Monthly column by
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AROUND WASHINGTON

OPEC GROWING MORE POWERFUL: MORE OIL... While plans for the new Cabinet-level Energy Department are in their final stages, U.S. dependence on foreign oil is escalating, calling into question the goals outlined in the Carter "National Energy Plan."

Oil imports early this year reached the level of 50 per cent of our consumption, about 9 mbd (million barrels per day). This is more than twice the amount imported in 1975 and more than seven times what was imported just seven years ago.

An important Library of Congress study released in June predicts that by the mid-1980's the U.S. will require about 7.4 mbd from Middle Eastern and North African countries alone, nearly three times the current amount from these sources. The U.S. demand for all foreign oil is expected to be near 11 mbd in 1980 and 16 mbd in 1985.

With such a situation just a few years off it is no wonder the Library of Congress study predicts that "the OPEC oil cartel will become stronger than it is now by the 1980s."

Thirty energy analysts worked over a nine-month period to complete the study, "Project Interdependence: U.S. and World Energy Outlook Through 1990," which was headed by Dr. Herman T. Franssen. As yet unexplained are a number of major contradictory findings between this study and the assumptions relied on by President Carter last April in presenting his energy plan to the nation.

For instance, the president stressed a greater reliance on coal. His plan is to displace oil imports by raising coal production to 1.1 billion tons by 1985. But "our analysis of coal is far more pessimistic," Dr. Franssen stated in June. "Industrial users simply will not convert from oil and natural gas to coal unless they are forced to convert." Yet Carter's plan is basically one of incentives, not coercion.

The Library of Congress study also takes issue with a publicly released CIA report to which the president drew specific attention. Whereas the CIA concluded that the Soviet Union and Eastern bloc countries would import up to 3.5 mbd of oil by the mid-1980's, the Library of Congress study states that "The Soviet Union is not expected to become a net exporter or importer of energy throughout the 1980's."

The U.S. strategic oil reserve has just begun to be stored, and within a few years the U.S. will have in the ground oil to get us through—at least for a few months—an embargo or any disaster that might affect oil supplies. Still, American reliance on foreign oil, and increasingly on OPEC oil, will affect our political and military postures for some time to come.

...AND PETRODOLLARS. OPEC's importance as a source of oil itself is only one part of the organization's still accumulating muscle. The financial power represented both by unprecedented spending programs and stupendous financial reserve assets is also making the U.S. hostage to OPEC. Testifying before Congress in June, Assistant Secretary of State for Economic Affairs Julius Katz said that by 1980 the financial assets of all OPEC countries could total $300 billion. OPEC reserves, even after the massive expenditures straining the absorptive capacities of many OPEC countries, are now accumulating at the rate of about $40 billion yearly. The executive vice-president of the U.S. Export-Import Bank recently termed this "a more or less permanent surplus."

Should these funds ever be manipulated for political reasons, they could destabilize the entire Western financial system or individual currencies. Even without such use of these petrodollars, it is estimated that the OPEC price rises will cost the economies of Western Europe, Japan, and the U.S. over $150 billion in gross national product loss during 1977. Between 1974 and the end of this year the price rises will have cost these countries about $570 in GNP loss!

Meanwhile, the seventy or eighty less developed countries (LDCs) are suffering under a double burden. They are being forced to borrow heavily for their oil imports, yet they receive few recycled petrodollars by way of additional export sales because these go mostly to the industrialized countries. LDC debt has risen from about $65 billion in 1973 to over $170 billion this year.

Economists and the banking community, which has been lending the bulk of what the LDCs have required, are becoming anxious. Princeton economist Peter Kenen says: "We have reached the point where to get back what you loaned in the first place you have to throw good money after bad." Yale economist Richard Cooper comments: "These countries are now hanging by their financial fingernails. They are top-heavy with external debt, and their financial positions are extremely fragile."

In short, banks are in deep to LDCs and LDCs are in double trouble worrying not only about future loans but also about debt servicing.

So it should be no secret why even Iran has agreed to hold the line on oil prices through 1978. OPEC's accumulation of wealth is probably the greatest transfer of money and power in such a few short years and without war in human history. But the interdependence of the world economy has begun to catch up with OPEC—a monetary collapse (à la the fictional best-seller *The Crash of '79)* would destroy the geese laying OPEC's golden eggs.

BEGIN'S "PLAN." Late in July the Menahem Begin show opened in the Executive Office Building next to the White House. It was more a media event than a traditional press conference.

While the press hustled for standing room, seats were reserved for Israeli Embassy officials, American Jewish leaders, and Israeli television crews, who brought the entertainment live to viewers in Tel Aviv and Jerusalem. Begin was playing to the home audience by showing them how effective he was with the Americans. The contrasts between Begin and the former lead star, Yitzhak Rabin, were too glaring to need emphasis.

Hamilton Jordan, assistant to the president (and recently designated White House official to oversee domestic Jewish political matters), and William Quandt, National Security Council Middle East specialist, both appeared at the crowded doorway for a feel of the atmosphere soon after Begin's opening lines. Robert Lipshutz, counselor to the president, sat in on the event, no doubt to make a full report.

Begin's visit was not an occasion for substantive policy discussions. It was, instead, an opportunity for Israel's new prime minister to use his wit and charm for obfuscation.

American newspapers in general were filled with rather vacuous discussions of the amazing "rapport" established between Begin and Carter. The president appeared to downgrade the importance of actual issues by repeatedly tossing accolades at a grinning Begin and by his largely unexplained optimism about resumption of the stalled Geneva Conference.

Even more effusive was Vice-President Walter Mondale, who told the cheering crowd at an Israeli Embassy reception just hours after the press conference: "Relations between the U.S. and Israel have never been better." "I've sat through all the talks with all the foreign leaders who visited our land, and none have gone better, none have been more personally, if I can say, joyous, than those between the President and the Prime Minister." "If that weren't enough," Mondale added, "today [Begin] did something that no leader has ever done....He went to a news conference with the American news media and won."

There should be no doubt about the Begin triumph. First, he captured the somewhat uneasy Jewish community with a series of New York meetings, and then he went on to charm Washington's political and media circles.

How long Begin can use this charm and wit, coupled with the refurbished but stale policies he terms a "plan," to reverse the steady deterioration in U.S.-Israeli relations of the past three years is one of Washington's great puzzles.

Carter has allowed Begin to grab the baton; and it may be some months before the president can get it back. One early test of strength will probably come over the American reaction to the new settlements planned by Begin's government for the occupied territories. Anything less than a strongly negative reaction from Washington will be a sure sign of Carter's weakness.

Secretary Vance's recent journey throughout the Middle East has made clear the probably unbridgeable differences between Israel and the Arabs. Even if Geneva should reconvene sometime late this year—partly to allow a number of leaders to give domestic audiences some illusion of movement—chances for a Middle East settlement, many in Washington agree, are actually receding. —MAB