The original documents are located in Box C16, folder "Presidential Presidential Handwriting, 3/24/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

3/24/75

Bill Seidman

Does this affect our plans?

THE WHITE HOUSE

WASHINGTON

March 24, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN

FROM: JERRY H. JONES

The attached was returned in the President's outbox with the following notation to you:

-- Does this affect our plans?

Please follow-up with the appropriate action and submit your report to this office for submission to the President.

Thank you.

cc: Don Rumsfeld

WHCF
TN 7

The New York Times
BUSINESS AND FINANCE
Section 3
Sunday, March 23, 1975

The Oil Powers Assemble a Tanker Fleet

By TERRY ROBARDS

LONDON—"If this were the stock market," said a banker surveying the world shipping situation, "you would call it a classic manipulation. By jacking up the price of oil, the Arabs cut the bottom out of the tanker market. Then they come in and buy up the ships at the depressed prices that they themselves created."

Buying they are — often quietly, sometimes operating through agents, picking up the bargains made available by the glut in tanker capacity with the cash made available from the export of oil.

And the tanker glut was in large part brought on by the decline in oil consumption worldwide that followed the quadrupling of prices imposed in the last two years by the oil producers themselves.

Numerous ships are laid up, dozens are waiting in line for increasingly scarce cargoes at Middle Eastern ports and dozens more are steaming at reduced speeds to extend their time at sea and avoid overburdening port facilities in Europe.

Middle Eastern countries are using their ready cash to buy second-hand ships at cut-rate prices and take over orders for new ships commissioned by other buyers when charter conditions were more favorable. They are also contracting for new tonnage of their own.

The Arab Maritime Petroleum Transport Company, jointly owned by Abu Dhabi, Algeria, Bahrain, Iraq, Kuwait, Libya, Qatar and Saudi Arabia, has ordered six new supertankers with a total oil capacity of nearly 2 million tons. The Kuwait-based company, formed in 1973, has placed all of its orders in the last year.

Abu Dhabi itself recently bought the Troilus, a 270,000-ton supertanker, in a $33-million transaction that attracted little attention outside shipping circles.

Iraqi buyers acquired the San Yu Maru, a smaller tanker, from an owner in Osaka, Japan. Libya bought the Intisar, a 140,000-ton vessel, from a Swedish company that no longer needed it.

Other buyers reputed to be acting on behalf of Middle East countries have been purchasing substantial second-hand tonnage anonymously. Sometimes they are identified as "unnamed interests" in Lloyd's Register of Shipping, the Bible of the industry.

The entry of the producing countries into world shipping on a major scale is expected to have a profound impact

Petroleum Price Increase Pushes Down Ship Costs

on the structure of the industry. The members of the Organization of Petroleum Exporting Countries now own an estimated 3 per cent of the world tanker fleet. Ship brokers in London predict that this will grow to 20 or 30 per cent by the nineteen-eighties.

For the first time in its history, Lloyd's is keeping a separate tabulation of tanker tonnage related to Middle East countries.

It shows that the Arab countries and Iran had 33 new tankers with a total capacity of 6.2 million tons on order as of mid-1974, compared with an existing tanker fleet of 55 ships with capacity of less than 2 million tons as of the same date, the latest for which comprehensive statistics are available.

It is evident that the producing countries are going heavily into the big vessels which they previously tended to just charter and not purchase.

"They're coming in at the right time," said Andrew B. Carpenter, a director of H. P. Drewry Shipping Consultants, Ltd., of London. "We are already seeing these fleets being built up and the increase will be rather significant."

Gordon Bayley, director of Terminal Operators, another ship consulting and research concern here, said: "The OPEC states have achieved all of their objectives as regards oil. Now they're moving into downstream activities—refining and ships.

"The ships come first because the prices are very low and it is difficult to buy a refinery all at once. Everything is in their favor. It takes anywhere up to three years to construct new ships, but now they're in a position to take over orders already put in at a price lower than the original buyer contracted for."

The economics are not complex. Independent shippers who ordered new vessels during the tanker boom that prevailed only two years ago are now finding it better economics to sell their uncompleted ships at losses rather than to accept delivery, operate at deficit charter rates, and lose even more money.

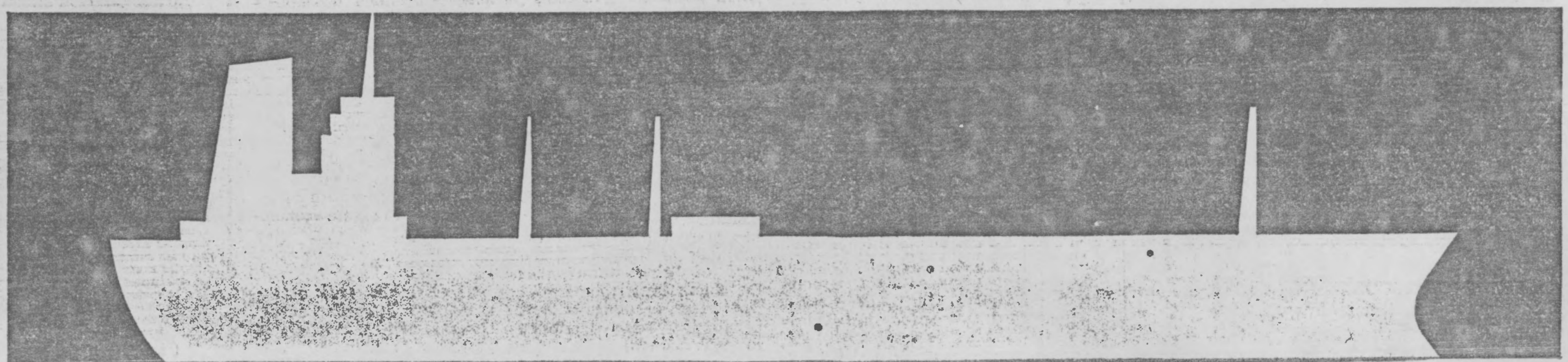
Bankers are only too happy to help the Middle Eastern buyers because they can erase doubtful loans from their books. "The financers don't like to see shipowners going bankrupt," said a ship broker. "What's a bank going to do with a ship in these conditions?" So they help arrange the sales.

Nobody is predicting that the Arabs will replace the Greeks or Norwegians as the giants of the shipping business in the foreseeable future. But nearly verybody is convinced that they will be a force in the market shortly.

Arab Maritime Petroleum Transport, for example, had paid-up capital of $100-million when it was organized. It immediately voted an increase to $500-million by 1977 and, according to London sources, plans to spend $2-billion on ships by 1980.

Six months ago, it was estimated that the Arab shipping group would be able to buy some 10 million tons in new tanker capacity, based on a cost of about $200 a ton. But prices have come down sharply since then, which means they can buy more.

Abu Dhabi paid about $120



Ships for Oil Powers

Continued from page 1

a ton for the Troilus. She was less than a year old and was sold at a loss rumored to be around $10-million by Ocean Transport & Trading, Ltd., of London.

Given such favorable prices, the producing countries could realize substantial savings by not ordering new tonnage, but sticking with the used-ship market.

To back up their tanker fleets, the Arabs are investing heavily in dockyard facilities. The Organization of Arab Petroleum Exporting Countries is building a big drydock and repair yard at Bahrain for $186-million.

Seven states are contributing equal shares of the capital—Saudi Arabia, Iraq, Qatar, Libya, Bahrain, Kuwait and the United Arab Emirates. The latter, which includes Abu Dhabi and Dubai among others, is also installing substantial tanker servicing facilities at Dubai.

The decision of the producing countries to move heavily into oil refining also will have a major impact on tanker fleets.

Historically, refineries have been established close to major consuming markets. This meant ships were needed to carry crude oil from the Middle East to Europe and elsewhere in huge quantities.

But refining in the future will apparently move heavily into producer areas. According to one estimate, the Arab states alone committed about $22-billion last year for refineries, chemical plants and gas liquefaction plants. Another $30-billion worth of facilities is under study.

Such a shift would demand a different kind of vessel, with bulk a lesser consideration and keeping the product quality intact a greater one.

"The sum of today's fleet and new building backlog is appreciably out of balance with what in absolute terms will be needed for clean movements [shipments of finished products] and what may be found economically attractive in terms of size for both clean and dirty trading," according to a study which Terminal Operators published last month.

Regardless of the trend in fleet structure, the oil-producing countries can afford to continue their bargain-hunting. Conditions in the tanker market are expected to remain depressed for at least another year.

"I think it's very serious and I can't see any improvement until the end of 1977," said an official of H. P. Drewry. "The Arabs could well think that the market hasn't bottomed yet in terms of resale values, and I'm inclined to agree. This depression is very severe."