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PAPER

The Parliament of the Commonwealth
of Australia

Report from

THE JOINT COMMITTEE ON FOREIGN AFFAIRS
AND DEFENCE

ON

THE GULF AND AUSTRALIA

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

Joint Committee on Foreign Affairs and Defence

THE GULF AND AUSTRALIA

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Terms of reference

The following terms of reference were given to Sub-Committee B of the Joint Committee on Foreign Affairs and Defence on 15 November 1979.

Monitor the political, economic and strategic situation in the Middle East and peripheral countries, and report on any significant events and their possible effects on Australia.

Thereafter, until the dissolution of the House of Representatives on 18 September 1980, Sub-Committee B became known as the Sub-Committee on the Middle East.

At the first meeting after its re-establishment in the new Parliament, the Joint Committee resolved, on 4 December 1980 that Sub-Committee B should retain the above terms of reference, but should also be vested with terms of reference covering Southern Africa following the reduction in the number of Sub-committees from four to three. The additional terms of reference were:

That the Sub-Committee consider, investigate and report to the full Committee on the significance of events in Southern Africa, with particular reference to the economic, social and strategic implications for Australia.

The countries included in the inquiry were Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia (South West Africa), South Africa, Swaziland, Zambia and Zimbabwe.

Sub-Committee B then became known as the Sub-Committee on Southern Africa and Middle East.

On 8 September 1981 the Joint Committee altered Sub-Committee B's terms of reference to read as follows:

Monitor the Middle East and peripheral countries, Africa, and the Indian Ocean, and report to the full Committee from time to time on significant developments.

The Sub-Committee has thenceforward been known as: Sub-Committee on Middle Eastern and African Affairs.

Membership of the Joint Committee on Foreign Affairs and Defence

Chairman: Mr R.F. Shipton, M.P.
Deputy Chairman: Senator K.W. Sibraa

Senator F.I. Bjelke-Petersen
Senator R.C. Elstob
Senator R. Hill
Senator G.D. McIntosh
Senator J.R. Martyr
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Dr R.E. Klugman, M.P.
Mr S.A. Lusher, M.P.
Mr R.M. McLean, M.P.
Hon W.L. Morrison, M.P.

Membership of the Sub-Committee on the Middle East 15 November 1979 till 18 September 1980:

Mr B.D. Simon, M.P. (Chairman)
Mr R. Jacobi, M.P. (Deputy Chairman)
Senator K.W. Sibraa
Senator J.P. Sim
Senator the Hon J.M. Wheeldon
The Hon J.D.M. Dobie, M.P.
Mr J.R. Short, M.P.

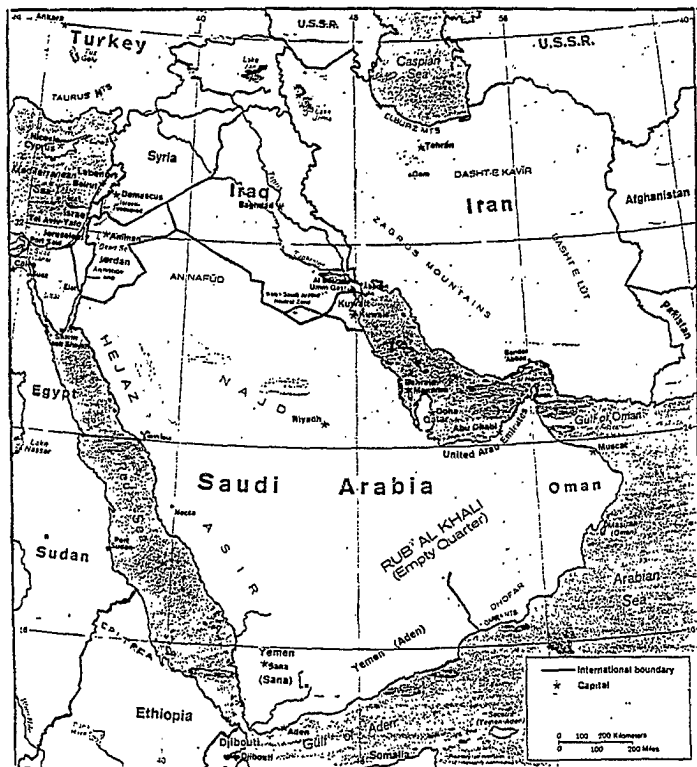
Membership of the Sub-Committee on Middle Eastern and African Affairs ('Sub-Committee on Southern Africa and Middle East' from 4 December 1980 till 8 September 1981):

Hon J.D.M. Dobie, M.P. (Chairman)
Senator K.W. Sibraa (Deputy Chairman)
Senator R. Hill (from 20 October 1981)
Senator J.P. Sim (till 30 June 1981)
Mr K.C. Beazley, M.P.
Mr A.C. Holding, M.P.
Mr D.F. Jull, M.P.
Mr R.M. McLean, M.P.

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THE GULF AREA



Contents

	Page
Terms of reference	iii
Membership of Committee	v
Map	vi
List of tables	xii
Abbreviations and Acronyms	xiii
Preface	xv

PART I

THE GULF, THE WEST, AND AUSTRALIA

<u>Chapter 1 - The economic and strategic context</u>	1
(1) The Gulf - an area of increasing international economic and strategic significance	1
(2) World economic reliance on an unstable region	3
(a) Oil	3
(b) Surplus revenues and economic integration - some recent developments and prospects	7
(3) Stability of the Gulf	15
(4) Soviet activity and United States responses	16
<u>Chapter 2 - Australia's interests in the Gulf</u>	23
(1) The Committee's Report of 1977	23
(2) Trade	24
(a) Exports - recent trends and developments	24
(b) Arab concern about a secure food supply	31
(c) Oil imports	32
(d) Australian dependence on Gulf oil	34
(3) Economic relations with the Gulf, and petrodollar investment in Australia	46
(4) Australia's strategic interests and its relationship with the United States	48

PART II

THE GULF

<u>Chapter 3 - Regional forces and issues</u>	57
(1) Introduction	57
(2) The Gulf littoral and the Strait of Hormuz	60
(a) The Gulf	60
(b) The Strait of Hormuz	61
(3) Perceptions of unity in the Gulf	63
(a) Islam	63
(b) The Arab nation and Pan-Arabism	64
(c) The Arab-Israeli dispute and the Palestinian question	65
(d) Regional co-operation and international organisations	65
(e) Unity and co-operation	73
(4) The potential for instability	73
(a) The myth of unity	73
(b) Modernisation and its social consequences	75
(c) Some external influences	76
(d) Foreign labour in the Gulf and the Palestinian diaspora	79
(e) The Arab-Israeli dispute and the Palestinian question as a destabilising factor	85
(f) Politics and ideology	89
(g) Arab nationalism and nation states	91
(h) Religion	94
(5) Since the Iranian Revolution	98

<u>Chapter 4 - The Iraqi-Iranian War</u>	103
(1) Introduction	103
(2) Causes of tension in Iraqi-Iranian relations since 1958	104
(3) The agreements of 1975 and the Shatt al-Arab issue	106
(4) The deterioration of relations since the Iranian Revolution	109
(5) Some consequences	111

PART III

SUPERPOWER INVOLVEMENT

<u>Chapter 5 - The Gulf - A new area of possible superpower confrontation</u>	117
<u>Chapter 6 - Some observations on Soviet involvement</u>	123
(1) Motives and extent of Soviet involvement	123
(a) General	123
(b) Strategic	124
(2) Bilateral relations	125
(a) People's Democratic Republic of Yemen (PDRY)	125
(b) Iraq	127
(c) Other countries	128
(d) Some problems encountered	128
(3) 'International Solidarity'	130
(4) The relevance of the Afghanistan invasion	130
(5) The oil motive	134
(a) The Joint Committee's 1977 Report	134
(b) The oil motive	134
(c) Requirements	134

(d) Production and consumption	135
(e) Conservation	138
(f) Exports	138
(g) Effects on world markets	139
(6) Conclusion	139
<u>Chapter 7 - Recent developments in United States military and strategic policy</u>	145
(1) United States global strategy and the Gulf	145
(2) United States perceptions of the Gulf	146
(a) Importance	147
(b) Threats	148
(c) United States foreign policy	149
(3) Military responses	150
(4) The Rapid Deployment Force, pre-positioning, and facilities and bases	153
(a) The Rapid Deployment Force	156
(b) Forward bases and facilities, mobility and maritime pre-positioning	158
(5) Some strategic consequences for Australia	162
(6) Some problems and possible repercussions	163
(a) Allied reluctance	163
(b) The possibility of nuclear war	165
(c) The Indian ocean as a zone of peace	167
(7) Conclusion	168

APPENDIXES

A - Countries on the Gulf littoral - Some facts and figures	177
Bahrain	177
Iran	179

Iraq	181
Kuwait	183
Oman	184
Qatar	185
Saudi Arabia	186
United Arab Emirates	188
 B - Australia's trade with the Gulf 1980-81 - Summary	 189
C - Witnesses	191
D - Written submissions	197
E - The Fahd Plan	201

Tables

	Page
TABLE 1.1 - Western energy consumption patterns	2
TABLE 1.2 - Disposition of world crude oil reserves	18
TABLE 1.3 - Oil exporters	19
TABLE 1.4 - Crude oil production	19
TABLE 2.1 - Australian oil consumption, exports and imports 1970-71 - 1980-81	51
TABLE 2.2 - Petroleum imports, by source, 1980-81	52
TABLE 2.3 - The number of oil wells drilled in Australia 1970-82	53
TABLE 3.1 - Cumulative value of arms transfers to Gulf littoral states by major suppliers, 1974-78	78
TABLE 3.2 - Employment by nationality in Arab states, 1975	80

Abbreviations and Acronyms

ABS	Australian Bureau of Statistics
AFIC	Australian Federation of Islamic Councils
ALESCO	Arab League Educational, Cultural and Scientific Organisation
API	American Petroleum Institute
ASBU	Arab States Broadcasting Union
ASW	Anti-submarine warfare
AWACS	Airborne Warning and Control Systems
bpd	barrels per day
CENTO	Central Treaty Organisation
CIA	(United States) Central Intelligence Agency
CMEA	Council of Mutual Economic Assistance
CPES	Centrally Planned Economies
coe	crude oil equivalent
COWPE	Commission for Organising the Party of the Working People of Ethiopia
CRAF	Civil Reserve Air Fleet
CONUS	Continental United States
DOD	(United States) Department of Defense
EEC	European Economic Community
FAO	Food and Agriculture Organisation (of the United Nations)
FIRB	Foreign Investment Review Board
GCC	Gulf Co-operation Council
IBRD	International Bank for Reconstruction and Development
IEA	International Energy Agency

ILO	International Labour Organisation
IMF	International Monetary Fund
LOC	Lines of Communication
LPG	Liquid Petroleum Gas
MABS	Marine Amphibious Brigades
mbpd	million barrels per day
MPS	Marine Prepositioning Ships
NATO	North Atlantic Treaty Organisation
OAPEC	Organisation of Arab Petroleum Exporting Countries
OPEC	Organisation of Petroleum Exporting Countries
PDRY	People's Democratic Republic of Yemen
PFLO	Popular Front for the Liberation of Oman
PLO	Palestine Liberation Organisation
RAAF	Royal Australian Air Force
RAF	Royal Air Force
RAN	Royal Australian Navy
RDF	Rapid Deployment Force
RJDTF	Rapid Joint Deployment Task Force
RO/RO	Roll-on/Roll-off
SAC	(United States) Strategic Air Command
UAE	United Arab Emirates
UN	United Nations Organisation
USAF	United States Air Force
USICA	United States International Communication Agency
USMC	United States Marine Corps
USN	United States Navy
YAR	Yemen Arab Republic
YPDR	Yemen Peoples' Democratic Republic

Preface

THE COUNTRIES ON THE GULF LITTORAL

The Countries on the Gulf littoral which are the subject of this Report are: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

ORGANISATION OF THE REPORT

The political situation in the Gulf is complex. The Gulf is a region of dynamic change and uncertainty. Factors outside the immediate Gulf region having a strong bearing on political developments there include the Arab-Israeli dispute and the Palestinian question. Further afield, the economic importance of the Gulf to the industrialised world means it has become a region where the West in general, and the United States in particular, is keen to secure its access to oil, and to secure a favourable strategic position for this access to continue. Against this background Australia's relations with the Gulf are considered.

It is also against this background that the Report has been organised. The Report is in three PARTS and seven Chapters:

PART I is entitled 'The Gulf, the West and Australia'. Chapter 1 outlines the economic importance of the Gulf to the world economy, especially to the industrialised West, and its strategic significance. Chapter 2 outlines the increasing direct economic importance of the Gulf to the Australian economy in the context of the Gulf's economic and strategic importance for Australia's major trading partners and allies.

PART II is entitled 'The Gulf'. Chapter 3 describes the major factors influencing the internal political situation in the Gulf while Chapter 4 goes on to describe the causes of the Iraqi-Iranian war, and some of its consequences.

PART III of the Report is entitled 'Superpower Involvement'. In this Part the activities of the Soviet Union in the Gulf and on its periphery are considered as are developments in United States policy since President Carter's State of the Union Address in January 1980, and United States determination to protect its vital interests in the region.

CONDUCT OF THE INQUIRY

As mentioned on page iif, the Sub-Committee has been charged by the full Committee to 'monitor' the situation in the Middle East and peripheral countries. The Sub-Committee held its first public hearing with this reference on 12 February 1980 and held its most recent public hearing on 14 April 1982. During that time it has received 64 submissions on the subject of the Middle East, heard 55 witnesses, and taken 1100 pages of public evidence. In addition a great deal of evidence has been heard 'in camera'.

During the course of the inquiry the Sub-Committee focussed its attention on the unfolding situation in the Gulf. It was decided that it would be topical to proceed with this Report because of reports of increasing internal instability in the major oil producing countries throughout 1980 and 1981; the war between Iraq and Iran; increased fears in the West that its access to Gulf oil might be in jeopardy; and because of Australia's expanding trade with the region.

The Committee was advantaged in its deliberations by visits to the region by members of the Sub-Committee. Much of the material in the Report benefitted through the first-hand knowledge gained there. These trips were not undertaken by the members in their capacity as members of the Sub-Committee per se. Three members of the Sub-Committee accompanied a Parliamentary delegation which visited the Gulf region in January 1982, while the Chairman of the Sub-Committee undertook a visit in a private capacity in the middle of 1981. The value of the contributions made by these

members underlines the need for a Committee on Foreign Affairs to be given the facilities to travel overseas to collect evidence.

THE COMMITTEE'S INTEREST IN THE MIDDLE EAST

The Report represents a continuing interest in the Middle East region by the Joint Committee. On 28 May 1969 a report from the Committee was presented to the Parliament 'On the Middle East Situation' (Parliamentary Paper No. 62 of 1969). On 2 December 1976 the Committee tabled a Report on 'The Lebanon Crisis - Humanitarian Aspects'. (Parliamentary Paper No. 331 of 1976). On 1 June 1978 the Committee brought up a Report entitled 'The Middle East - Focal Point of Conflict - The interests of the powers - An Australian perspective' (Parliamentary Paper No. 82 of 1977).

Being conscious of the work done by previous Committees, this Report refers to and attempts to provide some continuity with previous reports.

CONCLUSIONS AND RECOMMENDATIONS

It is felt that because the issues discussed are complex and capable of misinterpretation, the reader will be advantaged by considering each conclusion and recommendation in the context of the sections of the Report in which it appears. The Committee has made a conscious decision not to extract the conclusions and recommendations in a separate Chapter.

ACKNOWLEDGEMENTS

The Sub-Committee would like to thank all those who have assisted it to date, either by presenting oral and/or written evidence or providing documentary source material. It would particularly like to thank: the staff of the Parliamentary Library for their assistance in locating and obtaining resource material; the

Parliamentary Reporting Staff for providing transcripts of evidence; officers of the many Government Departments who demonstrated a fine professional attitude towards providing the Sub-Committee with up to date information and intelligence; and in particular its Secretariat (Mr R.J. Wiber, Secretary, Ms Maureen Weeks, Research officer and Ms Anne-Mari Poirrier, Steno-Secretary) for their outstanding efforts and assistance.

The Report of the Sub-Committee on Middle Eastern and African Affairs was examined and adopted by the full Committee at meetings on 27 and 29 April 1982.

29 April 1982

Don Dobie, M.P.
Chairman of the Sub-Committee
on Middle Eastern and African Affairs

PART I

THE GULF, THE WEST AND AUSTRALIA

Chapter 1

The economic and strategic context

(1) THE GULF - AN AREA OF INCREASING INTERNATIONAL ECONOMIC AND STRATEGIC SIGNIFICANCE

The Gulf and adjacent Middle East is now the fourth largest and fastest growing market for Australian exports. Approximately 80 per cent of our oil imports originate in the Gulf. We need to import one third of our oil requirements.

The economies of Europe, Japan and the United States, traditionally Australia's major trading partners, have a greater level of economic reliance on the Gulf. In 1978 the United States was required to import 44 per cent of its oil requirements, the European Economic Community 87 per cent, and Japan 100 per cent.

Because the economic well-being of the West would be at risk if oil production in the Gulf were to be significantly disrupted, the region is of great strategic importance. The United States has therefore decided that it must be protected from forces hostile to Western interests.

The Committee has therefore decided to prepare a Report on the Gulf and related economic and strategic developments, because of their possible consequences for Australia.

TABLE 1.1 - WESTERN ENERGY CONSUMPTION PATTERNS

1978	United States	European Community	Japan
Oil as per cent of total energy consumed	47%	55%	71%
Per cent of oil imported	44	87	100
Per cent of oil imported from Gulf	30 ^(a)	57	73
Gulf oil as per cent of total energy consumed	7 ^(b)	28	51

Source: John M. Collins and Clyde R. Mark, 'Petroleum Imports from the Persian Gulf: Use of U.S. Armed Force to Ensure Supplies', Issue Brief Number IB79046 (Washington, D.C.: Library of Congress, Congressional Reference Service, May 5, 1980), p.2. Reprinted in Kenneth N. Waltz 'A Strategy for the Rapid Deployment Force', International Security, Spring 1981, p.53.

(a) Now said to be 7 per cent of total oil consumption. See Christopher Van Hollen, 'Time to Stop Being Hostage to Gulf' The Washington Post, reprinted in The Guardian Weekly, 10 January 1982, p.17.

(b) ibid. Now said to be 3 per cent of total energy requirements.

(2) WORLD ECONOMIC RELIANCE ON AN UNSTABLE REGION

(a) Oil

Since the Second World War, the economic growth of countries of the industrialised West and Japan has been significantly based upon a growing use of oil from the Gulf. By the early 1970s the world's greatest industrial power, the United States, which had once been largely self-sufficient in oil, was becoming increasingly dependent on oil from the Middle East. Substantial increases in the real price of oil in the period 1971 to 1973 and in 1978 to 1979 caused a greater degree of integration of the economies of the West and the Gulf, as producing countries began to invest surplus revenue overseas, and to recycle petrodollars through the massive purchase of goods, services and technology, including armaments and military know-how.

The early 1970s also saw an increasing dependence of the Third World on oil, largely supplied from the Middle East, for industrial and infrastructure development. As prices increased, Third World countries (and many developed countries as well) found it increasingly difficult to pay for their economic needs, including oil imports. Their economic needs in turn had to be financed through borrowings in many cases. Much of the money borrowed has been from international financial institutions which in turn use surplus revenues from oil producers.

At the commencement of the 1980s, therefore, much of the industrialised West, Japan and the Third World, were not only dependent on the Gulf for oil, but found that their economies were becoming increasingly integrated with the Middle East.

During 1981 an oil glut developed which led many observers to believe that the West's economic position vis à vis oil producers was improving, and that oil consuming countries might henceforth be able to insist that oil prices and production were kept at acceptable levels.

While noting a likely glut in the oil market for the next year to eighteen months, the ability of Iraq and Iran to come back into the market despite their war, the relative growth in non-OPEC oil production, and the ability of Saudi Arabia to moderate oil prices, Professor Stuart Harris, Professor of Resource Economics, Australian National University, said, in evidence before the Subcommittee that:

The world oil market has been, and will remain, very volatile with small changes in the supply and demand situation leading to periodic relatively large price falls or increases (or shortages or gluts) - this tends to disguise the long term position, and emphasis on the short run situation is, a misleading basis for policy determination.¹

Professor Harris also cautioned against unwarranted optimism regarding the possibilities of oil substitution. Noting that world demand for liquid fuels will continue to rise, particularly in the developing countries and in the centrally planned economies (CPES), Professor Harris noted:

In the longer term further substitution out of oil will occur in those two groups of countries as well but three things are important.

(1) The cost of such substitution is high in capital and technology terms - and hence difficult for developing and CPE countries in particular; and yet these are the areas where projected demand growth is high;

(2) Steaming coal prices are (temporarily) in the \$40 per ton or more range - but even when the effect of the Poland disruption to coal supplies is discounted, or passes, coal prices are likely to remain historically high: consequently, the attraction of substitution of coal (or oil from coal) is less than it seemed to be in the past;

(3) Once the easier substitutions have been made - once we have cut back oil consumption

where its use is optional - the vulnerability of the West (and Australia) to any interruption to supply becomes greater.²

As a result of falling spot market, non OPEC and unofficial oil prices during January and February 1982, OPEC held an emergency meeting in Vienna on 19-20 March. OPEC Ministers resolved to try to hold the present pricing structure based on an official price of \$US34 a barrel. To this end OPEC Ministers resolved to reduce total production by OPEC countries from 18-19 million barrels per day (mbpd) to 17.5 mbpd. Most of the proposed cut back was to be borne by Saudi Arabia.

In commenting on the oil glut, the Minister for National Development and Energy, Senator Sir John Carrick, said in a press statement issued on 25 March:

In the medium to longer term it is reasonable to expect that oil prices will resume an upward path as demand increases and recourse is made to increasingly costly supplies of oil. Moreover, according to IEA projections, oil is likely to provide close to two-fifths of the industrialised countries' total energy requirements in 1990, mostly in the transportation sector. In these circumstances it is very important that there be no diminution of the efforts mounted in recent years to conserve oil and replace it wherever possible.

This need is underlined by the fact that the bulk of oil imports of industrialised countries in the years ahead will come from a small number of producers in the Middle East area, which is inherently unstable. In order to reduce their vulnerability to disruption to supplies from this area it is incumbent on Australia and other countries to maintain appropriate contingency arrangements and to pursue longer term measures designed to minimise dependence on imported oil supplies.

The importance of the Gulf in the context of world needs for oil has become a matter of widespread public awareness. Table 1.2

(page 18) shows the disposition of world crude oil reserves. Table 1.3 (page 19) reveals the importance of Middle East countries in terms of exports. Crude oil production is shown in Table 1.4 (page 19) for the top twelve producers.

These figures, when seen against the background of the percentage of petroleum products used in world primary energy consumption, which was estimated at 44.9 per cent in 1976 and Western Energy Consumption Patterns (see Table 1.1, page 2) indicate how important Gulf oil is to the industrialised West and Japan.

Since the Iranian Revolution and the outbreak of the Iraqi-Iranian war oil exports and production in both countries have fallen substantially. At times Iraqi exports have fallen to as low as 300 000 barrels per day (bpd) compared to an average in the first quarter of 1982 of 1 million barrels per day (mbpd). Iraqi production averaged 2.34 mbpd in 1978 and 2.49 mbpd in 1977 compared to 1.2 mbpd during the first quarter of 1982. At times Iranian production has barely matched the internal Iranian consumption of 600 000 bpd. Iranian production is estimated to have averaged just over 1 mbpd during the first quarter of 1982, compared with 5.148 mbpd in 1978 and 5.698 mbpd in 1977. While Saudi Arabian production during the first half of 1981 was estimated to have averaged 10.1 mbpd, it was cut to 9.25 mbpd in September, and stood at between 7 and 7.5 mbpd at March 1982. After the meeting in Geneva on 29 October 1981 oil ministers of OPEC agreed on a unified oil pricing system. The floor price for a barrel of oil was set at \$US34. The ceiling price was set at \$US38 for top quality crude oil. It was also decided to freeze the price of oil at this level through 1982. The agreement meant that Saudi Arabia would have raised its price by two dollars, while other OPEC members would have to lower theirs.³ In an official statement, the White House noted as follows:

Today's OPEC agreement freezes the new prices through 1982. If the price freeze holds, its

effects will be to moderate the oil bills we otherwise might have to pay, making oil less expensive in real terms than it is today.

Because producers could not agree on production levels however, new OPEC meetings were planned for early 1982. It was becoming clear that because of an oversupply of oil on the world market, it would be difficult for OPEC producers to maintain the previously agreed prices. By March 1982 a number of oil producing countries outside OPEC had lowered their official prices, and the spot market was indicating a surplus of production over demand. The ability of Saudi Arabia to keep prices up by reducing production to the minimum of 6.2 mbpd necessary to finance its budget was problematical. Reports throughout 1981 and the beginning of 1982 said that the official figures of Iraq's oil reserves were far too low. This factor meant that Iraq, which has in any event a need to increase production to finance its war against Iran, would be able to increase production to even greater levels. At the commencement of 1982 Iraq hoped to surpass its 1979 production level of 3.27 mbpd. Countries including Nigeria, Algeria and Venezuela now encountering difficulties in financing their development programs will be required to run down their foreign exchange reserves or to borrow to help finance their development plans, and/or slow down those plans, but a temptation to choose to increase oil sales by lowering prices will remain.

These developments aside, and despite increased production in Mexico, Alaska and the North Sea, the Gulf can be expected to maintain its position as the world's greatest oil producer and exporter for the foreseeable future.⁵

(b) Surplus revenues and economic integration - some recent developments and prospects

In a submission to the Sub-Committee on the 'Importance of the Middle East Oil Producing Countries' Policies to the World

Economy, including the International Consequences of their Surpluses', the Treasury noted that 'the massive revenue from oil produced in the Middle East has generated a significant new market for goods and services as well as creating a new avenue of investment funds for the world's capital markets'.⁶ A significant effect of the massive production and export of oil from the Gulf countries has been the greatly increased revenues accruing to the producers, especially since the large upward movement in real oil prices in the early 1970s, and the 158 per cent increase from the beginning of 1979 to early 1981.⁷ From time to time this aspect of Gulf-Western economic relations has caused speculation about its effects on the world economy - how would the oil producing countries invest their surplus revenues, and to what extent were they capable of absorbing their new wealth for infrastructure development, modernisation and importation of goods, services and new technology? Furthermore, questions were raised about the oil producing countries' ability to manipulate their investments and import policies to the possible detriment of Western interests. Not only was there a spectre of new oil embargoes being imposed in the event of another Arab-Israeli war, there was the possibility of withdrawal of investments from strategic sectors of the Western economies and the halting of imports from the West as well. During the 1970s Arab countries began to use their increasing economic power in regard to a number of issues in international relations, including the Arab-Israeli dispute and the Palestinian question.

The Treasury pointed out to the Sub-Committee in evidence that the potential for the exercise of this kind of power by Gulf countries must be measured against their having many reasons of self-interest not to disrupt the economies of the OECD West.⁸ The Gulf countries depend on the West for their oil revenues, for the investment of their surpluses, and in many cases for their military hardware and know-how. The scale of their surplus revenues which has been exaggerated and misunderstood, should be seen in perspective. In 1974, in the wake of the first 'oil price

explosion', there were, as the United States business journal Fortune noted in November 1980:

No lack of Cassandras then who predicted that the OPEC surpluses, which in one year had risen from \$7 billion to \$68 billion, would drown the international financial systems in a rolling sea of liquidity. But instead of continuing to rise, the annual surpluses shrank, to a mere \$5 billion in 1978, largely because of the Arab's unexpectedly high development spending and the erosion of real oil prices. The Euromarket handled the surpluses with remarkable efficiency.

Fortune added:

Now the ghost they thought they had laid to rest has returned to haunt and divide the experts. Once again there looms a staggering surplus, estimated at \$100 billion to \$120 billion for this year [1980] alone, the result of a doubling of oil prices since 1978. Although the annual surplus is projected to decline to \$90 billion next year, concern is rising that the abnormal imbalance may turn chronic.

These concerns were reflected in much of the Western media during 1980. The prospect of very high surplus revenues in the oil producing countries begged questions about how and where the revenue would be invested and whether the world financial system would cope.

As has become clear, lower growth rates and a more subdued demand for oil, fuel switching, conservation, decontrol of oil prices in the United States, an increase in non-OPEC oil production and a surplus of production over consumption of two million barrels per day at May 1981¹⁰ have all served to drive down the need for, and the price of, oil from the Gulf countries. This in turn has led to predictions of much lower surpluses in the medium term. Indeed the 'oil surplus scare' of 1980 had by mid-1981 turned around to such an extent that a decline of \$33 billion was forecast for the OPEC surplus in 1982 over 1980, when it was at \$111 billion.

The Morgan Guaranty Trust Company of New York projected in May 1981 that the major industrial nations would move from a balance of payments deficit of \$22 billion in 1980 to a \$10 billion surplus in 1982. In comparing the aftermath of the 1978-79 price increases with those of 1973-74, Morgan Guaranty noted that although consumption declined by nearly half as much again, the OPEC surplus would decline more slowly because there is now a lower rate at which oil exporters can increase absorption of imports.¹¹

By November 1981, some observers were predicting a greater decline in surplus for 1982, some even predicting a deficit:

The major flurry arose on 25 June in an article published in New York and syndicated throughout the Middle East in The International Herald Tribune. Two economists at the securities firm of Rosenkrantz, Ehrenkantz, Lyon & Ross - who had successfully predicted the current oil glut as far back as April 1980 - were suddenly predicting that the year-end Opec surplus would be as little as \$30bn, going into deficit in 1982 and 1983. Development programmes in the Gulf states could not be cut or postponed sufficiently to allow imports to cost less than oil exports.

So startling a prediction was this that it received wide coverage both in the Middle East and in Europe. The argument ran as follows: with non-oil sources of energy currently growing at a rate of five per cent, and with non-Opec oil supplies expanding rapidly and coming on the international market at almost the same growth rate, the downward pressure on oil prices would continue, with the average price of oil likely to stabilise at around \$30 a barrel. On this basis, total Opec exports would come to no more than \$260bn in 1981, with a figure of \$215 bn in 1982 being gutstripped by a total import bill of \$250bn.¹²

It was also reported in December 1981 that OPEC was absorbing significant amounts of its petrodollar surpluses and in 1981 had actually ceased to be a net provider of funds to western banks.

In what economists are calling "a new cycle of petrodollar digestion", oil states are absorbing greater and greater amounts of their own surpluses, not just into high cost capital projects, but also into their own fast developing banking sector.¹³

The combined current account deficit of the industrial countries is forecast to decline from present levels, since demand for oil in these countries is now adjusting to the oil price rises and to the subdued outlook for overall economic growth. It is expected that the industrialised countries will be able to finance their deficits through the private capital markets with relatively little trouble.

The outlook for the oil-importing developing countries, however, gives considerable cause for concern. The combined current account deficit of this group is forecast to have increased further in 1981, and their growth rates per capita are expected to be lower than during the period before the first oil price rises. The reserve positions of some countries in this group have also deteriorated in real terms, while interest rates on private lending have increased and maturities have shortened.

Current oil market conditions indicate that there are limits on how far OPEC members can increase or want to continue increasing the market price of oil. The December 1981 OPEC meeting saw OPEC's blended price bring down the average price of oil by one dollar per barrel to \$US34 per barrel, down by 80 cents over the January 1981 price. The new price was to be effective from January 1982. Saudi oil Minister Sheik Yamani forecast additional drops for medium to heavy grades sold for heating and industrial fuel.¹⁴ Some oil industry economists were forecasting that OPEC prices could fall another \$3 during 1982 due to falling demand,

economic recession, large scale conservation in the industrialised countries, the need for Iraq and Iran to increase production and revenues to finance their war, and competition between OPEC members. Falling inventories, on the other hand were leading some industry experts to say that the 'glut is gone'.¹⁵ The uncertainty reflected division among OPEC members and their inability to develop a pricing mechanism which could satisfy long-term strategy needs and reflect short-term market pressures. (See also sub-chapter 2(a) of this Chapter for more detail of oil pricing policies and production trends.)

While the United States dollar has been strong recently, high oil prices contributed in part to its earlier weakness. This points to a dilemma for OPEC. While a range of factors will influence the dollar's value, it remains the currency for pricing oil, and a large proportion of OPEC's assets are denominated in United States dollars. Higher oil prices which lower the value of the dollar are therefore counter-productive. Another important constraint on OPEC members is their need to preserve their market in the longer term.

Evidence presented to the Sub-Committee by the Department of the Treasury, while not minimising the magnitude of surpluses, put the question of its significance in perspective. The Treasury placed more emphasis on the problems to be encountered in oil consuming countries paying for oil than on the ability of the world economy to absorb surpluses, noting however, that although 'the adjustment to higher prices is a slow process, particularly given a capital stock that is based on a much lower price for energy and oil in particular, but it is an inexorable process and significant savings can be expected in the future so long as countries maintain appropriate energy policies'.¹⁶

The Treasury also noted that although there is perhaps not the same scope for growth in import absorption in Gulf countries as there was in 1973-74, in terms of infrastructure, port facilities

and established links with exporters, they are in a much better position to increase imports now. The Treasury noted however that the increasing ability of Asian and other less developed countries to compete with the West to supply import requirements now, should not be overlooked. In addition, memories of supply bottlenecks, inflationary problems together with budgetary and balance of payments difficulties and the large influx of foreign workers which followed the 1974 price rises will probably mean less expansionary policies in oil producing countries during the 1980s.

The importance of the burgeoning Gulf import market to the world economy is hard to exaggerate. The Saudi Ambassador to the United States remarked, in addressing the topic of 'United States - Saudi Economic Relations' at New York in October 1980:

The remarkable growth in Saudi-U.S. trade is reflected in the fact that just ten years ago the Kingdom bought barely half a billion dollars worth of goods and services a year here. Now we are annually purchasing over five billion dollars worth ... Saudi Arabia now buys as much from the United States as does France ... and substantially more than Italy. ... All Arab purchases from America have increased from under a billion dollars a year a decade ago to over ten billion annually now.

While oil price rises have had adverse effects on oil importing countries, including non-oil producing developing countries, they have also created revenues which enable industrialised countries to produce and sell goods, and a greater degree of economic integration between the OECD West and the Gulf has taken place. This economic integration is an important, if often overlooked, aspect of Western interests in the Gulf.

The countries of the developing world, which are a large market for goods and services from the industrialised countries, have also found themselves relying on the major oil producers over the

last few years - for oil, as a source of aid, and for borrowings. According to a World Bank estimate the total external debt of developing countries increased more than 36 times from \$US9.7 billion at the beginning of 1956 to \$US352 billion at the end of 1978.¹⁸

Mr William Brock, United States Trade Representative said on 28 October 1981, that:

The oil shocks of the past several years have severely affected the foreign payments accounts of oil importing LDCs. The aggregate annual current account deficit for these countries rose from \$US37,000 million in 1978 to \$US82,000 million in 1980 and may reach \$US97,000 million this year. Outstanding medium and long-term debt of LDCs has risen substantially and surpassed \$US425,000 million in 1980, of which oil-importing LDCs accounted for \$US300,000 million.¹⁹

The Gulf Arab countries have recently decided to diversify and increase their official lending to developing countries. The total disbursed debt owed to all OPEC nations by the 96 developing countries, increased from \$US668 million in 1972 to \$US10 786 million in 1978.²⁰

Saudi Arabia is estimated to have advanced \$US20 billion in direct soft loans to the Third World. In addition it had, between 1974 and 1981 committed over \$US5 billion to the IMF to soften the blow of the 1974 oil price rises, and on 7 May 1981, pledged \$US8 billion to the IMF to help it 'tackle a record \$100 billion current account deficit which looms ahead for the less developed countries'.²¹

Direct commitments to the Third World were also expected to flow on from the establishment of the Saud Fund for Development with an authorised capital of \$US2 billion, a similar fund to that which has been operated by Kuwait for many years, and which has also been copied by other Gulf oil producers.

Despite this aid some oil importing countries have experienced severe difficulties in meeting their financing requirements which have been further aggravated by high interest rates. The ability of some of them to borrow on private capital markets has been constrained by high existing levels of debt.

It is becoming clear that the strategic significance of the Gulf, not only to the industrial non-communist countries, but to the world economy as a whole, cannot simply be measured in terms of uninterrupted access to oil. It must also be measured in terms of its increasingly broad economic importance, as a very large exporter of capital, as an importer, and as a significant donor of aid.

(3) STABILITY OF THE GULF

The Gulf countries have long been vital to the great powers because they geographically serve as a land-bridge between three continents. Economic considerations have led to even greater strategic interest in the area. Concern now focusses on the internal stability of the Gulf oil-producing states and the possibilities of periods of disruption to oil supplies through the collapse of the infrastructure needed to continue production.

There are now a number of factors which apparently mitigate against stability in the Gulf. First, there are the internal problems within each country which will be discussed in detail in Part II. These include demands for political change and lack of institutional structures to facilitate such change, difficulties in adapting to the demands of producing oil and coping with the distribution of wealth flowing therefrom, the impact of foreign labour, many aspects of modernisation and urbanisation, the rise of Islamic fundamentalism and religious and ethnic divisions.

Second, some countries of the Gulf continue to have differences among themselves. Within the region there are traditional

religious differences which, allied with artificial and sometimes ill-defined boundaries can provide a continuing source of friction. These difficulties are not assisted by the massive arms build-up. The demise of Iran's role as the 'policeman of the Gulf' and the rise of Islamic fundamentalism have further complicated the situation. These factors are discussed in detail in Chapter 3.

Third, the vexed question of the Israeli-Arab dispute and the issues concerning the Palestinians are also factors destabilising the area. Every major conflict between the Arabs and the Israelis has resulted either in oil pipelines to the Mediterranean being cut, the Suez Canal being closed, or embargoes on countries supporting Israel being imposed. The countries of the Gulf continue to press oil importing countries to take a tougher line towards Israel, and partly explain their massive purchase of arms in terms of the need for protection against what they perceive as an expansionist Israel. There is also pressure applied on individual governments by the Palestinian diaspora throughout the Gulf to take a more aggressive stand against Israel, and this continues as a source of instability.

(4) SOVIET ACTIVITY AND UNITED STATES RESPONSES (SEE ALSO PART III, ENTITLED - SUPERPOWER INVOLVEMENT)

The continuing dispute between Israel and her neighbours has from time to time been used by the Soviet Union to its advantage.

The Soviet Union has a number of economic, strategic and political interests in the Middle East and its periphery, including the Gulf. These are discussed in detail in Chapter 6. The Soviet Union acts in a manner which can be expected of a superpower in active competition with the United States and it seeks to increase its own influence and to lessen that of the United States in the region. The Soviet Union does not accept any notion that the Gulf is within the United States 'sphere of

influence'.²² The occupation of Afghanistan still places the Soviet Union at a disadvantage in its relations with Gulf countries.

Because of the potential instability of the region and recent Soviet actions, the United States is no longer satisfied to limit its strategic involvement to arming friendly countries. In the wake of the Afghanistan invasion, the United States, together with its allies, combined in a show of naval strength in the north west of the Indian Ocean. In what was to become known as the Carter doctrine, President Carter announced in his State of the Union address to Congress in January 1980 that any attempt by an outside force to gain control of the Gulf would be regarded as an assault on the 'vital interests' of the United States. The United States has embarked on a more extensive programme of arming and training friendly countries in the area. In addition it has proposed the development of a Rapid Deployment Force (RDF) whose main focus of possible activity is the Gulf. Although it is not clear precisely what potential enemies or what precise role there will be for the RDF, there can be no doubt that such ambiguity of purpose is intended, for it can be seen that any potential enemies contemplating a challenge to United States 'vital interests' will now have to take the RDF into consideration. (See also Chapter 7, entitled - Recent developments in United States military and strategic policy.)

The more active and interventionist United States commitment to the region, because of its economic importance, has not been publicly welcomed by the Gulf States, many of whom regard a pro-United States foreign and strategic policy as a domestic political liability and who regard settlement of the Palestinian question as the region's first priority. The increased military and political activity of the Soviet Union and the United States and their allies, both directly and through proxies or friendly states, has seen the Gulf become an area of increasing tension and possible superpower confrontation which Australia cannot ignore.

TABLE 1.2 - DISPOSITION OF WORLD CRUDE OIL RESERVES

REGION	RESERVES AT 1 JANUARY 1980			RESERVES AT 1 JANUARY 1982		
	OPEC%	non OPEC%	% Total Estimated Proved Reserves	OPEC%	non OPEC%	% Total Estimated Proved Reserves
North America	-	5.2	5.2	-	5.5	5.5
Western Europe	-	3.7	3.7	-	3.7	3.7
Soviet Bloc	-	10.9	10.9	-	9.8	9.8
China	-	3.1	3.1	-	3.0	3.0
South America	3.0	5.8	8.8	3.2	9.5	12.7
Africa	7.8	1.1	8.9	7.1	1.3	8.4
Middle East	55.7	0.7	56.4	53.1	1.0	54.1
Far East	1.5	1.5	3.0	1.5	1.4	2.9
Total	68.0	32.0	100.0	64.8	35.2	100.0

Discrepancies may occur between sums of the component items and totals due to rounding.

Source: Oil and Gas Journal. Compiled by Department of National Development and Energy.

TABLE 1.3 - OIL EXPORTERS

Figures are expressed in millions of barrels per day (mbpd) and are averages for the first quarter of 1982, unless otherwise specified.

Top 10

1. Saudi Arabia	7.6	6. Mexico	1.2 (1981)
2. USSR	3.0 approx (1981)	7. Indonesia	1.1
3. Venezuela	1.4	8. Iraq	1.0
4. UAE	1.3	9. Kuwait	0.7
5. Nigeria	1.2	10. Libya	0.6

Sources: IEA, CIA, Oil and Gas Journal Petroleum Gazette. (Production figures for all Gulf countries are listed in Appendix A to this Report).

TABLE 1.4 - CRUDE OIL PRODUCTION

Figures are expressed in millions of barrels per day (mbpd) and are averages for the first quarter of 1982, unless otherwise specified.

Top 12

1. USSR	12.0 (1981)	7. Venezuela	1.78
2. USA	8.6 (1981)	8. UAE	1.54
3. Saudi Arabia	8.2	9. Nigeria	1.46
4. Mexico	2.4 (1981)	10. Indonesia	1.45
5. China	2.0 (1981)	11. Iraq	1.2
6. United Kingdom	1.79 (1981)	12. Canada	1.2

Sources: IEA, CIA and Oil and Gas Journal.

N.B. Since the March 1982 OPEC meeting, OPEC members have introduced production quotas which will see the figures for OPEC members fall if they are adhered to.

NOTES AND REFERENCES

1. Stuart Harris, Evidence 1981, p. 298.
2. Stuart Harris, Evidence 1981, p. 296.
3. See USICA East Asia and Pacific Wireless File, 29 October 1981, p. 35.
4. See USICA East Asia and Pacific Wireless File, 29 October 1981, p. 43.
5. For further discussions of the level of Western dependence on Gulf oil see R.K. Ramazani, The Persian Gulf and the Strait of Hormuz, Sijthoff and Noordhoff, Alpen aan den Rijn, Netherlands, 1979; Valerie Yorke, The Gulf in the 1980s, The Royal Institute of International Affairs (Chatham House Papers), London, 1980; and Peter R. Odell, Oil and World Power, Penguin, Harmondsworth, 1979.
6. The Treasury, Evidence 1980, p. 201.
7. 'A Breather for Oil Prices', Businessweek, 2689-20, 25 May 1981, p. 66.
8. The Treasury, Evidence 1980, pp. 198-240.
9. Fortune, 17 November 1980, p. 39.
10. 'A Breather for Oil Prices', Businessweek, 25 May 1981, p. 66. See also Department of Foreign Affairs, 'The Oil Market and the Geneva OPEC meeting', Background, 26 August 1981.
11. World Financial Markets, Morgan Guaranty, May 1981.
12. 'Arab Banking: Special Report', 8 Days, 14 November 1981, p. 22.
13. 'OPEC dollar recycling takes a new turn', 8 Days, 12 December 1981.
14. See 'OPEC faces more cuts and conflict', 8 Days, 19 December 1981, p. 55.
15. See 'OPEC prices "could drop \$3" this year', 8 Days, pp. 54-55.
16. The Treasury, Evidence 1980, p. 212.
17. Faisal Alhegden, Ambassador for the Kingdom of Saudi Arabia, 21 October 1980, reported in Vital Speeches of the Day, 15 December 1980.
18. Quoted in Ramesh C. Garg, 'Loans to LDC's and Massive Default', Intereconomics, January/February 1981, pp. 19-25.

19. Quoted in USICA East Asia and Pacific Wireless File, 28 October 1981.

20. IBRD: World Bank Tables, Vol. 1 (1979) Washington.

21. Robert Pouliot 'Saudi Finance: We don't have Surplus Cash', 8 Days, 20 June 1981, p. 13.

22. See Sergei Losev (Director-General of TASS) 'Soviets' View: Carter Wants a Confrontation', U.S. News and World Report, 11 February 1980, p. 28.

Chapter 2

Australia's interests in the Gulf

(1) THE COMMITTEE'S REPORT OF 1977

The Joint Committee's Report of 1977¹ dealt at length with the question of Australia's interests in the Middle East, including the Gulf. This Report is concerned with Australia's particular interests in the Gulf, and does not repeat the general comments made in the 1977 Report.

General aspects of Australia's reliance on Middle East oil are covered in the 1977 Report. This report has limited its analysis to significant recent developments. In addition, the 1977 Report dealt at length with Australia's trade with the Middle East. As trade with the Gulf countries has grown substantially since then, this Report contains information on recent developments and issues in this sphere.

The 1977 Report also dealt with the question of 'Petro-funds' in the global context, predicting that they would, in future, find their way into Australia. Since then there have been developments on this question, and yet information is scarce.

The recent more active posture of the United States in relation to the Gulf region and its implications for Australia are discussed in Sub-chapter 2(4) - Australia's Strategic Interests and its Relationship with the United States.

(2) TRADE

(a) Exports - recent trends and developments

The Gulf has become increasingly important to the Australian economy over the last decade as an importer of Australian primary produce, manufactured goods, and services. The Gulf has continued to be an important source of Australia's oil import requirements.

Australia's exports to the Gulf increased from \$87.2m in 1972/73 to \$915.6m in 1980/81, an increase of 950 per cent. This compares with an increase in total Australian exports to all markets over the same period of 209 per cent. The major items in Australia's exports to the Gulf in 1980/81 were wheat, meat and live animals. The region is Australia's largest market for live sheep and sheepmeat and a valuable market for dairy products, wheat and other grains. (See also Appendix A - Countries on the Gulf littoral - some facts and figures, and Appendix B - Australia's Trade with the Gulf - Summary.) Imports were at a level of \$1808m in 1980/81, which were principally made up of crude oil, petroleum and petroleum products, and increased by 1297 per cent over 1972/73, reflecting the substantial rises in oil prices since 1973.

The Government has sought to establish closer formal trade relations with countries of the area since 1977. An Agreement on Trade and Economic Relations and Technical Co-operation was concluded with Bahrain in 1979. Since then, similar Agreements have been concluded with Iraq (1980), Saudi Arabia (1980) and Oman (1981), while an Agreement has been initialled with the United Arab Emirates. In addition, Agreements with Qatar and Kuwait are currently under negotiation.

An element of these Agreements is the establishment of Joint Commissions which enable regular meetings to take place on trade and related matters at either Ministerial or senior official

level with the countries concerned. Such meetings have been held in 1981 with the Governments of Bahrain and Saudi Arabia, and in March 1982 with Iraq.

The importance of the Gulf market has been highlighted by the increasing number of Ministerial visits to the region in recent years. There have also been a growing number of Ministers from Gulf countries visiting Australia over the last three years.

Prior to 1973 Australia had two Trade Commissioner Posts in the Gulf region, at Bahrain and Tehran. Since then, Trade Commissioner Posts have been opened in Jeddah (1975), Baghdad (1976), Kuwait (1978) and Abu Dhabi (1979).

A number of Posts have subsequently been strengthened and a Joint Commission Office, staffed by a Trade Commissioner, has been opened in Riyadh, to capitalise on opportunities which may arise in the projects and consultancy fields.

The Department of Trade and Resources has continued to undertake trade promotional efforts in the Gulf. These efforts are designed to demonstrate that Australia has the ability to supply a range of products, skills and technology which can contribute positively to development needs.

Trade and Economic missions visited Iran, Saudi Arabia and Iraq in 1974. Between July 1975 and March 1982, 21 missions visited the region. Sixteen missions promoted Australian manufactures and services, including building materials and equipment, processed foodstuffs, heavy engineering equipment, mining equipment, agricultural equipment, power and electrical fittings and consultants. Five survey missions investigated cold storage facilities, the market for meat and live sheep, for horticultural products and for mineral and agricultural development in Saudi Arabia.

During the same period, some 227 commercial visitors from the region were invited to Australia under the Trade Promotion Visits Fund to investigate Australia's capability of supplying a wide range of products. A Kuwait finance and development group also visited Australia in 1980 and a Qatari investment group has expressed interest in Australian energy-oriented projects.

A feature of trade promotion conducted in the region is the program of trade displays. Australian Trade Displays have been held in Kuwait (1974, 1979 and 1981), Jeddah (1977 and 1980), Dubai (1978) and Riyadh (1982). In addition, the Department of Trade and Resources is planning to undertake a major Australian Trade Display in Abu Dhabi in 1983. The Department also participates on an annual basis in the Baghdad International Trade Fair. There is also a trend towards participation in smaller specialised displays.

Another promotional tool which it is expected will become increasingly important in the Middle East context is the Programmed Exporter Visit Scheme under which individual or small teams of Australian exporters visiting the Gulf will be provided with specialised assistance and facilities by Trade Commissioners.

In the publicity field, Australian products are being publicised throughout the area in the Department's publication Australian Trading News which is printed in English and Arabic. Use is also made of supplements in local newspapers.

The Department, through its Regional Offices in State Capitals and through its journal Overseas Trading, maintains a flow of market intelligence to Australian exporters and consultants. Seminars in most State capitals are regularly conducted on trade opportunities.

The development plans of a number of Gulf countries provide scope for a wide range of projects in agricultural, industrial, health, education and other fields.

In the agricultural field, Australian dryland farming techniques and equipment are gaining increasing recognition, and Australian farming projects, under the auspices of the South Australian and Western Australian Governments, are already established in Iraq. Sales of Australian farm equipment are now evident from these developments.

Australian consultants are actively involved in Saudi Arabia, the United Arab Emirates, Qatar and Oman in fields which include dairy production and processing, livestock studies, irrigation and feedlot operation, building and hotel construction, cold stores, roads and highways.

Other areas where Australian expertise is proving of interest to Gulf countries include meteorology and environmental protection (a Government to Government Memorandum of Understanding provides the framework for co-operation with Saudi Arabia in this area), hospital management, aeromedical services, airport design, civil engineering, minerals exploration and exploitation, water conservation, consulting and contracting services.

The establishment of the Australian Overseas Projects Corporation assists Australian firms to bid for large scale development projects in the Gulf. The Technical Support Facility established in 1980 enables experts to examine on the spot the scope for increasing Australian participation in projects. Recent taxation measures entail a measure of taxation relief for Australians working on approved overseas projects and thus have an implication for the costing of Australian bids for project work.

In May 1980, the Australian Government, together with Canada, Japan and most Western European nations, following earlier action

by the United States, applied an embargo on non-food exports to Iran due to the continuing detention of United States hostages. Following the release of the hostages in January 1981 the embargo was lifted.

EFFECTS OF THE IRAQ-IRAN WAR

The state of relations between Iran and Iraq since the outbreak of war in September 1980 has disrupted Australian exports to Iran and Iraq, then our first (\$251 million) and second (\$226 million) largest markets, respectively, in the Gulf in 1979-80. The major offloading ports for Australian products in Iran (Bandar Khomeini) and Iraq (Basrah and Umm Qasr) were closed to commercial shipping for some time. Although Bandar Khomeini has been re-opened, the continuing instability in the area and consequent high insurance costs are a deterrent to usage.

Some Australian products (mainly foodstuffs) have been shipped to Iran through the Southern Iranian port of Bandar Abbas, outside the war zone.

The high level of exports to Iran and Iraq in 1979-80 was not maintained in 1980/81 with recorded exports to Iraq declining by 74 per cent and to Iran by 21.5 per cent. The 1980-81 official figure for Australian exports to Iraq (\$59m) is somewhat understated as it does not include exports (particularly wheat) to Iraq which are transhipped via the ports of Dubai, Kuwait and Aqaba.

SOME EXPORT DIFFICULTIES

The Committee considers that in general terms the Government is making adequate efforts to ensure the continued increase of Australian exports to Gulf countries. It does appear however, that although Ministerial visits to promote Australian products have been well received, there are certain deficiencies in our

ability to follow up opportunities arising from them, including problems of access to high government officials, knowledge of local business practices, and language. The Committee acknowledges that these problems are due in part to the newness of the market and our inexperience in it.

While there are a number of opportunities available to Australian exporters in the Gulf, there are also a number of problems and challenges.

During the course of its inquiry, the Sub-Committee became aware of difficulties in transshipping air freighted goods from Bahrain into Saudi Arabia and to other destinations in the Gulf. At present Qantas only stops at Bahrain in the Gulf. As a consequence there is some difficulty in having Boeing 747 size containers onforwarded. Riyadh, which is a potentially large market for Australian chilled meat, is serviced only by Saudia, Saudi Arabia's national airline.

Some of the problems in the past have been due to lack of port facilities and infrastructure to handle the increasing imports. These problems are being overcome. Port and cold storage facilities can now more adequately handle imports (especially food), and the turnaround times for shipping are becoming less. Australian staff are learning how to deal with local problems. Distribution of some products remains difficult however, with occasional reports of death rates remaining high in some live sheep shipments, after they reach countries of destination. The Department of Trade and Resources appears to be well aware of these problems and is doing its best to ameliorate them.

Not enough personnel at either overseas posts or in head office Canberra, write and speak Arabic adequately. The difficulty in recruiting and training adequate numbers of personnel in Arabic is acknowledged, as is the fact that posts in Arab countries are not the most sought after in the Trade Commissioner Service. The

Committee nevertheless believes that much more business could be successfully negotiated if more Australian trade personnel were to have a greater knowledge of Arabic and of local business practices, and urges the Department to give this matter greater attention.

The question of a political linkage between Australia's policy towards the Arab-Israeli dispute and the Palestinian question on the one hand, and the willingness of Arab countries to accept greater or lesser levels of Australian imports on the other, has fortunately not been a significant feature of Australian trade relations with the region. While not wishing to engage in self-fulfilling prophecy, the Committee is aware that this issue may be raised in the future. It is therefore something about which the Government must remain constantly aware if Australia's interests are to be properly protected.²

During its inquiry the Sub-Committee became aware of difficulties in the administration of Halal certification of meat for Muslim markets. Meat bound for Middle Eastern markets requires certification that it has been slaughtered and produced in accordance with the Islamic Shariah.

At present the Australian Federation of Islamic Councils (AFIC) supervises much of the Halal certification in Australia on the basis of a fee per carcass slaughtered (10 cents for sheep and \$1.00 for beef). It is clear that for a long time the role of AFIC has not been accepted by all sections of the industry, and AFIC's role remained a point of dispute between producers, the Australian Meat and Livestock Corporation, Government Departments, and AFIC.

The argument about who should certify Halal meat has not been confined to Australia, but has been raised in importing countries as well.

The Sub-Committee was told by the Department of Trade and Resources in April 1982 that agreement had been reached 'in

principle' to resolve this dispute.³ The Committee will nevertheless keep the matter under review until there has been a demonstrable resolution of the problem in practice.

The Committee considers that such an important market for meat as the Gulf, which has grown dramatically over the last five years, should not be prejudiced because of an inability to resolve the matter of Halal meat certification.

(b) Arab concern about a secure food supply

Many Arab countries of the Middle East, including the Arab Gulf countries, are determined to become as self-sufficient in food production as possible despite large increases in food imports.

A number of regional and international factors have led to this concern. Firstly, annual population growth is in the order of 3 per cent in Iran, Iraq and the Gulf monarchies. In Iran this means an annual increase of about one million. There is a general prospect of a doubling of numbers in the Middle East as a whole within the next 30 years. Although the rate of growth of food production in Arab states was estimated to be 3.3 per cent in the 1960s and 2.8 per cent in the 1970s, these figures were below expected levels, and have been negated by population growth. Food consumption is estimated to be rising at a rate of 12.5 per cent per annum. Cereal imports in the Middle East, of which Australia could be a major supplier, rose from 4.4 million tonnes a year in the early 1960s to 12.6 million tonnes in the mid 1970s. The Food and Agriculture Organisation (FAO) of the United Nations estimates that by 1990 cereal imports will rise to 31 million tonnes, and by 2000 to 47 million tonnes. The FAO estimates that the Arab world's cereal self-sufficiency rate will decline from a current rate of 80 per cent to 69 per cent by 1990.

The corollary of this trend is an increasing dependence on the world's 'food superpowers', including the United States, Canada, the European Economic Community (EEC) and Australia.

Since President Carter's grain embargo against the Soviet Union and despite President Reagan's lifting of the embargo, countries of the Arab Middle East, including the Gulf, are now concerned that denial of food might be used as a political weapon.

Arab policy makers perceive Australia in the same light as the United States on the question of food embargoes regardless of Australia's intended view or policy. This was made clear to members of the Sub-Committee who accompanied the Parliamentary delegation which travelled to the Middle East during January and February 1982.

As an independent country, and because we are not a superpower, Arab countries look to Australia as a potentially reliable source of food supplies free of political strings. To protect access to its current and potential market for agricultural products in the Middle East, Australia must make it clear that denial of food is not a weapon it will use in its relations with other countries.

Australia's emerging interests in the region, which are basically economic, may require us to develop policies which will enable Gulf countries to see us as a nation independent of the United States, and as having interests and policies distinct from it. At the same time we should be prepared to tell the United States from time to time and when the situation arises, that, having regard to Arab sensibilities, we cannot go along with particular policies which are not in our best interests.

(c) Oil imports

While Australia produces approximately two-thirds of its oil requirements, it relies on the Gulf for approximately 80 per cent of the remaining third which it is required to import. The degree of our dependence on the Middle East is 25 per cent of total oil requirements. (For imports expressed in barrels per day see Table

2.1, page 51. Sources of petroleum imports for 1980-81 are listed in Table 2.2 at page 52.) In the absence of more discoveries of oil in Australia and assuming there is little likelihood of Australia being able to diversify substantially its oil imports, dependence on Middle East oil is likely to be of continuing economic significance to Australia in the long term.

REFINED PETROLEUM PRODUCTS

In 1980-81 refined petroleum products represented about 25 per cent of total imports (coe), just over 40 per cent of which came from the Middle East. Most were fuel oil imports from Kuwait and Bahrain. Singapore was the largest single source, representing 45 per cent of total product imports. In 1981-82 the Middle East share seems likely to drop to about 30 per cent while Singapore's share appears likely to rise to almost 50 per cent.⁴

The destruction of the Abadan refinery in Iran following the outbreak of the Iran-Iraq war in September 1980 has been a major factor in the swing away from Middle East product supply sources.

CRUDE OIL AND OTHER REFINERY FEEDSTOCKS

In respect of crude oil and other refinery feedstocks, the Middle East accounted for 78 per cent of direct imports in 1980-81 and is expected to account for about the same proportion in 1981-82. The most important direct source (upon which five of the eight Australian refiners rely upon almost exclusively) is Saudi Arabia. That country accounted for 54 per cent of direct crude oil imports in 1980-81 and is estimated to account for 57 per cent in 1981-82. Indonesia has become the second most important direct source, though with a much lesser share: 12 per cent in 1979-80 rising to 17 per cent in 1980-81. Other major sources have been Kuwait, 13 per cent and 10 per cent respectively; the United Arab Emirates 8 per cent and 9 per cent; and Iraq, with 10 per cent and 5 per cent.

TOTAL OIL IMPORTS

The share of total oil imports (coe) held by Middle East countries stood at 73 per cent in 1979-80 and 69 per cent in 1980-81 and is expected to decline to 66 per cent this year. These figures, however, understate Australia's dependence upon that region to the extent that a significant portion of oil imported from non-Middle East sources is of Middle East origin. Singapore is the most important case, given that it accounted for 14 per cent of total oil imports in 1979-80 and 13 per cent in 1980-81 and yet has no indigenous oil. It is not possible to fully identify the crudes from which these products were derived but in view of the products involved, the companies involved and the overall composition of input to Singapore refineries, perhaps about three quarters of the Singapore sourced imports are derived from Middle East crude oils. Similarly, perhaps half of the product imports from other countries may have been derived from Middle East crudes. On this basis, around 80 per cent of Australia's oil imports in 1980-81 could be said to have originated in the Middle East. The 1981-82 figure is likely to be a little lower because of the growth in product imports from sources outside the Middle East.

(d) Australian dependence on Gulf oil

PROBLEMS OF DIVERSIFICATION

In a specific Recommendation of the 1977 Report relating to Australian dependence on Arab oil supplies, the Committee said, in part:

23. Australia should attempt to make itself less dependent on Arab oil supplies to lessen the possibility of heavy unemployment (it could be as severe as an additional half a million persons) should these supplies be reduced ...⁵

In 1977 the Committee noted that, in 1974-75, the Middle East was the original source for 97 per cent of our imported refinery feedstock. The Committee also noted the importance of the Gulf producers - Saudi Arabia, Kuwait, Bahrain, Iran and Iraq.

There has been a reduction in Australia's dependence on Middle East crude and other refinery products since 1974-75, and some attempt has been made to diversify sources.

In commenting on the significant proportion of imports from the Gulf, the Australian Institute of Petroleum stated in evidence:

Continuity of crude oil supplies from Gulf countries is important not only because of the need to match refinery intake as closely as possible to the pattern of demand for end-products but also because most of Australia's refineries, including the five largest, possess processing units designed to run particular crudes from that region, units which cannot easily, if at all, handle other crudes with markedly different physical and chemical characteristics.⁶

Following up the former Committee's recommendation regarding diversification of oil supplies in 1977, the Sub-Committee took evidence from the Department of National Development and Energy on the question. In evidence, Mr D.J. Ives, the then Deputy Director of the National Energy Office mentioned some constraints on diversification:

There are a number of other potential suppliers, including some in the American hemisphere, such as Venezuela. But there are significant constraints on diversification ... The principal constraints are the refinery configuration that we have in Australia and the costs of changing that refinery configuration. Secondly, in the short to medium term, there is a very important cost consideration. The Australian community has shown itself fairly sensitive

to pricing of petroleum products, and I think one of the reasons for some concentration on the Middle East as a source of supply of crude oil has been the relatively attractive price for those supplies. We have this very large dependence on Saudi Arabia and, of course, virtually all the oil which comes from Saudi Arabia is coming at the market price, which is the lowest standard international price in the world. Diversification would carry with it the problem that there could well be quite substantial margins and premiums. Also, other potential supplies tend to be more remote and there probably would be substantial additional shipping costs.

The Committee is aware that there are, because of price and availability, reasons for a continuation of primary reliance on the Gulf oil suppliers all the time the political situation there enables large scale production to continue.

The Committee can see little scope for further diversification in the near future but notes that Australia will be in a difficult situation in respect of fuel oil requirements if Gulf supplies are disrupted.

ENERGY INFORMATION

The Sub-Committee took evidence on the question of the adequacy of the monitoring of, and availability of information on, the oil production and pricing policies of producing governments, and the Australian Government's information gathering in respect of energy matters generally overseas.

The Department of National Development and Energy stated in evidence that reporting on energy matters by overseas posts had not always been adequate.

Mr D.J. Ives told the Sub-Committee in April 1980:

In the last couple of weeks we have, with the co-operation of the Department of Foreign Affairs, made a further request to various posts throughout the world to devote more attention and resources to informing us about energy matters. We have also had a number of briefing sessions recently with senior embassy representatives who have been back in Australia, emphasising that we are looking for a greater flow of information on energy policy developments, oil developments, alternative energy research and so on.

Mr DOBIE - Are you assisting them by telling them the precise type of information they should be looking for?

Mr Ives - Yes. We are indicating the type of information we want. We send out frequent cables to them with specific requests. That workload at the moment is being placed on top of their existing workload. A lot of that work is going to the Department of Trade and Resources representatives or the Department of Foreign Affairs representatives. We think that the time may come when the demands for energy information that we are starting to place on the representatives will become so great that we will propose posting energy officials to a number of overseas posts.

Although the Committee was told in April 1982⁹ that problems of reporting from overseas posts had largely been solved, it was also told by the Department of National Development and Energy that there remained some difficulties in assessing the information sent by posts to head office Canberra because of a lack of qualified staff.

The Committee recommends that reporting on energy information by overseas posts and assessment of such information by Canberra based personnel should be such as to enable the Government to be adequately informed to make important decisions on energy policy matters to assure Australia's economic well-being.

FUTURE IMPORT REQUIREMENTS

The Sub-Committee sought evidence from the Department of National Development and Energy regarding the outlook as at April 1982. The information and projections in the following paragraphs are largely drawn from written evidence provided to the Sub-Committee by the Department on 11 May 1981 and on 7 April 1982.

Australia's future oil import requirements depend upon developments in the size and composition of the domestic energy market, levels of production of indigenous crude oil from existing and as yet undiscovered oilfields, levels of production of synthetic fuels and progress in substituting indigenous naturally occurring LPG for fuels derived from crude oil.

On the basis of present projections, indigenous production is likely to level out over the next few years and, in the absence of new discoveries, would then begin to taper off. It seems more likely, however, that some new fields will be discovered and developed - and some existing fields have their lives extended - such that Australia remained about two thirds self sufficient at the end of the decade.

The composition of the domestic market for liquid fuels is expected to change gradually to reflect changing demands for particular products. LPG sales are expected to grow strongly. Demand for jet fuel, automotive distillate and lubricants is projected to continue to increase steadily; automotive gasoline demand is forecast to decline slightly while fuel oil sales are forecast to decline significantly.

This outlook suggests that over the next five years or so, with a continuation of the current prohibition on the export of indigenous crudes, the Australian refining industry would be processing much the same proportion of local crudes and feedstocks in its total throughput as at present. An increasing

proportion of refinery input from indigenous sources is also likely to be condensates produced from natural gas fields. This may require some modification to refinery equipment and operating practices but is most likely to be reflected in a reduction in imports of light crudes and other light feedstocks such as naphtha. In these circumstances, Australia's dependence on Middle East sources would probably decrease to some extent since Saudi naphtha and Abu Dhabi crudes account for about 80 per cent of the light crudes and feedstocks (other than petrochemical feedstocks) above 36° API.

In the event that new oil discoveries and extensions of the life of existing fields were not forthcoming, Australia's net oil import needs would, of course, be substantially above current levels by the end of the decade and the oil imported would have to be able to yield the quantities of light products demanded in the domestic market. Almost all crudes likely to be available from overseas sources during the eighties would be inferior substitutes for indigenous oil in this regard, though a mix (including increased imports of naphtha and distillate-spiked crudes) might constitute an acceptable answer. Many of the high quality light crudes that might serve as possible substitutes for Gippsland crude (e.g. certain Malaysian, Indonesian, Brunei, Nigerian, North African and North Sea crudes) have - until recently - enjoyed a substantial price premium over medium density and heavy crudes and trends in future production towards an increasingly heavy mix of internationally traded crudes suggest that in the medium term such premiums are likely to be re-established.

Another possibility would be to increase imports of lighter refined products. Indeed, particularly if planned expansions to OPEC refinery capacity are realised, it is possible that the purchase of refined products would be linked to access to crude oil supplies from OPEC countries.

FUTURE AVAILABILITIES

Table 1.2 presents a recent assessment of proven world crude oil reserves. North American crude oil is not available for export by policy decree; North Sea oil, although available on world markets at present, is not likely to be available outside Europe in periods of supply shortage; and Soviet supplies to the world oil market are uncertain over the longer term. If the oil reserves of the Soviet Bloc, Western Europe and North America are excluded because they are either unavailable for international trade or unlikely to be available when needed, this still leaves about 80 per cent of the world's proven reserves, two thirds of which is located in the Middle East. Over the next decade or two it seems likely that, if anything, the concentration of available supplies in the Middle East will intensify, mainly because known reserves are being exploited at greater rates in areas outside that region.

This picture was said by the Department of National Development and Energy to underline the longer term need for oil importing countries to diversify their mix of energy sources, and to diversify oil supply sources to the extent that that is possible. The pressure to do this is perhaps less in Australia's case, in the medium term at least, but it is still there and will intensify if new discoveries are not made and Australia's import requirements increase.

DIVERSIFICATION OF SOURCES

According to the Department the scope for diversification of oil import sources is limited. Of the 27 per cent of proven world reserves outside the Middle East, North America, Europe and the Soviet Bloc, 3 per cent are located in South America, African and Pacific countries (including Australia) which are not self-sufficient in oil and, given present reserves, are not likely to become oil exporters. China accounts for another 3 per

cent of these reserves and recent evidence suggests that it may have over-committed itself in relation to oil exports to Japan. It follows that if Australia were to determine to seek alternative supply sources it would need to look mainly towards Mexico (8.5 per cent of proven world reserves), Venezuela (3.0 per cent), Nigeria (2.5 per cent) and Indonesia (1.5 per cent). Malaysia and Brunei, with smaller reserves, could also be future supply sources for Australia. The North African producers Algeria and Libya (4.6 per cent of world reserves between them) are other possibilities, although supplies from those countries are likely to be subject to much of the same uncertainties as those associated with Middle East suppliers.

As well as the limited choice of alternative sources - some of which may themselves be no more secure than Middle East sources - factors such as the suitability of available crudes for processing in Australian refineries and the suitability of their product yields for Australian market requirements further limit the scope for diversification. Lighter grades of crude oil are becoming more difficult to obtain and already two major exporters, Saudi Arabia and Mexico, require oil buyers to lift minimum proportions of heavy grades. Other exporters, notably Venezuela, will be relying increasingly on their reserves of heavy oil to maintain production levels. Associated with this trend is the problem of higher sulphur content, and in many cases, of metals contamination. These trends have already led some countries, notably France, to embark upon substantial investment programs in heavy oil refining technology and transportation systems.

REFINERY FLEXIBILITY

The Australian refining industry, although small by world standards, operates in an internationally competitive environment and within the constraints imposed by local economic, social and environmental factors and institutional arrangements. The

industry's structure has evolved over the last thirty years in a manner reflecting the changing demands of the market, the available supply of feedstocks, and developments in refinery technology.

Today Australia has ten major fuels refineries located at seaboard ports, and a mini refinery at Roma, Queensland, with a total capacity of about 800 000 barrels per stream day. This represents some 1 per cent of world refinery capacity.

The role of a refinery is to process crude oil into a range of products which matches the requirements of the market at the lowest practicable cost. This task has been complicated over recent years by rapid changes in the structure of the market, (including falling demand for many products) access to supplies and other uncertainties which have given rise to a situation in which 20 to 40 per cent of European, Japanese and US refinery capacity is not being used. (This figure for unused fractionation plant in Australia is about 25 per cent.) Non-communist world oil demand in 1981 is estimated at 46.4 mbpd, which is less than it was in 1973 (49.1 mbpd); and the 1982 figure is likely to be lower still. Consumption of heavy fuel has declined most, with 1979 consumption in Europe some 15 per cent below the level in 1973. Future net additions to refinery plant will therefore concentrate on processes to increase yields of the lighter fuels - gasolines, kerosenes and diesel - rather than on fractionation plant which merely increases crude oil throughput with attendant high yields of fuel oil.

In Australia, certain refineries have been dedicated to process a high proportion of indigenous crude: about half the supply of Gippsland crude is processed in Victorian refineries supplied by pipeline, while Barrow Island crude is processed principally in Western Australia, and Moonie crude is processed wholly in the Queensland refineries. The existing refinery pattern minimises freight costs and is economically efficient.

Changes in the type of feedstock available to any refinery, which depart from the optimum feedstock, result in a penalty in higher product costs and possibly reduced availability of desired products. The Ampol refinery at Lytton, Queensland, for example, was designed to operate on low sulphur or 'sweet' crude oils, such as Gippsland, Sumatran Light or Moonie. According to the Department of National Development and Energy, there is no short term flexibility to change to a higher sulphur crude oil such as Arabian crudes, due to the nature of the equipment installed.

Indigenous crude oil does not yield bitumen, lubricants or significant quantities of fuel oil (these products being derived from imported feedstocks) and the scope for refineries to meet market demands for these products, should the type of imported crude vary greatly from that normally used, is limited.

Nevertheless, the compositions of indigenous crude oils are well suited to the Australian market. Two thirds of Gippsland crude is straight run liquid transport fuels (gasolines, jet kerosenes and automotive distillate) and the remaining one third is ideal feedstock for catalytic cracking. Australian crudes are also low in sulphur content.

The single most important consideration in an Australian refiner's planning is the future availability of good quality indigenous crude oil. Imported crude oils, because of their higher content of heavy fuel oil and sulphur, require more conversion and treating plant capacity to yield the same quantity of transport fuels. According to the Department of National Development and Energy, over-optimism in assessing future indigenous crude oil availability would therefore lead to insufficient capacity to refine an increased quantity of imported crude oil and insufficient flexibility to handle a wider range of crude oil types. On the other hand, too conservative a view of future indigenous crude oil availability would lead to investment in expensive refining plant which would not be fully utilised.

CORPORATE AND INSTITUTIONAL LINKS

The implications of the above observations can be extended to include consideration of the relationship between the oil companies operating in Australian and the Middle East. Until very recently, Saudi Arabia's official selling prices were the lowest in international trade and Caltex, Mobil and Esso through their participation in Aramco had preferential or direct access to Saudi supplies. While these companies and others, including Amoco and Total, have had this access, there has been little or no commercial incentive to diversify. At present, official Saudi prices are higher than those applicable to oil from other sources but this situation is unlikely to persist for any length of time: pressures from within or without OPEC are likely to lead to a restoration of something like the price relativities which existed until recently. BP and Shell, which do not have significant direct access to Saudi crudes, have good commercial reasons for meeting their Australian import needs through Middle East supply arrangements.

According to the Department, while there could well be changes from time to time in the relative significance of individual Middle East countries in relation to Australia's oil imports there would seem to be little scope for significant diversification away from the Middle East area as a whole.

GENERAL

The Committee is aware that there are difficulties in distinguishing between what are matters of domestic political policy and those that can be properly treated within its terms of reference. So as not to transgress on matters of domestic policy, the Committee has declined to offer recommendations regarding the appropriateness or otherwise of the crude oil excise levy and parity pricing.

In respect of oil exploration in Australia, the Committee notes that the number of wells drilled in 1981 was higher than for any year since 1970. The number of onshore and offshore exploration and development wells drilled between 1970 and 1982 are listed in Table 2.3, page 53.

The Committee does not propose to discuss the merits of Government to Government contracts as a means of securing oil imports. Moreover, the Committee understands that the question of Government to Government contracts is under continuous review, and further understands that should a Government see such a scheme to have very evident advantages over present arrangements conducted by private oil companies, a changeover would be relatively easy to implement.

The Committee notes that Australia's demand for petroleum products, including those used as petrochemical feedstocks, is estimated to decline slightly over the next few years. However, according to the Australian Institute of Petroleum's publication Oil and Australia 1980, The Figures Behind the Facts¹⁰ the 1.7 per cent drop in 1979-80 in Australian consumption and refinery production of petroleum products over 1978-79 figures, does not reflect a long term trend, which will see overall consumption continue to grow over the next two decades. This forecast is consistent with evidence presented to the Sub-Committee by the Department of National Development and Energy.

According to the International Energy Agency Australia's oil use dropped by 4.5 per cent during the first quarter of 1981, compared with a fall in United States' oil consumption of 8.5 per cent during the same period. There was a 7.5 per cent fall in oil use in all IEA countries in 1980, with a further predicted 2-3 per cent fall in 1981.¹¹

The Committee considers that ways of maximising domestic production of oil, minimising domestic consumption of oil and

minimising reliance on imports should remain a matter for Government encouragement, and that short term decreases in liquid fuel usage should not distract from longer term goals to make Australia more self-sufficient in oil.

The Committee decided that it was not appropriate to discuss the question of oil substitution and alternative energy, as it has been covered in the Senate Standing Committee on National Resources Report on The Replacement of Petroleum Based Fuel by Alternative Sources of Energy.¹²

(3) ECONOMIC RELATIONS WITH THE GULF, AND PETRODOLLAR INVESTMENT IN AUSTRALIA

Australia's economy is becoming increasingly integrated with the economies of the Gulf countries. The Gulf as a market for Australian exports, and Australia's continuing reliance on Gulf oil are obvious aspects of this integration. Indirect aspects of the integration can be seen in the reliance of Australia's major trading partners for economic well-being on the Gulf.

Another aspect on which there is little available data is the level of investment in Australia originating in Gulf countries. In 1977 the Committee reported and recommended as follows:

68. Arab investors have acted responsibly in Western capital markets. As their investment managers turn their attention to more long term productive investment, their attention can be expected to turn to Australia. The Committee believes it to be desirable to achieve such economic interdependence between the Middle East and Australia. It would also provide financial and capital resources for development projects in this country. Indications are that the Arabs need encouragement.¹³

The Sub-Committee attempted to examine the nature and extent of foreign investment in Australia originating in the Gulf and the wider Middle East, including sources of borrowings.

Although certain information relating to foreign takeovers and proposals for foreign equity participation are available from the Foreign Investment Review Board (FIRB), and general figures relating to capital inflow are available from the Australian Bureau of Statistics (ABS), the Committee is not able to publish any figures which would give a meaningful indication of Arab or Gulf investment in Australia.

Against the background of government encouragement of overseas capital for the development of resource projects on the one hand, and the considerable speculation in the press on the other about Australia being a target for the investment and lending of petrodollars, the Committee is disappointed that more comprehensive and public figures are not available regarding the Gulf countries as suppliers of capital.

Australian Bureau of Statistics figures indicate that foreign investment in enterprises in Australia originating from Middle East countries is small. However, it should be noted that ABS statistics may underestimate the inflow of foreign investment in Australia ultimately provided by Middle East countries as these countries often channel portfolio investment through nominees in other countries.

Foreign Investment Review Board statistics also indicate only minor interest on the part of Middle East countries investing in Australia although there are signs that their interest is increasing.

Four Middle East countries, Saudi Arabia, Israel, Lebanon and Kuwait, appeared to be actively investing in Australia at the commencement of the decade.

There has been much speculation in the press over the last eighteen months about the source of overseas funds used to buy

real estate in the city and pastoral holdings. The Committee recommends that the Government investigate this matter, and considers that more needs to be made known to the public and government if appropriate policies and attitudes are to be formed.

(4) AUSTRALIA'S STRATEGIC INTERESTS AND ITS RELATIONSHIP WITH THE UNITED STATES

Australia has no direct strategic interest in the Gulf. It does however have a common concern with other non-communist industrialised countries to secure a continued supply of oil and protect its economic viability to enable the continued export of goods and services.

Australia's closeness to the United States, which is adopting a much more active military and strategic profile in the general region of the Gulf, begs questions about Australia's position in the event of direct United States military intervention there.

In its 1977 Report the Committee observed as follows:

8.42 Should the worst happen and a Middle East conflict escalate beyond the region the U.S. - Australia's ally would be likely to be involved. Even in a localised war, heavy diplomatic and military resource demands are made on the U.S. Increases in tension in regions such as the Middle East, where the superpowers' strategic interests are great and where their policies are interwoven and may conflict, tend to increase Australia's own strategic uncertainty and insecurity. Therefore it is in Australia's interests to foster peace and stability in the Middle East region; this can best be achieved by good offices, through diplomatic action and encouragement so that military action would be less likely to be contemplated.¹⁴

Since the Committee's Report in 1977, the Gulf has become more strongly identified as an area of the Middle East where conflict

could result in superpower confrontation, especially since the Iranian Revolution, the Soviet invasion of Afghanistan, Soviet gains in the Yemens and the Horn of Africa, and the Iraq-Iran war.

A discussion of the more active and interventionist United States posture vis a vis the Gulf takes place in Part III.

Heightened United States military preparedness in the wake of events between 1977 and 1981 have involved Australia, and Australia's immediate region. The decision of the United States to request successfully transit rights at Darwin Airport for B52 bombers, is a direct manifestation of increased United States preoccupations with countries adjacent to the north west quadrant of the Indian Ocean.

Australia's direct assistance for United States and allied minatory diplomacy in the wake of the Soviet occupation of Afghanistan and heightened tensions in the Gulf area involving Australian forces, has been limited to sending the HMAS Melbourne and escort vessels in to the Indian Ocean at the end of 1980.¹⁵

Australia's indirect assistance is probably of more significance through its allowing the United States use of port and air transitting facilities and by allowing the operation of United States defence facilities at North West Cape and elsewhere. These facilities allow aircraft and satellite surveillance and intelligence gathering, support for naval (including submarine) communications, signals and monitoring of Soviet naval movements. The United States Navy also has access to victualling, restocking and refuelling facilities, and rest and recreation zones for personnel.

On 10 October 1978, the Australian Minister for Defence, the Hon. D.J. Killen, MP, described the function of the North West Cape Naval Communication Station as follows:

The function of the Station is defence communication: in particular, communications for the submarines and surface vessels of the USN and RAN.¹⁶

Increased United States naval activity in the Indian Ocean arising out of increased tension in the Gulf and South West Asia will involve the North West Cape Station.¹⁷

The Australian Government decision to allow United States B52 bombers transit rights at Darwin airport is related to the upgrading of facilities at Diego Garcia to allow the projection of naval and air power into the Gulf, and to provide a major staging point for the Rapid Development Force (RDF). Australia may become an even more significant staging post if current United States strategy is changed to anticipate a basically westward rather than eastward route to the Gulf and other areas of the Middle East in times of crisis.¹⁸

Since United States encouragement of Australia to participate in a peacekeeping force in the Sinai, and heightened military activity in the Gulf region, the Middle East in general and the Gulf in particular, have, during 1980-81 become more important elements in United States-Australian strategic relations.

TABLE 2.1 - AUSTRALIAN OIL CONSUMPTION, EXPORTS AND IMPORTS
1970-71 TO 1980-81 - Figures are in barrels per day (bpd)

Year	Consumption ^(a)	Refinery Intake	Exports	Imports
1970-71	523 068	492 712	41 384	295 858
1971-72	548 884	503 603	60 548	261 104
1972-73	560 373	525 679	60 625	243 493
1973-74	609 860	575 630	77 058	256 614
1974-75	609 290	574 364	68 129	245 627
1975-76	615 447	577 995	71 375	236 271
1976-77	644 836	601 912	75 263	246 578
1977-78	662 071	623 268	87 041	265 969
1978-79	664 793	614 052	97 804	251 968
1979-80	659 417	611 093	83 620	271 966
1980-81	639 497	581 563	76 319	259 369

(a) Consumption data includes refinery fuel and petrochemical feedstock usage.

Compiled by the Department of National Development and Energy from:
Demand for Primary and Secondary Fuels Australia: 1960-61 to 1979-80 and
Forecasts of Energy Demand and Supply - Primary and Secondary Fuels
Australia: 1980-81 to 1989-90.

TABLE 2.2 - PETROLEUM IMPORTS BY SOURCE 1980-81
('000 tonnes)

	Products (a)	%	Crude (b)	%	Total (coe)	%
Iran	161.1	5.0	-		171.6	1.3
Iraq	-		464.7	4.7	464.7	3.5
Kuwait	788.4	24.4	1 025.9	10.4	1 865.5	14.0
Qatar	-		-		-	
Saudi Arabia	2.5	...	5 287.1	53.6	5 289.8	39.8
United Arab Emirates	-		924.0	9.4	924.0	6.9
OPEC - Middle East	952.0	29.5	7 701.7	78.0	8 715.6	65.5
Bahrain	419.2	13.0	19.8	0.2	466.2	3.5
Other - Middle East	419.2	13.0	19.8	0.2	466.2	3.5
Sub-Total - Middle East	1 371.2	42.5	7 721.5	78.2	9 181.8	69.0
Indonesia	-		1 664.7	16.9	1 664.7	12.5
OPEC - Other	-		1 664.7	16.9	1 664.7	12.5
Singapore	1 445.8	44.8	167.2	1.7	1 707.0	12.8
Other Countries	409.5	12.7	316.4 (c)	3.2	752.5	5.7
Grand Total	3 226.5	100	9 869.8	100	13 306.0	100

(a) Product tonnes. Not coe.

(b) Includes enriched crudes, topped crudes and feedstocks.

(c) Brunei 186.0, United States 27.6, other 102.8.

(d) Rounded to Zero.

coe: crude oil equivalent.

Discrepancies between sums of the component items and totals are due to rounding.

Compiled from Australian Bureau of Statistics data by Department of National Development and Energy.

Conversion factor used for Crude and Feedstocks 1.16 kl/te.

TABLE 2.3 - THE NUMBER OF OIL WELLS DRILLED IN AUSTRALIA IN 1970-1982

Year	Exploration		Development		Total
	On-shore	Off-shore	On-shore	Off-shore	
1970	94	25	60	36	215
1971	54	18	4	18	94
1972	62	38	21	12	133
1973	29	31	5	6	71
1974	20	31	8	-	59
1975	6	19	4	-	29
1976	16	3	13	-	32
1977	8	13	18	2	41
1978	31	22	26	13	92
1979	31	21	47	9	108
1980	77	17	26	7	127
1981 *	138	15	43	13	209
1982 **	240	62	82	20	404

* Preliminary figures subject to minor revisions.

** Forecast level of drilling based on APEA survey released in January 1982.

Compiled by the Department of National Development and Energy.

NOTES AND REFERENCES

1. Joint Committee on Foreign Affairs and Defence, The Middle East: Focal point of conflict - The Interests of the Powers - An Australian Perspective, AGPS, Canberra, 1977 (Parliamentary Paper 82/77).
2. For a discussion of this aspect of Australia's trade relations see Peter Robinson 'Arabs Expecting Even-handed Treatment', The Australian Financial Review, 30 March 1981.
3. Department of Trade and Resources, Evidence 1982, p. 127.
4. Department of National Development and Energy Submission, 7 April 1982.
5. Joint Committee on Foreign Affairs and Defence, 1977, p. 341.
6. Australian Institute of Petroleum, Evidence 1980, p. 407.
7. Department of National Development and Energy, Evidence 1980, p. 166.
8. Department of National Development and Energy, Evidence 1980, p. 172.
9. Department of National Development and Energy, Evidence 1982, pp. 177-183.
10. Australian Institute of Petroleum, Oil and Australia 1980, the Figures behind the Facts, Melbourne, 1981.
11. IEA figures quoted in Nigel Ash 'Opec Words and Figures don't Match' 8 Days, 18 July 1981, p. 35.
12. Senate Standing Committee on National Resources, The Replacement of Petroleum based Fuels by Alternative Sources of Energy, AGPS, Canberra, 1980, (Parliamentary Paper 222/80).
13. Joint Committee on Foreign Affairs and Defence, 1977, p. 328.
14. Joint Committee on Foreign Affairs and Defence, 1977, p. 278.
15. Whether it was intended or not the Australian force was identified as being part of the allied naval build-up by the Press overseas. For instance, the British based Middle East oriented weekly, 8 Days, in reporting an allied and Soviet build-up in the Arabian Sea noted that 'America has 32 ships in the Arabian Sea, including support vessels. Two of the combat vessels are carriers, and the destroyers Peterson and Brown have recently arrived in the Mediterranean. The Soviet Union has 12 combat ships and 17 support vessels, which shadow the American ships constantly. France has 14 ships, including a small attack carrier, Australia has an aircraft carrier flotilla, and Britain

has just sent two ships to the area'. Russell Warren Howe 'Superpowers Will They, Won't They Join the Game?', 8 Days, 25 October 1980, p. 11. A United States perception of Australia's role is as follows: 'A direct contribution to a combat presence in the region is illustrated by the useful but so far modest naval forces the Australians and the French are keeping in the Indian Ocean'. Albert Wohlstetter 'A View from the U.S.A. - Meeting the Threat in the Persian Gulf', Survey, Spring, 1980.

16. Australia, House of Representatives Hansard, 10 October 1978, p. 1661.

17. See North West Cape - U.S. Naval Communication Stations and the Support Town of Exmouth, Commonwealth Government Printer, Canberra, January 1968, p. 4, viz.: 'This command also expects to operate an additional point to point circuit with Diego Garcia in the Chagos Archipelago, Indian Ocean. The point to point circuits will have the capability of 16 channels of teletype signals at 100 words per minute plus three voice channels for instantaneous communications ... Navy tactical circuits will be employed to all of the Seventh Fleet commands and ships. Additionally, terminations are expected with U.S. Navy units in the Indian Ocean area'.

18. This possibility was raised by General Ellis of the Strategic Air Command (SAC) before the United States House of Representatives Committee on Armed Services. See Record of Committee proceedings, 25 January 1980, pp. 11 and 12.

PART II

THE GULF

Chapter 3

Regional forces and issues

(1) INTRODUCTION

It is no doubt tempting to try to explain Middle Eastern phenomena in terms of European, or North, and South American experience ... But on the whole such comparisons - perhaps analogies would be a better word - obscure more than they could explain. No doubt Middle Eastern societies and politics are subjected to the same human vicissitudes, and therefore the same rules of interpretation, as those of the West, and [have] adopted Western outward forms in the organisation and expression of [their] political and social life, [but] it is fatally easy for the Western observer to take these alien outward forms as the element of comparison, and to disregard or misrepresent the deeper realities which they do imperfectly express. The Islamic society of the Middle East, with its own complex web of experience and tradition, cannot adequately be labelled and classified with a few names and terms borrowed from the Western past.

Bernard Lewis¹

The Department of Foreign Affairs told the Sub-Committee in evidence that one of the paradoxes of the Gulf is the existence of two opposing forces - forces for unity on the one hand and forces for conflict on the other.

Since first taking evidence in February 1980, the Sub-Committee was made aware of conflicting views relating to the stability of Saudi Arabia and other Gulf monarchies. There were reports during 1980 that Saudi Arabia was suffering from severe internal instability and that the regime might be overthrown, with the consequence that the West would be in severe economic difficulty. Reasons for an imminent collapse of the Saudi Regime were variously given as follows: Saudi nationals were impatient with massive corruption among the Royal family; Islamic fundamentalists were gaining widespread support as evidenced by the occupation of the Mecca Mosque; foreign labour, including Shia elements of it, were becoming restive as evidenced by riots on the oil fields; the ruling hierarchy was out of touch with the people at large, rising elites in the new industrial and service sectors were wanting a greater say in government; and rapid modernisation was causing a breakdown of the society and the ability of the regime to govern.

While there is some evidence to commend these as features of the unfolding political and social development of the Gulf monarchies, Sub-Committee members who visited the region in 1981 and 1982 formed the impression that the authors of such views may have underestimated the resilience, depth and complexity of the Saudi Regime and its system of government.

Mr R. Kingsmill, formerly Australian Ambassador to Saudi Arabia, told the Sub-Committee in evidence:

... a lot of the Press speculation about the stability of the regime in Saudi Arabia and of the regimes in other parts of the peninsula, while they are based certainly on real possibilities, are unduly alarmist and unduly pessimistic. Saudi Arabia has a very unusual government structure. It is of all things a very close and secretive society, which means that relatively little information gets out to anybody, often to

Saudis themselves. Many of the people who are widely regarded as experts on Saudi Arabia have the necessary limitation that they can only be experts to the extent that information is available. The views which people express on Saudi Arabia are necessarily based on less than full and less than perfect information. They are based a great deal on speculation or on inference in wider ways from what people may know in small areas. We do not know a great deal. Any prediction about the stability of the regime in Saudi Arabia must necessarily be an imperfect one.

Having said that I must add that I have always thought that members of the royal family in Saudi Arabia had the connections with the tribal leaders and therefore with the people of Saudi Arabia that they needed in order to see and understand very clearly what was happening in their country. I saw nothing in my time in Saudi Arabia to indicate anything else. They had and have very close contacts with the religious leaders. They do not make any major moves without prior consultation with and, one assumes, prior approval from the religious leaders. Within the broad social rules which govern life in Saudi Arabia people are freer than they are in very many countries. To take but one illustration, the Mecca mosque incident could not have happened if it had not been open to any Saudi citizen to move around his own country as he chooses. There are not, as there are in many countries, road blocks and restrictions like that on the movement of people across their country. If there was a problem in the Mecca mosque incident it was that there was so much freedom and so much recognition of the right of people in the country to do as they chose, that when there were indications of this kind of trouble the leaders may have thought that it could not be happening and ignored the indications. I believe the leaders of Saudi Arabia are likely to see the great lesson of the Mecca mosque incident as the fact that these things can happen. That does not mean, however, that they do not have the capacity to respond and to make whatever changes are necessary in order to remove or adjust things to overcome the sorts of problems which create this kind of incident.³

Because the forces for unity are sometimes overlooked in analyses of Gulf politics, they are treated separately in Sub-chapter 3, entitled - Perceptions of Unity in the Gulf. A description of the forces for conflict follows in Sub-chapter 4, entitled Potential for Instability.

The geographical setting is described in Sub-chapter 2, entitled - The Gulf littoral and the Strait of Hormuz.

The Chapter is concluded in Sub-chapter 5, entitled - Since the Iranian Revolution.

(2) THE GULF LITTORAL AND THE STRAIT OF HORMUZ

(a) The gulf

The Gulf is an arm of the Indian Ocean that lies between the Arabian Peninsula and Iran. It extends about 805 kilometers from Jazirat Musandam to the mouth of the Shatt al-Arab, and has a maximum width of 322 kilometers. The greatest depths of the Gulf range from 40 to 50 fathoms, while just off Jazirat Musandam the depth is about 80 fathoms. The eight littoral states of the Gulf are Iran, Iraq, Kuwait, Saudi Arabia, Qatar, Bahrain, the United Arab Emirates (UAE), and Oman. Bahrain is the only island State. The lengths of coastline each country have on the Gulf are as follows: Iran, 635 nautical miles; Iraq, 10; Kuwait, 115; Saudi Arabia, 296; Qatar, 204; Bahrain, 68; United Arab Emirates, 420; and Oman, 51. Iran's coastline runs the entire length of the eastern coast of the Gulf.

The Gulf states have common borders with a number of countries not on the Gulf littoral, many of which are not politically stable, or with whom only indifferent relations are enjoyed. Iran has common borders with Iraq and Turkey in the West, Afghanistan and Pakistan in the East, and shares a 1690 kilometer boundary with the Soviet Union to the north.

Saudi Arabia, as well as bordering on every other Gulf state except Bahrain and Iran, shares common borders with the Yemen People's Democratic Republic, the Yemen Arab Republic, and Jordan. Oman shares a border with the Yemen People's Democratic Republic. Iraq shares borders with Jordan, Syria and Turkey. Both Saudi Arabia and Iraq are close enough to Israel to be affected by conflicts between Israel and Arab countries, as the bombing of Iraq's nuclear reactor by Israeli aircraft in June 1981 demonstrates.

Apart from Saudi Arabia, which has 1020 nautical miles of coastline on the Red Sea, Oman which has coastline on the Gulf of Oman and the Arabian Sea, and Iran, which has coastline on the Gulf of Oman, no other Gulf countries have shipping outlets to the world other than through the Strait of Hormuz.⁴

(b) The Strait of Hormuz

All shipping from ports on the Gulf destined for non-Gulf countries is obliged to pass through the Strait of Hormuz.

Geographically, the Strait is bound in the Persian Gulf by a line drawn northward from Ras Shaykh Masud on the western side of the Musandam Peninsula to Jazireh-ye Hengam south of the Iranian coast, and in the Gulf of Oman by a line drawn from Ras Dabbah on the eastern side of the Musandam Peninsula to Damagheh-ye Kuh on the Iranian coast. The line from Ras Dabbah to Damagheh-ye Kuh measures about 52 $\frac{1}{2}$ nautical miles. It forms the northern limit of the Gulf of Oman and the southern entrance of the Strait from the open sea. The Strait, however, narrows to a width of only 20 $\frac{3}{4}$ nautical miles at the northeastern end between Larak Island, on the Iranian side, and the Quoins on the Omani side. Measured along the median line, the Strait is about 104 miles [167 kilometers] long.

In 1978 two-thirds of world oil supplies were passing through the Strait. Its narrowness and the extent of the oil passing through it have led it to be described as the world's 'chokepoint'. Guerillas and saboteurs could cause significant delays in shipping through the laying of mines and rocket attacks.⁶ The ability of a major power to close the Gulf to shipping for a considerable time is a possibility which concerns oil consumers.

Nevertheless the Strait is not so narrow that it could be blocked by the sinking of a supertanker, as was widely reported when the Iraq-Iran war broke out.

By the commencement of 1982, insurance rates on ships entering the Gulf through the Strait contained a substantial penalty loading. Consequently tankers do not now enter the Gulf until they are assured of a berth, preferring, rather, to wait in the Arabian Sea off Oman.

Tankers keep clear of Iranian waters as much as possible, keeping to the Omani side of the Strait, although some short stretches of Iranian water do have to be traversed. There is now a need for ships to pass through shallow waters which limits the carrying capacity of supertankers.

Omani and Iranian ships, patrol boats and aircraft patrol the Gulf.

There are now proposals in the Gulf to pump oil from Saudi Arabia and Iraq to outlets on the Red Sea, including the new industrial/port city of Yanbu which is under construction. In addition there is a proposal to pipe oil across Oman to a point on the Arabian Sea to circumvent the Strait of Hormuz. Further proposals are under discussion for a grid system of oil pipelines to take oil from a number of countries to outlets on the Red Sea and the Arabian Sea.

(3) PERCEPTIONS OF UNITY IN THE GULF

(a) Islam

The Department of Foreign Affairs told the Sub-Committee in evidence:

Certain forces are centripetal in their effect throughout the Arab world. The principal one is the force of Islam. All of the Arab states are predominantly Islamic in character, although significant Christian minorities live throughout the area ... Religion is in a sense a force for unity throughout the area but one needs to balance that statement by recognition that within this religious area, forces of division also exist.

The Sub-Committee was told that sociological factors contributing to 'Islamisation'⁸, particularly in Iran and Pakistan, have included: increasing literacy; urbanisation; social division of labour; disjunction between ideology and reality; and government inability to cope with social inequality and government corruption.⁹

Whatever the factors which lay behind the resurgence of Islam as a political force, and calls for it to be an expanded and more secure foundation for the governmental order in many Muslim states, Islam is a potent force about which more needs to be understood if the West is to have cordial dealings with the Muslim world.

More courses which deal with the modern history, politics and religion of Muslim countries at tertiary institutions, would create greater Australian understanding of a region which is of vital political, economic and strategic importance.

Given Australia's new settlement and the background that is traditionally European in origin and Christian in religion, it is

imperative that we understand not merely the tradition of Islam, but the religious, political and socio-economic factors which make it the vital force within the Gulf region. Australia has no tradition of Islamic scholarship which is necessary if we are to play a meaningful and significant role in this region.

It is not widely known that there are approximately 250 000 Muslims in Australia.¹⁰ It was with great pleasure and interest that the Sub-Committee was able to take evidence from the Australian Federation of Islamic Councils in Sydney on 12 June 1980.

(b) The Arab Nation and Pan Arabism

Various theories are advanced to explain the Arab personality and the Arab nation. Some say the belief in an Arab nation has its roots in a long history of common culture, language, and perhaps religion; others maintain it has its roots in movements against foreign domination, especially by the Ottomans and, later, by the Europeans.

As was stated in evidence by the Department of Foreign Affairs, 'there is a real sense of an Arab personality or of an Arab nation in which the Arabs in all states of the Arab world believe'.¹¹

When discussing the influence of Islam in the Gulf area, it should be borne in mind that an Islamic country is not necessarily an Arab country. In the Gulf, Iran is the one large non-Arab state.

Friction between Iran and its neighbours, notably Iraq, has often been seen by the protagonists in terms of Arab versus non-Arab. This is an important factor in Gulf politics, as has been demonstrated by Gulf Arab support for Iraq in its war with Iran.

The Arab movement, although a unifying force in many ways, has produced, from time to time, conflict between groups vying for leadership of the Arab nation.

(c) The Arab-Israeli dispute and the Palestinian question

The Committee acknowledges the difficulties involved in solving the Palestinian question. Nevertheless, being aware of the importance of the Palestinian issue for the domestic politics of many Arab states, the Committee does not accept that the solution to these problems will necessarily of itself unify the Arab world, and neither does the Committee share the concomitant view that the existence of Israel is the major, or only, obstacle preventing Arab unity and peace and stability in the Middle East.

Arab countries continue to link the question of regional stability with the problem of the Palestinians. Arab countries emphasise the need for a resolution of the Palestinian problem, and consider that absence of such a resolution does not enhance, in many cases, the stability of their own countries. Most Arab countries also see resolution of the Arab-Israeli dispute and the Palestinian question as the region's first priority.

Against this consistency of view there are, and will continue to be, differences between moderate, radical and conservative states on matters of detail, including strategy and tactics.

All Arab countries raise the issue of the Arab-Israeli dispute and the Palestinian question in their dealings with countries outside the region, and seek to persuade them to adopt policies favourable to their own point of view.

(d) Regional co-operation and international organisations

There are a great number of active organisations which give expression to the mutuality of cultural, economic, religious and security interests of Arab and Islamic countries in the region.

THE GULF CO-OPERATION COUNCIL (GCC)

The GCC, which was first mooted in 1980, held its first meeting in Abu Dhabi, ending on 26 May 1981. The member countries, Saudi Arabia, Kuwait, Qatar, Bahrain, the UAE and Oman agreed on closer co-ordination of social, political and economic policy, and to the establishment of a \$US6000 million joint fund which will be invested by the six member states in joint venture projects, mostly in the Gulf.¹² The member states together account for approximately 42 per cent of the world's proven oil reserves.

Although all the GCC members are Gulf monarchies, and exclude Iraq, they are keen not to be seen as an 'imperialist creation' of the West.¹³ The GCC does not approve of Iran's occupation of the islands of Abu Musa and the Tumbs in the Strait of Hormuz, but wishes to recover them from Iran through peaceful persuasion rather than through military conflict.¹⁴

The creation of the GCC is an attempt by the six members to fill the strategic vacuum left by Iran after the fall of the Shah, a vacuum which no individual member could hope to fill.

At a meeting commencing on 25 January 1982, the GCC agreed to a joint air defence system based on Saudi Arabia's Airborne Warning and Control System (AWACS) planes. The meeting also adopted resolutions calling for the establishment of a joint Gulf rapid deployment force, and a GCC arms making industry.¹⁵ There is a common viewpoint within the Gulf Cooperation Council which is opposed to super-power involvement in the region. It sees the defence of the region as being a responsibility for Gulf states and their joint cooperation.

It is a commonly held view within the Gulf Cooperation Council that the continuation of the Israeli-Palestinian question is a major factor for instability within the region, and like other

issues the emphasis given by each Gulf state to the solution of this problem varies.

Much of the Council's May 1981 meetings were held in private and there have been reports that one of the major preoccupations of the member states was internal stability - a matter with which they alone can satisfactorily deal. Events such as the Iranian revolution, the siege of the Grand Mosque in Mecca, the Qatif riots, demonstrations and Islamic fundamentalism, have resulted in GCC co-ordination on labour movement between countries, immigration and passport control and surveillance of potential terrorists and radical political organisations. One journal has described the GCC thrust as 'firstly, the hard immediate answer: tough internal security measures; secondly, the long-term response: economic co-ordination'.¹⁶

The question of internal security is a top priority for the governments of the Gulf, and typical of reports during mid 1981 was the following '... Gulf governments rate internal unrest and a range of local and regional conflicts as far more potentially dangerous than any overt Soviet action'.¹⁷ The GCC decided in August 1981 to establish closer links between member countries on internal security. A co-ordinated system has been agreed to with special measures to protect oil fields and increased co-operation has been established to prevent suspected saboteurs and political dissidents moving freely in the region.

The GCC is also keen to see stronger economic co-operation between member countries, in relation to internal trading relationships, investment, and aid.

... the tripling of oil prices since 1978 has substantially enhanced the profitability of mammoth industrial schemes in petrochemicals, aluminium and steel, while adding a new sense of urgency to calls for major tariff adjustments by OECD countries.

Similarly, these price rises considerably helped to strengthen the aid flow from the rich oil-exporting members of the GCC, either directly with their respective aid funds or through the newly established multilateral funds designed to aid the Gulf, the Arab and Islamic communities.

Together with a significant upgrading of members' monetary and investment institutions, these factors have significantly eased the task of fostering greater monetary, trade and industrial co-ordination within the GCC.

The Gulf Co-operation Council is an out-growth of both common purposes and common problems in the Gulf. On the one hand its establishment is an example of the ability of the Gulf countries to co-operate, and is a manifestation of the forces for unity in the area. On the other hand the GCC's preoccupation with regional and internal security, and economic development including issues such as dependence on foreign labour, is a recognition of the need for dealing with destabilising forces.

THE ARAB LEAGUE

The Arab League, or more formally 'The League of Arab States', is a voluntary association designed to strengthen the close ties linking Arab countries, and to co-ordinate their policies and activities and direct them towards the common good. The Arab League was founded in 1945 and originally had its headquarters in Cairo. In March 1979, however, Egypt's membership of the Arab League was suspended, and Tunis is now the temporary headquarters. Egypt still maintains a League headquarters in Cairo.

A number of groups have been established under the Treaty of Joint Defence and Economic Co-operation, concluded in 1950, to complement the Charter of the League. These include: the Arab Unified Military Command, the Arab Economic Unity Council, the Joint Defence Council, the Military Advisory Organisation, and the Permanent Military Commission.

Other bodies established by resolutions of the Council of the League include: the Academy of Arab Music, the Arab Authority for Exhibitions, the Arab Centre for Industrial Development, the Arab Institute of Forestry, and the Special Bureau for Boycotting Israel.

In addition, all member states of the Arab League are members of the specialised agencies which constitute an integral part of the League. These include: the Arab League Educational, Cultural and Scientific Organisation (ALESCO), the Arab Health Organisation, the Arab Institute of Petroleum Research, the Arab Labour Organisation, the Arab Postal Union, the Arab States Broadcasting Union (ASBU), the Civil Aviation Council of Arab States, and the Joint Arab Scientific Council for the Utilisation of Atomic Energy.

All countries on the Gulf littoral are members of the Arab League, except Iran which is not Arab.

ECONOMIC CO-OPERATION

There are a great number of organisations devoted to regional economic co-operation. Some of the more significant are listed below. As with virtually all Arab organisations, Egypt's membership has been suspended.

THE ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT

The Arab Fund for Economic and Social Development comprises nineteen countries and the Palestine Liberation Organisation (PLO). The Fund, which was established in 1968 and began operating in 1972, has its headquarters in Kuwait City. The Fund participates in the financing of economic and social development projects in the Arab states and countries. The main subscribers are Saudi Arabia, Kuwait, Libya, Algeria and Iraq.

THE ARAB MONETARY FUND

An agreement establishing an Arab Monetary Fund followed a meeting of the Council of Arab Economic Unity held in Rabat on 27 April 1976. The Arab Monetary Fund comprises nineteen Arab states and the PLO, and like the International Monetary Fund, assists member states in balance of payments difficulties, and provides assistance in a broad number of economic areas.

THE COUNCIL OF ARAB ECONOMIC UNITY

The Council of Arab Economic Unity held its first meeting in June 1964. Although its headquarters were originally in Cairo, they were moved to Amman after March 1979. Comprising twelve Arab states and the PLO, the Council for Arab Economic Unity hopes to supervise the creation of an Arab Common Market, and encourage joint ventures to achieve faster development and economies of scale by combining the efforts of member states.

ORGANISATION OF ARAB PETROLEUM EXPORTING COUNTRIES (OAPEC)

OAPEC was established in 1968 to safeguard the interests of members and determine ways and means for their co-operation in various forms of economic activity in the petroleum industry. The headquarters are in Kuwait City. Although Egypt was originally a member, its membership was suspended as of 17 April 1979. Members are Algeria, Bahrain, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, Syria and the United Arab Emirates.

A council is the supreme authority of the organisation responsible for drawing up its general policy, directing its activities and laying down its governing rules. The Council consists normally of the Ministers of Petroleum of the member states. It meets twice yearly as a minimum requirement and may hold extraordinary sessions. Chairmanship is on an annual rotation basis.

THE ORGANISATION OF THE ISLAMIC CONFERENCE

The Organisation of the Islamic Conference has a membership of forty-one Muslim countries made up as follows:

Afghanistan	Guinea	Mali	Somalia
Algeria	Guinea-Bissau	Mauritania	Sudan
Bahrain	Indonesia	Morocco	Syria
Bangladesh	Iran	Niger	Tunisia
Cameroon	Iraq	Oman	Turkey
Chad	Jordan	Pakistan	Uganda
The Comoros	Kuwait	Palestine Liberation Organisation	United Arab Emirates
Djibouti	Lebanon		Upper Volta
Egypt	Libya	Qatar	Yemen Arab Republic
Gabon	Malaysia	Saudi Arabia	Yemen, People's Democratic Republic
The Gambia	Maldives	Senegal	

The Organisation was formally established in May 1971 following a summit meeting of Muslim Heads of State at Rabat in September 1969, and the Islamic Foreign Ministers Conference in Jeddah in March 1970 and in Karachi in December 1970.

A Conference of Foreign Ministers has been held once a year, on average, since the Organisation was established.

The Organisation's aims are as follows:

- . To promote Islamic solidarity among member states;
- . To consolidate co-operation among member states in the economic, social, cultural, scientific and other vital fields, and to arrange consultations among member states belonging to international organisations;
- . To endeavour to eliminate racial segregation and discrimination and to eradicate colonialism in all its forms;
- . To take necessary measures to support international peace and security founded on justice;
- . To co-ordinate all efforts for the safeguard of the Holy Places and support of the struggle of the people of Palestine, and help them to regain their rights and liberate their land;
- . To strengthen the struggle of all Muslim people with a view to safeguarding their dignity, independence and national rights; and
- . To create a suitable atmosphere for the promotion of co-operation and understanding among member states and other countries.

In addition, an Islamic Development Bank was established in 1974 to encourage economic development and social progress of member

countries and Muslim communities. The Bank aims to raise living standards in accordance with the principles of the Islamic Shariah.

(e) Unity and co-operation

The organisations listed above are only a few examples of regional co-operation across national boundaries in the Arab and Islamic world.

The great number of organisations, and the varied nature and depth of their interests are concrete manifestations of the mutuality of cultural, -economic and religious interests in the Arab and Muslim world of which countries on the Gulf littoral are an important part.

It is clearly too simplistic to perceive the Gulf as merely a region of disunity and instability.

(4) THE POTENTIAL FOR INSTABILITY

(a) The myth of unity

Peter Mansfield, author of The Arabs has noted that:

The fact that, despite their strong aspirations for unity, the Arabs have been unable to achieve it, has given rise to the belief that as a people, they are innately quarrelsome and divisive.¹⁹

adding that:

the myth of the unity of the Arab nation is at once so powerful and so idealised that some degree of disillusion is inevitable.²⁰

Although the unity of the Arab nation may be somewhat intangible and to some extent mythical, the factors which mitigate against

the unity of the countries and peoples on the Gulf are clearly identifiable.

Modernisation, with its social, political and economic consequences, is a cause of instability both in and between nations.

Other factors include competition from outside forces for political, economic and strategic objectives. An associated arms build-up makes the military situation volatile.

The Arab-Israeli dispute and the Palestinian question has created rifts between countries, as well as unity. It has also complicated the political and strategic situation in a number of ways.

The competing political ideologies and movements present in most Gulf countries, and the tactics used by some secret and underground organisations, also contribute to disunity and instability and undermine the possible evolution of consensus style politics.

In many instances, the nationalism of individual countries competes against the unifying influence of Pan Arabism. From an Iranian viewpoint, Pan Arabism is merely a unifying factor for the Arab countries.

While Islam is in many respects a unifying force among the peoples of the Gulf countries, the division and hostility between populations which are Shia and Sunni means that religion can be the cause of disunity as well as unity.

Ethnic, cultural and linguistic diversity in the Gulf countries, and the fact that these divisions are often inconsistent with national boundaries, are also causes of friction.

In addition, the recent revolution in Iran and the Iraqi-Iranian war, has produced a realignment of forces in the Gulf region.

(b) Modernisation and its social consequences

The rapid modernisation, which has come as a result of Western influence, greatly increased wealth from oil production, and the technological advances of the twentieth century, has caused dislocation of traditional political, social and economic structures.

Urbanisation has been one of the main features attending economic development in the Gulf. In certain states there have been great numbers of rural dwellers moving into cities and towns. In all states the importation of itinerate workers from other cheap labour exporting countries has brought with it a potential for social and political instability in the future.

In the Gulf area a population explosion, with growth rates of over 3 per cent per annum, exacerbates the problem. It is estimated that urban population as a percentage of the total has grown in Saudi Arabia from 30 to 67 per cent in the last 20 years, and in Kuwait, from 72 to 88 per cent.

ECONOMIC DEVELOPMENT AND THE DISTRIBUTION OF WEALTH

Economic development has generated massive population movements as oil-rich countries use foreign labour to develop their resources. In a number of areas, foreign workers outnumber the indigenous populations, which is a matter of increasing concern to the host governments.

Vast differences in wealth have developed between the oil-rich countries and their neighbours. Some of the Gulf states have massive natural resources coupled with labour shortages, while neighbouring countries, such as the Yemens, are poor and over-populated.

Oil wealth can widen the gap between rich and poor, and thus add to the instability of the countries where it occurs. If reports received by the Committee are accurate about the accretion of wealth by government officials through corruption, then this will in turn erode government legitimacy and authority.

Increased wealth, together with greater contact with the West, has meant that many people from the Middle East have been made aware of the varied and differing lifestyles of the West. Furthermore, a great many of them have been educated in the West and in the Communist bloc nations. The cultural, religious and intellectual differences of Gulf states have produced a political and social tradition at variance to these lifestyles. This can produce challenges that conflict with traditional values. It can also lead to the creation of educated elites whose political and social outlooks may vary from the tradition of the society from which they originate. These factors create pressures with which all Gulf states have to deal.²¹

(c) Some external influences

The competition for political, strategic and economic advantage by outside powers in the Gulf is another destabilising factor.

COMPETITION FOR RESOURCES

The major interest of the European nations and the industrialised non-Communist world in the Middle East is in the oil on which their economies depend. Nearly all of Western Europe, the United States and Japan are dependent on Gulf oil to a significant degree. It is possible that the Eastern Europeans will become importers of oil in the next decade if, as has been forecast, demand continues to increase and there is a levelling off or fall in Soviet production.

The dependence of other countries on Middle East oil means that there are significant effects on the local economies and societies. The requirement for oil, for instance, means that levels of production are often determined, not only by what might suit the countries themselves as producers, but also by the needs of the importers.

The level of oil revenues which flow from the oil importers, and the massive development needed to provide infrastructure to produce oil, and to establish alternative industries after the oil is depleted, have also caused significant problems for economic and social planners.

THE ARMS BUILD-UP

One of the ways in which outside powers have sought to attain a better position in relation to their balance of payments with the oil producers has been to increase their exports to the Middle East. A major means of doing this has been to sell arms, and the Gulf countries have been among the largest purchasers. Table 3.1 gives some idea of the volume of sales to the Middle East and the Gulf from the major suppliers, which are the Soviet Union, the United States, Great Britain and France.

Out of \$27 billion arms exports by the United States during the years 1973-77, the share of arms exports to the Gulf constituted 24 per cent. In the case of the United Kingdom, it was as high as 30 per cent and France 17 per cent.

Supply of arms to the Middle East has become an important factor in keeping many armament and associated industries viable. The armaments industries in some oil importing countries are important contributors to the overall health of domestic economies. Paradoxically, the selling of arms has the potential to prejudice oil supplies, for the potential for conflict in the Gulf is made the more awesome with a build-up of arms far beyond real needs for purely defensive purposes.

TABLE 3.1 - CUMULATIVE VALUE OF ARMS TRANSFERS TO GULF LITTORAL STATES
BY MAJOR SUPPLIERS, 1974-78
(in current US \$million*)

	Total	U.S.A.	U.S.S.R.	France	U.K.	Germany Federal Republic	Italy	China People's Republic	Other
Bahrain	10	-	-	5	-	-	-	-	-
Iran	8,700	6,700	310	200	420	470	350	-	290
Iraq	5,300	-	3,600	430	20	150	70	10	1,020
Kuwait	750	330	50	150	190	20	-	-	10
Oman	380	5	-	-	330	-	5	-	40
Qatar	40	-	-	30	10	-	-	-	-
Saudi Arabia	3,000	1,500	-	280	725	20	90	-	380
U.A.E.	370	10	-	210	120	-	20	-	10
Total	18,550	8,545	3,960	1,305	1,815	660	535	10	1,750

* Figures are rounded.

Source: U.S. Arms Control and Disarmament Agency.

(d) Foreign labour in the Gulf and the Palestinian diaspora

Estimates vary of the number of foreign workers, including Palestinians, in each Gulf country, except Oman. Palestinians are not permitted to work or settle in Oman. Some countries do not keep publicly available figures, and there is a tendency to underestimate numbers because to draw attention to the extent of the presence may invite calls by foreigners for more participation in political processes.

Evidence was placed before the Sub-Committee that certain Gulf countries are thought to exaggerate the numbers of their native populations.

Since official statistics on foreign labour in the Gulf countries are not available, the precise numbers remain largely a matter for speculation. In addition, illegal immigrants, who may account for up to 40 per cent of migrant labour in the Gulf, are not taken into account in official figures.²³

One study conducted in Britain in 1975 produced the following figures in relation to employment by nationality:

TABLE 3.2 - EMPLOYMENT BY NATIONALITY IN ARAB STATES, 1975

Country	Nationals' Employment	% of Total	Non-Nationals' Employment	% of Total	Total Employment
Saudi Arabia	1,026,500	57.0	733,400	43.0	1,799,900
Oman	141,500	66.0	73,500	34.0	215,000
Kuwait	91,800	30.6	208,000	69.4	299,800
Bahrain	45,800	60.4	30,000	39.6	75,800
United Arab Emirates	45,000	15.2	251,500	84.8	296,500
Qatar	12,500	18.9	53,800	81.1	66,300
Total	1,670,800	50.3	1,649,100	49.7	3,319,900

Source: Figures based on J.S. Birks and C.A. Sinclair, Country Case Studies: Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates, Oman; The International Migration Project; University of Durham. Table reprinted from Valerie Yorke, The Gulf in the 1980s, The Royal Institute of International Affairs, London, 1980.

N.B. More recent estimates of foreign labour appear in the text of this Report.

Since 1975 greater numbers of foreigners (including some million non-Arabs, mainly from South Asia) are thought to be present in Gulf countries. Those countries most affected are the monarchies of the Arabian Peninsula.

The foreign labour on the Arabian Peninsula can be divided into three groups; Palestinians, other Arab labour and non-Arab labour; each posing different problems for the host countries.

THE PALESTINIAN DIASPORA

Palestinians are present in significant numbers in a number of Gulf countries. For example in Kuwait they are 20.5 per cent of the total population and they have been estimated to number up to 180 000 in Saudi Arabia (foreign sources put the Saudi workforce at no more than one million).

By virtue of numbers Palestinians can exert some political influence on host governments and can themselves threaten major disruption in the Gulf countries. Many are employed and located in strategically important sectors of the economies, including the oil producing areas. It is therefore conceivable that oil installations are at risk from elements of the PLO, over which Gulf governments have little or no control.

Aside from the oil installations and thousands of kilometers of oil pipelines which are impossible to guard effectively from potential sabotage, the massive volume of shipping in the Gulf, particularly in the Strait of Hormuz, is vulnerable to attack. The PLO has warned that it may take unilateral action against tanker traffic in the Strait.²⁴

Some 70 to 80 ships pass through the Strait every day, bearing approximately 60 per cent of the West's oil import requirements. The shipping lanes in the Strait are too deep (100 metres) and the Strait itself too wide (39 kilometers) to be blocked by the sinking of one or even a small number of tankers.

Aside from having a radicalising effect in respect of host government policies towards the Arab-Israel dispute and the Palestinian question, a potential for internal political disruption and a capacity for sabotage, the large numbers of Palestinians in Gulf countries are sometimes seen as a back door for Russian penetration. The perception is that United States support for Israel has seen the PLO rely on the Soviet Union for assistance, which has widespread ramifications given the authority and popularity of the PLO among the Palestinian diaspora.

In general, the power of the Palestinians in the Gulf states is more easily measured in terms of its latency and its potential. Few examples can be cited of the overt exercise of power over host governments, or the use of sabotage or disruption tied to the Arab-Israeli and Palestine issues. However, the considerable financial and diplomatic support given to the PLO by all Arab countries of the Gulf, except Oman, can be seen as a direct recognition of the PLO's power and influence.

Further, the move by several Gulf countries to replace Palestinian labour with their own nationals appears to be a tacit recognition by the host governments of the Palestinian potential for creating internal instability. Both Saudi Arabia and the UAE have recently moved to have nationals hold senior positions. In Saudi Arabia this trend can be seen in the service and industrial sectors particularly in Aramco and Saudia, the national airline.

OTHER ARAB LABOUR

There is considerable movement of labour from other Arab states to the Gulf countries. Kuwait, as a percentage of the total population, has Egyptians comprising 6 per cent, Iraqis 4.5 per cent and Syrians 4.1 per cent, while Saudi Arabia has 500 000 Yemenis together with white collar workers from Egypt and other

Arab countries. It is estimated that there are 2 million Egyptians in the Gulf countries and most women in the Gulf workforce are Egyptian. Despite the Arab isolation of Egypt following the Camp David Accords, there has been no evident backlash in the Gulf states against Egyptian labour.

Skilled Arab labour continues to be in demand in Gulf countries. This demand poses problems for the labour supplying countries which adjoin the oil rich states, despite the benefit of remittances sent home by the workers abroad. The Yemens and Jordan have experienced serious labour shortages in recent years and shortages of skilled manpower have been acute in Egypt. Constructive use of remittances in labour supplying countries is also proving a problem. In Jordan, remittances for workers abroad stood at \$500 million in 1978 and \$800 million in 1980. The remittances are often spent on consumer durables which increase the rate of inflation. Other problems include higher aspirations as a result of higher pay of workers returning home.

The current five year plan for the UAE includes an intensive program to train UAE citizens for skilled work. The UAE hopes these schemes will see a real drop of 70 000 in the foreign work force.

For the host countries, Arab labour means problems of treatment and pay levels. Consequently in the past two years a trend to increase the use of unskilled and less expensive labour from South and Far Eastern Asia has become evident. This could cause widespread unemployment in the traditional Arab labour supplying countries such as Egypt, Syria and the Yemens.

NON ARAB LABOUR

In Kuwait, where non Kuwaitis account for at least 52 per cent of the population and over 75 per cent of the workforce,²⁵ Indians and Pakistanis represented 5.5 per cent and Iranians 4.1 per

cent. Most recent estimates put the percentage of Iranians higher, which is particularly important since the Iranian Revolution. The Iranian clergy has called for Shia Iranians abroad to assert themselves politically.

Saudi Arabia is estimated to have 120 000 workers from the Far East (including Koreans), 250 000 from the Indian sub-continent and 80 000 from Europe and the United States.²⁶ Although many of the high technology and white collar workers from the United States and Europe are well paid and have a stake in the continuance of the status quo, the blue collar workers are a different matter. These are only allowed into the country on very strict conditions, and without their families. No unions or industrial relations machinery exist, as in Western countries, to process grievances, and many workers are paid and housed in inadequate conditions according to the International Labour Organisation (ILO). In some developments near the coast, foreign workers from Korea and elsewhere are housed in 'floating hotels' or converted ships in very cramped conditions. Others stay in closed camps or 'estates' and have limited contact with the local population. Many of those who complain about the pay and conditions are peremptorily flown back to their countries of origin. Allegations about exploitation have been made in labour supplying countries, especially India, causing strains between labour using and labour supplying countries.²⁷

Asian blue collar workers are beginning to replace Arabs in many countries now because they accept far lower rates of pay. Countries supplying such labour include the Philippines, South Korea, India, Pakistan, Sri Lanka, Bangladesh, Thailand, Taiwan and China..

GENERAL

Mass protests and disruptions have occurred in the oil fields involving foreign labour from time to time. Since there is no

arbitration machinery for resolving industrial disputes, the Government uses force.

Although many foreign workers are legally only temporary residents in Saudi Arabia, many become permanent in fact.

The numbers of non-Saudis in the workforce is between 40 and 50 per cent, but the figure rises to 75 per cent when agriculture and fisheries are excluded. About 12 000 Saudi nationals work in the oil fields.

These problems are repeated on a lesser scale in Qatar, the UAE and Bahrain. In Qatar only 40 000 of the estimated total population of 200 000 are native Qataris. Expatriates make up 80 per cent of the workforce, rising to another 95 per cent in the private sector. Of the UAE's total population of 1 040 275 (1980) locals, according to the International Labour Organisation, make up only 15 per cent of the workforce. Of great concern to the UAE authorities is the large number of illegal workers in the country, mostly from the Indian subcontinent.²⁸ In Bahrain about 60 per cent of the workforce is estimated to be foreign.

A major preoccupation of many of the Gulf states, therefore, is how to balance economic development, which depends on foreign labour on the one hand with the maintenance of power by the nationals on the other. (See also sub-chapter 3(d) The Gulf Co-operation Council.)

(e) The Arab-Israeli dispute and the Palestinian question as a destabilising factor

The Arab-Israeli conflict and the Palestinian question, as has been stated in sub-chapter 3, is perceived by some as a unifying influence among the Muslim nations opposed to Israel's occupation of Arab territory. While this concept is arguable, the conflict

has, nevertheless important, if sometimes indirect, destabilising effects in the Gulf.

Egypt's accommodation with Israel has seen other countries, including Syria and Iraq in particular, attempting to present a credible military and political alternative to Egypt in confronting Israel. This factor, together with United States' support for Israel has seen Iraq, Syria and other nations relying heavily on the Soviet Union for arms.

Other countries, such as Saudi Arabia, while anti-Communist and eschewing supplies of arms from Communist sources, use the fear of 'Zionist expansion' as a rationale for large arms purchases.

Countries on the Gulf littoral are thus being locked into reliance on arms from Eastern and Western blocs which, in the event of a conflict in the Gulf, increases the danger of involvement - if at first only indirectly or by proxy - of the Soviet Union and the United States.

There can be no doubt that a linkage exists between arms purchases, the Arab-Israeli dispute and the Palestinian question. It is a factor which further complicates, and perhaps exacerbates, the potential for conflict in the Gulf. All states have purchased modern armaments from both East and West. Undoubtedly a major factor in arms purchase could be related to questions of internal stability and tensions between states of the Gulf.

Evidence of direct Israeli concern and potential for involvement in events in the Gulf was apparent during the early part of the Iraq-Iranian conflict when Iraqi arms were being supplied by the Soviet Union through Jordanian port facilities on the Gulf of Aqaba. Israel expressed strong opposition to the use of the port facilities. In the wake of the AWACS package sale to Saudi Arabia, the Israeli Minister for Defence, Mr Ariel Sharon stated

that Saudi Arabia would be redesignated a 'confrontation state'.²⁹ During November 1981, Pentagon officials were reported to have said that Israeli military planes had crossed into Saudi Arabian airspace.³⁰

Israel has strongly objected to the sale by the United States of Airborne Warning and Control Systems (AWACS) to Saudi Arabia. The Israelis argue that AWACS will allow the Arabs a strategic advantage in a future Arab-Israeli war. (See also Chapter 7, Sub-Chapter 6(a))

The formal position of the Gulf Co-operation Council was put by its Secretary-General, Mr Bishara, in December 1981, when he said:

Our principles are clear from the outset. We are confident that stability in the Gulf cannot be achieved without a just and lasting solution to the Palestinian question.³¹

In acknowledging the difficulties involved in solving the Palestinian question as far as the Gulf is concerned, the Committee does not believe that a solution to this problem will of itself ensure peace and stability in the area.

THE OIL WEAPON

Raising the possibility of future use of the oil weapon begs the question as to whether importers would stand idly by while disastrous effects to their economies ensued.

The possibility of any importers moving into the Gulf to secure regular supplies in such a situation may be a remote one, but the fact that it has been canvassed in the United States³² and elsewhere is another contributing factor to the atmosphere of tension in the Gulf states whenever the spectre of another Israeli-Arab conflict arises.

The Committee believes that the threat of the oil weapon should not be overstated given the increasing interdependence of Middle East and Western economies and the Western response to that threat.

Evidence to date has not supported the view that the price and availability of oil is determined primarily by Western attitudes towards the Arab-Israeli dispute.

THE PLO INFLUENCE WITHIN THE GULF

William B. Quandt a former officer of the National Security Council in the Carter Administration has noted, in respect of Saudi Arabia, that:

... the Saudis maintain close ties to the PLO as a means of bolstering moderate Palestinian views and of deflecting pressures from themselves. The Saudi desire to play a leadership role in the Arab world, and to restrain radical tendencies, results in a Saudi search for consensus, even if that consensus is at times at variance³ with the Saudi Government's own preferences.

The stated position of each Arab country regarding the Arab-Israeli dispute and the Palestinian question is closely watched by other Arab countries and the PLO. The general attitude of opposition to what is perceived as Israeli occupation of Arab lands is the major point of consistency in Arab policy. Beyond that, however, there are major disagreements as to detail, and to the appropriateness of particular tactics, strategies and so on.

The number of Palestinians in Gulf oil producing countries means the PLO retains important bargaining counters with host regimes, and it is unlikely that any of them will back away substantially from positions highly critical of Israel. Nevertheless, 1981 saw two events which may loosen the rigidity of Arab opinion over

Israeli and Palestinian issues. These were the death of President Sadat of Egypt and the subsequent accession to power of President Mubarak, and the release by Saudi Arabia of the Fahd Plan.

The death of President Sadat has seen the development of more substantial, if as yet unofficial contact between Egypt and the Arab world, particularly Saudi Arabia. While Egypt has not yet returned to the 'Arab fold', it is clear that progress is being made in that direction. While Egypt remains the only credible military power capable of dealing an effective blow to Israel on the one hand, and while it remains committed not to engage in military conflict with Israel on the other, a normalising of Arab-Egypt relations will by extension represent a significant change of mood by Arab countries in relation to Israel.

The release of the Fahd Plan, with the knowledge of both Egypt and the PLO, while subject to varying interpretations in relation to Israel's right to exist, continues to be the basis for discussion amongst Gulf states and the Arab world and may evolve a formula which reduces existing levels of tension between the Gulf states and Israel. (For the text of the Fahd Plan, see Appendix E.)

Progress on this issue had come to little by April 1982. The Fahd Plan was nevertheless a significant attempt to find a basis for discussion among Gulf states, despite Israel's outright rejection of it, and its rejection by other Arab leaders.

The Committee recognises that any formula capable of reducing tensions between the States of the Gulf and Israel must involve a recognition of both Israel's right to exist and the establishment of a Palestinian homeland.

(f) Politics and ideology

The political systems of the Gulf countries bear little resemblance to the political systems in the industrialised

non-Communist world. Neither do they have any affinity with the political systems of the centrally planned economies of the Eastern bloc.

It is significant that no Gulf country has a Communist Party with mass support, and in no Gulf country is a Communist Party given support or latitude by the host government. In the only countries where significant Communist Parties have emerged, Iran and Iraq, events in 1979, 1980 and 1981 have seen their power reduced.

The fact that Communism has not been able to gain a foothold in the Gulf may be because of the strength of Islam. Every government claims to rule either with the authority of Islam, or in consonance with it.

Adherence to particular ideologies in the Gulf does not parallel allegiances of nations at any one time. Thus it was that Ba'athists in Syria and Iraq were in disagreement during 1980 and 1981. Proponents of varied forms of Arab socialism are constantly changing allegiances. The conservative monarchies of Bahrain, Kuwait, Qatar, Saudi Arabia, the Emirates and Oman have few ideological differences among themselves. Iraq and Iran, and Iraq and Saudi Arabia, have found that they can at times settle disputes despite differences of ideology. The disputes which do arise often spring from disagreement over practical issues.

Not only are political ideologies in the Gulf alien to those in Western style democracies, so also are the means by which groups seek to achieve power. In the Gulf countries, which are generally authoritarian, there is little scope for, or acceptance of, consensus style politics, compromise and popular participation in government. Where changes of government have taken place they have been commonly accompanied by violence.

Further complications are added by the existence of a large number of political groupings which, often out of necessity, find

that their main means of influencing opinion or attaining power are through violence and sabotage. Various wings of the PLO can be cited, and the PLO and Palestinians are now dispersed throughout the countries of the Gulf. Other groups such as the Muslim Brotherhood, Fedayeen and Mujahedeen guerillas are also present. The strategic, oil-rich Gulf, with its thousands of kilometers of unguarded oil pipelines, its refineries, port facilities and shipping lanes, is vulnerable to sabotage by such groups which may see an advantage in using these tactics, either against local governments, or oil importers, or both.

An example of what can be achieved by such means occurred in the first week of January 1982: 'a couple of well placed charges on two of the pipelines that carry Iraqi oil to outside markets together slashed Baghdad's exports by over 30 per cent'.³⁴ The explosions, one in Lebanon and the other in Turkey, left Iraq pumping out just 300 000 barrels per day (bpd) all to the Syrian terminal at Banias compared to an average production for the first quarter of 1982 of 1.2 mbpd.

(g) Arab nationalism and nation states

(See also sub-chapter 3 (b) - The Arab Nation and Pan Arabism.)

LEADERSHIP OF THE ARAB NATION

The irony of the search for Arab unity has been the disunity caused through the vying by various Arab countries for leadership of the Arab world. At various times, Cairo has been seen as a focus of leadership, especially during the Nasser period, when Egypt led the Arabs in confronting Israel. Colonel Ghaddafi is often perceived as an Arab rather than a purely Libyan leader. Another centre of Arab leadership, and pre-eminence in the struggle against Israel, can be seen emerging in Syria. Saudi Arabia has always had a special role as the Guardian of Islam's Holy Places, and insists on special recognition of its

prerogatives in this area. President Saddam Hussein Takriti has pressed Iraq's claim as the centre of Arab leadership. The struggle for Arab unity and for leadership of a unified Arab world is therefore in itself, ironically, a cause of disputation between Middle Eastern countries generally, including the countries of the Gulf.

The ebbs and flows of allegiances among the countries of the Gulf and their neighbours and other Arab Islamic countries cut across ideological and cultural boundaries. In the recent Iraqi-Iranian conflict, the conservative Gulf states and Jordan supported the 'radical' Iraqis, while 'radical Arab' Libya and Ba'athist Syria supported Iran. The complexity of inter-Arab and Gulf politics do not conform to tidy models based on religion, ideology or cultural affinity.³⁵

NATIONALISM AND NATION STATES

The Pan Arab ideal, and the concept of the Arab nation, is not as strong as perhaps it once was, particularly during the Nasser period when the United Arab Republic appeared as a concrete manifestation of a move towards one Arab nation. Yet, even at the height of the Arab nationalist ideal, the Saudis, Egyptians, Libyans, Kuwaitis, Jordanians and Iraqis had identities separate from the greater Arab nationalist ideal, which played a decisive role in Arab policy formulation. Then, nationalists stated that this localism was a transitional phase on the way towards unity. The unifying theme is not now present, and it looks as if the 1980s will see the further legitimisation of the Arab state system as it is now cast, despite the proposed merging of Libya and Syria.

As noted in 1980 by Dr Elie Adib Salem, Dean, American University, Beirut:

The Arab League and the Arab Summits do not seem to be effective unifying mechanisms. The

Arab West (al-maghreb) does not seem to be drawing closer to the Arab East (al-mashriq). Morocco and Algeria are at odds over the Sahara. Libya and Egypt are at odds on many issues. Egypt is at odds with almost all the Arabs because of its policy towards Israel. The Sudan wavers between Egypt, which it needs politically, and Saudi Arabia, which it needs financially. Saudi Arabia is at odds with South Yemen, suspects the ideologues to the north, and feels threatened by the challenge posed by Sadat. Damascus and Baghdad follow generally the same Ba'ath ideology, but within this ideology they have many conflicts.³⁶

BORDER DIFFICULTIES

Despite the undoubted brotherhood of Arab peoples, 'the political map of the Arab', as Peter Mansfield has observed in The Arabs 'is deceptive'.

The search for unity does not stop the nation states on the Gulf differing over their borders, as evidenced by differences in the 1970s between Iraq and Kuwait, and Iraq and Saudi Arabia. Nor does the search among Arabs for unity assist the resolution of border differences between Arab Iraq and non-Arab Iran.

Earlier this century, borders were often arbitrarily drawn by the Western powers, more to suit their own interests than those of the Middle Eastern countries themselves. Although there may well have been differences if the Gulf countries had been able to draw up their own boundaries, resentment at prior interference by the Western powers remains.

The lack of long-term agreement about the boundaries of the nation states on the Gulf is a real cause of conflict, as has been demonstrated by the Iraq-Iran war.

(h) Religion

(See also sub-chapter 3(a) - Islam.)

Islam is the majority religion in all Gulf countries and the conflicts which characterise relations between Christians, Jews and Muslims in the Levant are not present. Small communities of Bah'ai, Christians and Jews have been subject to persecution.

Although the countries of the Gulf are overwhelmingly Muslim, differences between the various branches of Islam in the Gulf are often a cause of disunity as well as unity.

In almost every country of the Gulf there are political struggles taking place between rival groups who often, far from coincidentally, belong to different branches of Islam. It is true of Iraq, Kuwait and Bahrain, where there are significant numbers of both Shia and Sunni Muslims, but where the Shias do not fully share power. It is true in Saudi Arabia where there are divisions between different branches within the Sunni community as well as between the Sunnis and the Shia of the eastern provinces.

In addition, over the last two or three years certain Islamic sects have become aligned and identified with forces which question some Western values and institutions.

In Iran, the Shia are dominant in political and religious life, which is consistent with the fact that they are the largest population group.

The Shia are numerically the largest group in the populations of Iraq and Bahrain, but in these countries, the ruling groups are overwhelmingly Sunni. The exclusion of the Shia from power is a very evident potential cause of instability in the countries concerned, as it is in the other countries such as Kuwait, Saudi Arabia and the Emirates, which have significant Shia populations.

The problem of the Shia, who are present in greater or lesser numbers throughout the Gulf countries, is exacerbated by official Iranian policy which encourages them, especially in Iraq and Bahrain, to assert themselves politically.

The reassertion of fundamentalist Islamic principles has been a factor in countries throughout the Gulf, whether the regimes are Sunni, Wahhabite Sunni or Shia.

Oman has escaped the internal effects of the new fundamentalism for a number of reasons including a stringent immigration policy which keeps out persons likely to destabilise the Government. In addition, tourism is discouraged as Omanis do not wish to jeopardise their cultural identity. The economic and social dislocation, rapid modernisation and westernisation, which have all served as a backdrop to the rise of Islamic fundamentalism in other Gulf countries have not been experienced by Omanis to the same degree. In addition, the victory of the Sultanate over the Omani Imamate in 1959 has seen a decline in clerical influence in favour of the Sultanate. Differences between Oman and neighbouring Arab countries include a more relaxed view of the influence of non-Muslim powers in the region and a greater sympathy for Western strategic assessments.

Increased contact by Gulf nationals with the more secular industrialised countries, and the influence of secular education, has caused many individual citizens of Gulf countries to become accustomed to different personal life styles and to desire political and social changes which conflict with traditional Islamic law. This in turn has caused traditional religious and political authority figures and institutions to have their basic powers and assumptions challenged and questioned.

The importation of 'decadent' lifestyles from the West and 'atheistic' ideas from the Communist bloc has been followed, whether co-incidentally or not, by the so-called Islamic

resurgence. Since Western 'decadence', 'atheism' and Communism are indeed the targets of the authors and supporters of the new Islamic fundamentalism, it can be safely assumed that one is at least in part a reaction to the other.³⁷

In February 1981, Kuwait held its first parliamentary elections since 1975, which saw a strong vote for emergent Islamic fundamentalist movements.

These new revivalists were Sunnis, unlike their counterparts across the Gulf in Iran, and often bitterly opposed to the resurgent Shi'ism of Iran. In 1981, the impression first created by the 1979 Grand Mosque takeover in Mecca - that the major threat to the Gulf States would come not from Arab nationalism, but from fundamentalist Islam - was gradually reinforced. The new fundamentalists in Kuwait's Parliament posed no threat to the State - but they maintained a constant, if low key, pressure on the Government to adopt Islamic forms of behaviour.³⁸

CULTURAL DIFFERENCE, LANGUAGE AND ETHNIC GROUPS

The most outstanding cultural difference which is likely to mitigate against unity in the Gulf is the division between the Arab nations and non-Arab Iran.

Iran differs from the Arab nations of the Gulf littoral because its government and other institutions are dominated by senior Shia religious figures, it strongly emphasises its Indo-European historical development, it is opposed to Arab influences, and the majority speak Persian.

Iran itself has been described as a 'country of minorities', being populated by a large number of ethnic groups such as Azeris, the Baluch, the Qashqis, Arabs, Kurds, Bakhtiari, Lurs, and others. Although ethnic and cultural differences are not as pronounced in the native populations of the other Gulf countries,

massive migration has seen a diversity of ethnic, religious and cultural groups brought together in the oil producing countries, where foreigners often outnumber natives.

One people with a distinctive culture, but who do not form a nation state, are the Kurds. The Kurds, who speak an Indo-European language, inhabit a stretch of territory from Western Iran, through northern Iraq and Syria to Turkey. Kurdish nationalists have been fighting for independence throughout this century and cause difficult security problems for the countries concerned, especially Iraq. Kurdish independence from Iraq is unlikely since the region they inhabit is rich in oil. The Kurdish independence movement has not only had a destabilising effect on the internal situation of the host countries. It has also been a factor in bad relations between Iraq and Iran on many occasions.

Tribal affiliation is also a factor which divides the populations of many countries, especially on the Arabian Peninsula.

The fact that Arabic is spoken throughout the Middle East facilitates communications and provides a vehicle for better understanding among the Arab peoples. Very different dialects exist in various Arab countries, however, making communications difficult in some instances. Few Arabs use literary Arabic for every day conversation, using, rather, their own colloquial Arabic.

Scientific and technological works have, until now, only been available in English, French, German or Russian. Language is a factor which has retarded economic development in many Middle Eastern states, especially since higher teaching has often been conducted in foreign languages.

(5) Since the Iranian Revolution

(See also Chapter 4 - The Iraqi-Iranian war)

In the aftermath of the Iranian revolution, William B. Quandt, senior fellow at the Brookings Institution, and a former officer of the National Security Council during the Carter Administration, assessed its significance as follows:

In sum, the Iranian Revolution was unquestionably the most disruptive upheaval in the Middle East in the last generation exceeding in the breadth and depth of its implications even the Arab-Israeli wars of 1967 and 1973. The damage to American and Western political and economic interests in 1979 alone was very great. These losses were not immediately gains for the Soviet Union, but the spreading chaos in Iran, the emergence of strong regionalist tendencies, and the persistence of a small but organised Left raised the possibility that in the future the Soviet Union might be well positioned to exploit Iranian difficulties. This could pose new threats and new challenges to American policy makers, who showed few signs of having devised a strategy for dealing with Iran either under Khomeini or in the event of his departure.³⁹

When the Shah was still in power a military balance had been maintained in the Gulf. Since the Iranian Revolution, a strategic vacuum has developed, and it is unlikely in the foreseeable future that any one country will dominate the Gulf strategically and militarily. The weakening of Iran, and its consequences, has been seen in a most dramatic way in the Iraqi-Iranian conflict, with Iraq attempting to gain back some of the losses which it suffered when Iran was in a position of undoubted military and economic superiority. Although a marked decrease in Iraqi and Iranian oil production occurred following the outbreak of hostilities, other OPEC countries, notably Saudi Arabia, made up the shortfall on the world market.

The uncertain strategic situation is also being felt in Kuwait and other Gulf Sheikdoms which have stepped up arms purchasing recently. The establishment of the Gulf Co-operation Council can be seen as a reaction to the uncertain regional situation.

The attempt by the Iranians to export their brand of revolution, and the possible 'demonstration effect' of a religiously inspired revolution which successfully overthrew an apparently secure monarch, has made other Gulf monarchies, and Iraq, very conscious of internal dissent, which appears to have increased since the fall of the Shah.

Further evidence of Iranian complicity in fomenting disorder in Gulf countries was the discovery of a pro-Iranian coup attempt in Bahrain in December 1981 and demonstrations by Iranian Hajj pilgrims against the Saudi regime in the same month. In addition the Iranian charge d'affaires to North Yemen was expelled late in 1981 for allegedly fomenting violent opposition.⁴⁰

Another sign of the times was the completion in Beirut on 27 December of a pact between Saudi Arabia and Iraq, settling a 60 year-old border dispute: 'This is seen as setting the stage for greater co-operation between Riyadh and Baghdad, notably against Iran'.⁴¹

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Chapter 4

The Iraqi-Iranian war

(1) INTRODUCTION

By the time this Report goes to print, the Iraqi-Iranian war may have reached a different stage than it had when the Report was written. However its causes provide an excellent case study of instability in the Gulf. Factors include:

- . the instability caused by the downfall of the Shah and the rise of Islamic Republicanism;
- . differences between nations over borders;
- . the alignment of Islamic Arab against Islamic non-Arab;
- . the importance of religious and ethnic minorities;
- . the significance of arms being supplied to Gulf countries by outside powers;
- . the alignment of countries with different ideological preferences;
- . the changes of allegiance by Gulf countries between East and West; and
- . the possibility of the disruption of oil production and supply.

Iraq and Iran have been ravaged by war through the centuries. In this century, parts of both countries have been occupied by

British, United States or Soviet troops. Both countries have engaged in a series of conflicts since the Second World War.

The simmering potential for conflict between the two countries since the Iranian revolution took a new turn in the first half of September 1980, and by the middle of the month, had developed into intense fighting on land, sea and in the air.

What immediately concerned all countries who were dependent on oil imports from the Gulf was encapsulated in a warning from the then Iranian President, Mr Bani-Sadr, who declared that the escalating border war between Iran and Iraq threatened the Persian Gulf and could imperil the flow of oil to the West.¹ Fortunately the war has been contained, and has not spread to other countries. In addition, the fear that a major disruption to oil supplies from the Gulf to the OECD West failed to materialise. Although severe disruption to both Iraqi and Iranian production occurred, other Gulf countries were willing to make up the shortfall.

(2) CAUSES OF TENSION IN IRAQI-IRANIAN RELATIONS SINCE 1958

Modern Iraqi-Iranian relations have been strained since the overthrow of King Faisal II in 1958, and the withdrawal of Iraq from the Baghdad Pact in March 1959. Since that time, a number of issues have divided the two countries.

First, Iraq is predominantly Arab, whereas Iran is Persian, and a vast gap separates the two cultures. Differences between the countries are often seen and expressed by the two sides in these terms, with Iraq relying on its 'Arabness' to seek support from other Arab nations. The words 'racist' and 'racialist' are often used by the opposing regimes to describe each other. The perception of the conflict being one of Arab versus non-Arab, and the rivalry between the two, is manifested in the Iranian insistence that the Gulf be described as the Persian or Iranian

Gulf, and the insistence by Arab countries on the Gulf littoral for it to be called the Arabian Gulf.

A second cause of conflict has been the overlapping of population. Along the southern border regions, there is some overlap of Arab and non-Arab populations with the result that each country has within it a population more culturally in line with the other. This is particularly true of the Iranian province of Khuzestan, with its oil fields and large refinery at Abadan. The province is predominantly Arab, and is referred to by Iraq as 'Arabistan'. Iraq has never unequivocally accepted Iranian sovereignty over the province.

A third cause of continuing conflict since the early 1960s has been Iraq's theoretical alignment with the Soviet Union and radical Arab nationalism on the one hand, and Iran's closeness to the West on the other.

Iraq's military equipment remains predominantly Soviet and East European, although it is now shopping vigorously and successfully in Europe for aircraft and tanks. Iran, although having moved away from the Western camp, remains firmly anti-Communist, whereas Iraq is still party to a friendship treaty with the Soviet Union signed in 1972, despite the latter's refusal to re-supply Iraq with arms not already on order before the commencement of hostilities.

A fourth cause of friction which was never entirely resolved, and which is now again a cause of tension, has been the Kurdish autonomy movement in the North. Prior to 1975 Kurdish guerillas from Iraq found refuge in Iran. Iraq accused Iran of encouraging the Kurds. Iran itself is now having difficulties with its own Kurdish population, and the Kurdish autonomy movement seems to have found a new lease of life since the breakdown in Iraqi-Iranian relations, with the result that acrimonious exchanges have taken place between the two countries, each accusing the other of bad faith in dealing with the matter.

A fifth cause of difficulty has been the division between Sunni and Shia Islam. Iraq is dominated politically and economically by the Sunnis, although the Shia number approximately 50 per cent of the population. This factor is one which the Iranians have overtly used to attempt to cause friction and instability within Iraq. Associated with the Shia/Sunni division is the Iraqi's former association with the Ayatollah Khomeini, who for fifteen years until 1978 had lived in exile in Iraq, but who in that year was expelled in a move which marked the peak of good relations between Iraq and pre-revolutionary Iran. The expulsion came at a time when Iranian military leaders had visited Iraq for security talks and when Empress Farah had been received in Baghdad.

A sixth major cause of friction has been over territorial claims. Although from 1968 to 1970 Iran had reached an understanding with Arab Gulf states over the division of the continental shelf, and had renounced the use of force to gain possession of Bahrain, serious difficulties remained with Iraq and other Gulf countries. In the wake of the British withdrawal of its forces from the Gulf in 1971, a dispute arose between Iran and the Arab Gulf states over Iran's claims to the islands of Abu Musa and the Tumbs, belonging to Sharjah and Ras al Khaimah, respectively. In the face of overwhelming odds, the Sheikh of Sharjah agreed to share his island of Abu Musa with Iran in 1971. The Sheikh of Ras al Khaimah would not relinquish the Greater and Lesser Tumbs and so Iran took them by force. Iraq has never accepted Iranian sovereignty over the islands and has consistently argued that Iran should vacate them. Iran has developed the islands as military bases to command the Strait of Hormuz which lies at the neck of the Gulf.

(3) THE AGREEMENTS OF 1975 AND THE SHATT AL-ARAB ISSUE

The two countries settled a number of their differences in 1975 which allowed a period of harmonious and cordial relations to

exist from 1975 through 1978. At the time, both countries concentrated their attentions on domestic economic and social problems. It was apparent in 1975 that Iran was able to negotiate an 'unequal treaty' with Iraq from a position of economic and military superiority.

Throughout his reign, the Shah demonstrated a preoccupation with the security of transportation in the Gulf, as evidenced by his annexation of the Greater and Lesser Tumbs and Abu Musa. Of particular importance to Iran was the requirement for ensuring uninterrupted passage in the Shatt al-Arab.

The Shatt al-Arab begins at the confluence of the Tigris and Euphrates Rivers at Qurna in Iraq, from where it flows to the Gulf. This vital waterway links Abadan and its port of Khorramshahr, and Basra (Iraq's major port), with the Gulf. Very near the mouth of the Shatt al-Arab is the Iraqi defence facility of Umm Qasr, where the Soviet Union has stocking rights.

From 1936 until March 1975, the frontier was at the east bank, placing the whole of the river within Iraq. This situation became increasingly unacceptable to Iran, and in the context of the bad relations until 1975, the Shatt al-Arab was of considerable strategic importance.

Addressing the United Nations General Assembly in October 1970, the Iranian Foreign Minister, A. Zahedi, explained Iran's position as follows:

We do not demand exclusive domain over it [Shatt al-Arab]. We seek no more than is accorded to us by the practice of nations under well established rules of international law, as shown in the case of the Danube, the Rhine and the Scheldt rivers. [And that his Government was] ... ready at any time, at any hour, at any moment, anywhere, to start negotiations with the Government of Iraq, for the purpose of reaching a peaceful settlement

of the Shatt al-Arab dispute, on the basis of boundary to be set at mid-channel on Thalweg and freedom of navigation for all countries - throughout the entire river, in accordance with the accepted principles of international law.²

Negotiations were not begun until 1974 after United Nations mediation. A meeting of Foreign Ministry officials took place in Istanbul at the end of 1974. These moves failed to secure a stop to frontier fighting for more than a few months.

At an OPEC meeting in March 1975 at Algiers, a meeting between the Shah of Iran and Iraq's Vice President Saddam Hussein Takriti, who were brought together through the mediation of the Algerian President, gave rise to an announcement that both parties had signed an agreement 'which completely eliminated the conflict between the two brotherly countries'. In subsequent negotiations the frontiers were defined on the basis of the Protocol of Constantinople of 1913, and the verbal agreement on frontiers of 1914. The Shatt al-Arab frontier was defined according to the Thalweg Line, which runs down the middle of the deepest shipping channel.

This agreement was to see a period of cordial relations until 1978. The agreement also ended the Kurdish war, and was embodied in a treaty signed in June 1975.

The resolution of the Shatt al-Arab dispute also saw the resolution of other differences:

Moreover, Iran pledged to end its support for the Kurdish movement, and Iraq undertook to end its support for anti-Iranian groups. Subsequently, both sides agreed that if either knew of any subversive individual who was seeking to infiltrate the other's territory for the purpose of causing "disorder", it would make such an individual known to the other immediately. A joint communiqué issued at the end of Premier

Hoveida's official visit to Iraq in late March 1975 declared: "They (Hoveida and Saddam Hussein) emphasised their resolve to develop relations in all fields, to the mutual interest of the two countries. The two sides further reaffirmed that the area [Gulf] should be free from any foreign intervention". With the implementation of most of the provisions of the agreement and its subsequent protocols, the Shatt al-Arab dispute and its side-effects were settled for the present; and in the course of the settlement, Iraq endorsed the Shah's original resolve that the security of the Persian Gulf must be the responsibility of its littoral states and that outside powers must be kept out of the region.

(4) THE DETERIORATION OF RELATIONS SINCE THE IRANIAN REVOLUTION

There has been a steady deterioration of relations between the countries since the Iranian revolution in 1978.

The Ayatollah Khomeini's expulsion from Iraq in 1978 is a factor in his anti-Iraq stance since his accession to power. There is also little doubt that Khomeini and his colleagues aggressively pursue a policy of exporting their brand of Islamic revolution, which is a matter of great concern to Iraq, the majority of its population being Shia.

While at first Iraq's Government welcomed the Iranian revolution, goodwill soon gave way to an acrimonious propaganda war which saw the re-emergence of all the issues which had divided the two countries prior to 1975.

By March 1979, a dispute arose regarding the alleged crossing by Kurds into Iran. In addition, Iran accused Iraq of smuggling arms to dissident Arabs in Khuzestan, and Iraq became concerned that Sunni Muslims in Iran were being persecuted.

From November 1979, Iraq also raised the question of the Shatt al-Arab and sought to renegotiate the 1975 agreement, claiming at

the same time that Iran had not honoured some of the undertakings which were to follow on from the treaty, including the transfer of some 100 sq km of territory. Iran refused, and it is interesting to compare the difference between former Foreign Minister Zahedf's willingness to negotiate in 1975 '... at any time, at any hour, at any moment, anywhere ...' with apparent Iranian intransigence since Iraq's repeated requests for negotiations beginning in November 1979.

As relations deteriorated, Iraq renewed its opposition to Iran's occupation of the Tumbs and Abu Musa in the Strait of Hormuz.

The deterioration of relations took place against a background of an increasing Iranian desire to spread their Revolution to neighbouring Gulf countries.

By mid-September, relations had deteriorated to the point where armed conflict was inevitable. Both sides had by then made the decision to abrogate the Algiers agreement on land borders and an escalating border war threatened to imperil the flow of oil from the Gulf to the West.

The abrogation of the March 1975 agreement is often thought to have marked the beginning of hostilities. A formal decision to abrogate the agreement was made by Iraq's Revolutionary Command Council on 17 September 1980. On 14 September 1980, General Fallahi, Acting Chief of the Joint Staff of the Armed Forces of the Islamic Republic of Iran, in a radio interview, had already said 'we do not recognise the (1975) Algiers agreement concluded by Iraq and Iran on land borders. We will not concede a single millimetre of our territory to anyone.'⁴

Iraq appeared to be in the superior military position in 1980. At the commencement of hostilities Iran's armed forces were believed to be suffering from low morale, lack of officers, desertion and poor maintenance of equipment. Relations between Iran and the

United States had deteriorated and Iran was isolated from its former allies. In Iraq, President Hussein appeared to be enjoying widespread support, the armed forces were in good order, the economy had been boosted by the revenue from increased oil production and accumulated financial reserves were the third highest of all OPEC countries at \$US40 billion.⁵ Furthermore, Hussein had recently made an official visit to Saudi Arabia which was but one of many initiatives to secure an accommodation with conservative Gulf Arab countries.

The agreement reached in Algeria in 1975 had proved to be temporary, and the underlying current of disagreement, distrust and rivalry which characterised Iraqi-Iranian relations before 1975 again became apparent. At this writing the war had bogged down without any apparent hope of a ceasefire being reached.

(5) SOME CONSEQUENCES

Although the war has been of considerable duration, the effects on Iraq and Iran, and oil consumers, have not been as severe as might have been expected at the commencement of hostilities.

The ability of the combatants to continue to prosecute a war over a long period has been due to their ability to continue oil production. In this context Iraq is better off as its production of 1.2 mbpd during the first quarter of 1982 is worth over \$US1 billion in revenue per month. In addition it was reported in October 1981 that, 'Though not formally associated with the Iraqi war effort, Kuwait has channelled large quantities of supplies across its common borders with Iraq, which is reported to have asked Arab States for some \$14 billion in aid to assist an economy which has suffered more deeply than Baghdad had expected from the prolonged conflict. Kuwait has contributed \$4 billion as its share of the loan package'.⁶ Some later reports maintain that Arab financial support for Iraq since the commencement of hostilities could be up to \$30 billion in loans and other forms

of aid. It was reported in December 1981 that Iraq had avoided drawing down foreign deposits and that its position had not changed significantly because of the war.⁷ Iran continued to produce oil at a rate of about 1 million barrels per day, but Iran itself consumes some 600 000 barrels a day.⁸ Nevertheless, initial fears that the destruction of the Abadan refinery would limit exports overlooked the fact that most companies now prefer to refine oil closer to the market, that there is a world excess of refining capacity and in any event, refineries in Tabriz, Isfahan and Tehran can cope with domestic needs. The Kharg Island loading terminal is still functioning.

Iraq has suffered damage to its tanker terminal at Al Fao and at the ports of Knor al-Amaya, Mina al Bakr and Basra. The Basra refinery has also been damaged. Damage to Iraq's Mosul oil field has drawn attention to the possibility of oil exports by pipeline through Turkey and Syria being disrupted through sabotage. Iraq's Deputy Minister for Oil was reported to have said in March 1982 that replacement and repair to damaged oil facilities will cost billions of dollars.⁹

Precise figures relating to military casualties in the war were not obtainable by the Sub-Committee. It seems clear however that while Iraqi casualties numbered in the tens of thousands, Iranian casualties numbered in excess of 100 000. The greater number of Iranian casualties is partly explained by their technique of sending human waves of untrained and poorly equipped revolutionary guards to the front in order to attempt to overwhelm Iraqi troops.

The war does not appear to have had dramatic effects on everyday Iraqi life, and civilian losses have been minimal. Some 1.5 to 2 million Iranians have been dispossessed or left their homes however.

Further afield, initial fears that the war might spread to other Gulf countries came to little, and no major disruption has

occurred in the total levels of oil production in the Gulf, Saudi Arabia in particular making up for lessened Iraqi and Iranian exports.

Towards the end of 1981 and at the beginning of 1982 Iraq seemed to be bogged down in the war, with Iranians apparently gaining some victories which were important in propaganda and morale terms. It was estimated in April 1982 that Iran had recaptured one third of the territory initially gained by Iraq.

Nevertheless, Arab support for Iraq, except notably from Syria, appeared firm. 'Syria, in the last week of December (1981), allowed Iraqi oil to resume its flow after more than five years, through the Lebanese terminal at Tripoli. This should have expanded Iraq's exports and income by 25-33 per cent. Iran's local Shia Lebanese supporters promptly halted the flow with rocket attacks on the tanker and the pipeline.'¹⁰ In April 1982, however, Syria reversed a previous decision to allow the flow of Iraqi oil to the Mediterranean port of Banias.

Some Gulf states became nervous at the exposure in mid December 1981 of an allegedly Iranian backed plot to subvert the Bahraini Government. 'On the morrow of the plot's exposure, the Saudi Arabian Interior Minister rushed to Bahrain, publicly promising it Saudi protection: the two Governments then signed a mutual security pact. The Saudi Minister asked other Gulf states to follow suit and Qatar promptly did so.'¹¹

On the weekend of 30-31 January 1982 Jordan offered troops to assist Iraq.¹²

The war has the potential to involve the superpowers. As Iraq moves away from the Soviet Union, whom it does not regard as the 'natural ally' of the third world, Iran is forming a closer relationship with it. Soviet-Iranian trade is increasing substantially. Many Tudeh party members hold senior posts in

government. In addition, between 2000-5000 Soviet advisors were reported to be in Iran at the beginning of 1982.

A noteworthy aspect of the war has been the changing of allegiance by the two countries involved and their neighbours. During the war, Ba'athist Syria has supported Islamic Republican Iran against Ba'athist Iraq. The monarchist states of the Gulf have supported radical Iraq. The Iraqis have moved from a close relationship with the Soviet Union to a position highly critical of it, while Islamic Iran has been drawn closer to the Soviets. At the same time Iran is obtaining some military supplies from Israel, with whom Iraq is still officially at war.

By the beginning of April 1982 a number of peace missions by the U.N., the Islamic Conference and Non-aligned movement had failed to bring about a halt to the fighting.

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PART III

SUPERPOWER INVOLVEMENT

Chapter 5

The Gulf - A new area of possible superpower confrontation

The commencement of the 1980s saw a radical transformation in the strategic importance of the Gulf as a possible theatre for superpower conflict. The fall of the Shah in 1979 and the ensuing Islamic revolution and instability in Iran saw the decline of the major military power and stabilising influence in the region. Iran, which had a 415 000 strong Army (700 000 with reserve forces) 1700 tanks and over 480 combat aircraft was not only a stabilising influence in the immediate Gulf region, but being an ally of the United States, was regarded as an important 'trip wire' which the Soviets would have to take into account should they contemplate any military action in the Gulf or opt for a warm water port on the Indian Ocean.

Two important events followed the decline in Iranian military power. On 25 December 1979 the Soviet Union commenced its occupation of Afghanistan. Regardless of the real motives of the Soviet Union - whether due to a fear of a Moslem resurgence among its southern population or a desire for an offensive salient adjacent to South West Asia and the Gulf - the invasion of Afghanistan was perceived by the Gulf countries and the West with a great deal of suspicion. The Soviet Union is now in close proximity to the Strait of Hormuz, the principal waterway that connects the world's largest oil reserves with world markets. There can be little doubt that the weakness of Iran, and United States preoccupation with the Embassy hostages, were important

factors which the Soviets weighed when deciding to invade neighbouring Afghanistan.

The second important event which can be linked to the decline in Iranian power, was the outbreak of war between Iraq and Iran in September 1980. Towards the end of the Shah's reign Iran had established an unchallengable military authority over Iraq, to the extent that in 1975 Iraq had found it necessary to sign a treaty, advantageous to Iran, regarding an outstanding territorial dispute and involving navigation of the Shatt al-Arab waterway. The war which commenced in September 1980 can be seen as a direct result of the decline in Iranian military power. This decline allowed Iraq to move against what it saw as an inequitable treaty which had been signed from a position of military inferiority.

The ensuing Iraq-Iran war caused great concern in the West that there may be a further decline in Gulf oil production, and that the war may spread to include other Gulf countries. Furthermore, it was feared that oil installations in countries which were not parties to the dispute might be bombed or otherwise rendered inoperative, or that the strategic Strait of Hormuz might be blocked.

These events took place against a background of general and widespread internal political instability in a number of Gulf countries, including the occupation of the Grand Mosque in Mecca, labour unrest in Kuwait and Saudi Arabia's eastern oil province a resurgence of 'fundamentalist Islam' aided by the new Iranian regime, and reports that the Soviet Union may soon become a substantial importer of oil. The region appeared ripe for outside interference inimical to Western interests. The United States had become increasingly concerned at the deteriorating situation and on 23 January 1980, President Carter, in an address to Congress in the wake of the Soviet invasion of Afghanistan, said in part:

Let our position be absolutely clear: an attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force.

In a response which was regarded as having the endorsement of the Soviet leadership, the Director-General of TASS said:

The United States, it appears, has "the right" to regard the Persian Gulf, which is thousands of miles away from the American shores, as a sphere of "U.S. vital interests", and even to use military force to preserve the American monopolies' hold of the area.

As for the U.S.S.R., Washington believes that it has no right to insure its security interests in the neighbouring Afghanistan.

The State-of-the-Union address contains untenable allegations of the "Soviet threat" to the uninterrupted flow of Middle Eastern oil to the West. The American President, however, only needed these allegations to justify the current U.S. attempts to establish unchallenged control of the Persian Gulf. There has never been any "Soviet threat" to the supplies of Middle Eastern oil to the West, nor any such threat is likely. Our country has no expansionist schemes either toward Iran or toward Pakistan.

At the beginning of the 1980s the stage was set for a period where both of the world's major powers would seek to establish positions of strategic advantage in the Gulf region, with the dangers of superpower conflict that such projections of power entail.

Because present United States policy is regarded as being largely a reaction to perceived Soviet motives and influence in the region, as well as a reaction to their capacity to take advantage of political instability, the motives and extent of Soviet

involvement in the Gulf are examined first in Chapter 6, entitled - Some Observations on Soviet Involvement. An analysis of United States responses follows in Chapter 7, entitled - Recent Developments in United States Military and Strategic Policy.

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Chapter 6

Some observations on Soviet involvement

(1) MOTIVES AND EXTENT OF SOVIET INVOLVEMENT

(a) General

Both the Soviet Union and the United States have had a mixture of successes and failures in their Middle East policies.

Recent Soviet involvement in the Middle East and the south west Asia periphery was highlighted by the invasion of Afghanistan in December 1979. Although Afghanistan is not part of the Middle East, it is Islamic, and part of what is called by Muslims 'Dar-ul-Islam' - the 'Abode of Islam'. The Soviet invasion prompted the calling of a meeting of Islamic Foreign Ministers in January 1980. At the meeting, the Ministers, the great majority of whom represented Middle Eastern and North African countries, condemned the invasion.

It was not only the countries in the immediate region who were concerned. As soon as the invasion began, worldwide attention was focussed on the Soviet action. Since the invasion, attempts were made to determine what motivated the Soviet Union's actions, not only in Afghanistan, but in the general area of the Middle East.

Whether or not the invasion of Afghanistan is directly related to Soviet intentions in the Gulf, and whether or not the Soviet Union is primarily interested in Middle East oil, there are obvious Soviet interests in the region of a strategic, economic and political nature.

The Soviet Union is close to the Middle East and shares a common border with Turkey and Iran. Its very proximity makes the Middle East of considerable importance, especially because of extensive United States influence.

Soviet self-interest in relation to the Middle East is that of a superpower. The Soviet Union has a strong economic interest in selling armaments to the area. It is keen on ensuring overflight and landing rights for military supply. It needs ports and passage for its naval forces, including submarines. It has an interest in the outcome of the Arab-Israeli peace negotiations. Indeed, it has vested interests which any country of its size and power would be expected to have in a region which is both close to it and of considerable economic importance.

(b) Strategic

To many observers, the vulnerability of the Strait of Hormuz at the entrance to the Gulf now prompts the idea that the West's economic life-line is at risk. Concern arises not only from what is perceived as the unstable and unpredictable behaviour of the governments of oil producing countries and other local political forces, but also because of the Soviet Union's possible capacity to cut the flow of oil.

The area around the Gulf is important to the Soviet Union for its own security. The general area of the Middle East lies along a route which connects the Black Sea to Vladivostock via Suez. The Soviet Union has very few secure outlets to the sea for its Navy. In addition, its interior lines of communication between Europe and eastern Siberia are minimal.

The shipping route through Suez and around the Cape is vital. In a conflict with China the Trans-Siberian railway could be interrupted. In this case the route in question would be essential to maintain ties between the far eastern and the western regions of the Soviet Union.¹

A naval presence at the choke-point constituted by the Bab el Mandab is therefore maintained by the Soviet Union.

(2) BILATERAL RELATIONS

The Soviet Union supplies considerable quantities of arms to Syria and Libya, and has also provided military assistance to Iraq, Algeria, Morocco, Sudan and to both North and South Yemen (the YAR and the PDRY).² Through Syria the Soviet Union is indirectly supplying arms to Iran. As well as supplying arms, it has many advisers on the ground and facilities where air and land forces can be supplied. The Soviet Union has friendship and co-operation treaties with Afghanistan, Iraq, Syria and the PDRY.

(a) People's Democratic Republic of Yemen (PDRY)

Soviet policy in relation to the Gulf depends largely on its capacity to extend its influence within the region.

The Soviet navy's use of the South Yemeni port of Aden has been the subject of renewed concern since the invasion of Afghanistan. No country has so fully embraced the Soviets as the PDRY. The Soviet Union has been closely involved there since 1955, when a friendship treaty was signed in Cairo. Although technically Yemen is not strictly within the geographical area of the Gulf, the Committee feels it is important to point out that the Soviet-PDRY relationship constitutes a continuing point of tension within the Gulf region.

In October 1979, the Soviet Union and the PDRY signed another twenty-year treaty of friendship. The 25 000 strong army is Soviet equipped and trained by Cubans. Some reports maintain that the East Germans run the internal security apparatus. The Soviet Union has the use of a large airfield near the capital, the port of Aden. They also have large arms depots located in the

Republic. As at mid 1979 there were estimated to be 700 Cubans, more than 100 East Germans and 1000 Soviet citizens in the PDRY, all serving as military advisers or in ideological training centres.

The Soviet military presence in South Yemen gives it a strategic proximity to the entire Arabian Peninsula, the Red Sea and the Gulf, including the crucial Strait of Hormuz and a much sought after naval base to service the Indian Ocean.

The Soviet presence may also allow an ability to create tensions between and within states of the Arabian Peninsula, without direct involvement. The PDRY itself has been a refuge for the Popular Front for the Liberation of Oman (PFLO), a country of strategic importance in relation to the Gulf because of its command of the Strait of Hormuz. According to the Omani Government Dhofar hostiles number 35 and have a demonstration effect only.

The Soviet presence in South Yemen allows it to exert continuing pressure on the non-Communist Yemen Arab Republic (YAR) to its north. During late 1977 and 1978, both the President of the YAR and the President of the PDRY were assassinated. Responsibility for the latter's death has never been satisfactorily established, but there is little doubt that both incidents helped the former leader of the PDRY, Abdul Fattah Ismail, to assume control, and to create a climate of instability in the north which was conducive to exerting PDRY influence there. The supply of Russian MiG-21's to the YAR is another indication of Soviet influence.³

The PDRY regime itself is hard line Marxist-Leninist and pays little homage to Islamic fundamentalism. It is possible that if the PDRY and YAR are able to resolve the differences between them, Oman may be subject to more pressure on its south western border. Saudi Arabia, which underwrites much of the YAR economy, including defence purchases, may also come under pressure. The

great number of Yemenis working in Saudi Arabia may complicate the situation.

(b) Iraq

Soviet influence in Iraq dates back almost as far as 14 July 1958 when a military coup overthrew the pro-Western Hashemite monarchy. Although difficulties in the relationship have been encountered from time to time over the activities of the Iraqi Communist Party, a fifteen-year treaty of friendship and co-operation was signed on 9 April 1972 which strengthened the expanding co-operation, and gave Moscow regular access to the naval and air base at Umm Qasr and other facilities. The Soviet Union, which had in the past encouraged Kurdish nationalists, sided with the Government in 1974, providing weaponry and, according to some sources, piloted MiG-25's on occasional strafing runs along the Iraqi-Iranian border.⁴ The Soviet Union's stocks seem to have fallen since that time however, and there have been a number of purges of the Communists (who until 1979 were represented in the Government). The invasion of Afghanistan was condemned in 1979, and increased trade with the West, including trade in armaments was proceeding in 1980 and 1981. Furthermore, Iraq has made it clear that it wants a regional security framework for the Gulf, without the presence of the United States or the Soviet Union.

Further strains in Soviet-Iraqi relations have appeared since the outbreak of war between Iraq and Iran. The Soviet Union's official neutral policy hurts Iraq more than Iran because of the difficulty Iraq has in securing resupplies of equipment and spare parts. The Soviet decision to embrace Syria, and sign a friendship treaty at the height of the fighting, cast doubt on Moscow's intentions.⁵

(c) Other countries

Of all the countries on the Gulf, only Iran, Iraq and Kuwait have diplomatic relations with the Soviet Union, despite constant Soviet efforts for more diplomatic ties. Although Kuwait has an 'active but neutral' foreign policy and has purchased some armaments from the Soviet Union, Kuwait, in common with all the Gulf countries, remains strongly anti-Communist.

Members of Iran's Communist Tudeh party have escaped the harassment other Marxist-Leninist parties have suffered at the hands of the ruling Islamic Republican regime. Many continue to hold key posts in the Government bureaucracy. The Tudeh party, prior to and during the Revolution which overthrew the Shah, was required to compete with a number of political groupings on the left.⁶ The Tudeh party is now the only significant remaining non-Islamic Republican force not to have been driven completely underground or into exile. The present Iranian Government is intensely anti-Communist. Nevertheless, 'today, denunciation of the Eastern bloc as "godless" or "totalitarian" are infrequently heard from Tehran and Iran is developing a much closer trading relationship with the Soviet Union and its allies. In the first six months of 1981 goods entering Iran through the Soviet Union amounted to more than 20 per cent of total imports, valued at \$1.4bn. Over the same period the value of imports through Iran's four Caspian ports increased by 84 per cent.'⁷

Communist Parties in the other Gulf states are of little significance and the Soviet Union has generally been unsuccessful in encouraging the growth of viable national Communist Parties on the Gulf littoral.

(d) Some problems encountered

The Soviet Union was required to leave Egypt in 1975, and was also forced to leave Somalia after a conflict with pro-Soviet

Ethiopia in which the Soviet Union was faced with a clear conflict of interests. This latter move resulted in the loss of an important naval facility at Berbera. In South Yemen reports appear from time to time about violent clashes between government and anti-government forces. Thousands of refugees have fled to North Yemen and Saudi Arabia, where according to one estimate, 15 000 were receiving military training in 1979.⁸ Other, less obvious difficulties have also been encountered.

The Soviets are not as firmly entrenched in Ethiopia as has often been reported. After five years of large scale Soviet activity there, the Mengistu regime remains dependent on Soviet, Cuban and Eastern bloc military and economic aid. Yet the parties in Ethiopia are still divided on many issues.

The Ethiopians have been involved in a lengthy and destructive campaign against the Eritreans, who have received support from Sudan and Iraq, among others, and against whom the Cubans are loath to fight.⁹

Furthermore, Mengistu, even though he has relied heavily on the Soviet Union for five years, appears to be proceeding very slowly in establishing a Communist Party. After five years, he has only reached the stage of forming a 'Commission for Organising the Party of the Working People of Ethiopia', COWPE.¹⁰ As The Economist noted in December 1981, 'Since the Cubans are still there, along with a bunch of East Germans, the pro-western lair once sleepily dwelt in by the Lion of Judah looks irretrievably lost. Or is it? The country's canny and ruthless Colonel Mengistu still talks to the West. He maintains at least the possibility of changing sides by keeping all foreign troops out of Addis Abbaba'.¹¹

As well as these problems, the Soviets have not been able to make any gains or establish footholds in any of the conservative Gulf monarchies, where Communist parties are small, in exile, and have little popular support.

(3) INTERNATIONAL SOLIDARITY

Once countries have a close relationship with the Soviet Union, as in Afghanistan, it can be assumed that the Soviet Union will take a keen interest in making secure friendly governments where possible.

Currently, the Soviet Union has friendship and co-operation treaties with Afghanistan, Iraq, Syria and the PDRY. An extension of this internationalist approach was the signing by Ethiopia, Libya and the PDRY of a defence treaty in the latter half of 1981.

Although it is not possible to postulate that the Soviet Union will immediately sweep into Syria, Iraq or the PDRY if any of their interests are threatened, as happened in Afghanistan, it is worth noting the doctrine expressed in the wake of the invasion. In an article in Novoye Vremya, the doctrine was stated, in part, as follows:

The question arises: What is the international solidarity of revolutionaries? Does it consist only of moral and diplomatic support and verbal wishes for success, or does it also consist, under justified, extraordinary conditions, in rendering material aid, including military aid, all the more so when it is a case of blatant, massive outside intervention.

The history of the revolutionary movement confirms the moral and political rightness of this form of aid and support ...¹²

(4) THE RELEVANCE OF THE AFGHANISTAN INVASION

While the invasion of Afghanistan has prompted a new assessment of Soviet intentions in the Gulf, there is virtually no hard evidence to link the two.

William B. Quandt has observed that:

If Iran were more stable, if oil were less vital to the West and if U.S.-Soviet relations were otherwise in good repair, the events in Afghanistan might have had limited impact on American thinking. But in the existing circumstances, the Soviet occupation of Afghanistan served to crystallise a number of converging trends, the net effect of which was to reinforce American concern for Persian Gulf security.¹³

Although many attempts to provide evidence have been made, the arguments are based upon a number of alleged advantages to the Soviet Union which have very little direct relevance to the Gulf. These include the alleged fear of Islamic resurgence in the Soviet Union itself; the creation of a military/strategic salient designed to advantage the Soviet Union in any possible future confrontation with Western Europe on the one hand, or with central, south or south-east Asia on the other; the 'traditional' ambition for warm water ports; and a desire for 'world dominance'.

An example of these last two approaches is that of Robert Moss:

Via Afghanistan, along Soviet-built highways, the Russians aim to achieve the traditional ambition - common to czars and commissars - of ports on the Indian Ocean in which to base their ever-expanding blue-water navy. But beyond this is the real objective: control of the West's largest reservoir of oil in the Gulf. The ultimate Soviet goal here is not Afghanistan, nor Iran, and still less Pakistan, although these countries - if the West allows it - will be stepping stones.¹⁴

Another approach is where Soviet activity in the Middle East is seen as a 'rimlands' strategy. Typical of this perception is the following extract from an article by David Rees:

In any strategic assessment of the Afghan crisis, the Soviet move must surely be seen primarily as part of the significantly increased activity in recent years on the "rimlands" of the Middle East oil-producing countries. Taken together with the establishment of Soviet influence in Ethiopia, South Yemen, and in Angola and Mozambique, adjacent to the Cape oil route, Soviet activity in this direction can be seen as part of a potential "strategy of denial" directed against the West's energy sources. The occupation of Afghanistan is thus a major extension of direct Soviet influence over the northern rimlands of the Middle East's oil reserves.¹⁵

Soviet supply of armaments to Libya (where more arms are on the ground than the Libyans can possibly use themselves), and the supply of military assistance and the presence of numerous advisers in Syria, can be seen as further evidence of a 'rimlands' strategy in relation to the Gulf.

Opinions differ as to the depth of Soviet control over Afghanistan since aid was given and economic penetration began in 1954. However, one observer, who dates substantial Soviet control back to April 1978 when Hafizullah Amin became President, sees the Soviet presence as having immediate and direct strategic consequences for the West's access to Gulf oil:

Many of the key decision makers I have interviewed in recent years felt that one had to be irredeemably myopic not to see the thrust of Moscow's geopolitical offensive. The Soviet-assisted coup in Afghanistan ... (April 1978) brought the Soviets to within 350 miles of the Eastern bank of the Strait of Hormuz, the Western world's most vital, and now most vulnerable, waterway, through which passes 40% of the world's oil supply - including 60% of West Europe's. From their South Yemeni bases, or facilities as the Soviets prefer to call them, the Russians are now within 500 miles of the Persian Gulf western bank.¹⁶

The possibility that the Soviet Union itself may need access to Middle East oil, is also seen as a motivation for its invasion of Afghanistan. In this context, and in the context of the West's dependence on Gulf oil, the occupation of Afghanistan is seen as facilitating 'not only a "strategy of denial" so far as Mid East oil is concerned, but a dynamic Soviet "strategy of acquisition" as well.'¹⁷

One of the most plausible reasons for the Soviet invasion of Afghanistan is fear of Islam:

One of the "Southern factors" the Soviet Union cannot afford to ignore (are) the nationalities and religions which she shares with countries on the other side of the border. Today, 16 per cent of the Soviet population is Muslim. By the year 2000 this figure will have increased to 20 percent.¹⁸

Whatever the intrinsic strategic significance of the Soviet invasion of Afghanistan, the occupation has demonstrated the determination and opportunism of Soviet foreign and military policy. What cannot be demonstrated is a causal link between Soviet activity in Afghanistan and Soviet strategy in relation to the Gulf, and no such linkage was demonstrated to exist in evidence presented to the Sub-Committee.¹⁹ Any direct relationship must remain a matter for speculation.

The almost unanimous condemnation by Arab states of the Soviet invasion must have been foreseen by Soviet strategists. No action could have been less well designed to gain political support from, or influence in, the countries of the Gulf.

In the wake of the Afghanistan invasion the Soviet Union is only able to rely for some residual credibility on its consistent support for the Arab side on the Palestinian question.

(5) THE OIL MOTIVE

(a) The Joint Committee's 1977 report

The Soviet Union's requirements for oil over the next two decades were the subject of some comment in the Joint Committee's 1977 Report:

The Communist nations' consumption of petroleum liquids has also been increasing but both the Soviet bloc and China are self-sufficient. The USSR is believed to have considerable unproven reserves. About one quarter of Soviet total production is exported, of which 50% goes to Eastern Europe and 10% to other Communist countries. However, by 1980 Eastern Europe and other Communist countries are likely to be requiring Arab oil as their demands for oil become greater than the amount of oil Russia would be able to export. In the meantime, the Soviet Union's diplomatic and strategic interests have probably been furthered by the fact that the West suffers from costly oil imports; as Arab exports, they have also enabled the Arab countries to pay in hard currency for Soviet arms supplies.²⁰

(b) The oil motive

The assumption that the Soviet Union not only needs Middle East oil, but also wishes to control or deny its production and transportation, has been strongly held in the United States.²¹ Its ability to export oil to its East European neighbours over the next two decades is in doubt, an ability which provides it with political and economic leverage in those countries.

(c) Requirements

If the Soviet Union and/or the East Europeans do begin to buy Middle East oil in significant quantities, even on the open market, the effects on the West will be quite substantial because of a depletion of supplies and an inevitable increase in prices.

Typical of the concern expressed during 1980 about possible Soviet oil shortages was the following:

According to the U.S. Central Intelligence Agency Soviet crude-oil production (including gas condensate) will probably peak this year at between 11.8 million and 11.9 million barrels per day... By 1985, the CIA estimates, Soviet oil production will drop to 10 million bpd; and that year's production could be as little as 8 million bpd if the Russians suffer a bout of bad luck - if, for instance, two or three harsh winters slow down exploration and drilling.

Thus in just four short years the Russians would need to somehow replace at least 2 million bpd merely to sustain supplies at the 1980 level. For any of the Free World's affluent countries to purchase this much extra oil right now would be a neat trick; for the cash short Russians to do it in 1985, given the increasingly desperate scramble in the Free World for every drop of oil OPEC produces, would be just about impossible.²²

Since 1977 the CIA has revised its estimate of Soviet oil production for the next decade. The Soviets are now expected to be able to maintain production at a level of 10 to 11 mbpd²³ which is sufficient for their own needs. Growing demand in Eastern Europe may well have to be met from elsewhere however.²⁴

(d) Production and consumption

The Soviet Union is the world's largest oil producer. In 1979 it produced 11.7 million barrels per day (mbpd), which represented 19 per cent of world production. But production growth has slowed steadily since 1975 (when production increased by 6.4 per cent). Planned growth for 1980 was 3.6 per cent. Some Western analysts have predicted that Soviet production will begin to decline in the near future, but at this stage, growth is still occurring, albeit at a reduced rate. There is some evidence that the Soviet

Union will have reached its target of over 12 mbpd for 1980, which will have been a production record.²⁵

Efforts to reverse the decline in oil production growth, and avert an eventual decline in production, are faced with substantial difficulties. No major field has been discovered since 1973. For at least the next five years, any expansion of production will have to come from existing fields in Western Siberia. Development of these fields is hampered by past policies, which have aimed at keeping current production up at the expense of future development. For example, production drilling has been given priority over exploration drilling; and accessible resources have been irresponsibly depleted in a short space of time. Attempts to increase the output of existing fields by secondary and tertiary recovery techniques, and development of fields under difficult conditions, will require development or purchase of sophisticated technology and massive investment.

It was reported in the beginning of 1980 that:

Last November (1979) the Chairman of GOSPLAN, the Soviet planning agency, publicly lowered the official 1980 oil production target - which had been 12.4 million to 12.8 million bpd - to 12.1 million bpd; the latter figure is barely more than the current CIA estimate
...²⁶

Opinions differ about future Soviet production in the light of these circumstances. In 1977 American CIA analysts saw a decline in Soviet production, with production in 1985 dropping to 70 per cent of 1980 levels. Some European analysts predicted continued and accelerating growth in output. This diversity of opinion reflects a general scarcity of information.²⁷ Much will depend on the scale and effectiveness of the Soviet Government's response to the situation. A plausible middle course has been plotted by the International Energy Agency (IEA) which says that the probable trend for Soviet oil production is a levelling out of

production at about 12 mbpd from 1980 with a slight decline to 11.7 mbpd in 1985. In the absence of domestic discoveries or technological break-throughs, production will continue to decline to 11 mbpd by 1990. Of this, enhanced recovery techniques may account for about 1 mbpd.

It is widely accepted that the Soviet Union does not have the technology to upgrade its extraction and production techniques, at a time when Western countries are looking to these techniques to help them. As a result, the Soviet Union has been importing technology from the United States and Europe. The United States President placed an embargo on the export of such technology in the wake of the Soviet invasion of Afghanistan. This policy of denying the Soviet Union access to oil extraction technology was not unequivocally enforced by all western nations. President Reagan announced on 29 December 1981 that, because of the role played by the Soviet Union in suppressing civil rights in Poland, the United States Government would stop processing all license applications on oil and gas equipment and on high technology items to the Soviet Union, effective from 1300 GMT, 30 December 1981.²⁸

Soviet attempts to replace oil with other forms of energy, such as nuclear power, coal and gas, have not been proceeding very quickly, due partly to lack of technology and partly because of climatic factors and problems of terrain and transport. For instance, to use the enormous reserves of natural gas from Siberia in European Russia, where 80 per cent of all Soviet energy is consumed, is creating massive logistical problems.²⁹

In addition to supplying all its own oil needs, the Soviet Union supplies member countries of the Council of Mutual Economic Assistance (CMEA) with 1.5 mbpd, about 90 per cent of their oil requirements, and sells 1.3 mbpd to other nations. Because of falling foreign currency earnings, the Soviet Union itself, as well as these countries will bear the brunt of future shortfalls in production. (See also (f) Exports.)

(e) Conservation

Scope for oil conservation to counteract declining supply is limited in the Soviet economy. Heating, electricity generation and transport are efficient. Major savings will have to come from the industrial sector, requiring heavy capital expenditure. The coal industry, though the largest in the world, is not in a position to compensate for declining oil production, as it too faces problems of declining growth, and remote deposits. Nuclear and hydro-electric power will make little impact on the Soviet energy situation in the 1980s. Hydro reserves in the Western Soviet Union are almost totally utilised. The most important component in the Soviet conservation programme will be the substitution of natural gas for oil. Soviet gas production has increased dramatically since the mid-1970s and now constitutes one-quarter of world production. In the short to middle term, the IEA estimates that growth of Soviet oil consumption can be slowed from 3 per cent per annum to 2 per cent per annum.

(f) Exports

The Soviet Union warned its East European allies that Soviet oil supplies to them would not increase above 1980 levels. During the first six months of 1981 total Soviet exports were estimated at 3.0 mbpd. (See Table 1.3, p. 19.) Maintaining energy supplies to CMEA countries will continue to be an important political priority, but efforts will be made to encourage conservation and substitution.

Sales of oil on the world market account for nearly half of the Soviet Union's hard currency earnings. A strenuous effort is being made to make up for the decline in this income by selling natural gas to Western Europe. With the construction of the new pipeline, the Soviet Union could be supplying up to 20 per cent of Western Europe's gas requirements by 1985, worth \$US8 billion

per annum. There are also plans to sell electric power to Western Europe. Thus the Soviet Union will be in a position to partially offset the decline of its hard currency earnings caused by dwindling oil exports.

On the IEA's estimate, the European CMEA members will move from being net exporters of 1.7 mbpd in 1979 to being importers of 0.3 mbpd by 1985, and 2.6 mbpd by 1990. It is not clear how the Soviet Union or its CMEA partners could pay for a higher volume of imports.

(g) Effects on world markets

The decline in Soviet production will, on IEA estimates, increase demand on the world market in 1985 by the equivalent of 5 per cent of the volume of oil currently traded, rising to 12 per cent by 1990. The emergence of the Soviet Union as an oil importer on the scale envisaged by the IEA³⁰ would place strains on what will be a tight oil market, and have an immediate and sharp effect on prices. But the availability of oil is dependent in the medium term on the exporters, who could increase capacity to accommodate the Soviet demand if they wished. Lest the Soviet Union be tempted to take military action to avoid oil shortages, exporters might feel it was in their interests to ensure that Soviet demand can be met.

(6) CONCLUSION

The Soviet Union is deeply involved in the Gulf and the Middle East. It has a considerable strategic, political and economic stake in the region, and as a large, populous, industrialised nation that borders on the Middle East, the Soviet Union can be expected to secure what it perceives as its vital interests there.

These efforts include the encouragement of ideologically compatible political movements and governments, the gaining of,

at the very least, strategic parity with the West, and the securing of access to energy resources.

The Gulf's very proximity to the Soviet Union makes it of strategic concern. In any confrontation with the United States and its allies, the Gulf would be of vital strategic importance to the Soviet Union given the West's reliance on Gulf oil.

Economically, the Gulf countries are potentially of great importance to the Soviet Union if indeed it, or its East European allies, become major buyers of Gulf oil.³¹ There was little sign of this at March 1982 however, when the Soviets were reported to be dumping oil on the spot market.³²

The Committee believes that the Soviet Union has embarked on a program to balance Western diplomatic influence in West Asia, if not minimise or exclude it. It cannot be said with certainty, however, that the invasion of Afghanistan is directly related to Soviet strategy in relation to the Gulf.

It can be expected that there will be considerable political and economic competition in the Middle East in general, and in the oil-rich Gulf in particular, between the Eastern bloc and the United States and her allies. The land bridge between the three continents of Africa, Asia and Europe that constitutes the heart of the Middle East will continue to be the subject of detailed and intense strategic considerations. Some East-West understanding about the area, and the vital interests of outside powers in it, is therefore urgent and necessary, and will require 'crisis management' of a high order if a major conflict is to be avoided. Such an understanding must, of course, be mindful of the desire of the Gulf countries themselves for a minimum of outside interference.

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4. See Alvin Z. Rubinstein, 'The Soviet Union and the Arabian Peninsula', The World Today, November 1979, p. 448.
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6. David Lynn Price, 'Moscow and the Persian Gulf', Problems of Communism, March-April 1979. See also Tim McGirk 'Khomeini's Secret Ally Holds Sway', 8 Days, 19 September, 1981, pp. 20-21.
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21. See for example Norman Podheretz, 'The Present Danger', Commentary, 69 (3), March 1980, pp. 37-38.

22. Herbert E. Meyer, 'Why we Should Worry About the Soviet Energy Crunch', Fortune, 101 (4), 25 February 1980, p. 82.

23. ABC Radio News, 7.45 am, 20 May 1981 and The Canberra Times, 21 May 1981.

24. This is already being encouraged by the Soviets so that more oil can be sold to the West to earn hard currency. See David Wilson, Soviet Oil and Gas to 1990, EIU Special Report No. 90. The EIU Ltd, London, 1980, p. 131.

25. See Newsweek, 1 June 1981.

26. Herbert E. Meyer, 1980, p. 82.

27. See 'The CIA and Soviet Oil', Newsweek, 8 June 1981, p. 51.

28. USICA - East Asia and Pacific Wireless File, 30 December 1981.

29. See Herbert E. Meyer, 1980, p. 83. For a discussion of some of the problems of Soviet oil production, see R.W. Apple, 'USSR's Falling Oil Production May Hinder its Growth', The Australian Financial Review, 19 November 1980, p. 12; Marshall I. Goldman, The Enigma of Soviet Petroleum: Half-empty or Half-full? Allen and Unwin, London, 1980; and David Wilson, Soviet Oil and Gas to 1990, EIU Special Report No. 90. The Economist Intelligence Unit Ltd, London, 1980.

30. The Sub-Committee was made aware of a number of studies of predicted Soviet oil production over the next two decades. More optimistic projections than the IEA's, such as those of Petrostudies in Sweden, appear unrealistic, however. See also Marshall I. Goldman, 1980 and David Wilson, 1980.

31. The Soviet Union now actually exports oil to Ethiopia which, given the latter's proximity to the Gulf, could be expected to

secure supplies from there. In The Guardian Weekly of 26 October 1980, it was reported that the Soviet Union was selling oil to Ethiopia at a subsidised price. The Soviet Union itself imports oil from Gulf countries, including Iraq. It is thought that these purchases are for third parties in the developing world. (See Karen Dawisha, 1981, p. 19.)

32. Frank Cranston, 'Analysts watch impact of Slump on Socialist bloc', The Canberra Times, 15 March 1982, p. 11.

Chapter 7

Recent developments in United States military and strategic policy

(1) UNITED STATES GLOBAL STRATEGY AND THE GULF

Despite tension between the United States and the Arab countries over the Arab-Israeli dispute and the Palestinian question, the United States could feel reasonably secure until 1978 that the political and strategic situation in the Gulf was one that favoured its interests. From the time the Shah was overthrown in January 1979, however, the situation in the Gulf began to look less secure as far as the United States was concerned.

The apparent internal instability of Saudi Arabia, the Soviet invasion of Afghanistan, perceived Soviet gains in the Yemens and on the Horn of Africa, and the outbreak of the Iraq-Iran war were all factors, which taken together, posed a threat to Western interests in the Gulf.

In the wake of these events the United States commenced to build up its military strength in many ways so as to enable it to move men and arms quickly to the Gulf if its interests were threatened. The most significant element of this new posture is the Rapid Deployment Force (RDF).

In the early 1960s United States defence policy aimed at being able to fight a 'half-war' without compromising its ability to fight two large wars at the same time or immediately afterwards.¹

By the end of the 1970s United States policy had changed to allow a capability to deal with one large war and one half-war

simultaneously (a large war in Europe and another elsewhere). The major potential enemy in this strategy was, of course, the Soviet Union. United States military strategy is now designed to enable it to fight a second major war in the Gulf region.²

The ability of the United States to deploy its forces in the Gulf has to be seen in the context of its ability to maintain a credible military presence in other areas of the world..

The two carrier task groups deployed in the spring of 1980 were drawn from the Sixth Fleet in the Mediterranean and the Seventh Fleet in the Pacific.³ This stretched the resources of the United States. Admiral Robert L.J. Long, Commander-in-Chief, U.S. Forces, Pacific, stated on 10 August 1981:

Our forces are spread too thin. We have drawn down the naval forces in the Western Pacific in order to move forces into the vital Arabian Sea area. We do not have sufficient air forces. I have estimated that we are short somewhere around 25 to 30 per⁴ cent of what we need in the Pacific command.

(2) UNITED STATES PERCEPTIONS OF THE GULF

New United States policy towards the Gulf, its build-up of forces, the development of a Rapid Deployment Force, and its increased military transfer to friendly countries is predicated upon two perceived threats to the Gulf region.

The first perceived threat is that of the Soviet Union. The perception is that the Soviet Union may attempt to control the flow of oil to the OECD West through direct military intervention, with or without the help of proxies in the region. The two reasons why this perception has gained support in the United States over the last two years are the Soviet invasion of Afghanistan, and increasing Soviet military and political activity on the periphery of the Gulf, in the Yemens and on the

Horn of Africa. (See Chapter 6 for more detail.) This increased Soviet activity, when seen against the background of an increasing reliance by the United States on Gulf oil, the breakdown of the Strategic Arms Limitation Talks and increased tensions globally, especially in Europe, have seen the United States become increasingly worried about Soviet intentions in the Gulf.

The second perceived threat, though it is not as often acknowledged publicly, is that of internal political instability. This is variously perceived as the possibility of Soviet backed insurgents disrupting the political stability of the major oil producing countries; sabotage and guerilla attacks against oil installations and shipping, particularly in the Strait of Hormuz; the inability of conservative Gulf regimes to maintain power; and the possibility of war between states on or near the Gulf littoral.

An official view of the strategic significance of the Gulf and threats to Western interests in the area has been expressed in the United States Military Posture for Fiscal Year 1982:

(a) Importance

The United States has a number of major interests in the region comprising the Middle East, the Persian Gulf, and the northwest Indian Ocean. These interests involve access by the US and its allies to the resources of the area, most notably to oil from the Persian Gulf states - to include protection of transportation routes for the flow of that oil to North America, Western Europe, and Japan; support for friendly regional governments against potentially hostile states and groups; limitation of Soviet power and influence throughout the region; and deterrence of direct Soviet military intervention.

Of these interests, continued access to oil on reasonable political and economic terms is the most important to US and allied security.

Pursuit of this objective reflects national resolve to remain a global power with worldwide interests, as well as US concern for the health of the international economy. But more than that, US interest in access to oil transcends purely economic or regional considerations. In view of the almost total dependence of Japan and several West European allies on oil from the Persian Gulf, the question of continued access impacts directly on vital political and security relationships with NATO and Japan. This critical need by our allies for secure oil supplies from the Persian Gulf makes close US ties with major producing countries imperative, denotes the importance of unrestrained passage on seas and waterways throughout the region, and establishes the need to prevent hostile powers from directly or indirectly endangering the flow of oil.

Oil, of course, is not the only reason for the United States to focus attention on the region. Even without the immense energy reserves of the Persian Gulf, the Middle East would be a likely arena for competition between the US and the Soviet Union. From Moscow's perspective, the region is the natural gateway to Africa, the most convenient air and land corridor to the Indian Ocean, and a relatively unprotected approach to NATO's southern flank. US concern for Western oil supplies serves to magnify the inherent importance of these geostrategic realities.

(b) Threats

The principal threats to US interests in the region are political instability, aggression by local powers against friendly states, and direct Soviet intervention. Whether fed by Soviet intrigue or not, instability may lead to revolution and outside aggression, which can create opportunities for increased Soviet influence or direct military action. Events in Iran since the overthrow of the Shah in early 1979 have followed this pattern of internal turmoil leading to revolution and ultimately to local conflict in the form of the Iraq-Iran War, with its attendant threats to the flow of oil and the potential for direct Soviet intervention. Indeed, instability in Kabul was one of the factors

that led to the Soviet invasion of Afghanistan in December 1979.

Causes of instability are rooted in political, social, religious, economic and historical factors whose potential for unrest and revolution vary from state to state. Precedents for orderly changes in political leadership are lacking in some nations, raising the possibility of rapid and unexpected transitions. Frustrated expectations among the masses and emerging new elites also serve to stimulate unrest, and the forces of Islamic resurgence and radical nationalism combine, in some instances, to complicate relations between Western and local governments.

Potential points of conflict, even between Islamic states, abound in the region. Exacerbated by ethnic differences and territorial disputes, tensions between Iraq and Iran have flared into open warfare as those two states continue to compete for regional dominance. Border clashes of varying intensity are likely to persist, with an ever-present risk that Iraqi-Iranian fighting could embroil other regional states or serve as a pretext for Soviet intervention. Meanwhile, the West continues to view the conflict with anxiety about its effect on Persian Gulf oil supplies. Other territorial, political, and economic disputes could also lead to armed confrontation, e.g., between the two Yemens, between Egypt and Libya, or between Ethiopia and Somalia.⁶

(c) United States foreign policy

On 22 October 1981, Nicholas Veliotis, Assistant U.S. Secretary of State, issued the following statement explaining the basis of United States foreign policy in the region:

There is no question that the persistent and successful pursuit of comprehensive and balanced U.S. policy in the Middle East and Persian Gulf is critical:

. to our national security through the preservation of a global strategic balance

which will permit free and independent societies to pursue their aspirations

- . to checking the spread of Soviet influence in this strategic region and, by extension, elsewhere in the world

- . to fulfilling effectively the inescapable responsibility of the United States to work for the resolution of conflicts in the region which threaten international security and the well-being of countries and peoples of the region

- . to assuring the security and welfare of the State of Israel and of other important friendly nations in the region

- . to preservation and fostering our critical interests in access to the region's oil, and

- . to supporting other major economic interests, including:

- access to markets for American goods and services

- cooperation with the wealthier states in the region to maintain a sound international financial order, and

- assisting the orderly economic development of the region.

While the Middle East and Persian Gulf region poses many complexities and many challenges for our foreign policy and our national security policy, and our responses to a variety of tensions, crises, and opportunities must be varied yet internally consistent, there are two central themes of our policy approach.

We seek peace and we seek security for the region, both to promote our own policy and to permit all its peoples to pursue their welfare ...

(3) MILITARY RESPONSES

Since the Soviet invasion of Afghanistan, and since President Carter's State of the Union Address in January 1980, the United

States has altered its military posture to confront possible Soviet threats and deal with regional instability which may interrupt or threaten the free flow of oil from the Gulf. In addition it has commenced to generally increase its military preparedness and, in strategic terms, its 'global reach'.

Because the Gulf is a long way from the United States, close to the Soviet Union, and because developments there could change the strategic balance very quickly, the United States has embarked on a number of military and strategic programs to enable it to deploy forces in the Gulf at very short notice.

In the words of the United States Chiefs of Staff:

Against the backdrop of the global balance of power between the United States and the Soviet Union, US strategy for the Middle East and Indian Ocean must be built around various options for the deployment of general purpose forces, use of security assistance, and contributions from allied and friendly states. Options for the use of US forces range from a permanent maritime presence through preparations for a major conflict involving Soviet forces. In any event, access to local and en route facilities is required to insure force sustainability. Difficult questions regarding priorities for forces already committed to other contingencies also must be addressed. Establishment of the Headquarters, Rapid Deployment Joint Task Force (RDJTF) is a positive response to the need for a force designed for Middle East contingencies.

With respect to relative US and Soviet abilities to project military power in the region, the US operates at a distinct geographic disadvantage. Soviet borders reach within 600 miles of the Persian Gulf, Afghanistan is less than 300 miles north of the Indian Ocean. This gives the Soviets relatively short and secure interior LOC, whereas the Persian Gulf lies at the end of long sea and air routes for US forces. In no other area of the world is there such a high premium on US airlift and sealift

capabilities to sustain the credibility of US military strategy. Peacetime presence of maritime forces in the Indian Ocean signifies US interests, but friend and foe alike will measure the depth of US commitments by a demonstrated capability to respond rapidly and effectively to potential threats in the region and the perceived willingness to respond to these threats. The recent agreements concluded with Kenya, Oman and Somalia for US access to facilities in these countries, combined with the RDJTF concept, represent important first steps in demonstrating this commitment.

In speaking to Congress Defence Secretary, Mr Caspar Weinberger has said that southwest Asia and the Gulf are and will be the fulcrum of contention for the foreseeable future:

Within that future, the Soviet Union will almost certainly become a net energy importer. Thus, coupled with their economic necessity for eventual access to the Gulf oil basin is their long-range objective of denying access to oil by the West, and, short of that goal, increasing the economic and political cost of our access.⁹

Mr Weinberger said the United States cannot deter this Soviet effort 'from 7000 miles away. We have to be there. We have to be there in a credible way ...':

Neither our present strategic doctrine nor present military capability allow for that necessity. Today we are borrowing from strained resources to maintain any presence there at all. Our ability to project force into the region is inadequate and unfortunately dependent on our willingness to reduce our strength on other fronts so as to respond to a major challenge there ... it is for this reason that we must have a presence in the region, and there must be facilities there that we can use to make our presence credible.¹⁰

Mr Weinberger has warned the Soviets that any contemplated action inimical to United States interests in the Gulf area may see a

response in a number of theatres away from the Gulf. In a statement before the United States Senate Armed Services Committee, Mr Weinberger is reported to have said that 'Our deterrent capability in the Gulf is linked with our ability and willingness to shift or widen war to other areas'.¹¹ The strategy of nuclear 'bluff' and a capability of fighting wars on more than one front have appeared in successive United States Department of Defense Annual Reports.

(4) THE RAPID DEPLOYMENT FORCE, PRE-POSITIONING AND FACILITIES AND BASES

The concept of a Rapid Deployment Force has not been welcomed by all the States of the Gulf and the only country to publicly acquiesce in the idea and offer facilities on the ground is Oman.

It is generally acknowledged that for the RDF to be effective, standby operating bases are required for United States aircraft. Furthermore, the advantages would be great if the United States could pre-position armour and equipment on the ground, preferably near oil installations. The exigencies of internal Gulf politics do not permit regional governments to allow this however, for to be seen having too visible a United States presence on the ground in a particular country might invite charges of acquiescence in 'imperialism' and compromise of sovereignty.

Although the conservative Gulf monarchies would prefer to be able to rely on their own resources to protect themselves from enemies within and without, none is capable of confronting the Soviet Union.

Apart from a small naval facility in Bahrain, and air and naval facilities in Oman, the United States has no substantial forward bases in any country on the Gulf littoral.

Saudi Arabia has made it clear that it has no intention of allowing American forces to be stationed at Saudi bases, although

many Saudi air strips are capable of coping with United States aircraft. Saudi Arabia is also of the view that it cannot tell the Soviets to get out of the area while allowing the stationing of United States troops on its own soil. Saudi Arabia's views and fears are shared by the other Gulf monarchies. In the case of Oman the United States is welcome to use defence facilities and American assistance has been sought to construct and extend them. The Sultan of Oman has expressed the view that there should be no permanent American presence.

Plans for getting the greater proportion of oil out of the Gulf other than through the Strait of Hormuz are well under way. An oil pipeline has just been completed which is capable of transporting oil from the fields on the east of Saudi Arabia to Yanbu on the Red Sea. The 1200 kilometers pipeline is at present capable of pumping 1.85 mbpd. Eventually this will reach 2.4 mbpd - more than the oil production of many OPEC states. There are also proposals to expand the pipelines capacity to carry 4 mbpd, which would represent 40 per cent of current total Saudi daily production if it remains constant.

American proposals for naval and air facilities at Ras Banas and Cairo will give it an ability to project power into the Red Sea. In addition, military aid for the Sudan, including the development of Port Sudan, and the French naval base at Djibouti, will give the allies a considerable presence in the area.

This, however, has to be measured against the Soviet naval and air presence in South Yemen, and in particular, its capacity to threaten the Bab al Mandab Strait. The Soviet Union has also a considerable presence in Ethiopia and is negotiating for facilities on the Dahlak Islands in the Red Sea.

Oil pipelines across Syria, Jordan, Turkey and Lebanon would not be secure in the event of hostilities in the Gulf area. In every major Arab/Israeli confrontation oil pipelines have been closed or sabotaged, or Suez Canal traffic has been disrupted.

The United States has therefore secured bases in the general area of the Gulf, and developed a system of maritime prepositioning in order to keep its forces close at hand.

The value of having forces stationed near, if not actually in, the region, have been described by one American writer as follows:

... the fire power and the presence required can be more modest if it is available very early. Soviet power projection forces in the process of moving to the theatre and initiating attack would have many vulnerabilities. They involve complex, highly co-ordinated movements of airlift vehicles, airborne regiments, motorized rifle regiments, and combat aircraft. A cat set among these pigeons while they are taking off, on the way, or as they arrive, could disrupt the attack and give time for a rapid deployment force to bring in reinforcements. The presence of a standing force could so increase the risks to an aggressor as to discourage him from attacking.

The projection of power by the United States into the Gulf area should not be seen in terms of 'who would win a confrontation in the Gulf - the United States or the Soviet Union'? United States projection of power is meant to be seen as a positive and tangible commitment to protect the region from any forces inimical to long term Western interests. Any Soviet aggression would thus risk a confrontation with the United States. This projection of power must also be seen as part of a total strategy vis a vis the Soviet Union to widen a confrontation to other parts of the world.

Lieutenant General P.X. Kelley, USMC, Commander, Rapid Deployment Joint Task Force (RDJTF) said in June 1980:

I think that one of my jobs is to put together this force, with an attitude that we

can do the job and I am convinced that we can. I'm convinced also with the utility of a pre-emptive strategy - and a pre-emptive strategy to me means that we get forces into an area rapidly, irrespective of the size, because once you get a force into an area that is not occupied by the other guy, then you have changed the whole calculus of the crisis, and he must react to you, and you not to him. And that is a significantly different problem, particularly for the Soviets.¹³

And

If you, as an example, put an 82nd Airborne Division battalion, or say a brigade, we could get the lead elements incidentally of a battalion there in something on the magnitude of the order of 48 hours. If you put them in an airfield, we'll say in the vicinity of Abadan in Iran, if you had some indications that the Soviets were going to conduct an airborne assault in that area, it's not the question of the force ratios or the force balance or the force asymmetries, those are the things we get hung up on. It's a question then, and if you can do it in sufficient time so the Soviet commander can bow out gracefully, then you've caused a significant problem for him. It's just not a simple air-landed movement into an airfield. It then involves a direct military confrontation with the United States, irrespective of the size.¹⁴

(a) The Rapid Deployment Force

The major new development in United States military planning and capability in the wake of increased tensions in the Gulf region has been the creation of a Rapid Deployment Force (RDF).

Lieutenant General P.X. Kelley has explained the purpose of the RDF as follows:

There are numerous ongoing and projected DOD actions designed to improve our power projection capability. The RDF concept is but one of those actions.

The intent is to provide a capability for deploying force packages of varying size and structure to any region in the world. This is not a separate or discrete category of forces of a fixed size, i.e. 50,000 or 100,000-man force. Rather, the concept is to have a central "reservoir" composed primarily of CONUS-based units from which forces can be drawn to deal with a specific contingency. The size of the force selected will depend on what is determined to be required. A force will be developed capable of responding to situations ranging from those requiring minimum application of force to situations where mid-intensity combat can be expected upon arrival in the objective area. One could also draw a building block analogy. Phased deployments initiated with small, show-the-flag forces could be built on by another larger force with a greater capability.¹⁵

And

What we are trying to improve and enhance is the capability to deploy adequate forces rapidly. One enhancement is the RDF building block concept and establishment of the RDJTF Headquarters. Other enhancements include equipment improvements, obtaining access and basing rights and long-range procurements; for example, the maritime pre-positioning efforts - programmed in FY 1981 for \$274 million - and not scheduled to be operational until 1983. Perhaps that is where the misconception has been derived from. So we've had rapid deployment forces and we've had a capability to deploy and employ those forces.¹⁶

And

What has happened over the years is that our potential adversaries have been increasing their military capability significantly. For example, in the Middle East region some nations have increased their armor and artillery forces by 300 per cent since 1972. This means that we have to, quickly, enhance our capability to project heavier forces into regions because our traditional light forces may not be capable of dealing with a large armor or mechanized threat.

We have identified constraints and are implementing or proposing improvements. For example:

- The establishment of the RDJTF Headquarters to plan for and execute worldwide contingencies.

- Overcome mobility constraints, in the near term, by utilizing warning to begin moving before hostilities are initiated; for example, to close naval and amphibious forces and to stage air and ground units as close to the scene of crisis as feasible.

In the longer timeframe, the RDJTF will benefit from such programs as:

- Increased KC-10 buy (support airlift and deployment of tac air).

- Maritime pre-positioning ships (14 in Five-year Defense Plan). This will allow us to predeploy equipment and supplies for up to three USMC brigades in areas such as the Persian Gulf.

- C-X Program. Will add significant increment to strategic airlift (out-size equipment). This program is in addition to the C-141 stretch, C-5 service life extension and continued improvements to CRAF.

There is no question but that our current constraints produce risks. Reducing those risks will require a concerted effort from all of us.

(b) Forward bases and facilities, mobility and maritime pre-positioning

During 1980 the United States took a number of steps to improve its military capability in south west Asia. Aside from the development of the RDF, and in addition to the two aircraft battle groups sent to the Indian Ocean, the United States deployed other ships and aircraft to the area, as well as a marine amphibious unit and pre-positioned cargo and tanker ships anchored at Diego Garcia. AWACS aircraft were deployed in Saudi

Arabia. United States forces are periodically sent to the region for purposes of training and demonstration. The United States has concluded agreements for use of support facilities in Oman, Somalia and Kenya. Improvements on Diego Garcia are proceeding to enable the basing of ships and landing and refuelling facilities for bombers and reconnaissance aircraft, including B52s.¹⁸ The United States Department of Defense has also proposed significant improvement in its capacity to move men and materiel to the Gulf region by air and sea. The ultimate capability and number of ships and aircraft to provide it have not yet been finalised.

A Maritime Prepositioning programme

... will provide the capability to preposition aboard ships the combat unit equipment and supplies needed to support specially organised Marine Amphibious Brigades (MABs) ... the MPS programme complements existing strategic mobility capability and offers potential for a rapid reinforcement of established forces ashore, thereby¹⁹ reducing reliance on strategic airlift.

SEALIFT, AIRLIFT AND MOBILITY

Although the size and shape of the United States capacity in respect of ships and aircraft has not been finally decided, the Department of Defense has made its requirements known to Congress.

This will involve large numbers of cargo aircraft and new roll on roll off (RO/RO) fast cargo ships in addition to some 130 000 tons of equipment which will be pre-positioned in the area,²⁰ some at Diego Garcia.

EGYPT

Army and air force facilities are to be upgraded and built at Ras Banas opposite the important new Saudi oil terminal at Yanbu on

the Red Sea.²¹ At present Ras Banas has two small fighter type runways.

The United States held joint exercises with Egyptian forces at Cairo West Airport during 1980, and in November and December 1981 as part of Operation 'Bright Star 82'. Operation Bright Star 82 involved about 1800 men from the United States Army and Air Force. They and their equipment were airlifted to Egypt by Galaxy C-5 and C-141 transports. Dean Fischer, a Department of State spokesman, announced on 2 November 1981 that:

The United States [had] agreed separately with Egypt, the Sudan, Somalia and Oman to hold a co-ordinated exercise in the South West Asia region beginning next week and running through mid December this year.

The exercise will be known as Bright Star 82 and will be coordinated with each host nation by elements of the army and air force deploying from the United States and Navy and marine²² corps units operating the Indian Ocean.

In 1981, the United States was considering the use of two major airfields operated by Israel in the Sinai at Eitam, south of El Arish and Etzion, near Elat, when Israel vacated them.²³ Egypt may not allow permanent United States bases on its soil however.

OMAN

The United States has secured access to airfields in Oman including Seeb International Airport at Muscat and a runway on Masirah Island, which will be upgraded. Masirah was once a RAF staging post on the Aden to India run. At a cost of \$US95m the runway is being made suitable for landing C-130 transport aircraft. Once the work is finished there will be no American presence save for a small maintenance force.²⁴ Port and other air facilities will also be available.²⁵

SOMALIA

The former Soviet naval port at Berbera is now available to the United States. Port facilities will also be available at Mogadishu. Somalia has also agreed to allow its airstrips to be used. These will be upgraded by the United States.²⁶

KENYA

Kenya will grant the United States increased use of the deep water port of Mombasa where naval vessels already call, and facilities at Nairobi's Embakasi International Airport and Nanyuki Military Airfield, further north.

DIEGO GARCIA

Facilities are being enhanced at Diego Garcia 4000 kilometers southeast of the Gulf to assist pre-positioning ships, storage of RDF equipment and materiel.²⁷

The Rapid Deployment Force now has seven maritime pre-positioning ships, on station in the Indian Ocean, with some docked at Diego Garcia.

The 3.6 km long runway at Diego Garcia is capable of handling C-5 transports and B52G bombers, although continuous use by the latter is not possible at present.²⁸ The runway facilities are being enhanced:

... the current construction of the airstrip indicates a diversification of strategic role for Diego Garcia in the context of air power. Before the recent surge of interest in rapid deployment, the air roles of the island were confined to the staging of ASW ocean surveillance aircraft (P-3 Orion aircraft on stop-over, either from USAF Clark Field, Philippines, or from RAAF stations in west Australia) and to air transport (C-141

Starlifters on twice weekly mission from Subic Bay ...²⁹

Plans to project power in the Gulf area include the bringing into service between 1983 and 1987 of 14 maritime pre-positioning ships, capable of carrying supplies for up to three marine corps brigades, which it is proposed to position permanently in place aboardship near the Gulf. These will be supported by port facilities at Diego Garcia and Mombasa. In addition 'the communications complex has been recently enhanced electronically and is locked into the world-wide Defence Communications Network system to monitor, process and forward military traffic information resulting from intensified ocean surveillance and satellite tracking'.³⁰

(5) SOME STRATEGIC CONSEQUENCES FOR AUSTRALIA

Diego Garcia provides the most tangible link between United States military projection into the Gulf, and the use by the United States of facilities on Australian soil.

B-52s based in Diego Garcia could strike at the origins of a Soviet attack in south Russia or at the destinations in the upper Gulf in a matter of hours. They could carry large payloads adapted to the purpose. Diego Garcia is about 3,250 miles from Yerevan in the Transcaucasus and about 2,980 miles from Nebit Dag in the Transcaspian, about 2,660 miles from Abadan and 2,400 from Dhahran.³¹

B-52 bombers have been given transit rights at Darwin airport to enable them to fly from Guam to Diego Garcia.

The RDF will comprise a number of different components of the United States armed forces, and will be drawn from units stationed near the area, in Europe, and in the United States itself. It will also comprise land-based and sea-based forces at the ready, and it is probable that Australia will be involved, perhaps only as a staging post, if the RDF, or components of and

air cover for it, are ever rushed to the Gulf in a westerly direction from the United States.

The possibility of establishing a westward route to the region has been mentioned by General Ellis of the Strategic Air Command, who said in testimony before the United States House of Representatives Committee on Armed Services that 'combat missions could be launched from Andersen [Airbase in California] to the Middle East'.³² General Ellis said this could be done 'if the need arises, although the distances involved are incredibly long', adding 'this points to the critical near-term need for operating bases closer to the Persian Gulf area to support both tactical and bomber forces. Standby operation bases in Northeastern Africa, Sinai, Turkey, or Saudi Arabia could be developed to accept United States combat aircraft. Air operations from these bases could also support the rapid deployment ground forces program now being developed. These forward bases are essential if the United States is to effectively insert a military presence in the Middle East or Persian Gulf area.'³³

Although the United States has apparently declined the use of Cockburn Sound for home basing of ships, Perth and other Australian ports figure in United States perceptions of what naval facilities are available to it in the Indian Ocean.

(6) SOME PROBLEMS AND POSSIBLE REPERCUSSIONS

(a) Allied reluctance

The ability of the United States to project military power into the area has required it to draw upon resources formerly stationed in the Pacific, Europe and the Mediterranean. To enable this to be done without diminishing the allied capability of containing the Soviet Union in Europe and Asia, would require, according to United States calculations, the need for NATO countries and Japan to increase their defence expenditures. This

they have been loath to do despite arguments such as the following:

... a "small" war in the Persian Gulf might be compared to a big war in the centre of Europe only in the sense that it would engage fewer forces in battle. The stakes in such a small war could be very large - no less than the cohesion of the alliance itself. Major U.S. allies in Western Europe and in north-east Asia vary in their dependence on oil from the Gulf, but their dependency is very great. It is so great that it makes little sense to ask whether an attack on the Gulf is less important than an attack on the European centre. An attack on the Gulf would amount to an indirect attack on the centre.³⁴

The failure to persuade NATO powers and Japan to assist the United States to protect Western interests in the Gulf may have ramifications for the will of the United States public to support its Government's commitment to the Gulf:

... a division of labour in which only Americans provide the extra-regional forces to do the fighting in the Gulf - where Europeans and Japanese have much larger and more direct interests - is unlikely to be accepted by the American public.³⁵

The Congressional debate and continuing restriction applied by Congress on the sale of AWACS to Saudi Arabia has highlighted the difficulties the Presidential administration has in dealing with its allies in the Arab world.

The urgency with which Saudi Arabia required the AWACS was heightened as fears grew during early 1981 that Iran would seek to widen its war with Iraq to other Arab Gulf states. Kuwait's oil installations were bombed by Iranians during 1981. According to Kuwaiti defence officials, this would not have been possible had AWACS been in place, as Kuwaiti air defences would have had sufficient warning of imminent Iranian air raids.

Saudi Arabia suffered what it perceived as a humiliation at the hands of those in the United States who opposed the sale. This perception continues as the President is now required, as part of the procedure whereby Congress approved the sale, to report regularly to Congress on the operation and use of the AWACS by Saudi Arabia. The Congressional debate and lobbying done to prevent the AWACS sale impaired the ability of the United States Administration to prosecute consistent and credible policy in the region.

(b) The possibility of nuclear war

American policy makers have said in the past that they want to be able to protect critical alliance interests that are endangered by a non-nuclear attack on the periphery by meeting such an attack on its own level - that is, without resort to nuclear weapons or by bluff to use nuclear weapons.³⁶ In July 1979, however, the concept of limited nuclear war was endorsed by the Carter Administration.

In its 1981 Report on Threats to Australia's Security: Their nature and probability, the Joint Committee observed that:

The greatest danger that could arise from "peripheral" disturbances, in the superpower relationship is that they might not remain peripheral. Major powers have frequently been drawn into wars which they had not sought. For example, the doctrine of "limited nuclear war" endorsed in President Carter's Presidential Directive No. 59 of 25 July 1979, carries this danger. Under such circumstances, there is the danger that a local dispute in, for example, the Middle East or in any of the other areas of tension, could quickly escalate into a general United States-Soviet war. This was stated in testimony before the United States [House of Representatives] Armed Services Committee in January 1980, when the Commander of the Strategic Air Command, General R.H. Ellis, said that so-called "limited and regional

nuclear options³⁷ could be used in response to Soviet conventional military activity in the Middle East-Persian Gulf region.³⁸

The development of the neutron bomb has added another dimension to the possibility of nuclear war in the Gulf. One commentator has noted:

An obvious potential use (for neutron-bombs) would be the destruction of an invading troop force in Middle Eastern oil fields without destroying the fields themselves or nearby refineries.³⁹

Another nuclear dimension was introduced by Israel's bombing of Iraq's nuclear reactor in June 1981. Israel itself is thought by many to have a nuclear weapons stockpile, or at least be capable of putting nuclear weapons together in a very short time.

Pakistan is preparing to explode a nuclear device. Libya has a 440 megawatt research reactor, and while Libya is not capable of producing a nuclear device in the near future, it is thought to be financing Pakistan's effort. India exploded its first nuclear device in 1974.

Neither India, Pakistan nor Israel has signed the Nuclear Non-Proliferation Treaty. Israel is the only country in the Middle East capable of producing nuclear weapons in the foreseeable future which has not signed the treaty. On the other hand Iraq and Iran are the only countries on the Gulf littoral to have signed the Treaty.

Israel's attack on Iraq's research reactor in June 1981 was a pre-emptive strike by conventional means on a facility perceived by the Israelis as ultimately capable of leading to the production of nuclear weapons. The strike can also be seen as a move to secure nuclear advantage.

The likelihood of this happening was foreseen by the Committee in its Report of 1977, viz.:

As Middle Eastern powers begin to possess nuclear weapons it is probable that the most critical period will come when one side, realizing that the other is about to perfect a nuclear weapon, is tempted to pre-empt such a situation with what is euphemistically called a "surgical strike" against at least the source of potential nuclear capacity.

(c) The Indian Ocean as a zone of peace

With Soviet troops in Afghanistan and United States proposals for an RDF and the improvement of air and naval facilities in Diego Garcia, there is little likelihood of the Indian Ocean being proclaimed as a zone of peace, despite the majority wish of the 46 member States of the United Nations who are members of the discussion group on the topic.

With the Soviet Union in occupation of Afghanistan, with land access to the Gulf, and south and south west Asia, albeit over difficult terrain, the United States is unlikely to agree to withdraw its substantial naval presence.

Historically United States' power has been based on its maritime forces and Soviet power on its land forces. It is therefore easy to understand that the United States should insist on balancing its naval forces in the Indian Ocean not only with the Soviet naval presence, but also the forward position of the Soviet military position in Afghanistan and along the Iranian border.

It is worth noting also that, had the United States and the Soviet Union agreed to a 'super power free' Indian Ocean, the United States would not have been able to respond to the crisis in Iran nor the Soviet invasion of Afghanistan by moving carrier task forces into the Ocean.

One advantage the United States has over the Soviet Union in general military terms is the support it can expect from the

navies of allied powers. None of the Soviet bloc countries apart from the Soviet Union has a significant navy. The Western European countries can provide considerable support for the United States at sea.

The French keep a force of 10-12 warships sailing out of Djibouti, Mayotte and Reunion, and although at present there appears to be little co-ordination between French and other allied naval deployments, it can be assumed that the Soviets would not be able to ignore them if there is an East-West confrontation in the region. The French also send other naval forces into the Indian Ocean from time to time according to perceived requirements and tensions on the littoral.⁴¹

In addition the British maintain two warships and two supply ships in the Northwest Quadrant on a permanent basis, and this force is complemented in times of tension.⁴²

Other European powers send ships to the Indian Ocean including the Northwest Quadrant, from time to time, including the Italians, the Dutch and the West Germans.

Together, the Western naval potential is capable of providing a more than credible challenge to the Soviets at sea, especially given the difficulty the Soviet navy would have in putting to sea in a time of crisis, because of its lack of warm water ports and the numerous chokepoints through which its ships have to pass to leave the Soviet Union itself.

(7) CONCLUSION

The Gulf is about 11 500 kilometers from the United States and about 960 kilometers from the Soviet Union. The United States has designated 97 700 army and marine corps troops for the RDF, including support units for one airborne division and logistic support for three marine brigades, although the upper figure for

RDF manpower is theoretically open ended. The Soviet Union has nine divisions of 80 to 90 000 men on Iran's northern border and a total of 23 mechanised divisions of about 200 000 troops in the Caucasus, Transcaucasus and Turkmenistan military districts, with attendant air power. The United States has one airborne division and one air assault division of 33 200 troops. The Soviet Union has seven airborne divisions of 49 000 troops. 'The Wolfowitz Report estimates that the United States could place 20 000 troops in Iran in 30 days and that the Soviet Union in the same period could get 100 000 or more there'.⁴³

The Soviet Union has a considerable strategic advantage over the United States because of its proximity to the Gulf. Its self-sufficiency in oil also enables it not to have the same preoccupation with a breakdown of oil production through internal political and military turmoil as does the United States.

The United States would prefer to be able to station men and materiel on the ground in or adjacent to the Gulf to protect against threats to Western interests, including hostile regional forces. Because of the reticence of Gulf countries to have too visible a United States presence, United States forces have largely to be stationed 'over the horizon', and large arms transfers are made to friendly governments.

This last policy has been called a 'gamble' by The New York Times, 'not just because the weapons might one day fall into the wrong hands. There is a danger that both governments will repeat the errors made in Iran and mistake defence for domestic security' adding that 'Americans ... should never again encourage the delusion that modern weapons can ward off coups by colonels or revolutions in Mosques'.⁴⁴

A much quoted study carried out by the United States Congressional Research Service for the House of Representatives Committee on International Relations in 1975 in the wake of oil

embargoes, entitled Oil Fields as Military Objectives: A Feasibility Study,⁴⁵ estimated that successful operations would be assured only if the United States could satisfy all aspects of a five part mission:

- . seize required oil installations
- . secure them for weeks, months or years
- . restore wrecked assets rapidly
- . operate all assets without owners' assistance
- . guarantee safe overseas passage for supplies and petroleum products.

The study concluded that military operations to rescue the United States (much less its key allies) from an oil embargo would combine high costs with high risks.

Gulf oil production is spread across thousands of kilometers of desert and coastline. Each national complex contains a mass of installations: wells, gas-oil separator stations, stabiliser plants, gas and water injection plants, pipelines, pumping stations, tank farms, refineries, power plants and port facilities. Saudi Arabia has over 800 wells connected by in excess of 4000 kilometres of pipe. A perimeter around the principal fields would encompass 25 000 square kilometers.

If the objective were to be seizure of the oil fields, the problems associated with securing them before sabotage, and holding them against attack, would be immense. Having decided to take the fields by force, failure to do so would produce the collapse of the Western economy. The United States has, however, since the Second World War regarded the presence of American military force in an area of vital importance as an essential aid

to diplomacy. In explaining, for example, the deployment of American carrier task forces to the Indian ocean during the 1973-74 oil embargo, Seymour Wiess, then Director of the State Department's Bureau of Politico-Military Affairs, told a Congressional Committee:

... We have been able to play a vital intermediary role precisely because we are a regional power with forces of our own in both the Mediterranean and the Indian Ocean and maintain a continuing political and security dialogue with many of the parties involved.⁴⁶

With Western economic stability so dependent on oil supplies, it is to be expected that despite the risks outlined the United States will continue its practice in the region of keeping armed force on hand as a diplomatic tool in an area of vital interest.

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41. See 'Defending the Gulf - A Survey', The Economist, 6 June 1981.

42. The Economist, 6 June 1981.

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by order of the Committee,

R.F. SHIPTON, M.P.
Chairman

29 April 1982

Appendix A - Countries on the Gulf littoral - some facts and figures

Please Note: Oil production figures are the latest available. OPEC production quotas introduced in March 1982 will see a reduction in the figures for each country if the quotas are adhered to.

BAHRAIN

Capital: Manama

Area: 669.3 sq km

Borders: Bahrain consists of an archipelago of 33 islands on the western side of the Gulf between Saudi Arabia and Qatar. A causeway linking Bahrain to Saudi Arabia is expected to be completed by 1984.

Population and Languages: 364 082 (January 1980 estimate) of whom about 228 733 are Bahrainis. About 80 per cent are thought to be of Arab ethnic origin and 20 per cent Iranian.

Religion: The population is estimated to consist of between 45 and 50 per cent Sunni Muslims and between 50 and 55 per cent Shia Muslim.

Government: Amirate. A 108 article constitution was ratified in June 1973, and provided for a National Assembly to comprise members of the Cabinet and 30 members elected by popular vote. Elections took place in December 1973 when 30 000 electors elected 30 members. The National Assembly was dissolved in August 1975. The ruling family are Sunni Muslims.

Crude Oil Production: 50 000 barrels per day (bpd) for the first half of 1981.

Armed Forces: Negligible.

Australia's Diplomatic and Trade Representation: Australia maintains a Consulate-General and Trade Commission in Manama.

Trade with Australia: Australia's exports to Bahrain amounted to \$56.2 million in 1980-81. The major component of this figure was inorganic chemicals (includes alumina) (\$24.8 million). Other significant items were live sheep (\$5.8 million), wheat (\$5.1 million), cement and construction materials (\$6.7 million), beef and veal (\$2.1 million).

Bahrain provides significant quantities of petroleum products to Australia. Petroleum imports from Bahrain were valued at \$109.8 million in 1980-81.

Recent and planned expansion of the ALBA aluminium smelter's capacity should ensure larger long term sales of Australian alumina and pitch.

Good prospects for increased foodstuffs exports exist within the limits of a small population. Some prospects also exist for a range of manufactured goods, for example, leisure goods and household appliances.

With the growth in Bahrain's importance as an industrial and servicing centre for the Gulf there are also emerging opportunities for joint venture arrangements.

IRAN

Capital: Tehran

Area: 1 648 000 sq km

Borders: Caspian Sea and the Transcaucasian and Turkistan territories of the Soviet Union to the north, Afghanistan and Pakistan to the east, the Gulf and the Gulf of Oman to the south, Iraq and Turkey to the west.

Population and Languages: 37 694 900 (1980 estimate). A mixture of many ethnic groups - Irano-Afghan, Turki, Kurdish, Bakhtiari, Qashgai, Baluchi and Hindu - many of whom speak their own language. Persian, the official language is an Indo-Aryan one which is spoken in the north and central areas, and is related to Western European languages.

Religion: Predominantly Muslim, Islam being the official religion. Most Persians and Azerbaizhanis are Shia. The Kurds, Turkomans and Baluch are mainly Sunni. Christianity, Judaism and Zoroastrianism are also officially recognised. There are also a number of Baha'is whose religion is not officially recognised and against whom there have been sporadic outbreaks of violence over the years.

Government: Islamic Republic. The Constitution provides for a popularly elected President and Islamic Consultative Assembly (Majlis). All legislation passed by the Majlis must be vetted by the Council for the Protection of the Constitution, which ensures that it is in accordance with the Constitution and Islam. The Constitution also provides for a velayat faghhih (religious leader) who, in the absence of the Imam Mehdi (the hidden twelfth Imam) carries the burden of leadership. The first faghhih has the right to vet all candidates for Presidential Office, and to dismiss a President on the basis of a Supreme Court decision or a vote of no confidence by the Islamic Consultative Assembly.

Crude Oil Production: Net production 4 252 000 barrels per day (bpd) (1978/79); total production dropped to an average of 1 million bpd in 1981. Internal Iranian consumption is estimated to be 600 000 bpd.

Armed Forces: 200 000, plus reservists and para military forces, as at commencement of hostilities with Iraq. Since the commencement of hostilities these forces have been supplemented by volunteer Revolutionary Guards.

Australia's Diplomatic and Trade Representation: Australia maintains an Embassy in Tehran. The Trade Commissioner in Tehran, which was withdrawn in early 1980 against the background of the detention in Iran of US hostages, is now re-established.

Trade with Australia: Australia's exports to Iran in 1980-81 stood at \$196.5 million compared with \$251 million in 1979-80. The decrease in exports was due in the main to significant shipping problems caused by the Iran/Iraq conflict and declining Iranian foreign exchange reserves.

Australian imports from Iran amounted to \$33.4 million in 1980-81 and consisted mainly of refined petroleum products (\$22.8 million).

In May 1980, the Australian Government together with Canada, Japan and most Western European nations (following earlier action by the US), applied an embargo on non-food exports to Iran due to the continuing detention of US hostages in Iran. Following the release of the hostages the embargo was lifted in January 1981.

The longer term prospects for exports to Iran of foodstuffs and a range of raw materials and manufactured products are considered good. However, the extent to which these prospects can be translated into actual sales will largely be determined by the state of relations between Iran and Iraq, the state of shipping to and port facilities in Iran, and Iran's foreign exchange situation.

An immediate problem which could affect sales of Australian products to Iran in the short term is the situation brought about by the considerable depletion in Iran's foreign exchange reserves since the revolution. Heavy expenditure on the war effort, together with a sustained slump in oil exports and the maintenance of a high pricing policy in a world oversupply situation have been major factors influencing the foreign exchange reserves position.

IRAQ

Capital: Baghdad

Area: 434 924 sq km (excluding Neutral Zone between Iraq and Saudi Arabia).

Borders: Turkey to the north, Iran to the east, Kuwait to the south, to the south-west Saudi Arabia and Jordan, and Syria to the north-west.

Population and Languages: 12 029 700 (1977). A mixture of many ethnic groups - Turki, Persian, proto-Nordic, Armenoid and Mediterranean. Arabic is the official language and is spoken by 79 per cent of the population, 16 per cent speak Kurdish, 3 per cent speak Persian, 2 per cent speak Turkish.

Religions: Over 95 per cent Muslim, approximately 50 per cent being Shia and 50 per cent Sunni. Some Christians, principally Chaldeans (475 000), and a small number of Jews, Sabeans and Yazidis.

Government: Republic. The highest authority is the Revolutionary Command Council (RCC). Since September 1977 the membership of the RCC and the Iraqi Command of the Arab Ba'ath Socialist Party have been identical. The Constitution provides for a President, a National Assembly and a Kurdish Legislative Council.

Crude Oil Production: 1 200 000 barrels per day (bpd) (First quarter of 1982).

Armed Forces (July 1980): 242 250: army 200 000; air force 38 000; navy 4250. These forces were supplemented by 250 000 strong uniformed volunteer force on the outbreak of war with Iran.

Australia's Diplomatic and Trade Representation: Australia maintains an Embassy and a Trade Commission in Baghdad.

Trade with Australia: Australian exports to Iraq in 1979-80 were valued at \$226 million, representing an increase of 242% over 1978-79 (\$93.3 million). Agricultural items were predominant with wheat the main item (79%) followed by meat and tallow. There were, however, also indications of a diversification of exports with sales of manufactured products continuing to expand.

Australian exports to Iraq in 1980-81 showed a considerable decline over the 1979-80 figure to \$59 million as a result of the Iran-Iraq hostilities and the consequent closure of the major Iraqi ports of Basra and Umm Qasr. Nevertheless, the 1980-81 export figure is considerably understated as it does not include exports (particularly wheat) to Iraq, which are being transhipped via the ports of Dubai, Kuwait and Aqaba.

Exports to Iraq in the five months period July-November 1981 amounted to \$62 million, indicating that exports are again increasing after the initial period of hostilities.

Imports from Iraq were \$150.6 million for 1979-80 with petroleum representing 88% of the total imports. During the same period Iraq supplied some 6% of total Australian oil imports. However, during 1980-81, imports from Iraq declined to \$95 million and during the five months period July-November 1981 declined further to \$459 000 (consisting of dates) reflecting the cessation of crude oil imports from Iraq during the period of hostilities with Iran.

Agriculture and industrial development have high priority in Iraq's development plans and the Australian presence is now well established in the agricultural sector. Both the Western and South Australian Governments have an ongoing agricultural project in Iraq for the application of Australian dryland farming techniques to cereals, pasture and livestock production.

Despite the current state of hostilities between Iran and Iraq, the prospects for increased Australian exports to Iraq are favourable, as Iraq continues to have a requirement for imported foodstuffs and continues to press ahead with planned development which is opening up opportunities for Australia in the areas of industrial raw materials, manufactured products and consultancy.

As is the case with respect to trade with Iran, however, the state of relations between Iran and Iraq will be a factor in determining the extent to which prospects are translated into actual sales.

KUWAIT

Capital: Kuwait City.

Area: 17 818 sq km, including the Kuwaiti share of the Partitioned Zone (5700 sq km).

Borders: Saudi Arabia to the south west, Iraq to the north west, and the Gulf to the east.

Population and Languages: 1 355 827 (April 1980 census, preliminary figures). 565 065 Kuwaitis, 793 762 non Kuwaitis. Arabic is the official language.

Religions: Mainly Sunni Muslims. The Shia comprise between 15 and 20 per cent of the total.

Government: Amirate. The Constitution provides for a Head of State (Amir of Kuwait) and a National Assembly. Executive power is exercised by the Amir through a Council of Ministers.

Oil Production: 800 000 barrels per day (bpd) (1981).

Armed Forces: 12 400: 10 000 army; 1900 air force; coastguard 500; and Para military forces 15 000 (July 1980).

Australia's Diplomatic and Trade Representation: Australia's Ambassador to Kuwait is resident in Saudi Arabia, and an Embassy is maintained in Kuwait by a Charge d'Affaires. There is a Trade Commissioner in Kuwait.

Trade with Australia: Australian exports to Kuwait in 1980-81 were valued at \$182.5 million compared to \$97.2 million in 1979-80. Major exports were wheat (\$102.7 million), livesheep (\$45.4 million), beef and veal (\$6.6 million), mutton and lamb (\$7.8 million) and manufactured products (\$4.7 million).

Kuwait supplied Australia with petroleum and petroleum products valued at \$350.8 million which were Australia's only imports from Kuwait.

Wheat was the largest export item in 1980-81, increasing by some \$80 million over the previous year. However a considerable portion of the increased amount was transhipped overland to Iraq due to the cessation of shipping to Iraqi ports.

A major feature of the overall trade with Kuwait is the livesheep trade. The value of livesheep exports has risen from \$38.8 million in 1979-80 to \$45.4 million in 1980-81.

Foodstuffs and agricultural products generally have good prospects for export growth in the coming years. Australia should also achieve greater penetration of the market for manufactured products in the 1980s.

OMAN

Capital: Muscat.

Area: Approximately 300 000 sq km (including a detached piece of territory on the Gulf, bordered by the UAE).

Borders: Oman lies on the east of the Arabian Peninsula with South Yemen to the south-west and Saudi Arabia to the west; the UAE to the north and west and occupies a strategic position on the Strait of Hormuz.

Population: 850 000 (1978 estimate) including small communities of Iranians, Pakistanis, East Africans and Indians.

Religions: The majority of Oman's Muslims are of the Ibadhi sect, and approximately 25 per cent Sunnis.

Government: Sultanate. The Sultan is Head of State, Premier and Minister for Foreign Affairs, Defence and Finance and assisted by a Cabinet.

Crude Oil Production: 310 000 barrels per day (bpd) for the first half of 1981.

Armed Forces: July 1980 - 14 200: Army 11 500, Navy 900, Air Force 1800. Includes overseas nationals including British officers and Pakistanis. Tribal Home Guard: 3300.

Australia's Diplomatic and Trade Representation: Australia's Ambassador to Oman is resident in Jeddah, Saudi Arabia. The Trade Commissioner in Abu Dhabi (UAE) covers Oman.

Trade with Australia: Australia's exports to Oman were valued at \$25.8 million in 1980-81 compared to \$22.6 million in 1979-80. Major components of this trade were wheat (\$8.1 million), mutton and lamb (\$5.3 million), and butter (\$1.1 million), and manufactured products (\$3.2 million).

In 1980-81 there were no recorded imports from Oman. The last recorded imports were in 1975-76 when crude oil valued at \$10.4 million was imported.

Although Oman is one of the less oil-wealthy countries of the Gulf prospects nevertheless exist for moderate increases in Australian exports of processed and unprocessed foodstuffs, medical and educational supplies and light machinery.

QATAR

Capital: Doha

Area: 11 400 sq km.

Borders: Qatar is a peninsula on the west coast of the Gulf, bordering on Saudi Arabia.

Population: 250 000 (1980 estimate), largely composed of immigrants. Only 40 000 (1978 estimate) are native Qataris.

Religions: Indigenous population mainly Sunni Muslim of the Wahhabi sect.

Government: Amirate. The Amir is Head of State and Prime Minister. A provisional constitution has been introduced providing for a Council of Ministers, assisted by an Advisory Council.

Oil Production: 436 000 barrels per day (bpd) for the first half of 1981.

Armed Forces: 4700: army 4000; navy 400; air force 300

Australia's Diplomatic and Trade Representation: Australia's Ambassador to Qatar is resident in Jeddah, Saudi Arabia. The Trade Commission in Bahrain also takes responsibility for Qatar.

Trade with Australia: Australia's exports to Qatar in 1980-81 were valued at \$15.8 million, a \$0.27 million decrease over the previous year's figure. The major components of Australia's exports were 'livesheep' (\$6.6 million), wheat (\$3.9 million), ferro alloys (\$1.5 million) and beef and veal (\$0.8 million).

Australia's imports from Qatar in 1980-81 were valued at \$0.23 million consisting entirely of low density polyethylene. This compared with imports of \$26.4 million in 1979-80, the chief item being petroleum and petroleum products valued at \$26.3 million.

Qatar offers opportunities for Australian exports of foodstuffs and consultancy services in such areas as hospital management and medical services.

SAUDI ARABIA

Capital: Jeddah (administrative capital). Riyadh is the Royal capital.

Area: 2 149 690 sq km, covering four-fifths of the Arabian Peninsula.

Borders: Jordan, Iraq and Kuwait in the north; UAE, Oman and the Yemen in the south; and Qatar in the east; delimited on two sides by sea - the Gulf and the Red Sea.

Population and Languages: Estimated at 8.112 million (UN estimate mid 1979). Includes a large number of nomads, and immigrant labour force of between 1.5 and 2 million (although the last official estimate put it at only 400 000). The native population is of Mediterranean and Armenoid descent. Arabic is the only language of Arabia. Unlike many other parts of the Middle East, European languages are not widely spoken.

Religions: Overwhelmingly Sunni Muslim, the majority of whom belong to the Wahhabi sect. No native communities of Christians or Jews.

Government: Monarchy. Effective power vested in the King, the Crown Prince and the Council of Ministers.

Oil Production: 8 200 000 barrels per day (bpd) (First quarter of 1982).

Armed Forces: July 1980: 47 000: army 31 000; navy 1500; air Force 14 500. Para military forces 20 000 (National Guard) and 6500 Frontier Force and Coastguard.

Australia's Diplomatic and Trade Representation: Australia maintains an Embassy and Trade Commission in Jeddah. Australian interests in project and consultancy work in Saudi Arabia are handled by a Trade Commission office in Riyadh.

Trade with Australia: Australian exports to Saudi Arabia totalled \$276.3 million in 1980-81 compared with \$219 million in 1979-80. Agricultural products (meat, livestock, wheat, barley and dairy products) constitute the greater part of Australia's current exports to Saudi Arabia.

Imports from Saudi Arabia were valued at \$1032 million and consisted wholly of petroleum and petroleum products. Saudi Arabia is Australia's largest source of supply of these products.

It is likely that agricultural products will continue to provide the bulk of Australian exports to Saudi Arabia but, in line with the large scale economic and industrial development taking place in Saudi Arabia, Australia has an increasing interest in diversifying its exports to encompass a wide range of goods and

services. Large scale industrial development programmes such as those underway at Jubail and Yanbu are creating a demand for a wide range of raw materials. In addition, there has been a growing interest on the part of Saudi Arabia in Australian technology, particularly in agriculture, hospital management, meteorology and environmental protection and minerals exploration and exploitation.

UNITED ARAB EMIRATES

Capital: Abu Dhabi.

Area: 82 880 sq km.

Borders: The United Arab Emirates (UAE) consists of seven sovereign states: Abu Dhabi, Ajman, Dubai, Ras al-Khaimah, Umm Al-Quwain, Fujairah and Sharjah. Their territories stretch from the frontier of the Sultanate of Oman along south eastern Saudi Arabia, to Qatar.

Population and Language: 1 040 275 (1980 census) and growing rapidly. More than three-quarters of the population are immigrants: Iranians, Indians, Pakistanis, Baluchis. Arabic is the official language.

Religions: Mainly Sunni. Shia Muslims account for approximately 20 per cent of the population.

Government: Federation comprising the seven Emirates: Abu Dhabi, Dubai, Sharjah, Ras al-Khamah, Umm al-Quwain, Ajman, Fujairah. The provisional constitution provides for a President, Vice-President, Prime Minister and a Cabinet. The Federal National Council comprises 40 members representing the seven Emirates. The highest Federal authority is the Supreme Council, which comprises the rulers of the seven Emirates.

Oil Production: 1 540 000 barrels per day for the first half of 1981.

Armed Forces: July 1980: 25 150: Army 23 500; Navy 900; Air Force 750.

Australia's Diplomatic and Trade Representation: Australia's Ambassador to the United Arab Emirates is resident in Jeddah, and a Consulate-General is maintained in Abu Dhabi. There is a Trade Commission in Abu Dhabi.

Trade with Australia: Australia's exports to the UAE were valued at \$103.2 million in 1980-81 compared to \$85.3 million in 1979-80. Major exports were mutton and lamb (\$27.1 million), wheat (\$6.5 million), beef and veal (\$7.5 million), manufactures (\$13.4 million) and dairy products (\$5.6 million).

Imports from the UAE in 1980-81 were valued at \$195.2 million and comprised petroleum and petroleum products.

Prospects exist for an expansion of Australia's exports of foodstuffs, industrial raw materials and some manufactured goods, for example, agricultural equipment, sporting and leisure equipment.

AUSTRALIA'S TRADE WITH THE GULF

SUMMARY
(\$ '000)

COUNTRY	AUSTRALIA'S EXPORTS		AUSTRALIA'S IMPORTS		MAJOR EXPORTS		MAJOR IMPORTS	
	1972/73	1980/81	1972/73	1980/81	1980/81		1980/81	
Bahrain	1 3,541	56,176	30,119	109,848	Liveanimals for food (\$5,781), Wheat and meslin unmilled (\$5,110) Lime, cement and fabricated building materials (\$6,683) Beef and veal (\$2,062) Cheese and curd (\$1,644)		Petroleum products refined (\$107,433).	
Iran	25,791	196,471	18,488	33,418	Wheat and meslin unmilled (\$108,899), Liveanimals for food (\$34,864), Mutton and Lamb (\$35,081). Animal oils and fats (\$8,134)		Petroleum products refined (\$22,814), floor coverings (\$10,126).	
Iraq	1,882	59,265	20,410	95,738	Wheat and meslin unmilled (\$20,907), Animal oils and fats (\$1,554) cheese and curd (\$4,771) Machinery specialised for particular industries (\$3,626)		Petroleum oils, crude \$94,419	
Kuwait	15,760	182,539	30,230	350,768	Liveanimals for food (\$45,431) Wheat and meslin unmilled(\$102,703) Beef and veal (\$6,630), Mutton and lamb (\$7,849) Barley unmilled (\$2,589)		Petroleum oils, crude (\$102,029) Petroleum products refined (\$248,568)	

COUNTRY	AUSTRALIA'S		AUSTRALIA'S		MAJOR EXPORTS		MAJOR IMPORTS
	EXPORTS	1980/81	IMPORTS	1980/81	(\$000)	1980/81	(\$000)
Oman	2,865	25,752	Nil	Nil	Wheat and meslin unmilled (\$8,132), Mutton and lamb (\$5,340), butter, (\$1,127) Beef and veal (\$1,203) Power generating machinery (\$738).		
Qatar	2,171	15,776	5,575	232	Liveanimals for food (\$6,621) Wheat and meslin unmilled (\$3,928), beef and veal (\$850) products (\$232) Mutton and lamb (\$493) Pig iron, sponge iron etc. (\$1,496)		
Saudi Arabia	13,697	276,305	20,206	1,022,604	Barley unmilled (\$61,998) Liveanimals for food (\$45,225) Wheat and meslin unmilled (\$28,614), Beef and veal (\$29,005), Cheese and curd (\$29,807)		Petroleum oils refined (\$286,542), Petroleum oils crude (\$745,609)
United Arab Emirates	11,461	103,167	4,323	195,245	Mutton and lamb (\$27,081), Wheat and meslin unmilled (\$6,530) Beef and veal (\$7,538), Dairy products (\$5,552)		Petroleum oils, crude (\$195,226)

Appendix C

WITNESSES - MIDDLE EAST REFERENCE

The Committee is grateful to all those who have appeared before the Sub-Committee to date to present oral evidence. Witnesses who appeared before the Sub-Committee, in most cases after having presented a written submission, are listed below in the capacity in which they appeared (relevant page numbers in the official transcript of evidence are shown in parenthesis):

ASHWIN, Mr C.R. - First Assistant Secretary, Western and International Organisation, Department of Foreign Affairs, (pp. 57-109, also In Camera) (1980) also (In Camera) (1981a)

AYOGB, Dr M. - Department of International Relations, Australian National University, (pp. 596-652) (1980) also (pp. 23-92) (1981b)

BECHARA, Mr J. - Student of Middle East Politics, (pp. 242-276) (1980)

BOURKE, Mr R.C. - Economic Analyst, Office of National Assessments, (In Camera) (1980)

BROOKS, Dr J.A. - Acting First Assistant Secretary, Uranium Division, Department of Trade and Resources, (pp. 126-139) (1982) also (In Camera) (1982)

BUNDY, Mr A.L. - Private capacity, (pp. 197-268) (1981a)

CHRISTIE, Dr A.G. - Assistant Secretary, Oil Industry Policy Branch, Department of National Development and Energy, (pp. 140-195) (1982)

COLEY, Mr D. - Acting Assistant Secretary, Asia Territorial and General Branch, International Policy Division, Department of Defence, (In Camera) (1981a)

COSGROVE, Mr J.H. - Acting First Assistant Secretary, Overseas Economic Relations Division, Department of the Treasury, (pp. 198-240) (1980)

COURTNEY, Mr C.J.H. - former Third Secretary of the Australian Embassy, Jeddah, (pp. 183-196) (1980)

CROOK, Mr R.D. - Executive Director, Environmental Division, Australian Institute of Petroleum Ltd., (pp. 402-464) (1980)

DALEY, Mr J.R. - Principal Executive Officer, Oil Industry Operations Branch, Department of National Development and Energy, (pp. 140-182) (1980) also (pp. 140-195) (1982)

de BOOS-SMITH, Mr A.P. - Director, Australian Institute of Petroleum Ltd., and Chairman, Australian Institute of Petroleum Public Affairs Committee, (pp. 402-464) (1980)

DIBB, Mr P. - Assistant Secretary, Strategic and International Policy Branch, Department of Defence, (In Camera) (1981a)

EDWARDS, Mr A. - Assistant Secretary, Africa and Middle East, Department of Foreign Affairs, (In Camera) (1981)

EL-ERIAN, Dr M. - Vice President, Australian Federation of Islamic Councils, (pp. 277-323) (1980)

FRASER, Mr B.W. - Director, National Energy Office, Department of National Development and Energy, (pp. 140-195) (1982)

FURLONGER, Mr R.W. - Director-General, Office of National Assessments, (In Camera) (1980)

GORDON, Dr A.D.D. - Assistant National Assessment Officer, Office of National Assessments, (In Camera) (1980)

HAIG, Mr I.M. - Private capacity, (pp. 523-551) (1980)

HALL, Mr G.J. - Acting First Assistant Secretary, Department of Trade and Resources, (pp. 94-123) (1982) also (pp. 126-139) (1982) and (In Camera) (1982)

HARRIS, Professor S. - Professor of Resource Economics, Head of Resources Program, Centre for Resource and Environmental Studies, Australian National University, (pp. 294-334) (1981a)

HASSAN, Dr R.U. - Senior Lecturer in Sociology, School of Social Sciences, Flinders University, South Australia (pp. 324-371, also In Camera) (1980)

HERRMAN, Dr I.M. - Private capacity, (pp. 197-268) (1981a)

HILL, Mr G.M. - Assistant Secretary, Department of Trade and Resources, (pp. 94-123) (1982) also (pp. 126-139) (1982) and (In Camera) (1982)

INDYK, Dr M. - School of History, Philosophy and Politics, Macquarie University, New South Wales, (pp. 372-400) (1980)

IVES, Mr D.J. - Deputy Director, National Energy Office, Department of National Development and Energy, (pp. 140-182) (1980)

KENNA, Mr J.J. - Acting Assistant Secretary, Trade Relations and Markets Division, Department of Trade and Resources, (pp. 2-56) (1980)

KINGSMILL, Mr D.J. - former Australian Ambassador to Saudi Arabia, (pp. 183-196) (1980)

LACEY, Mr I.I.L. - Honorary Secretary, Zionist Federation of Australia, (pp. 142-196) (1981a)

LANE, Mr J.N. - Acting Assistant Secretary, Minerals Industry and Special Projects Branch, Department of Trade and Resources, (pp. 94-123) (1982) also (pp. 126-139) (1982) and (In Camera) (1982)

LIGHTOWLER, Mr M.D. - First Assistant Secretary, Trade Relations and Markets Division, Department of Trade and Resources, (pp. 2-56) (1980), (pp. 94-123) (1982) also (pp. 126-139) (1982) and (In Camera) (1982)

LINES, Mr D.F. - Member, Australian Institute of Petroleum Ltd., (pp. 402-464) (1980)

LIPSKI, Mr S. - Editor, Australia Israel Publications, (pp. 456-522) (1980)

McCREADY, Mr P.I. - Principal Executive Officer, International Section, Department of National Development and Energy, (pp. 140-182) (1980)

McHUGH, Mr K.P. - Assistant Secretary, Policy Development Branch, Energy Policy Division, Department of National Development and Energy, (pp. 140-195) (1982)

MACK, Mr A. - Private capacity, (pp. 82-139) (1981a)

McINNES, Mr N. - Deputy Director General, Office of National Assessments, (In Camera) (1980)

McMAHON, Mr T.J. - First Assistant Secretary, Energy Policy Division, Department of National Development and Energy, (pp. 140-182) (1980)

MARON, Mr A. - General Manager, AN-NAHAR Newspaper, (pp. 242-276) (1980)

MEHBOOB, Mr A.A. - Executive Officer, Australian Federation of Islamic Councils, (pp. 277-323) (1980)

MERRILLEES, Dr R.S. - Acting Assistant Secretary, South Asia Branch, Department of Foreign Affairs, (pp. 57-109, also In Camera) (1980)

MILLER, Mr G. - Branch Head, Middle East and North Africa, Department of Foreign Affairs, (In Camera) (1981a)

MOUSTAFINE, Ms M. - Political and Strategic Analyst, Office of National Assessments, (In Camera) (1980)

SAIKAL, Dr M.A. - Department of Political Science, Australian National University, (pp. 112-138, also In Camera) (1980)

SPEEDY, Lieutenant Commander I.M. - Private capacity, (pp. 554-595, also In Camera) (1980)

STAREY, Mr J.M. - former Australian Ambassador to Iraq, (pp. 270-292) (1981a)

STONE, Mr J.O. - Secretary to the Treasury, Department of the Treasury, (pp. 198-240) (1980)

TRUSCOTT, Mr H.N. - former Ambassador to Syria, (In Camera) (1981b)

WANG, Dr M.A. - President, Australian Federation of Islamic Councils (pp. 277-323) (1980)

WARBURTON, Mr J.W. - Chairman, Oil Industry Supply and Shipping Committee, Australian Institute of Petroleum Ltd., (pp. 402-464) (1980)

WATERMAN, Mr E.L. - Assistant Secretary, Overseas Economic Relations Division, Department of the Treasury, (pp. 198-240) (1980)

WELLS, Mr J.M. - Senior Finance Officer, Overseas Economic Relations Division, Department of the Treasury, (pp. 198-240) (1980)

WHITE, Mr H.J. - Assistant Research Officer, Office of National Assessments, (In Camera) (1980)

1980 refers to the Hansards for the Sub-Committee on the Middle East

1981a refers to the Hansards for the Sub-Committee on Southern Africa and Middle East

1981b and 1982 refers to the Hansards for the Sub-Committee on Middle Eastern and African Affairs.

OTHER PERSONS WHO ASSISTED

The Committee is grateful to the following who assisted the Sub-Committee during the course of its Inquiry:

His Excellency Mr Faris A.K. AL-ANI, Ambassador of Iraq

Major-General GAZIT, former Head of Israeli Army Intelligence

His Excellency Mr Abdel-Hakeim Mamdouh GOBBAH, Ambassador of the Arab Republic of Egypt

His Excellency Mr Jamal KHUTAT, Ambassador of Jordan

His Excellency Mr Abraham KIDRON, Ambassador of Israel

Mr Ismail MOBARAK, Charge d'Affaires of Egypt

Mr Ergun PELIT, Counsellor of the Embassy of the Republic of Turkey

His Excellency Mr Faruk SAHINBAS, Ambassador of the Republic of Turkey

His Excellency Mohamed ZUBAIR, Oman Minister for Industry and Commerce.

Appendix D

WRITTEN SUBMISSIONS - MIDDLE EAST REFERENCE

The Committee is grateful to persons and organisations who have provided written submissions but who have not given oral evidence.

ABOU KATER, Mr R. - Arab Information Bureau

BARLING, Mr S.J.

BEAZLEY, Mr K.C.

BRIGDEN, Mr C.M.

BRINKERHOFF, Mr I - The Christadelphian Bulletin

CAMPBELL, Professor R. - James Cook University

CARLYLE, Mr S.

CARTER, Dr H.G. - University of Sydney

COURTNEY, Mr G.B.

CRANSTON, Mr D.R.E.

CULLEN, Mr F.J.

DUBRAVIC, Mr I.M.

FRAZER, Mr S. and ROBIN, Mr S.

FRY, Mr J.

GOODWIN, Mr T.

HALLAM, Professor A.D.

HOGARTH, Mr R.R. - Department of Agriculture, South Australia

HUNTING, Mr J.H. - The David Press

LOVE, Mr C.

LOWE, Miss M.

MACKINNON, Hon. B. - Minister for Industrial Development and
Commerce, Western Australia

MALE, Dr B.M. - Royal Military College, Duntroon

MIRZA, Dr N. - University of Melbourne

NOVAK, Mr J.

PALESTINE ACTION

RAMSAY, Mr N. - Arabic Club of Western Australia

RITCHIE, Mr E.J. - Ballina Christadelphian Ecclesia

ROBIN, Mr S. and FRAZER, Mr S.

ROSSER, Mr J.J. - The Christadelphians

RYALL, Mr L.

RYALL, Mr W.

SINGER, Mr D. - Jordan Palestine Committee

STEPHEN, Ms R. - Palestine Human Rights Campaign

STONE, Prof. J. - University of New South Wales

STORY, Mrs C. - United Nations Association of Australia

THOMPSON, Mr G.C. - Assistant General Manager, Amalgamated Co-op
Marketers

THOMPSON, Mr G.H.

THOMPSON, Mr H. - Murdoch University

TOBIAS, Miss R.

ULMAN, Dr R.D.

VSHIUKINA, T. - Vee Press

WILSTON, - Christadelphian Ecclesia

Appendix E

THE FAHD PLAN

The following are the eight points of the Fahd plan, as presented at the UN General Assembly by the Saudi Foreign Minister on 5 October 1981:

- '1. The withdrawal of Israel from all Arab lands occupied in 1967, including Arab Jerusalem;
2. The removal of settlements established by Israel in Arab lands after 1967;
3. Security of the freedom of worship and religious rights for all religions in the Holy Places;
4. Confirmation of the right of the Palestinian people to return, and compensation for those who opt not to do so;
5. The West Bank and the Gaza Strip will be subject to a transitional period, under the supervision of the United Nations, for a period not exceeding a few months;
6. The establishment of an independent Palestinian State, with Jerusalem as its capital;
7. Confirming the right of the countries of the region to live in peace;
8. The United Nations or some of its members shall guarantee the implementation of these principles.'

Furthermore, 'His Royal Highness [Prince Fahd] has stressed that the implementation of these principles depends on three conditions which must be fulfilled. Those conditions are: first, cessation of the unlimited American support for Israel; secondly, an end to Israeli arrogance, a condition which would be automatically fulfilled if the first condition were guaranteed and, thirdly, recognition that the Palestinian question is the main factor in the Middle East equation.'