The original documents are located in Box C16, folder "Presidential Presidential Handwriting, 3/26/1975 (2)" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

March 26, 1975

MR. PRESIDENT:

Frank Zarb requested that you see the attached paper before the Cabinet meeting today.

Don

GRF

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THE PRESIDENT HAS SEEN

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

March 26, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb

THRU: Rogers C. B. Morton

SUBJECT: Effects of an Embargo At This Time

Background

In January you asked that we take the necessary steps to be prepared for a possible future oil disruption. The purpose of this report is to review our current status.

During last year's Arab oil embargo the oil producing nations cut exports to the United States between one and two million barrels per day (MMB/D). The major reductions were from Saudi Arabia, United Arab Emirates, and Algeria. It was estimated that the embargo, which lasted about 5 months, caused a $10-20 billion cost to GNP and resulted in about 500,000 additional unemployed.

Embargo Impact

If your proposed energy program is not enacted, our latest forecast of energy demand and economic conditions indicates that imports will average about 6.0 MMB/D in 1975, with a 4th quarter peak of 6.7 MMB/D. If economic conditions improve, a surge in imports could occur, with additional imports likely to come from OAPEC (Organization of Arab Petroleum Exporting Countries) sources, since they have excess capacity and low production costs.

OAPEC countries are the most likely to initiate and sustain an embargo; other OPEC nations -- Iran, Nigeria, and Indonesia -- could conceivably side with the more militant Arab countries. Iran would be the most likely of the non-OAPEC nations to support an embargo. Tab 1 indicates OPEC and OAPEC membership by individual countries. We currently import about 1.5 MMB/D from OAPEC nations and 1.7 MMB/D from OPEC/Moslem countries.

These estimates include not only direct imports of crude oil, but petroleum products refined from Arab crude oil in other countries, such as the Netherlands or Trinidad. Tab 2 summarizes the direct and indirect sources of our petroleum imports. In addition, Canadian cutbacks during 1975 should average about 0.3 MMB/D, which will probably be replaced by insecure sources. We looked at two possible interruption scenarios:

Scenario	Source	Level (MMB/D)
I - Probable Interruption	OAPEC	1.5
	Canadian Loss	0.3
	Total	1.8
II - Maximum Interruption	OAPEC	1.5
	Canadian Loss	0.3
	Other OPEC	1.7
	Total	3.5

It is unlikely that a new embargo could be more substantial than the lower estimate, and with leakage or production from shut-in capacity from non-embargoing suppliers, could be even lower.

The economic impact of an embargo depends upon the duration of the shortage, the cushioning measures taken (allocation, stock drawdowns, conservation, etc.), the level of disruption, and pre-embargo prices. Estimating the economic cost of an embargo is hazardous at best. However, it appears likely that an embargo now would have a greater economic impact than that we experienced in the last one because many of the easy conservation measures have already been taken. As a result, our preliminary estimate of embargo impacts are indicated below:

	Disruption (MMB/D)	Cost to GNP of 6 Month Embargo (% of GNP)	Cost to GNP of 1 Year Embargo (% of GNP)
Scenario I	1.8	\$ 59B (7.9%)	\$118B (7.9%)
Scenario II	3.5	\$150B (20%)	\$295B (20%)

Even the lowest impact scenario could result in substantial added unemployment. In all likelihood a shorter embargo would have less effect as inventories were drawn down. However after a few months, the impacts would rapidly multiply. This assessment also ignores the impact of the IEP on reducing the effects of an embargo.

In the event of an embargo the following steps could be taken immediately:

- Emergency allocation
- Movement of surplus products to inventory
- Public information conservation program
- Sunday closings of retail outlets
- Odd-even day sales
- Maximum gasoline purchase limits

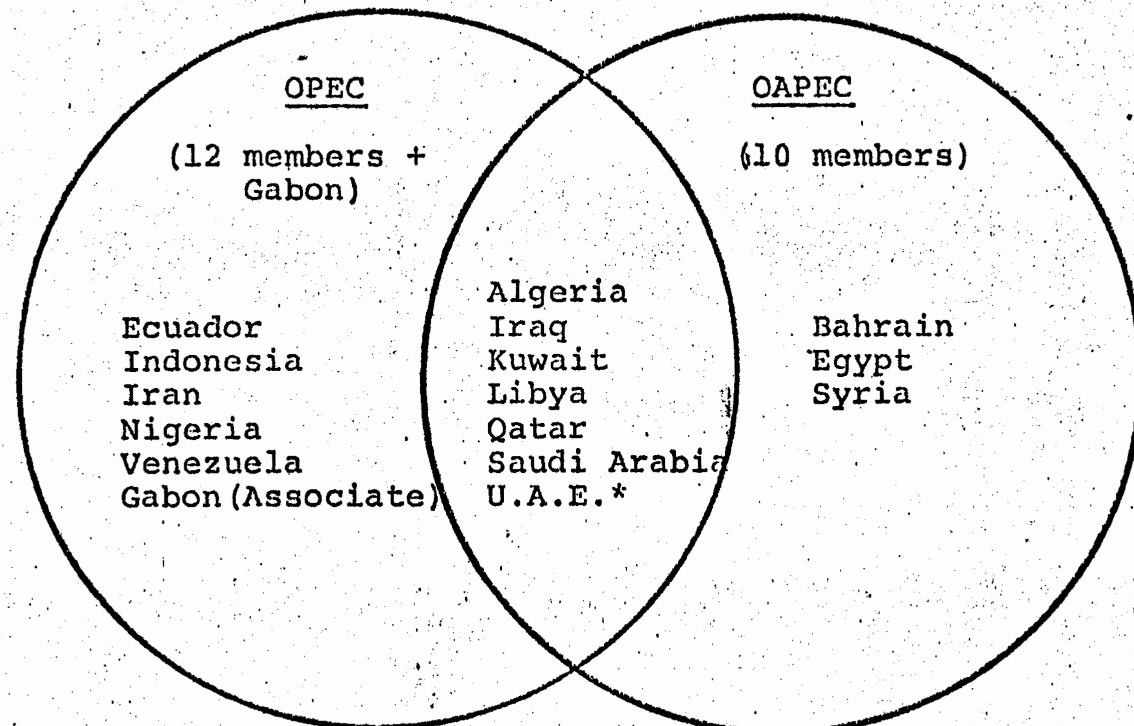
Within thirty days we could implement the following programs:

- Return to strictly controlled supplier-purchaser relationships
- Control refinery yields
- Remove existing old oil price controls
- Accelerate coal conversions
- Provide financial disincentives for electrical and natural gas consumption
- Improve management of geographic distribution of available supplies

A stand-by plan for complete gasoline rationing has been substantially completed. We could implement it within 90 days.

Based on our experience during the last embargo, it will take about 60 days for the effect of an embargo to be felt due to loaded ships on the high seas. The industry is now in a much better position with respect to supply availability than last year, since there are now 350 million barrels on the high seas. Moreover, our current inventory position is better than it was prior to the last embargo. There will be ample time to move from our current state of readiness to operational programs whey they are needed. However, these measures would not eliminate the adverse economic impacts of an embargo.

Copies will be provided to the Department of State, NSC, and CEA.



*United Arab Emirates = Abu Dhabi, Sharjah, Ajman, Umm al Qaiwann, Ras al Khaimah, Fujairah, Dubai

TAB 1

DIRECT AND INDIRECT SOURCES OF IMPORTS
4th QUARTER 1974 DAILY AVERAGES

	Direct Source	Estimated Original Source of Crude		
Region/County	Total	OAPEC	OPEC Moslem	All Other
North America	1042	-	-	1042
Canada	1032	-	-	1032
Mexico	10	-	-	10
Central America	983	261	142	580
Bahamas	156	50	94	12
Trinidad	313	110	28	175
Netherlands Antilles	504	101	20	383
Others	10	-	-	10
South America	1286	-	-	1286
Venezuela	1232	-	-	1232
Ecuador	46	-	-	46
Others	8	-	-	8
Western Europe	111	108	-	3
Eastern Europe	37	-	-	37
Middle East	1313	890	423	-
Iran	423	-	423	-
United Arab Emirates	145	145	-	-
Saudi Arabia	672	672	-	-
Others*	73	73	-	-
Africa	1188	277	802	109
Algeria	277	277	-	-
Nigeria	802	-	802	-
Others	109	-	-	109
Far East	347	-	307	40
Indonesia	307	-	307	-
Others	40	-	-	40
TOTAL	6307 (100%)	1536 (24%)	1674 (27%)	3097 (49%)

* Egypt, Qatar, Oman, Bahrain, Kuwait, Yemen.