY

	Britain	France	Norway	Italy	Holland	Germany
Framework: eco. system, geography, natural res.	govt. active in economy; North Sea oil	govt. initiator in econ., coal, nuclear program	North Sea oil, hydroelectric	unknown, some gas	liberal; natural gas	liberal; unfavorable geography, coal
Pattern of energy cons.; prior policy	coal important, large scale nuclear industry		oil and gas 44%, hydroelectricity 51%	highly dependent on ME oil, gas-pipeline from USSR & Netherlands	exporter of gas	historic reliance on coal; oil 55%, coal 31%, gas 10%, nuclear 1%
Projected energy cons.						1985: oil 44%, coal 21%, gas 18%, nuclear 15%
Actual effects of crisis; lessons learned	supply handled by co.; pricing not subject to negotiation; budget in deficit; imported oil too great; came at time crisis perceived	pricing more important a problem than supply; deficit in budget	no conservation policy but voluntary; hydroelectric power revalidated by rising oil costs; alternative sources permit govt. to consider social	development harmed; no alternatives to ME & North African oil; pricing more important than supply; budget def.; oppose high floor price; ENI insuff.	distribution largely unaffected	budget surplus
Goals of policy	protect North Sea developments	reduce dependence on import oil via dev. of alternatives, ceiling on imports, conserv. weak	build up stockpile to 90 days; dev. N.Sea slowly integrating into eco. struct; retain freedom of action re IEA	difficult to diversify	no nuclear policy yet established	increase gas import nuclear

Chart No. 2

FORA FOR COOPERATIVE EFFORTS (advocate * ; undertook ✓)

	Britain	France	Norway	Italy	Holland	Germany
Bilateral Arrangements with producers	✓	✓ as one alternative to IEA		Successful in past but insufficient	no	
Immediate geopraphic neigbors			bilateral with Nordic states			
EEC	*	*		✓	too small a context	in combination with IEA
IEA	✓ modified enthusiasm	not well thoughtout preferred OECD	object to automaticity/ association	✓	* ✓	* ✓
IEP of IEA		tackling wrong problem	tackling wrong problem		*	avoid concentration on sole program
International Oil Company	served well by in past / headquarters			served well in past but fearful re future	served well by oil co. in past /headqtrs	
US	indispensable	indispensable interlocutor with Japan		indispensable in re pricing and shortage	indispensable	indispensable
OPEC		avoid confrontation	would not join as producer	avoid confrontation		
Euro-Arab Dialogue	opposition to	wider than oil *		insufficient but desirable	Europe too vulnerable to negotiate w. Arabs; oppose	seek to combine with other fora; US pol. presence in ME desirable
Trilateral Conf.		* ✓ more imp. than Euro-Arab dialogue; must prepare caref.	*		*	to prepare carefully

The problem of the compatibility of the different fora was evoked. The US tendency to view European initiatives as disruptive oppose it to French calls for European action, calls which remain largely without an echo from EEC partners. Despite NATO consideration of Middle East problems, there is a general consensus that the NATO forum is not competent either to treat the problems or to mediate various stances of its members in their regard (see below). The hierarchy or division of labor between OECD and the IEA, between either of these and the EEC, as well as the role to be played in specific matters, e.g. financial ones, is not yet clear given the complexity of the energy question, its interrelation with the perpetual Arab/Israeli tension and the divergence in needs and policies of the industrial states.

Wider Impact on Western European Societies and Foreign Policies.

The major sets of Middle Eastern problems interact in European governments' considerations of foreign and domestic policies regarding security, internal social harmony or justice, economic growth and distribution, etc. The British government was locked in a showdown with coal miners at the time that the energy crisis was unleashed by the 1973 oil price decisions. This conjuncture both enfeebled the government in regard to the economic discipline it had been determined to impose and hampered the formulation of an authoritive energy policy. Some strategists fear that national energy policies calling for development of North Sea resources will create a gauge for Soviet military planners over Western economies. Public opinion in Norway, Holland and other Protestant countries in Europe have given signs that realignment by their governments in international councils at the expense of Israel (e.g. acceptability of the Palestine Liberation Organization, PLO) will not be passively received. Where international pressures upon governments to re-consider the PLO confront domestic opinion, governments experience yet another sort of constraint stemming from the Middle Eastern area. In regard to international action on the part of the industrialized states, the Dutch voice is almost alone in warning against a solution to energy problems based on political payments on the complex issues dividing Israel from its Arab neighbours.

The stress on the relations among Western Europeans and the US was nowhere as clearly delineated as in security - related issues. This is not surprising given the intellectual framework with which such issues are analyzed, a framework with generally shared perceptions of relevant strength and a subsequently accepted order, unlike the proliferation of possibilities existing in economic maneuvres. The energy crisis seemed to place the US' European Allies in the role of hostage to Middle Eastern governments responsive to varying degrees to Soviet control. A future such crisis might include an overt military stranglehold on the Allies. The obligation to rescue them may be seen as the right to cajole them beforehand to support US diplomatic and other initiatives.

Participants' views differed on whether the October crisis had shown not only how dependent West Europe was upon the US in regard to defense but also in regard to managing the oil problem. Given the divergent views on the later problem, it may be former concepts of Western security which emerge weakened.

It was suggested that should NATO attempt to extend its responsibility to the Middle East, that attempt could be divisive for the alliance given the very real divergence in policies being pursued there. Indeed, NATO may have missed its chance to influence events in the Middle East, by not finding some accommodation of France's bid to sell planes within the alliance. By shutting France out of the European market, it may have contributed to France's turning east for clients.

The effect on Mediterranean security from the arms build-up by the Arab states and Israel should not be overlooked and is linked to the idea of NATO expanding to cover Middle Eastern threats. In some future, the current belligerent states might train their guns elsewhere than on each other. Italy fears that it might be a likely prey to Arab retaliation if, for instance, a NATO assault on Arab oilfields were launched from its shores. Ultimately, a division in concerns about security could set apart a southern tier of European nations from Northern European and Atlantic Allies.

According to whether a link between the energy problems and the Arab/Israeli conflict is admitted and according to the definition of that link, different policies are advocated. Japan, for instance, fears that a new outbreak of fighting would disrupt its oil supplies but lacks sufficient leverage to influence the belligerants. It seeks to reduce the risk of war by calling upon other nations to observe an arms embargo. Agreement by others that the problems are related does not entail agreement on the utility of an arms embargo. French restraint after 1967 was not copied by any other nation and the fact that France has resumed sales of weapons constitutes recognition that no capacity for influence can come from an embargo followed by single second-rank supplier.

Support for an arms embargo by second-order suppliers comes also from those who reject a link between the two sets of problems. Behind their rejection is the acceptance of the hope expressed by Kissinger that the conflict can be confined or localized. This implies a negotiating strategy of separating the Arab/Israel dispute from more properly economic difficulties. A national situation of alternative energy resources and a recognized incapacity to influence the belligerants, such as is the case of the Netherlands, emerge as necessary conditions to support such views. In any event, the goal of isolating the Arab/Israeli dispute from energy questions appears a weak basis of cooperation as long as one set of belligerants is determined to use petroleum as a way of advancing its cause when dealing with industrial nations.

Cooperation among the North Atlantic countries is set back by US, Dutch and other allies' suspicions of France's re-entry into the arms market, this time to Arab governments. Again French diplomatic ambitions and energy imperatives are accused of weakening Western unity of action. The sales are not without indirect costs to French diplomacy for France is no longer viewed as a possible conciliator in talks on a peace settlement, in contrast to its potential role in resolving energy matters. Priorities in goals held by Western governments are another form of divergence within their interstate relations.

A sophisticated argument was made that too-great unity between Europeans and North America in the Eastern Mediterranean could lead to a Soviet perception that it was being closed out of the area. Distinct French policies vis-à-vis its Western Allies was seen as a way of avoiding a more stark, bi-polar bid for influence.

The armed conflict is only one aspect of the continuing tension between Arab nations and the Jewish state. Few diplomatic initiatives in the area can be claimed by the US's Allies other than France in regard to Jerusalem and a territorial or other identity for Palestinians. Such passivism permits much maneuverability for Kissinger's step-by-step diplomacy (both in terms of its content and timing) and reveals that few European nations have a basis for action in furthering a peace settlement. The passivism may be encouraged by the awareness that, despite the link between the armed conflict and oil embargoes, threats to European supply could continue even if there were a peace settlement. The potential for sowing disharmony in relations among industrial states remains with Middle Eastern governments.

Future Frameworks for Industrial States' Relations

Implications for various future order are embedded in the responses decided singly or jointly by industrial states. New economic centers may be developed, such as the North Sea area or the Arab world. Depending upon the reactions to current Middle Eastern problems, domestic societies in today's industrial regions may undergo re-structuring, for instance, as export-led growth is sought in order to meet oil bills. The ramifications of recycling seem at once most pregnant with future change and most obscure in possible effects. The impact of identifiable forces upon domestic politics or upon the evolution in international economic order is highly speculative at this point in time. The final form of relations among industrial states cannot be foreseen and, in the long run, may not even be the relevant question.

Selection among different methods to generate funds to pay energy imports will result in different relations of any European economy to its suppliers. An increase in exports might include severe restrictions on domestic consumption, with attendent risks for government stability at home and constraints on government action abroad. This sort of political "cost" or mortgage would exist in other forms under other programs such as producer investment throughout the domestic economy or loans made from producers, international funds, allies, etc. It was pointed out that recycling and reshuffling are no solution to the oil pricing problem. The transfer of money or goods or whole industries to the producers could radically change ways of doing business as new concepts on commercial or banking practices emerged; one could envisage Beirut replacing London as the financial nerve center.

The necessity to react to the energy crisis and to its subsequent problems of managing procurement, distribution, negotiations with producers, surveillance of foreign investments, banking guarantees, etc. may entail a profoundly new role for central authorities. Accommodation to such a part for government will surely launch a political debate within each country. The relative strengths accruing to governments will then - as today - affect their capapcity or desire to react to cooperative efforts among industrial states.

Pursuing their current self-interest, consumers could adopt a strategy of developing assorptive capacity for Western and Japanese goods in producer or other non-industrialized countries which have borrowed from producers. Yet, to the extent that they erased existing disparities in economic strength, they would be preparing a new international order in which their pre-eminence is not necessarily assured. An interesing point to observe will be what, if any, impact on responses agreed among part or all of today's industrial states this sort of vision of the future can have.

In the short and long runs, the question "who will manage what?" must underlie policy. In regard to recycling, for instance, the logic of market forces works to bring petrodollars to the stronger economies, not the weaker, needier ones. The decision to "reshuffle" these funds is necessarily a political one and may entail an economic or non-economic quid pro quo reinforcing the position of the stronger. The problem appears to surpass bi-lateral relations and new or existing international organizations may be seen as useful tools for advancing national objectives in international affairs. This indicates that international infrastructure is highly political and that its utility cannot be judged on efficiency alone. The producers' bid to increase their voice in IMF councils reflects an attempt to participate in the elaboration of policy over which they can now hope to exercise some control. Similarly, the argument behind the choice of an appropriate forum for a consumer response concerns control of the forum and policies it will advocate.

Conclusion

This initial meeting of the members of the Western European Study Group established the framework of inquiry into the crisis in relations among the North Atlantic countries and Japan which results from the continuing effect of the pricing decisions taken in 1973 as well as from the persistent problems of unresolved conflict in the Middle East. Questions that will underlie future examinations include: Have patterns of interdependence among the industrial states been changed by the energy crisis? What is the nature and significance of that change? Are the industrial states more interdependent as a group in regard to either or both sets of problems? Has their pattern of interdependence been penetrated or broadened?

While it is clear that the Arab/Israeli conflict and the energy situation present dangers and opportunities for the Western world and Japan, it is not clear to what degree constraints or openings - or the perception thereof - are shared. Diverging views affect joint responses to be based on convergent interests. The implications for future interstate relations among the industrialized tier of nations can only be judged after a careful assessment of their divergence and convergence.

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Dear Participant,

Several participants in the May I5-I6 meeting of the Western European Study Group have commented that the discussion summary did not reflect their impressions of that meeting in regard to the IEA. Using the same tapes again, that portion of the summary has been re-written and is forwarded herewith.

Sincerely yours,

Judith D. Trunzo
Project Coordinator

Enclosure as stated

COOPERATION : ATTITUDES AND MOTIVATIONS

The discussion on the purposes and form of cooperation among industrialized countries revealed the multiple considerations affecting national policy-making. Some considerations are common and represent convergent bases for policies while other considerations are not shared and thereby represent divergent bases. The need for cooperation was widely agreed. Two levels were discussed and their interrelationship stressed. These are cooperation among industrialized consumer countries and cooperation among all consumers and producers.

Consumer Cooperation

The discussion acknowledged the awareness that the energy crisis had a different impact , economically and psychologically, on each individual country, thereby shaping specific stances on cooperation. The inability to cooperate at the EEC level, for instance, has sharpened each government's realization of the different national conditions. It was widely recognized however, that the "bilateral route" followed by many European countries, as well as the US, could only provide limited and short-term national advantages. It can not cope with the dimension and the ramifications of the energy problem in the long run and presents dangers of political friction and competition among individual consumers. Cooperation is necessary at an international level, but some differences appear on the specific objectives, motivations and instruments of a co-ordinated consumers' action. Different priorities are assigned to the short-term problems of action on prices and supply and the "bargaining position" of industrialized countries, on the one hand, and, on the other, to the longer term object of coordinating future actions for rationalizing the energy field in a larger context.

The general problem of the utility and justification for consumers' unity was immediately reflected by the discussion on the purpose and role of the International Energy Agency (IEA).

An official view of the purposes and program of IEA was given by Mr. Torrens. He stressed that the field of competence of the Agency was not limited to an emergency allocation system but included substantial long-term coordination of the research and development of alternative energy sources, an oil market information system, conservation measures and consumer country - producer country relations. The latter aims are extremely important in assessing the future role of the Agency as they are directed towards a new structuring of energy supply and consumption.

The Agency is not intended to address problems which, while related and extremely important, are better placed within the general OECD framework; financial problems like the recycling of oil surplus revenues are an example (Lantzke). Nor is it attributed an authoritative role in negotiating with, for instance, the oil cartel.

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Discussion about the purposes of the IEA reflected some different perceptions of consumers' priorities. Mr. Geer, for instance, expressed the view that, if the purpose of the Agency is "to build a sort of counter-vailing power" to the oil price decisions taken by OPEC, this action would not seriously affect the market prices and could not achieve short-term economic results. At the same time, such a purpose could produce adverse political repercussions on an international scale (Geer, Tapsell). A different view (Hurewitz) saw the importance of IEA, as serving as a catalyst in helping member countries to reach common perceptions of their objective interests and to achieve a collective "political statement".

Mr. Smart articulated a rationale for consumer "cooperation without confrontation". What could be considered an "optimal economic policy" for each consumer (i.e. "to stay loose and go bilateral") is also a policy for "political disaster" as it is bound to generate political frictions and economic competition among consumers. The need to minimize political tensions among consumers thus constituted the strongest case for consumers' cohesion and co-ordination, and could provide a useful role for the IEA. As noted above, however, the justification sometimes given that consumers' cohesion is intended to improve the consumers' "bargaining position" vis-à-vis the producers could lead to disturbing effects and confrontation. From such considerations, it follows that the IEA should not be thought of as a way to bring downward pressure on oil prices. As with any other commodity, the problem of price management has to be jointly examined by a number of different parties, both consumers and producers. Attempts to deal with the price problem by industrial consumers alone, without all the relevant parties involved, is almost "doomed to failure", since it generates both a hostile atmosphere and illusions on the eventual outcome (Smart).

With these problematic points raised, the roles which the IEA and consumer cooperation should assume in the future were also discussed. Mr. Belgrave pointed out that national and international efforts to bring downward pressure on oil prices may well prove to be unrealistic. IEA action should be directed towards giving confidence to investors in alternative sources for production. Members should agree to fix a price level below which consumers would not import oil. The investment climate for high capital-intensive projects like deep-sea facilities and nuclear energy would thus be improved. The fact that time is running short for these programs of substitution should constitute the necessary urgency to undertake at once this long-term cooperative path within the IEA framework. Moreover, in respect to accelerated development of alternative sources, one has to question

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if US and European interests really differ. (Belgrave). In relation to this role, there is the possibility that the existence of IEA-organized actions might endanger or retard other levels of international organization as the EEC. The Agency should primarily focus on "long-term plans for generating the general investment and economic conditions necessary for a prolonged period of high energy consumption" as can be envisaged for the future (Forte).

The Agency should concentrate on carrying out specific projects in the energy field (Birner). The IEA might also find a role in collaboration on conservation with producers (Geer) or, in a future boycott, play the part of the international oil companies in assuring distribution (Smart).

One of the major instruments of consumer cooperation could be the establishment of a "floor price" for oil. The discussion reflected varying assessments of its purposes and limitations. The fixing of a floor-price was not only necessary in order to stimulate investment, but also to increase security of supplies (Hurewitz). The level of the floor-price , however, poses difficult questions. It should be set at a sufficiently high level in order to decrease consumer dependence and vulnerability from external sources. Yet each country has different possibilities of domestic development of resources; Italy therefore seeks a floor-price as low as possible; Britain and the IEA associate Norway must keep in mind their own future exports of oil when considering the level and form of any floor-price. Certain investments in alternative energy sources will probably be decided regardless of any level decided; e.g. the development of nuclear energy in Germany is independent of any floor-price (Birner).

There are also other problems to take into account in regard to such an instrument. A floor-price set at too low a level may be dangerous if it acts to decrease confidence of potential investors by demonstrating that governments can envisage such a drop in value (Lantzke). Two related problems are : how to devise an effective guarantee of the floor-price established and how to achieve the removal of constraints (financial, national, institutional) on energy production (Lantzke).

Some definitional clarification of the very concept of floor-price seems necessary (Hager, Forte, Birner). The floor-price need not be a net price paid to producers; it could be a price to final consumers. Other alternative concepts involve different emphases on international and/or domestic prices. Each definition aims at different economic interests and problems and if industrial consumers are to achieve cooperation, clarification is essential. Mr Lantzke pointed out that the meaning to be attached to the concept is "a minimum level of protection". The difficulties of implementing any floor-price should not be underestimated.

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"CONSUMER/PRODUCER DIALOGUE"

A consumer/producer dialogue was widely urged by members of the Study Group. Mr d'Amécourt presented a report on the preliminary conference held in Paris in April 1975. The representatives of industrial consumers demonstrated a lack of cohesion which weakened their bargaining position. Proposals were not adequately developed among the consumer delegations and at times, divergences within certain delegations seemed to hamper negotiations. The EC was not able to put forward positions agreed among its nine members.

The view was expressed that to the extent that the conference clarified issues while avoiding the signature of an unworkable pact, it was a useful exercise (d'Amécourt). Beyond this initial attempt, the necessity of the dialogue between industrial consumers and producers was seen as continuing.