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THE PRESIDENT HAS SEEN

Handwritten initials

Into

THE WHITE HOUSE
WASHINGTON

February 20, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: DON RUMSFELD

Attached is an editorial which merits your serious attention.

Attachment

Handwritten signature: DRZ

REVIEW & OUTLOOK

FEB 14 1975

Bad for Business

Arab economic pressure on the West took a particularly ugly turn this week with the revelation of a blacklist against banking interests with Jewish connections. In terms of both morality and self-interest, it is incumbent on Western businesses to resist such pressure, and on the U.S. government to press for an early end to the whole Arab blacklist.

A Kuwaiti investment firm withdrew from two lending syndicates headed by Merrill Lynch this week; it objected to the inclusion in the syndicates of Lazard Freres, which is on the Arab boycott list. This follows reports that Lazard Freres in Paris, the Rothschild Merchant Banking Group and S. G. Warburg and Co. of London have been excluded from European syndicates. The blacklisting of these firms appears less to be an attempt to undermine Israel than an attempt to inject anti-Semitism into Western business practice.

The Arabs have had trouble distinguishing these two purposes throughout their 30-year-old economic boycott of businesses with ties to Israel. Until recently the boycott was in any event massively ineffective. But the economic warfare is bound to become far more effective with the massive accumulation of oil revenues. Businessmen who desire to get their hands on some of this money will be tempted to carry anti-Israel, and even anti-Jewish discrimination far beyond the hopes of the Arab's leagues "Israel Boycotting Agency."

In fact, the boycott is still not notably successful in the U.S. The Commerce Department's Office of Export Control demands a report on each business transaction that complies with boycotts against friendly countries. In the most recent period, the second quarter of 1974, these transactions numbered 167.

Compliance is relatively infrequent because it is often unnecessary. The rhetoric of the militant boycott bureaucracy in Damascus carries little weight when each Arab country decides what goods and ser-

vices it really needs. In one case we know of, an American subcontractor was asked to sign a contract originating in Abu Dhabi stipulating that none of the goods came from an Israel-connected company. The subcontractor, who happened to have close ties to Israel, vehemently protested, and Abu Dhabi went ahead with the deal, minus the boycott condition.

As one European financier said of the loan syndicate situation, resistance to the boycott demands could have been ridiculously easy. Thus, it is remarkable that some reputable banks have so readily complied. That compliance is almost certain to arouse public hostility toward any dealing with "the Arabs," no matter how innocuous. This sort of reaction already has blocked two Arab entrepreneurs from buying into banks in San Jose, Calif., and Pontiac, Mich., even though no hint of anti-Israeli or anti-Jewish bias was involved. Investors like Saudi Arabia's Adnan Khashoggi or Ghaith Pharaon or Lebanon's Ahmad Sarakbi—and their American colleagues—should have a lively interest in calling a halt to this dangerous trend.

The U.S. government should make it clear to Arabs and, more important, to American businessmen, that attempts to do business by discriminatory clauses will backfire badly. Some such clauses already are illegal and their use should be prosecuted. It may well be useful to obtain further legislation voiding contracts with boycott clauses if only to forestall the inevitable broadside bills that would seriously hamper straightforward trade. At a minimum, the Office of Export Control should make public the reports of boycott compliance, which are currently confidential.

The alternative to a strong stand now will be dishonorable behavior by a few American businessmen and a disgusted public reaction with whom knows what legislative consequences. For businesses to follow the Arab bidding and introduce ethnic discrimination into their dealings would be morally repugnant. In anything but the shortest view, it would also be very bad for business.