

SECRET EXDIS

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Israeli Oil Aspirations in the Gulf of Suez

The Six Day War ended with the Israelis in control of the Sinai shore of the Gulf of Suez and with the Egyptians on the African shore. Since that time the status of the Gulf itself and its oil have been in question.

At the present time the Egyptians are taking about 200,000 barrels a day from the Murgan field in the Gulf. Although this field falls largely on the Sinai side of the middle of the Gulf it was more convenient for the Egyptians to build their installations on the African shore. The company controlling the Murgan concessions is owned half by Egyptian government companies and half by Pan American, an Egyptian subsidiary of Standard of Indiana.

The Israelis are pumping from 35,000 to 65,000 barrels a day from a smaller field, the installations for which were on the Sinai shore. The company which had been exploiting this concession before June 1967 is owned by Egyptian government companies and the Egyptian subsidiary of an Italian company.

There are also a number of partially explored fields on both sides of mid-Gulf.

The Israelis claim that their occupation of Sinai gives them the same rights to offshore oil that they would have were Sinai part of Israel. In the absence of any agreement to the contrary, they thus make a claim to all oil in the Eastern half of the Gulf. Last August they began asserting this claim by forbidding Pan American to do any more drilling in the "Israeli" part of the Gulf. In December we received a report that Israel was trying to interest American oil companies in drilling under Israeli auspices in the eastern half of the Gulf, including some areas included in the Pan American concession.

We are not sure how far the Israeli government intends to go in asserting its claim, or even the extent of support the claim has in the government. We may be seeing actions of over zealous lower ranking officials rather than decisions at the cabinet level, though we have made Foreign Minister Eban aware of the issue. So far the Israelis have made no attempt to stop pumping in areas they "claim", although they have asked that production be limited to pre-June 1967 levels.

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The oil is important to Israel, although they have not mentioned it in discussions of a Near East settlement. Israeli consumption is about the same as the upper limits of their present estimated pumping, and this represents not only a saving of as much as \$60 million a year, but also the only source of oil which does not have to come through Arab controlled waters.

We have based our legal position on the fact that occupation does not grant sovereignty to the occupying power. Israeli occupation, by our theory, stops at the Sinai shore and the UAR retains all its rights in the Gulf. We feel that the cease-fire agreement--which called for forces to stop where they were--supports that interpretation. We contend that at no time prior to the cease-fire was the Israeli navy in occupation of the gulf so that an extension of power is in effect a violation of the agreement.

Our political reasons for opposing the Israeli position are even more important than the legal ones. The investments of an American-owned company (Pan Am) are involved, and another American concession in the Gulf of Aqaba would be endangered if the same principle were applied. More important, if the US appears unwilling to defend clear American interests against Israel, the legend of Zionist control in Washington will be strengthened and our ability to deal with the Arabs even further decreased. There are also other problems, such as Egyptian retaliation for Israeli action, and the need for greater subsidies to Egypt from the oil rich Arabs if the Suez oil revenue disappears.

We vigorously protested the original Israeli attempt last summer and even persuaded them to withdraw a note they had sent Standard of Indiana. Given President Nixon's decision to take the initiative in trying to defuse the Middle East crisis, we shall need all the influence we can muster on both sides of the Arab-Israeli fence. Having the Nixon Administration tabbed in Arab eyes as supporting "another Zionist expansionist grab" would get us off on the wrong foot.