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THE MIDDLE EAST IN TRANSITION

Whatever the outcome of the current crisis in the Middle East, this much is certain: there can be no return to the status quo ante. Too many fundamental changes and realignments have taken place in that area within the four months since Col. Nasser of Egypt seized the Suez Canal to expect the "old" Middle East to re-emerge from the holocaust. It is, of course, still not possible to predict how (or, even if) the differences between the U.S. view and the French-British view on Middle East policy will be resolved. Neither do we know at this point what Egypt's next move will be, whether Israel is willing to leave the Gaza strip voluntarily or, most important, what sort of scheme the Soviet Union has up its sleeve regarding the Middle East. But, barring a renewal of physical hostilities, one can predict these changes:

(1) the Soviet Union is now so firmly established in Egypt and Syria that these two countries come very close to be full-fledged Soviet satellites. This means that the USSR is now directly involved in the Middle East, a fact which no realistic plan to settle the area's problems can ignore. True, the USSR has been trying to gain a foothold there ever since the end of World War II. But her progress over the past 10-1/2 years was nothing compared to her achievements in the past 6 months.

(2) The prestige of Britain and France has reached an all-time low in the Arab world and it seems most unlikely that it will ever return to the pre-invasion level, regardless of the outcome of the present dispute. The very sharp drop in British-French influence in an area which only a short time ago was still considered the exclusive power sphere of these two countries will certainly also be reflected in the future treatment accorded to French-British investments and military installations in the Middle East.

(3) The U.S. which in the past was generally lumped together with Britain and France by most Arabs has emerged from the crisis with a new aura of fairness and impartiality. How long the Middle East will continue to bestow its respect on us depends, of course, on our future actions. Our dilemma is that the more we are cheered in the Middle East the more we are likely to be booed in Britain and France. It seems, any positive action we may take in the present situation is bound to please one side and antagonize the other.

WORLD ECONOMIC CONSEQUENCES OF THE EVASION

The overall economic consequences of the invasion of Egypt will have affected almost every country in the world before the current year is over, even if we make the optimistic assumption that fighting will not break out anew, that all foreign troops but those of the UN Emergency Force are about to be withdrawn and that large-scale repairs on the Canal and the pipelines can soon be undertaken. Here is what has already happened or is about to happen from an economic viewpoint as a direct result of the Middle East mess:

(1) The area's six oil-producing countries and sheikhdoms are collectively losing about $1-1/4 million per day in oil royalties, wages and other oil-related payments and will continue to do so at least through January 1957.

(2) Europe's oil consumption which normally increases at the average rate of about 1.1% per month will have to be reduced by 15-20% over the next three to four months at least. This in turn is likely to cause a decline in industrial production and reinforce the current strong inflationary trend. All European countries will lose some of their dollar reserves on account of higher oil purchases in the western hemisphere. In the case of Britain, France and Holland there will be an additional loss of gold and dollar due to the decline of Middle East oil sales to other European countries, since all intra-European trade balances are settled 75% in gold or dollars. This last reason will also cause Britain and France as well as Italy to lose dollars as a result of reduced products exports from their domestic refineries.

(3) All freight rates between Europe and East Africa, India and the Far East have gone up 15% since the beginning of November and may well have to be raised again to adjust for the increased travel time and the higher fuel costs.

(4) The world prices of all commodities whose bulk is normally shipped through the Suez Canal can be expected to move upward. The most important of these are tin, rubber, wool, tea and jute.

(5) The increased freight rates and longer distances might well cause a number of countries East of Suez to shift some of their imports from Europe to Japan. This would give Japan her long-awaited chance to gain a foothold in the new nations of East and South East Asia.

(6) As the oil shortage grows in Europe it will have an increasing effect on the oil industry of the U.S. which is expected to provide between 800,000 and 1,100,000 b/d of additional oil to fill Europe's oil gap and make up for the loss of Middle East oil imports into this country.

(7) The Soviet Union which has relied increasingly on the Suez Canal to supply oil to its Eastern Siberian province, (more than 11,000 barrels daily, in the first half of 1956) must now also ship its oil via the Cape of Good Hope which adds some 22,000 miles to each round trip between Odessa and Vladivostok.

(8) This will undoubtedly reduce Soviet oil deliveries to the Far East and may make it possible for the USSR and/or Romania to offer more oil to Western Europe than it is presently selling there. The additional quantities are unlikely to amount to more than about 1% of Europe's total oil imports, but as WORLD BUSINESS pointed out in its special report of October 15th, they would create political capital for the USSR.

(9) According to Australia's foreign minister, the combined cost of the rise in freight rates, tanker rates, and of the higher oil and other commodity prices, all a direct result of the Canal blockade, will cost the world some $250 million per month from the beginning of December on.

THE SITUATION IN THE OIL-PRODUCING COUNTRIES

Since this report is concerned mainly with the situation in the Middle East, let us first look at what the consequences of the invasion of Egypt are for the area's oil producing countries.

The table below shows production for the first half of 1956 as well as exports by pipeline or Canal. It also gives estimated figures for royalties received by each country on the basis of its production record.

MIDDLE EAST OIL PRODUCTION, EXPORTS AND LOCAL CONSUMPTION
(Jan.-June 1956)
In Thousand of Barrels Daily

	Production	Exports via Pipelines	Exports via Suez Canal	Other Exports	Local Consumption and Bunkers
Kuwait*	1,188		882		
Saudi Arabia*	1,028	327**	154		
Iraq	668	508	85		
Iran	514		196		
Quatar	122		96		
Bahrein	30		63		
Aden			26		
	3,550	835	1,502	753***	460***

* incl. 50% share of the Saudi Arabia-Kuwait Neutral Zone's 32,000 b/d output.
** excl. 185,000 b/d pipeline shipments to Bahrein.
*** no complete breakdown available.

ESTIMATED OIL ROYALTY PAYMENTS, 1955
in million dollars

Kuwait	280
Saudi Arabia	270
Iraq	206
Iran	100
Quatar	31
Bahrein	8
	895

As a result of the blocking of the Suez Canal and the blowing up of the pipelines, production will have to be reduced by some 1.3 million b/d, equivalent to about 35% of the Middle East's average output in the first half of 1956. The magnitude of this cut-back derives from the fact that the rerouting of the 1.5 million b/d Suez Canal traffic around the Cape of Good Hope will result in a 55% reduction, given the limited number of tankers available, the 130% increase in distance (Aden-London is 4,400 miles via Suez but 10,400 miles via the Cape) plus the time lost in refueling tankers at Cape ports. As a result, no more than about 700,000 b/d can be expected to be shipped around the Cape. This together with the loss of 500,000 b/d of pipeline capacity from Iraq to the Mediterranean has reduced total Middle East oil shipments to West of Suez to about 1,050,000 b/d for the duration, compared to a normal flow of 2,350 b/d. On the basis of last year's royalties, this means a loss of at least $1 million per day which is, of course, irreplaceable since Europe's oil deficit is being made up partly by increased shipments from the Western hemisphere and partly by restricted consumption.

It is difficult to say how the 35% overall reduction in Middle East production will affect each of the six producing countries or sheikhdoms since this is largely a matter of company decision as well as local oil storage space. However, on the basis of first half-year shipments through the Canal and the pipelines, the following estimate would seem reasonable, once the reduced rhythm of tanker arrivals becomes established.

ESTIMATED MIDDLE EAST OIL PRODUCTION FOR DURATION
OF SUEZ CANAL AND PIPELINE SHUTDOWN
(in thousands of barrels daily)

	Production	Reduction from Jan.-June '56 output
Kuwait*	772	35 per cent
Saudi Arabia*	770	25 " "
Iraq	165	75 " "
Iran	485	5 " "
Quatar	73	40 " "
Bahrein	30	--
	2,295	35 per cent

* Incl. Neutral Zone output

IRAQ'S LOSSES

Quantity-wise as well as percentage-wise, Iraq will, of course, be affected the most. Normally this country ships about 75% of its total output via the pipeline system to Banias and Tripoli on the Mediterranean. With these pipelines totally blocked, Iraq has now been forced to shut down all its operations at Mosul and restrict its production of nearly 500,000 b/d from 44 wells at Kirkuk to just 30,000 b/d from 3 wells which are pumped to the Daura refinery near Bagdhad for domestic consumption. Iraq's production from the Basra region in the south has been hit much less hard since its 165,000 b/d output is all exported through the Iraqui port of Fao on the Persian Gulf. However, nearly half of all shipments originating from Fao go through the Suez Canal, which means that they will have to be severely curtailed as long as the Canal remains fully blocked.

KUWAIT

Next to Iraq, Kuwait is the most seriously affected country, quantity-wise. Normally, about 75% of its total oil output is shipped out via the Suez Canal. The rerouting around the tip of Africa can therefore be expected to reduce its output by over 400,000 b/d.

Kuwait is also likely to be adversely affected by a production cutback of the 120,000 b/d refinery at Aden which receives the bulk of its crude from Kuwait. More than half of Aden's output consists of marine fuel. Bunker sales to ships leaving or entering the Suez Canal is therefore this British colony's major commercial activity. Obviously, the shut-down of the Canal has temporarily all but ended this business.

SAUDI ARABIA

Saudi Arabia is hurt more by the political than the physical aspects of the Arab oil boycott of Britain and France. It has not lost the use of the Tapline which, in fact, is probably pumping more oil across Arabia to the port of Sidon than in the first half of 1956 (its actual capacity being close to 350,000 b/d). Furthermore, it normally ships only about 15% of its oil through the Suez Canal. However, it supplies about 185,000 b/d by pipeline to Bapco's 210,000 b/d refinery on Bahrein Island. Since this is a British-protected sheikhdom, Saudi Arabia refuses to ship any oil there for the time being. The overall result is likely to be a 250,000 b/d decline in production. Saudi Arabia has likewise refused to supply Britain or France from its terminal at Ras Tanura or from Sidon. However, this means merely a shift in exports to other European countries.

IRAN

Saudi Arabia's loss is Iran's gain. Bahrein is now receiving about 100,000 b/d from Iran which together with Bahrein's own modest crude production of 30,000 b/d keeps the refinery going at about 60% of capacity. Iran is also in the fortunate position of normally shipping less than 20% of its total oil output through the Suez Canal so that it is unlikely to be very much affected by the blocking. At any rate, Iran's oil quota for 1956 (23 million tons), as set by the Consortium in 1954, had already been reached by the end of October.

QUATAR

Quatar, on the other hand, normally exports nearly 80% of its production via the Suez Canal. It seems therefore likely that it will be more affected by the shutdown than any other oil-producing country of the area, with the exception of Iraq.

EXTENT OF DAMAGE TO THE PIPELINES AND THE CANAL

Of course, none of these estimated reductions went into effect immediately following the blocking of the Canal and the pipelines. For a period of about ten days tankers continued to arrive and leave at a nearly normal rate. Following this, production was maintained, where possible, by filling local storage facilities to capacity. Then for about three weeks production had to be cut back very sharply - by 75% in Kuwait, for instance - pending the arrival of the first tankers around the Cape of Good Hope. Thus, it took until the first weeks in December before Middle East production settled to the reduced level which can not be exceeded until the physical obstacles have been removed.

Actually, this may happen fairly soon though a total return to normal oil shipping will take some four to six months from the time full-scale repairs can actually begin. But a partial restoration of oil traffic via the traditional routes may be possible much sooner. In the case of Iraq, for instance, it reportedly will take only a few weeks to repair the pipelines themselves but up to one year to replace the three wrecked pumping stations in Syria. However, I.P.C. pumping station T-1, just inside Iraq, is large enough to force about 180,000 b/d, or one third of the normal output, through the pipeline, pending reactivation of the damaged pumps. The speed with which pipelines alone can be repaired was demonstrated in Quatar where the 70-mile 125,000 b/d line to the Ocean terminal at Umm Said was sabotaged at the beginning of November but the pumping station was left intact. This made it possible to resume full production within a matter of days.

The Suez Canal can also be expected to be cleared on a step-by-step basis. The first will be the clearing of a one-way channel with a 25 ft. draft through the entire length of the Canal. In the Port Said area this has already been accomplished and, according to British Admiralty experts, it can be done in the rest of the Canal by shifting - without actually removing - just nine of the 50-odd obstructions plus lifting the two collapsed bridges. It would then be possible for T-2 tankers to transit the Canal with a deadweight load of 12,000 tons of oil, equal to 73% of capacity (16,400 dwt). Another major obstacle, the 15 merchant ships trapped in the Canal, could already be removed now through Port Said if Egypt granted permission, according to the British Admiralty. Freeing these ships would also help to alleviate the current oil tanker shortage somewhat, since eight of them are tankers with a combined weight of 138,000 dwt (see footnote below)*.

Thus, once the political obstacles to repairing the damage have been overcome, some relief to oil-hungry Europe and to the royalty-hungry producing countries can be expected. However, when this will happen is still anybody's guess. Egypt is certainly trying to use the blocked Canal as a bargaining weapon in the coming negotiations on the assorted disputes in the Middle East. Every ship and dredger scuttled in the Canal as well as the blown-up bridges and the dozens of winches pushed into it have been put there for just that purpose by Col. Nasser's men (all neutral eyewitnesses report that British-French bombings did not cause the damage to the Canal or its shore installations). Europe is certainly eager to have access to the Canal again and Col. Nasser's trump is therefore nothing to be belittled. At the moment he is himself under pressure from the U.N. to quit stalling on the repair job. His reply that nothing will be done until the British-French-Israeli forces have quit Egypt is quite legitimate and offers no grounds for objection. But it may mean that another two weeks will pass by before the job can even begin. In the meantime, traffic remains blocked and, even worse, the Canal continues to silt up. Silting operations are normally done around the clock in the Canal because of the continuous erosion of the bed as well as the sand blowing in from the desert. Now, no dredging whatsoever has been done for six weeks and all dredgers have been sunk by the Egyptians. Thus, each day more sand accumulates in the Canal and more work and time will be required to dredge it out.

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* The following tankers are reported to have been trapped in the Suez Canal:

Hector (Norway)	13,500 dwt
Eli Knudsen (Norway)	17,440 "
Emma (Italy)	16,000 "
Americano (Italy)	16,000 "
Amalfi (Italy)	16,000 "
Statue of Liberty (Liberia)	32,000 "
Brigitte (Panama)	14,500 "
Poti (U.S.S.R.)	13,000 "
	138,440 dwt

POLITICAL OBSTACLES

EGYPT

Yet, the withdrawal of the occupying troops is not the only political obstacle to a speedy and efficient repair job. At this moment, not even such a basic question as to whether Egypt or the U.N. is to be in charge of the salvage operations has been settled. If Egypt will carry out the job, it certainly will not accept British and French technical aid or equipment. In fact, Nasser does not even want the U.N. to accept help from these two countries. Yet, the British Admiralty is said to possess more and better salvage equipment of the type needed in Egypt than any other organization in the world. Furthermore, some 20 British Admiralty salvage ships plus some French ones are already at the scene and could therefore be put to work at once.

If this task force should be forced to depart together with the rest of the British-French units, it would delay the clearing job considerably.

SYRIA

In the case of Syria, political considerations are also likely to overshadow the technical ones in repairing the pipelines. Whatever goes on in Syria at the moment, this much is clear: the government and the Army leaders have now adopted a semi-official pro-Soviet line in foreign affairs. This means that from a neutralist position they have now moved to one of overt hostility to the Western-sponsored Bagdhad Pact whose pillar of strength is the present government of Iraq. If, as is officially charged by Britain, and unofficially by Iraq, the IPC pipelines were blown up under direct orders from the Syrian government or army - Syria denies this - then the real motivation may well have been to hurt Iraq rather than Britain and France. It would also explain why the saboteurs were not satisfied with merely cutting off the oil flow but insisted on wrecking the pumping stations, thus making sure that Iraq's economy would suffer from the consequences of this act much harder and longer than Britain and France. Finally, it would explain why Syria kept a hands-off policy on the Tapline, on the strength of an assurance by Aramco that it would not sell any oil to Britain and France for the duration. Iraq was never asked, or given a chance, to adopt a similar policy. Syria's present position is that the pipelines may not be repaired until all enemy troops have left Egypt. If this should include Israel's withdrawal from the Gaza strip, it may be some time before the oil flow from Kirkuk can be even partially restored.

IRAQ'S ECONOMY HURT

There is little doubt that Iraq will feel the pinch of the 75% reduction in oil income. The seriousness of it lies in the fact that 70% of Iraq's oil income is allocated to the country's 6-year economic development plan, started in 1955, which expects to derive its total cost of some $1.4 billion from this source. There is no immediate need to reduce any development expenditures since the Iraq Development Board has reportedly some $280 million on hand -- other reports put the figure at only $125 million -- sufficient to keep the major long-term projects progressing smoothly for quite some time and to complete the smaller schemes now under construction. In addition, the government itself has about $900 million in London on which it can draw. However, with the rapidly expanding educational schemes, social services and heavy military expenditures, plus the Development Board's commitments, it is doubtful according to dispatches from Bagdhad, whether the joint sums would tide Iraq over next summer at the present rate of expenditure, unless the bulk of the oil flows again by early next year. As of now, this does not appear likely. Even if the Suez Canal is cleared and the pipelines are repaired, no more than about 390,000 b/d can be produced in Iraq until the pumping stations are functioning again. This compares with a daily average output of 720,000 bbls for the first ten months of this year. Furthermore, the damaged pumps are also likely to hold up I.P.C.'s projected additional pipeline from Homs to Banias which was to have sent another 180,000 b/d to the Mediterranean starting next year, thus bringing Iraq's total output in 1957 to about 900,000 b/d and her total oil income to nearly $260 million. Since the Iraqui Development Board had included this additional income from oil royalties in its long-range calculations, the new situation could bring about the postponement of several projects which have already been approved as well as a shelving of some new projects. The Board is aware that this may well mean an exodus of the many foreign companies from Iraq, unwilling to maintain costly offices or highly trained technicians there if it becomes clear that financial difficulties will prevent the issuing of new contracts for a considerable period. Meanwhile, the possibility of partial unemployment in the oil industry also looms. I.P.C. and its affiliates employ a total of 12,000 Iraquis of which 9,000 are working at the country's northern oil fields. At the moment, all of them are still on the payroll and are kept busy with maintenance and repair work and the drilling of five new wells near Kirkuk.

However, with production virtually at a stand-still throughout the area, some cut-back in employment seems unavoidable. Of course, none of these developments are really certain, since the exact extent of the damage to the pumping stations will not be officially determined until Syria permits I.P.C. engineers to survey them. But on the basis of existing information it seems the Iraqui economy will face a difficult period after next summer. If this should undermine the pro-Western government of Premier Nuri es-Said it would be viewed with considerable satisfaction in Damascus and Cairo as well as in Moscow. In fact, in all three of these capitals a concerted campaign is now under way to add to the Premier's political difficulties by impugning his loyalty to the Arab cause. The Egyptian government press has charged that Iraq had a secret agreement with Israel to occupy Syria at the same time Israel went into Egypt. In Damascus it was prominently reported that Iraq was sending oil to Israel via the Kirkuk-Haifa pipeline which had not been used since 1948. Both these charges were, of course, vigorously denied by the Iraqui government which pointed out that by cutting off the oil supply to Israel since 1948 it had made a sacrifice of $250-300 million in lost oil royalties to the cause against Israel. It also stated that it would have been physically impossible to send any oil to Israel since, at Iraq's request, two sections of the Kirkuk-Haifa pipeline had been removed in Jordan several years ago in order to scotch any rumors about oil flowing to Israel. Nevertheless, the accusations are being repeated by press and radio in Syria, Egypt and also in Jordan while Iraq's angry denials have so far been totally ignored by all news media in these countries which insist that the oil flow to Israel was only stopped in mid-November when Jordan blew up the pipeline. Nuri es Said is now trying to prove his Arab loyalty by calling loudly for the "complete elimination of Israel from the Middle East", but it is unlikely to make much of a dent in Cairo or Damascus.

ECONOMIC EFFECTS OF PIPELINE SHUT-DOWNS ON SYRIA AND LEBANON

Syria itself is also feeling the economic affects of the pipeline shut-down but, of course, to a much lesser effect than Iraq since the income it derives from oil transit plays only a relatively small part in its total economy. In general, this tremendous difference in income between the oil-producing and the oil-transit countries of the Middle East, coupled with the strong economic interdependence of the two, is the underlying cause for much of the area's trouble. For it makes it possible for any of the transit countries to create major economic dislocations in both the oil-producing and the oil-consuming countries at only small costs to themselves. In Syria the cost at present is about $52,000 per day under the existing transit agreement with I.P.C. - about 1/8 of the country's total foreign trade earnings - while in Iraq the royalty loss is nine times that much. But Syria is also losing the wages of its 3,000 laid-off I.P.C. employees and from next year on it will, like Iraq, lose the income from the new Homs-Banias pipeline which would have added another $18,500 daily to the national income from oil transit.

Whether this line will ever be built through Syria in view of the changed circumstances is not yet known. On October 1st, I.P.C. officially announced its decision to build the 180,000 b/d pipeline from Homs to Banias, Syria, instead of Tripoli, Lebanon, as originally planned, in view of Lebanon's general intrasigeant attitude towards the company and, specifically, its government's insistence on the same actual payments that Syria is getting under the agreement reached last year, while the company insisted on payments on the same ton-mile basis. Construction of the new line started immediately after this date but the outbreak of the hostilities in Egypt may have caused a temporary cessation of the job. If so, it may still be possible to postpone the decision of whether to run the line to Banias or to Tripoli. For in November a new government came to power in Lebanon headed by Sami Solh. It is displaying a much more reasonable attitude towards I.P.C. and has, in fact, let it be known that it would be willing to reconsider the retroactive tax measure which is particularly offensive to both I.P.C. and the Tapline. The new government is apparently alert to the fact that its predecessor's provocative stand was about to cost Lebanon some $5 million a year in additional transit fees plus the employment opportunities for several thousand Lebanese. The former Cabinet had counted on Syria to refuse I.P.C. to shift its planned pipeline from Tripoli to Banias, as a gesture of Arab solidarity. However, no such refusal came forth because under the Syria-I.P.C. agreement the company did not have to seek special permission to build the pipeline.

The new Lebanese government seems now eager to have I.P.C. reconsider its decision both in regards to the pipeline from Homs and the proposed transfer of the unused Kirkuk-Haifa pipeline to Sidon. This latter plan was also shelved in view of the former government's intrasigeance. Besides the withdrawal of I.P C., Lebanon was also worried by the sudden suspension of Aristotle Onassis' plan to participate in the exploration activities of the Compagnie Libanaise des Petroles (Lebanon Petroleum Co.) with an initial capital of $2 million. Onassis gave fear that the company might be hit by similar restrictions and/or retroactive taxes than I.P.C. and Tapline as the reason for his action. The new government has now specifically exempted the Companie Libanaise from retroactive taxation. This positive attitude towards foreign investments is not merely a temporary device to stave off the shock of a sudden exodus of foreign capital. Prime Minister Solh and his foreign minister Charles Malik had advocated such a policy even before they formed the present government. In fact, Solh had been one of the most outspoken critics of his predecessor's hostile attitude towards foreign oil concerns.

Thus, Lebanon has now a Cabinet and President with a pro-Western and anti-Soviet outlook as well as an appreciation for private foreign capital. In Syria, on the other hand, the political situation is just the reverse. Syria's categorical rejection of the U.S. ambassador's recent personal plea that the pipelines be repaired at once, and the current cancellation of a number of Syrian Government contracts with British and French technical firms are all signs that the British-French controlled I.P.C. is unlikely to find a conducive investment climate in Syria from now on.

Thus, both I.P.C. and Iraq may be expected to press for the construction of oil outlets not subject to Syrian political coercion. The transfer of the Kirkuk-Haifa line to Sidon would be one such alternative but it would put the line at the mercy of Jordan which has also become increasingly anti-British and pro-Soviet and will undoubtedly become more so now that it has cancelled its military assistance pact with Britain whose main feature had been a $34 million annual subsidy which had traditionally provided the Jordanian government's major income source. The best bet seems therefore a pipeline from Kirkuk to Iskenderum, Turkey. Surveys for such a pipeline have already been completed. Before Syria's blocking of the I.P.C. lines, Iraq was reportedly opposed to the project on the ground that it would not benefit the economies of the other Arab countries. Now, however, that country is unlikely to object to any scheme which would lessen her dependence on her Arab neighbors. The recent drawing together of the Bagdhad Pact nations, to which both Iraq and Turkey belong, as a result of the heightened Communist threat to the Middle East, may also contribute to the elimination of political obstacles to such a project.

SYRIAN DOMESTIC OIL FIND MAY REDUCE DEPENDENCE ON IRAQ

Meanwhile, Syria may soon not have to depend any more on oil from Iraq for her domestic needs. So far, these are met almost entirely by the I.P.C. refinery at Tripoli which together with the Caltex plant at Sidon supplies nearly all fuel needs of Syria, Lebanon and Jordan.* Now, however, Syria seems to have discovered commercial oil deposits of her own. The Manhal Oil Company, owned by the Syrian-American drilling contractor Sayed Najib Manhal who was given a concession last year, has struck oil at Karah Shuk in the Jezira province, just 10 miles from the Mosul Petroleum Co.'s Ain Zalah field (20,000 b/d) in Iraq. The oil which gushed out from a depth of 6,650 ft. is reportedly of the same quality as Kirkuk oil. A Syrian government spokesman said the well could yield between 2,000 and 3,000 b/d. Besides the Manhal Oil Company, the West German oil concern Deutsche Erdoel A.G. (DEAG) has also been granted a concession in northeastern Syria where it operates under the name of Concordia. It has not yet struck any oil. Interest in Syria has also been reported from Dallas, Texas, where James K. Burke, an independent oil man, is said to be negotiating with a New York investment firm for the financing of an exploration venture, according to an unconfirmed story in a Cairo newspaper. The concession area would also be in northeast Syria, about 25 miles south of some of the Mosul Petroleum Co.'s Iraqui fields. The contract for Syria's first refinery has still not been awarded but, according to several reports, Czechoslovakia's bid for a 20,000 b/d plant will soon be officially accepted while

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* These three countries have a combined consumption of 23-25,000 b/d. With the 11,500 b/d plant in Tripoli expected to close down soon, only the 9,500 b/d Sidon plant (fed by the Tapline) will be available to fill local needs until the IPC pipelines have been repaired. The ensuing oil shortage may be alleviated by imports from the Soviet Bloc, under a series of trade agreements concluded earlier this year.

the filter equipment will be bought in West Germany. Thus, within two years Syria is likely to have her own oil production as well as oil processing. This would insulate her and her neighbors' economies more than at present from the consequences of cutting off the pipeline flow from Iraq. This tendency would be further strengthened if present exploration activities in Lebanon and Jordan prove successful. In Jordan these are carried out by Edwin Pauley of California whose staff has just returned to pick up where it had left off five weeks ago when the Middle East hostilities started. Another oil man from this hemisphere interested in Jordan, the Guatemalan millionaire Jorge Zimeri, has reportedly just cancelled his bid for oil concessions, mainly because of the latest Jordanian inner-political developments.

EGYPT AFTER THE INVASION

Having examined the impact of the Midd East crisis on the oil and pipeline countries, let us take a brief look at its effect on the focal point of the present trouble, - Egypt itself.

In the period between the seizure of the Canal in July and the invasion in November, the Egyptian economy remained surprisingly unaffected by the various measures of the Western powers to weaken its economy. The strongest of these, by far, was the blocking of about $400 million of Egypt's gold and foreign exchange reserves in British, French and U.S. banks, equivalent to two-thirds of Egypt's total foreign reserve holdings. In the long run, the freezing of these funds (nearly $300 million of which are held by British banks) would certainly have hurt the Egyptian economy but probably not as much as Britain and France had expected it to. The main reason for this lies in the fact that Egypt is still largely a subsistence economy and only a relatively small part of its total population is therefore connected with foreign trade or even with domestic commercial production and/or distribution. This means that economic fluctuations are bound to play a much smaller role in Egypt, or any underdeveloped country for that matter, than in the industrialized nations of the world where hardly anyone produces only the goods needed for his own survival.

Still, Egypt does have a politically significant class of merchants and bureaucrats who were bound to be hurt sooner or later by the British-French-U.S. fund freezing. The government tried to keep the damage to this group to a minimum by accelerating the trend started in 1955 of switching to the Soviet Bloc for its needs as well as its exports. It succeeded fairly well in finding new outlets there, particularly for cotton. Thus, over 34% of Egypt's exports in the first half of 1956 went to Communist countries while Britain and France and their respective colonies took only 14.5%. On the supply side, however, it proved more difficult to cut the ties from the traditional import sources. The Soviet Bloc accounted for only 11.5% of all Egyptian imports in the first half of 1956, while Britain and France supplied 28% and Britain alone was still Egypt's 2nd largest supplier, coming right behind the U.S. Since June, the political situation has caused Egypt to look even more to the Soviet Bloc for its foreign trade and to reduce its business with Britain and France still further.

However, the disturbances in Eastern Europe are likely to limit this shift, at least for the moment. For instance, last September the government ordered an end to all imports of locomotives and railway equipment from Britain. Instead it was announced that Hungary would ship 93 locomotives in October and 20 diesel engines and 50 railway coaches early in 1957. In view of the Hungarian uprisings, these order are now shelved for an indefinite period. Poland's sharply reduced output and exports of capital equipment is also reducing trade possibilities between Egypt and Eastern Europe.

If the economic situation was precarious before the invasion, it has certainly deteriorated much further since then. For one thing, all trade with Britain and France has been banned for the time being while trade with most other countries had to be seriously curtailed, at least through November and the first half of December. Coming on top of a rising foreign trade <u>deficit</u> and declining foreign exchange earnings through the first 10 months of 1956, this has, no doubt, undermined the very basis of the country's traditional international commerce.

INTERNAL AFFECTS OF BLOCKING THE CANAL

But the most serious harm to the economy has come as a result of the self-inflicted blockade of the Suez Canal. For one thing, even though foreign exchange income from Canal dues had been reduced to about 40% of pre-nationalization figures in the July-November period, this had not immediately harmed the economy since this amount was only slightly less than the share of the old Suez Canal Company's total income utilized in Egypt to meet local expenditures, the rest ordinarily having been sent abroad to meet dividends and to strengthen reserves. Now, however, all income from the Canal has ceased, depriving Egypt of some $3.5 million per month in badly needed hard currency exchange. Yet, at least some of the regular expenditures in connection with the Canal - wages, salaries, rentals, etc., - must continue to be met. But the Suez Canal is important to Egypt not only as a source of foreign earnings but also as an internal and external shipping route of its own products. Here, oil shipments play a major role. In the first half of 1956, the country received the following quantities of oil via the Suez Canal:

North-South Traffic (destination Suez):

From Soviet Bloc	15,000 b/d
From West	1,600
	16,600 b/d

South-North Traffic (destination Mediterranean ports);

From Middle East and Indonesia	22,400 b/d
Internal Trans-shipments	3,600
	26,000 b/d

Egypt may be able to replace these shipments by reversing her oil imports and drawing on the Soviet Bloc for the needs of her Mediterranean regions and on the Middle East for the crude oil for her refineries at Suez. But in view of the tanker shortages prevailing at the Persian Gulf and the existing delivery contracts, this will cause some dislocations and delays. More serious will be the damage to Egypt's exports as a result of the Canal closure. In 1955 the country shipped 243,000 tons of manganese and 139,000 tons of phosphates abroad via the Suez Canal. About two thirds of these shipments went to the U.S. It seems unlikely that these, as well as certain other Egyptian exports, can be restored until the Canal is open again. On the other hand, cotton, Egypt's main export commodity, is <u>not</u> too much affected since the bulk of it is exported from Alexandria or Red Sea ports and does not enter the Suez Canal.

There are still other internal repercussions from the Canal closure. The business communities at Port Said and Suez are almost totally paralyzed as a result of it. During the last full month before the blockade, over 1,200 ships arrived at Port Said and their needs were catered for by the many firms there specializing in various types of cargo, crew and passenger service as well as trans-shipments. Their business has now been virtually at a standstill for six weeks and will continue to do so for several months more.

SINAI OIL FIELDS MAY BE DAMAGED

Other economic difficulties which Egypt will probably have to face stem from the Israeli invasion of the Sinai Peninsula. Here again, oil plays an important part. As of last August, oil production on the Peninsula amounted to nearly 19,000 b/d (46% of Egypt's total output). Of this, 9,400 b/d came from the Belayim and Feiran wells of the Belgian-Swiss-Italian-U.S. owned International Egyptian Oil Co. and the balance from the Ras Sudr, Asl and Matarma fields, owned jointly by Anglo-Egyptian Oil Fields (Shell Group) and Socony Mobil. Aside from the fact that output from these wells has been denied to Egypt from October 30th to around the middle of December, when Israeli troops had cleared most of the Peninsula, there are unconfirmed reports that these wells have been wrecked by retreating Israeli troops as part of their "scorched earth" policy under which they destroyed most roads, railway tracks, watertowers and other useful installations before evacuating Sinai, according to neutral observers. It is known that Israeli forces captured the oil installations intact on November 3rd but found that most of the personnel had left before their arrival. If output from this area should be lost to Egypt for any extended period it would certainly hurt her economy which is fuelled entirely by oil.

SEQUESTRATION OF BRITISH-FRENCH PROPERTY

Egypt is apparently trying to recoup some of her losses by taking over British and French businesses in Egypt. While an exact appraisal of the value of British and French assets does not exist, rough computations would indicate that they are between $350 and $400 million. If to this is added $170 million for the value of the British base at Suez and $90 million for the Egyptian assets of the previously nationalized Suez Canal Company, the total value of British-French business and government property on which Egypt can lay her hands lies between $600 and $700 million. This does, of course, not include the personal property of the many thousands of British and French long-term residents of Egypt, over 2,000 of whom have already been deported with nothing more than $56.00 in their possession.

By far the largest of all the confiscable enterprises is Anglo-Egyptian Oil Fields, valued at $100 million. It operates five oil fields of which two are on the west side of the Red Sea Gulf and the others on the Sinai Peninsula, as mentioned above. It also has a 44,000 b/d refinery at Suez, Egypt's largest, to which a platformer is now being added. The company is controlled by the Consolidated Oil Company, a consortium of Shell and British Petroleum, which owns over 60% of the shares. An additional 6% is in the hands of individual British shareholders. Taking into account the Dutch share in Royal Dutch-Shell, Anglo-Egyptian Oil Fields are about 50% British-owned. Its marketing concern is the Shell Company of Egypt, a wholly owned subsidiary of Royal Dutch-Shell with assets of around $14 million of which 40% is British. So far, the only information available is that Anglo-Egyptian and Shell of Egypt have been among the companies sequestrated and are now run by Egyptian government officials. Other major firms now under Egyptian management are the Eastern Company, a major tobacco producer and distributor, a plant of Imperial Chemical Industries, the Societé Generale des Sucreries, a French sugar milling and refining concern employing 27,000 workers, and a number of banks including Barclay's 44 Egyptian branches, the Ottoman Bank, the Credit Lyonnais and the Comptoir d'Escompte de Paris. Whatever the final disposition of these concerns, it is most unlikely that they will ever be returned to their former owners. Judging from previous Egyptian nationalizations, they will be run by a government custodian for the time being and eventually the British interests in them will be marketed to Egyptian businessmen or banks. Although, in the case of oil properties, the possibility of nationalization must not be excluded. In this case, the recently established General Petroleum Organization (HAP) would probably take over the sequestrated oil concerns.

ECONOMIC AID

From the short-range economic point of view, the seizure of these concerns will not be of any help to Egypt. On the contrary, it is most likely that the sudden and violent change in management and the large-scale exodus of British and French technical personnel will cause a temporary decline in their efficiency. Yet, as we pointed out above, the Egyptian economy has been so severely affected by the military attacks, the closing of the Canal and the freezing of the bulk of her foreign assets that it can hardly be expected to recover without substantial outside aid. Before the invasion some such help was forthcoming from Saudi Arabia and, to a smaller extent, from India, Indonesia and Red China. Yet, these countries are not in a position to pull Egypt out of her present economic difficulties, aside from the fact that Saudi Arabia and India have themselves been very adversely affected by the shut-down of the Canal. What is needed therefore is an overall plan to build up the economy of the entire region, something which only the U.S. and, to a smaller extent, Britain and Germany, among the Western powers can finance.

The British Minister of Supply Maudling proposed in a recent speech in the House of Commons a Colombo Plan for the Middle East. According to press reports, the speech could be considered a statement of Government policy and will be advocated by the British delegation to the United Nations when the discussions get around to the problem of a permanent settlement of the Middle East unrest. In the British view, the economic aspects of that solution would involve settlement of the Suez Canal dispute on the basis of the six principles laid down by the U.N. last September, re-settlement of the Arab refugees, and the utilization of Middle East oil resources to secure a more equal distribution of wealth between the "have" and the "have-not" countries of the Arab world.

This sounds like a tall order, rather unencumbered by purely realistic considerations. But unless Middle East affairs can be put on some sort of a really new basis, a basis that may well seem unrealistic until it is actually accomplished, the region is bound to become a less and less safe place for the West to do business in and to invest its money.

APPENDIX

MIDDLE EAST AND TOTAL PRODUCTION OF EIGHT MAJOR OIL COMPANIES, 1955

(in thousands of barrels daily)

	MIDDLE EAST	TOTAL	MIDDLE EAST AS PERCENTAGE OF TOTAL
British Petroleum	868	868	100.0%
Gulf Oil	574	960	59.7
Standard Oil (N.J.)	401	2,143	18.7
Standard of Calif.	327	724	45.2
Texas Co.	327	820	39.3
Royal Dutch-Shell	230	1,511	15.2
Socony Mobil	212	580	36.6
Cie. Francaise des Pet.	204	212	96.2
	3,143	7,818	

The above eight companies accounted for 97% of the Middle East's total oil output in 1955.