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FEDERAL ENERGY ADMINISTRATION  
WASHINGTON, D. C. 20461

APR 22 1975

OFFICE OF THE ADMINISTRATOR

*Handwritten initials: MRC*

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb

*Handwritten signature: Frank G. Zarb*

THRU: Rogers C. B. Morton

SUBJECT: OPEC Countries: Tanker Fleet Expansion

BACKGROUND

You asked us to monitor the activities of OPEC countries in the international tanker market. The following is a preliminary report.

PROBLEM

The international tanker market is severely depressed -- prices for charter are the lowest since the end of World War II. Owners of distressed tonnage are attempting to sell.

OPEC member states are the logical purchasers for these tankers. Saudi Arabia, Algeria, Venezuela, Kuwait, and Libya all either have developed or are developing cargo preference laws. Because of those laws, these countries are in a position to buy distressed tanker tonnage and immediately put it to use.

The market dynamic is such that OPEC countries could in the near future find themselves owning a substantial portion of the international tanker fleet. There is no evidence of an OPEC tanker strategy. The motivation of individual countries appears to be commercial.

After acquiring the tankers, however, OPEC countries could use their fleets to control physical flows of petroleum exports; this would give them the capability of targeting future embargoes with precision.

During the 1967 Suez Crisis, the international oil companies estimated that control of 10 percent of the international fleet would have been sufficient to effectively control the international petroleum transportation system. Because of the current surpluses, somewhat more tonnage may be required today -- but the rough order of magnitude appears to remain accurate.

CIA estimates that 8 percent of the 1980 world tanker fleet would cost \$4-6 billion. Such funding is easily within the range of the OPEC member countries. FEA believes that the tonnage could be brought under OPEC flag control with far more modest expenditures.

#### RECOMMENDATION

The Energy Resources Council working with the EPB will analyze these issues further, and present findings and recommendations to you in 60 days.