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TV's Arnett: Mr. Scoop or Iraq's dupe?

By Dick Polman
Inquirer Staff Writer

Ten days ago, he reported that allied POWs were praising the "peaceful people of Iraq." A week ago, he reported that allied bombs had destroyed a baby milk factory. And two days ago, he was summoned to an interview with President Saddam Hussein, who took the opportunity to tell the world that God was on his side in the mother of all battles.

With each dispatch, carried live on Cable News Network to 101 nations, Peter Arnett reinforces his role as the most controversial journalist assigned to cover the first war of the wired world. As the sole American reporting from the enemy capital, his work raises a critical question: is he the ultimate First Amendment champ — or the ultimate chump?

He won a Pulitzer Prize in Vietnam 25 years ago as an Associated Press reporter, but today, among some members of the media, he's called "the voice of Baghdad." At the White House, he's accused of peddling "disinformation." A senior editor at the

(See JOURNALISTS on 8-A)

CNN's man in Baghdad: Mr. Scoop or Iraq's dupe?

JOURNALISTS, from 1-A

New Republic, a magazine that has editorialized in favor of the war, has accused him of reporting "pure propaganda." Even a defender, former Washington Post reporter Peter Braestrup, a colleague in Vietnam, said yesterday that "on a day-to-day basis, he's like a journalistic POW."

Arnett's role, as a journalist on enemy turf, is complicated by the satellite technology that has made this war an instantaneous experience. His reports are beamed not only to the United States — where most viewers probably dismiss Hussein's messages — but to millions of Arabs who may welcome any evidence that he is hanging tough.

As Daily News columnist Jack McKinney charged Monday, "There can be no scarier fanatics than those 'true believers' who would truly believe the dangerous schlock Peter Arnett is phoning in. ..."

"That's the price of having him there, the idea that he's legitimizing messages aimed at the Arab world," said Stephen Hess, an expert on the press and politics at the Brookings Institution in Washington. "Of course he's being used. But it's still worthwhile, he's still telling us something. If I could write *Back to the Future, Part IV*, I'd love to see him interview Genghis Khan and Adolf Hitler. I trust viewers to put things in the right context."

Hussein may have used Arnett to peddle propaganda, but, in such circumstances, "propaganda is the same as news," said Daniel Hallin, a communications professor at the University of California at San Diego who has written a study of the press in wartime. "When any political leader makes a speech, that's propaganda. But it's covered as news because it's something people need to see."

Arnett's defenders argue that reporters covering the allies are similarly exposed to war propaganda — a claim that irks some pillars of the U.S. foreign policy establishment.

Speaking last weekend on CNN, former Secretary of State Henry A. Kissinger insisted, "I wouldn't make a moral equivalence between what our government reports and what Baghdad reports. [Arnett's reports] come from the capital of an extraordinarily ruthless dictator who is engaged in propaganda, and should not be put on the same moral level" as information from the Pentagon.

It has never been easy for Westerners to report from the other side. When Harrison Salisbury of the New York Times flew to Hanoi and reported on civilian damage from U.S. bombing — puncturing a Pentagon assertion that its "surgical" strikes had spared civilians — he was denounced as "Ho Chi Salisbury of the Hanoi Times." It's widely believed that the fracas cost him a Pulitzer Prize.

John Hart, a former CBS correspondent, recalled yesterday that he was similarly attacked after a visit to Hanoi: "The White House raised hell with CBS for me being there. Barry Goldwater wrote a nasty note. The IRS even started an audit of my tax returns. You know what was wrong with my coverage? I think I failed to call the people 'dirty communists.'"

Cold War rhetoric is absent from this conflict, but Arnett's most controversial report appeared to imply that allied airmen were waging war on baby milk. On audio, Arnett described the damage; meanwhile, the footage showed workers clad in uniforms marked *Baby Milk Plant* — in English. And in his censored report, Arnett added that the site "looked innocent enough, from what I could see."

The Pentagon quickly said the milk factory was a front for the production of biological weapons. Arnett was faulted by CNN editors for saying the site "looked innocent," and even defenders said yesterday that his comment was "sloppy." Yet one can detect the nuances that often appear in reports crafted under enemy censorship.

Arnett did mention that the factory's "baby milk" sign was written in English; in John Hart's interpretation, that implicitly warned that the plant might not be authentic. And even Arnett's full remark about innocence carried a caveat; it implied there were things he *couldn't* see.

Indeed, David Gergen, White House communications director under Ronald Reagan, argued yesterday that truth could be gleaned from what Arnett was not saying. Not once have the Iraqis presented Arnett with evidence of massive civilian casualties — "at a time," said Gergen, "when a lot of people think that our bombing has been indiscriminate."

But some analysts, including Braestrup, suspect that Arnett will cease to be useful to Hussein, and that he'll decide his integrity is being compromised. In some recent reports, Arnett has merely quoted from rhetoric in Iraqi newspapers. This, of course, can give the audience a sense

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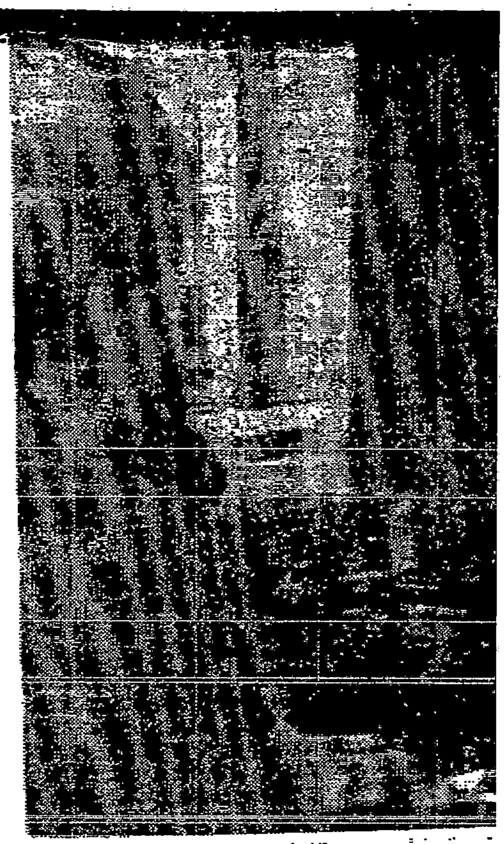

Reporter Peter Arnett poses a question to

CNN

o Iraqi President Saddam Hussein during the interview.

Iraqis are hearing. But, if s a guide, this option is often efuge for reporters fed up any censors.

pt. 7, 1940, CBS radio corre- t William Shirer wrote in his liary that Nazi censors were g his copy. The war was on, erica was neutral, but it was Great Britain. Griping about ors, Shirer declared, "I shall d for it much longer."

Earlier that year, when the Nazis invaded Holland, the censors had barred him from using the word invasion. On Aug. 26, while broadcasting during an English bombing raid, the Nazis said he could mention it, but only in one sentence. On Aug. 29, the Nazis said he could no longer mention a raid while it was on. On Sept. 7, he was reduced to quoting from the Nazi newspapers. And on Dec. 13, he sailed for home.

WHITE HOUSE PRESS OFFICE

DESERT STORM FACTS

February 5, 1991

TOTAL SORTIES - Over 44,000 (About 1 per mintue since war began)
(50% combat sorties)

U.S. FORCES IN THEATER: Over 500,000

ALLIED FORCES IN THEATER: Over 205,000

U.S. SHIPS IN REGION: Over 100

TOMAHAWK MISSILES LAUNCHED: 284

IRAQI TROOPS IN KTO: 545,000

IRAQI AIRCRAFT LOST IN ENGAGEMENTS:28

IRAQI VESSELS SUNK OR DAMAGED: 83

SCUDS LAUNCHED AT SAUDI: 28

SCUDS LAUNCHED AT ISRAEL: 29

U.S. FIXED WING AIRCRAFT LOSSES:	15 HOSTILE	3 NON-HOSTILE
U.S. HELICOPTERS LOST:		5 NON-HOSTILE
ALLIED FIXED WING LOSSES:	7 HOSTILE	2 NON-HOSTILE
U.S. DEATHS:	12 KIA	22 NON-HOSTILE

U.S. POW: 8

U.S. MIA: 24

U.S. MISSING (NON-COMBAT): 3

U.S. WOUNDED IN ACTION: 10

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THE WHITE HOUSE

WASHINGTON

January 12, 1991

THE CHIEF of STAFF
has seen

MEMORANDUM FOR JOHN SUNUNU

FROM: ROB PORTMAN RP

SUBJECT: Congressional Floor Statements

Per your request, below are several Congressional floor statements delivered over the past couple of days. We will provide you with additional statements from today when we get access to the Record on Monday.

cc: David Demarest

NEWS

Congressman Stephen J. Solarz

13th District/Brooklyn, N.Y.
New York: (718) 372-8600
Washington: (202) 225-2361

FOR IMMEDIATE RELEASE
JANUARY 12, 1991
SATURDAY

CONTACT: BOB HATHAWAY
202/225-2362

FLOOR STATEMENT

by

REP. STEPHEN J. SOLARZ

MR. SPEAKER, I FIND MYSELF IN A SOMEWHAT ANOMALOUS SITUATION.

IT WAS ALMOST 25 YEARS AGO THAT I GOT MY START IN POLITICS AS THE CAMPAIGN MANAGER FOR ONE OF THE FIRST ANTI-WAR CANDIDATES FOR CONGRESS IN THE COUNTRY.

IT NEVER OCCURRED TO ME THEN THAT I WOULD BE SPEAKING ON THE FLOOR OF THE HOUSE OF REPRESENTATIVES, A QUARTER OF A CENTURY LATER, IN SUPPORT OF A BIPARTISAN RESOLUTION THAT MANY WHOM I RESPECT FEAR COULD BECOME ANOTHER VIETNAM.

YET I BELIEVE THERE ARE SOME FUNDAMENTAL DIFFERENCES BETWEEN THE SITUATION IN WHICH WE FOUND OURSELVES IN VIETNAM THEN AND THE SITUATION WE CONFRONT IN THE PERSIAN GULF TODAY.

IN VIETNAM, VITAL AMERICAN INTERESTS WERE NEVER AT STAKE.

IN THE GULF THEY ARE.

IN VIETNAM, THE COST IN BLOOD AND TREASURE WAS OUT OF ALL PROPORTION TO THE EXPECTED BENEFITS OF A SUCCESSFUL DEFENSE OF SOUTH VIETNAM.

IN THE GULF, THE ENORMOUS BENEFITS OF A SUCCESSFUL EFFORT TO GET IRAQ OUT OF KUWAIT FAR EXCEED THE PRICE WE WILL HAVE TO PAY IF FORCE MUST BE USED.

WE'VE HEARD A LOT OF TALK IN THIS DEBATE ABOUT THE NEED FOR PATIENCE.

WE WERE PATIENT WHEN JAPAN INVADED MANCHURIA IN 1931.

WE WERE PATIENT WHEN ITALY ATTACKED ETHIOPIA IN 1936.

WE WERE PATIENT WHEN GERMANY BLITZKRIEGED POLAND IN 1939.

WE WERE PATIENT WHEN GERMANY OVERRAN FRANCE IN 1940.

OVER

WE WERE PATIENT, MR. SPEAKER, RIGHT UP TO DECEMBER 7, 1941 -- WHEN JAPAN ATTACKED US AT PEARL HARBOR --BY WHICH TIME GERMANY HAD CONQUERED ALMOST ALL OF EUROPE AND JAPAN CONTROLLED MUCH OF ASIA.

THE GREAT LESSON OF OUR TIME IS THAT WHEN EVIL IS ON THE MARCH IT MUST BE CONFRONTED.

IN THE PERSIAN GULF, ALMOST HALF A YEAR AFTER THE BRUTAL AND UNPROVOKED ANNEXATION OF KUWAIT, THE TIME FOR PATIENCE HAS ENDED AND THE TIME FOR FIRMNESS HAS ARRIVED.

SADDAM HUSSEIN REPRESENTS A CLEAR AND PRESENT DANGER NOT ONLY TO THE REGION BUT THE WORLD.

HE HAS GONE TO WAR TWICE IN THE LAST TEN YEARS.

HE HAS USED CHEMICAL WEAPONS NOT ONLY AGAINST HIS ENEMIES BUT AGAINST HIS OWN PEOPLE AND HE IS WELL ON HIS WAY TOWARD ACQUIRING NUCLEAR WEAPONS AS WELL.

DRIVEN BY A MEGALOMANIACAL LUST FOR POWER, HE IS DETERMINED TO DOMINATE THE ENTIRE MIDDLE EAST.

AND IF HE IS NOT STOPPED NOW, WE WILL ONLY HAVE TO STOP HIM LATER, UNDER CIRCUMSTANCES WHERE HE WILL BE MUCH MORE DIFFICULT AND DANGEROUS TO CONTAIN.

NONE OF US WANTS WAR.

YET THE TRUTH IS THAT NOT UNTIL SADDAM HUSSEIN IS STRIPPED OF ANY LINGERING ILLUSIONS HE MAY HAVE, ABOUT OUR WILLINGNESS TO USE FORCE WILL THERE BE ANY REAL CHANCE OF A PEACEFUL RESOLUTION OF THIS CRISIS.

AND THAT IS WHY, WITH ONLY THREE DAYS LEFT BEFORE THE EXPIRATION OF THE U.N. DEADLINE, THIS BIPARTISAN RESOLUTION, BY CONFRONTING SADDAM HUSSEIN WITH A CHOICE BETWEEN LEAVING AND LIVING OR STAYING AND DYING, REPRESENTS THE LAST BEST CHANCE FOR PEACE.

THE VOTE ON THE GEPHARDT-HAMILTON RESOLUTION DEMONSTRATES THAT A MAJORITY OF THE HOUSE BELIEVES THAT THE PROTRACTED APPLICATION OF SANCTIONS IS A FORMULA FOR FAILURE RATHER THAN A STRATEGY FOR SUCCESS.

WITH THE ADOPTION OF THIS RESOLUTION, HOWEVER, WE SHOULD BE IN A POSITION TO ACHIEVE OUR OBJECTIVES BY PEACEFUL MEANS IF POSSIBLE, BUT BY THE USE OF FORCE IF NECESSARY.

AND IF WE PREVAIL, AS SURELY WE WILL, WE WILL HAVE PREVENTED A BRUTAL DICTATOR FROM GETTING HIS HANDS ON THE ECONOMIC JUGULAR OF THE WORLD.

WE WILL HAVE PROTECTED AND STABILIZED THE ARAB GOVERNMENTS COURAGEOUS ENOUGH TO HAVE OPPOSED HIM.

WE WILL HAVE ELIMINATED HIS WEAPONS OF MASS DESTRUCTION AND GREATLY REDUCED HIS CONVENTIONAL MILITARY POWER.

WE WILL HAVE ENHANCED THE PROSPECTS FOR PROGRESS IN THE PEACE PROCESS BETWEEN ISRAEL AND ITS ARAB NEIGHBORS.

AND, PERHAPS MOST IMPORTANTLY OF ALL, BY DEMONSTRATING THAT AGGRESSION DOES NOT PAY, AND THAT THE INTERNATIONAL COMMUNITY WILL UPHOLD THE SANCTITY OF EXISTING BORDERS, WE WILL HAVE ESTABLISHED A PRECEDENT WHICH COULD LEAD TO THE CREATION OF A NEW WORLD ORDER, GOVERNED BY THE RULE OF LAW RATHER THAN THE LAW OF THE JUNGLE, AND IN WHICH NATIONS SHALL NOT MAKE WAR AGAINST OTHER NATIONS ANYMORE.

I URGE THE ADOPTION OF THE BIPARTISAN RESOLUTION.

- Saturday, January 12, 1991
  United States House of Representatives Debate on the Persian Gulf Crisis and the Use of Force Representative Les Aspin (d Wisconsin) Saturday January 1
  Transcript ID: 670952 (116 lines)

UNITED STATES HOUSE OF REPRESENTATIVES
DEBATE ON THE PERSIAN GULF CRISIS AND THE USE OF FORCE

REPRESENTATIVE LES ASPIN (D-WISCONSIN)
SATURDAY, JANUARY 12, 1991
2 p.m.

REP. ASPIN: Mr. Speaker, I would like to make sure that if I don't use the five minutes that the remaining time be yielded back to Mr. Solarz.

SPEAKER PRO TEMPORE: The Chair will oblige.

REP. ASPIN: My colleagues, like many of my colleagues here who have spoken here in the well in the last two days, I, too, believe that the passage of the Solarz-Michel resolution is the last best hope to a peaceful solution to this crisis. But I recognize that if we pass this resolution and if Saddam Hussein continues to stonewall us, as his Foreign Minister did this week, then it means war.

We in the Armed Services Committee held a series of hearings on the possibility of war and what it would look like. Our members were not unanimous in their conclusions, and I respect my colleagues and their views.

But let me now give you my conclusions about what a war -- what at war and what it would look like. Conclusion number one, I believe that we have a proper and limited objective to get the Iraqi forces out of Kuwait. We do not seek to conquer Iraq and create further power vacuums in the region.

Number two, we plan to fight the war in phases, beginning and an air power and ending, only if necessary, with the use of ground troops. Those who think that air power alone will win this war will have the opportunity to prove themselves right. We do not want more American casualties than is absolutely necessary.

Conclusion number three, our Arab allies will fight the Iraqi forces -- at least in Kuwait -- and we have drawn up our battle plans accordingly.

Conclusion number four, we have worked out an arrangement with Israel and our Arab allies to prevent any attempt by Saddam Hussein to break up the coalition by attacking Israel.

In short, ladies and gentlemen, I believe that our forces are capable of achieving our goals. Saddam Hussein must leave Kuwait; peacefully if possible, by force if necessary.

There is also the question of when we decide to use that force. Many of us -- especially those of us on the Democratic side of the aisle -- have wanted a United States that acted with the

United Nations in resolving world crises. We have been acting with the United Nations.

Most of us praised President Bush for working with the United Nations last August, first, to set up, and then to enforce the economic sanctions. Most of us thought it proper that before we used force, we get a UN resolution authorizing it, which we did.

We now have that resolution and it sets January 15th as the date that Saddam Hussein must get out of Kuwait. That was not just a decision by the United States. It was a decision by the Security Council of the United Nations to bring things to a head by January the 15th.

What would happen now? What would happen now to the United Nations, to the authority of the United Nations, in this post-cold-war era if we backed the administration down and forced it to change its time lines? Ladies and gentlemen, in the last analysis, we must mean what we say when we deal with the Saddam Husseins of the world.

If the United States is to be credible in the post-cold-war world, if the United Nations is to be a useful vehicle for collective security, then we cannot shrink from the use of force. A future aggressor can ignore the next UN deadline if we ignore this one.

Thank you very much. (Applause.)

END

- Friday, January 11, 1991
United States Senate Debate on the Persian Gulf Crisis and the Use of Force Excerpt of Remarks by Senator Joseph I Lieberman (d Ct) Friday January 1
Transcript ID: 670910 (231 lines)
This is a partial transcript, more to follow

UNITED STATES SENATE DEBATE ON THE PERSIAN GULF CRISIS AND THE USE OF FORCE

EXCERPT OF REMARKS BY: SENATOR JOSEPH I. LIEBERMAN (D-CT)

FRIDAY, JANUARY 11, 1991

SEN. LIEBERMAN: Thank you, Mr. President. Mr. President, it is a terrible frustration, indeed, a painful irony that Saddam Hussein's invasion of Kuwait has plunged our world back into crisis just months after the collapse of Eastern European communism. We have hardly had the time to enjoy the peace before confronting war once again. Indeed, nearly half the men and women who form the vanguard of our defense of Western Europe have suddenly been shifted from Germany to Saudi Arabia, trading uniforms and tanks of forest green, for those of desert brown. Now this sudden reversal of the world's fortunes reminds us of a sad and an old lesson, which runs throughout the course of human history: We humans are an imperfect species, capable of both great good, but also great evil. Saddam's fascistic tyranny, his brutal aggression are but the latest examples of the capacity of human beings to inflict pain on one another.

Within our societies, we rely on the adoption and enforcement of laws to control our worst inclinations. And in the world community, civilized relations between nations have depended on alliances of peace and defenses against war. But when alliances have been broken, and defenses breached by acts of aggression, the civilized world has often had to meet force with force.

Regretfully, I have concluded that this is such a time. We are now joined in a conflict from which there is no turning back. That is no easy conclusion for me to reach. I'm humbled, in fact, by the responsibility that's been placed in me by the people of Connecticut who have sent me to be their United States Senator at this moment, and by the responsibility that I feel for every one of the men and women who are defending us today in the Persian Gulf, and every one of their fathers and mothers, their husbands and wives, their sons and daughters.

War is a horrible possibility, and it came close and personal to me one recent Sunday morning in the Goff Street Armory in my hometown of New Haven, Connecticut, where the 142nd Medical Clearing Company of the Connecticut National Guard had gathered for departure to Fort Devans in Massachusetts, and from there to the desert of Saudi Arabia. I felt an obligation that so many of my colleagues have in recent months in similar circumstances to join those men and women for a brief time, to convey to them my own sense of gratitude for the tremendous sacrifice they were about to make, my support for their cause, and my belief that they are heros to us all.

It's no easy thing to look into the eyes of men and women who are marching off to the drum beat of war. It's no easy thing to look into the eyes of their families gathered to see these soldiers off, all of them haunted by the ultimate question, "Will I see my loved one again?" And it is no easy thing to stand on the floor of this historic chamber and cast a vote that may decide the fate of so many of our American friends and neighbors. It's not easy. We all know that. We can hear it from the tone and the tenor of the debate in this chamber over these last few days. All of us comprehend the gravity of this moment.

The political intrigue that often marks debate on issues here in the Senate is absent, replaced by a common knowledge in the midst of diverse opinions, that the fate of people and nations hangs in the balance, as we marshal our arguments for or against a resolution that may lead to war. No, it's not easy, but it must be done. It must be done because our President has asked us to vote to support him in this hour of challenge, and our Constitution demands that we vote before our nation is committed to war.

The issue before us is not to pick a day or time for hostilities to begin, or to determine how a war is waged. No, that in my opinion, is the clear responsibility of the President as Commander in Chief under Article Two of our Constitution. The issue before the Congress under Article One, Section Eight, is whether or not we authorize the President to use force to achieve our goals in the Persian Gulf, whether or not we think that war is justified if the President chooses to wage it. On that issue, I will vote to authorize the President to have the power to go to war.
I will do so in the knowledge that war may indeed be the result, and that many people may die, but I will cast that vote in the hopes that by so doing, I will make the prospects of peace more real.

Mr. President, it's one of the ironies of this crisis that the prospects for peace may not be fully realized until we are fully prepared for war. That's not a new concept. More than 2,000 years ago, Herodotus said it; "To have peace you must prepare for war."

In Saddam Hussein we face a threat of the most dangerous nature, a rigid, unyielding dictator. Our best hope for true peace is to convince Saddam now that he faces swift, utter, devasting defeat if he fails to withdraw completely and without condition from Kuwait. President Bush has been absolutely clear and resolute on that point.

But it seems that Saddam has not yet gotten that message. How else to explain the contempt he displayed through the person of

Tariq Aziz in Geneva just two days ago? How else to explain the intransigence of Saddam in instructing his emissary to refuse to even accept a letter from the President of the United States? That insult was to me -- and I'm sure many Americans -- a defining moment in this crisis, a moment that encapsulated the nature of the threat we face; stubborn, rigid, unyielding, dictatorial, arrogant -- and demonstrated more clearly than ever the need for American unity and American determination.

Our final best chance for a truly peaceful end to this crisis, I am convinced, is to send a clear and unequivocal message to Saddam Hussein that the American Congress and the American people stand shoulder to shoulder with our President at this critical moment of confrontation. And that is why I will vote to support and affirm the United Nations resolution.

Mr. President, those who argue that economic sanctions must be given more time to work, who have joined in the resolution to require that sanctions be given more time to work have made serious and thoughtful arguments on this floor, and they deserve an answer from those of us who will oppose that resolution and instead counsel authorization for war. There is a surface appeal to the position that sanctions should continue, but in my respectful opinion, that appeal does not run deep and it does not run strong.

Yes, the sanctions have cut Iraq off from most of its imports and exports, but five months of sanctions have not led Saddam Hussein to cede one inch of Kuwaiti territory, not to bring forward one hint of compromise. Rather, five months of sanctions have given Saddam five months of time to pillage and rape Kuwait, to fortify his defenses, to endanger further the lives of American soldiers who are there.

Five months later in Baghdad, restaurants and cafes and discos remain open. Car dealers continue to sell cars and high-rise apartments continue to rise. Starvation seems very far away in this land where the science of agriculture was in fact invented at the dawn of civilization.

Yes, industry in Iraq has suffered somewhat and it may if the sanctions continue, but we must remember that industry accounts for but ten percent of Iraq's gross national product. That part of Iraq's military forces most vulnerable to sanctions is the air force, which will probably atrophy somewhat from lack of high-tech parts over a period of time.

But the air force is not critical to Saddam Hussein's ability to mantain his power in Iraq and in Kuwait. It would in fact by most estimates be destroyed early in any war that does begin. No, it is Iraq's ground forces that represent the greatest threat to all of us. Tanks, artillery, armored personnel carriers and soldiers need only dig in and stay put in Kuwait as they have. It takes little to maintain them, especially if we remove the threat of imminent war and promise them months of peace while we wait to see whether sanctions work. Sanctions in the present, in my opinion, are a tactical, not a strategic weapon.

There's a man in Connecticut whose name is Hewey Jonkeye (sp). He lives in Washington Depot. He was taken prisoner in Kuwait after the Iraqi invasion, held as a human shield at an Iraqi military site. And he wrote to me recently, and I want to quote from that letter. He said: "I think that delay will help the Iraqis, will most likely result in Iraq remaining in Kuwait and will further strengthen Saddam both economically and politically, both in Iraq and regionally. I believe," he says, "that sanctions alone will not result in Iraq withdrawing from Kuwait," end of quote.

Mr. President, sanctions are a very blunt instrument which hurt civilians in fact before they hurt the military, which hurt the weak before the strong. And I ask the question here, is it truly more immoral to adopt a strategy designed to inflict the most punishment on the civilian population, the most vulnerable in society, the poorest, the youngest, the oldest? If people think that sanctions will work, they must think that they will bring terrible destruction on the heads of the Iraqi people themselves. I think it's important to consider the morality of that result before decrying the immorality of war. Consider, too, the fact that making the Iraqis suffer will in no way guarantee the achievement of our goals in the Persian Gulf.

Where is there one shred of evidence over the last five months that leads to a conclusion that massive suffering on the part of his people will convince Saddam Hussein to leave Kuwait? This is a man who let more than one million of his fellow Iraqis suffer casualties in a war against Iran. That's about the same rate as Americans suffered, north and south, during the Civil War. No sanctions we impose can compare to the suffering the Iraqi people faced with their eight-year war with Iran, suffering which did nothing to dislodge Saddam from power or to change his course. How can we hope that a man who would kill his own people with poison gas will retreat because his people may have to stand in line for food?

Supporters of sanctions I think not only fail to fully consider the mind of Saddam Hussein, they fail also to look at the calendar on the wall. Their arguments suggest, what do we have to lose by taking more time to see whether the sanctions work? All we have to lose is by the prospect of war. Mr. President, more time for sanctions is not a course without risk, it is a course full of risk and peril for the world, for the United States, and particularly for America's fighting men and women in the Gulf today. What impact will the passage of time itself have on our ability to achieve our goals? Do supporters of continuing sanctions imagine that all other aspects of the Persian Gulf crisis will remain static, unchanged?

Will the Gulf states' countenance the presence of hundreds of thousands of American troops within their border for a period of a year or more? And what will happen to our ability to use military force if one or two years for now sanctions fail? Will our troops be able to maintain their sharpest combat edge for that long? And what will Saddam do over that time to further protect themself and imperil our troops, to cover and disperse Iraqi targets, to dig in more in Kuwait, to make even more difficult and dangerous the service of American soldiers there? No, allowing the sanctions more time is not a course without peril, it is full of peril.

Tying the President's hands indefinitely would give Saddam additional time to perfect his weapons of mass destruction. Iraq's air defenses are already much better than they were five months ago. They will enhance their ability in this time to discover new biological weapons and to deliver them -- botulin toxins, strains of anthrax, typhoid, and cholera bacteria -- the most nightmarish forms of combat. Within a year, I am convinced that he will develop a crude yet destructive nuclear device. Our soldiers, if indeed any, will remain in the Gulf to carry out the military option a year from now, could well face a greater threat on the battlefield than they face today.

Mr. President, my point again is that those who wish to use sanctions must face the fact that they have a price; they are not without cost. And what of the coalition, the central ingredient of our ability to maintain sanctions and threaten force? Will Turkey remained firmly allied with us for years? We forget the toll that these sanctions have taken on that nation. The internal pressure in Turkey to reopen its oil pipeline or its agriculture trade with Iraq will grow with each passing month.

In Egypt, extremists who assassinated the head of the parliament last autumn could undermine the government's support of our policy. Clashes between Israelis and Palestinians will continue, possibly straining our relations with our own moderate Arab allies.

In Europe, the growing conservative forces in the Soviet Union could compel President Gorbachev to renew Moscow's once close relationship with Saddam. And France, affected by its own domestic political crosscurrents and its North African neighbors, could decide against any use of military force.

Any one of these developments would generate more pressure on nations to compromise with Saddam. Already there's talk of an Iraqi demand that Kuwait cede two strategic islands: Bubiyan and Warbah (ph) in the Southern end of the huge Rumaila oil field. Those concessions are already being discussed. Is it realistic to conclude that within a year from now, they will not be much more seriously considered? Arabs who now stand with us, ready to fight Saddam if necessary, may well lose faith in our will if we send an uncertain message from this chamber and may begin to seek ways to make a deal with Saddam if we retreat from the course of strength that our President has set.

Now, I know that none of us in this chamber advocates appeasement; I'm not saying that. None of us wants to offer Saddam real concessions. But I want to suggest that to delay the threat of force, to rely on sanctions for a period of a year or more, opens the door for accommodation -- some might call it appeasement by others -- and that is something we cannot stop; we cannot control.

We all know how high a price we will pay should that result. Appeasement of Saddam, even if not by our design, would leave him the victor in this crisis and the United States the loser and a lesser power in the world. Who could trust our word? Who could have confidence in our will as we try to lead the civilized world into the new world. I fear that concessions and delay will only embolden, not satisfy, Saddam Hussein. Delay will strengthen his resolve for victory more than it will weaken his capacity to survive. And that is a lesson that has been taught to us throughout the span of human history.

Remember the words of Pericles more than 2,000 years ago, responding to the demands of the Spartans for peace at any price, at the price of compromise, particularly. He said, he warned them, and I quote, "There is one principle which I hold to through everything: if you give way, you will instantly have to meet some greater demand," end of quote.

And 2,400 years later, another great general offered a similar warning to his country -- our country -- and I quote, "Eagerness to avoid war can produce outright or implicit agreement that injustices and wrongs of the present shall be perpetuated into the future." Those were the words of General Dwight D. Eisenhower. And he added, "We must not participate in any such false agreement. Thereby, we would outrage our own conscience. In the eyes of those who suffer injustice, we would become partners with their oppressors. In the judgment of history, we would have sold out the freedom of men for the potage of a false peace. We would assure future conflict," end of quote. Those words of Eisenhower's ring so clearly and directly on the situation we face today.

And then another great American, four years before World War II -- in a prescient speech for which he was severely criticized at the time -- President Franklin Roosevelt said, "There can be no stability or peace either within nations or between nations, except under laws and moral standards adhered to by all. International anarchy destroys every foundation for peace. It jeopardizes either the immediate or the future security of every nation, large or small. It is, therefore, a matter of vital interest and concern to the people of the United States that the maintenance of international morality be restored," end of quote.

Words warning America about the coming of World War II -- international morality -- a clear understanding, a warning by Roosevelt that when immorality is allowed to run loose in the world, when aggression is tolerated, though it may occur far away, all of us suffer, most especially eventually those of us in this case in the United States. That is what is at stake in the Persian Gulf.

A victory by Saddam Hussein is a victory of anarchy over order, of war over peace, of brutality over liberty, of immorality over morality. Saddam will breathe new life into that discredited old notion of Machiavelli's, that the power of the state is the supreme power. No peace-loving people or nation is safe once the terror of the state is loosed against people around the world. Saddam victorious cannot be shunted to the sidelines of world affairs, ignored as a grotesque anomaly, a sideshow. Like a virus, he -- Saddam the victor -- will infect the body of international order. And we cannot let that happen.

Mr. President, I know that comparisons between Saddam Hussein and Adolf Hitler are made often. Sometimes they are too easily drawn. But sometimes, on the other hand, they are too simply dismissed. The achievement of wealth and power and conquest that would be Saddam's if we did not strongly respond to the threat that he represents will not satisfy his thirst for conquest. That is clear from his ideology; it's clear from his record. It will not satisfy him any more than it did satisfy Adolf Hitler in the '30s. Saddam in his 13th year as leader of Iraq has been an aggressor in 11 of those 13 years. That's the record. There are ominous historic parallels to the ruthlessness of his aggression.

Compare Saddam's SCUDs with Hitler's V-2s, both weapons launched against civilian populations. Compare Saddam's attack, his gas attack on the Kurds of Halabja in his own country to Hitler's air attack against the Spaniards of Guernica. The scale of destruction may be different so far but the horror on the faces of the dead is quite the same.

Mr. President, we must uphold the principle of order, particularly at this turning point in world history. The waning of the Cold War has ushered in a period of tremendous promise. The spread of democratic ideals, of competitive economic markets, of worldwide communications, have put the force of tyranny on the defensive around the globe. And those forces now look to Saddam, and they look particularly to us as the one remaining superpower in the world, the torch of liberty within our grasp, standing for freedom and civility throughout the world. They look to us to see how we will act in this crisis. Victory for Saddam will embolden all who share his thirst for power and disregard for civil conduct. The defeat of Saddam will restore international morality and enhance prospects for a generation of civilized relations, peaceful relations, among the nations of the world.

Mr. President, in the end, in this humbling, awesome debate and decision we must each face the ultimate question, which is whether our goal, which is the goal of defeating Saddam Hussein in Iraq, is worth the terrible price that we may have to pay in a war. That question really cuts to the heart of this debate today, as in fact in cuts to each of our hearts as well.

To answer that question I have tried to imagine what I would say to give comfort to a parent whose child may confront an Iraqi artillery shell, to a child whose parent may endure an Iraqi chemical bomb, to a wife whose husband may face an Iraqi terrorist attack. And I think we should all say and can say to them, "Your son or daughter, your mother or father, your wife or husband, is a hero defending his or her country and the civilized world. And the people of the United States, the Congress of the United States, will be eternally grateful for their service and their courage." As horrible as war is, its horror pales in comparison to the fate of the world if Saddam Hussein's power is allowed to grow. The lives of loved ones are put in harm's way only because the nature of all of our lives for years to come hangs in the balance. The heroic work of our men and women in the Persian Gulf will mean the survival of the kind of world that we want for our children, and the prevention of a world in which our children may not survive; certainly not survive as free men and women.

One of those heros that I've just talked is another resident of my state, Sergeant Douglas Champagne (sp), of Stratford, Connecticut. He sent me a holiday card from the Persian Gulf, where he's serving, and he said to me, and I quote, "All of us here hope for a peaceful end to this crisis. But if that is not possible, I sincerely hope that Congress and President Bush will see eye to eye on the quickest and least destructive way to force Saddam Hussein from Kuwait." And he concluded -- Sergeant Champagne (sp) concluded, "We are prepared to do the job that we are trained for."

Mr. President, now let us in Congress do the job that we were elected for. Let us not sell out the freedom of men for the potage of a false peace. None of us wants war. None of us in this country, right up to the President of the United States, who himself has known war and is a man of strength and balance, wishes to wage a war. But we must remember what Lincoln said, "We must be ready to accept that there are occasions on which war may be required." Let us face the awful task before us with the conviction that the price that we set for a civilized world is a price that we Americans are prepared to pay.

Thank you, Mr. President. I yield the floor.

END

- Friday, January 11, 1991
  United States Senate Debate on the Persian Gulf Crisis and the Use of Force Excerpt of Remarks by Senator John Warner (r Va) Friday January 1
  Transcript ID: 670905 (133 lines)

UNITED STATES SENATE DEBATE
ON THE PERSIAN GULF CRISIS AND THE USE OF FORCE

EXCERPT OF REMARKS BY SENATOR JOHN WARNER (R-VA)

FRIDAY, JANUARY 11, 1991

SENATOR WARNER: Mr. President, on behalf of a bipartisan group of senators -- myself, Mr. Lieberman, Mr. Stevens, Mr. Robb, Mr. Heflin, Mr. Dole, Mr. Shelby, Mr. Danforth and others, I lay before the Senate a resolution in support of the President, in support of the constitutional process, and in support of the United States' continued participation in the leadership of the UN policy in the Persian Gulf. I ask that this resolution be printed.

Mr. President, the --

PRESIDENT PRO TEMPORE: Without objection, the resolution will be printed.

SENATOR WARNER: The resolution is identical to that now being considered by the House of Representatives and referred to as the Fascell-Broomfield-Solarz Amendment.

Mr. President, quite simply, this joint resolution, unlike Senate Resolution 1, laid before the Senate yesterday by the distinguished Majority Leader, Senator Nunn, and others recognizes that a continued credible threat of military force is an essential, I repeat, an essential ingredient if we're ever to attain the goals of requiring Iraq to withdraw immediately and unconditionally from Kuwait and to fulfill the goals of the UN resolutions.

While many of those who have spoken in support of F.J. (sic) Res. 1 have attempted to claim they support the President's policy in the Persian Gulf, and that their only difference with the President is over the matter of timing of the use of military force. That is simply, in my respectful judgment, not the case. S.J. Res 1, if enacted, would decouple, and I emphasize decouple, from economic sanctions and all other peaceful and diplomatic initiatives the essential ingredient of the UN policy, namely the credible threat of military force linked -- linked with the sanctions.

Our resolution provides the President with all of the elements necessary to see that the UN goals are achieved. Let me explain briefly what this resolution seeks to achieve. This resolution, which is identical, as I say, to a bipartisan resolution being considered by the House of Representatives, would provide the President with the authorization of Congress to use the United States' armed forces pursuant to the United Nations Security Council Resolution 678 to achieve implementation of the other 11 UN Security Council resolutions pertaining to the invasion of Iraq -- excuse me, by Kuwait by Iraq.

However, before the President could exercise the authority in this resolution, the President would first -- the President would first have to determine and notify the leadership of the Congress that the United States has used all appropriate diplomatic and other peaceful means to obtain compliance with the UN Security Council resolutions; and that those efforts have not, I repeat, not been and would not be successful in obtaining such compliance.

Mr. President, the sponsors of this resolution believe that we have now presented the Senate with a clear choice: Do we support the President's policy of actually achieving the clear objectives of the United Nations security goals in the Persian Gulf? Or do we repudiate the President, repudiate the US policy, and repudiate the United Nations?

It is important to note the reasons we believe our approach is the right one. The proponents of S.J. Res. 1 assert that Iraq is uniquely succeptible (sic) -- uniquely susceptible to economic sanctions and that we should give those sanctions more time. It may be correct that Iraq is unique. But the best evidence available to the United States and its allies and indeed to the US Senate, in my judgment, shows that it is not so unique that economic sanctions standing alone, standing alone, will reverse Iraqi aggression in Kuwait.

As CIA Director Webster stated in his letter to the Chairman of the House Armed Services Committee dated January 10th of this year, quote, "Our judgment remains that even if sanctions continue to be enforced for an additional six to twelve months, economic hardship alone is unlikely to compel Saddam Hussein to retreat from Kuwait or cause regime-threatening popular discontent in Iraq," end quote.

Today the Senate in S. 407, at the request of myself, the Republican leader and others -- and indeed joined in by the distinguished Majority Leader and presided over by the Chairman of the Intelligence Committee, the senator from Oklahoma, Mr. Boren -- received much the same information in a greatly expanded version and providing the opportunity for questioning by the in excess of I believe 50 to 60 senators present.

The proponents of S.J. Res. 1 say, "More time, but no authorized threat of force." We say time without threat of force is of no value and may indeed be counterproductive to the UN coalition and its forces. The proponents of S.J. Res 1 say, "More time." And we ask, "How much more time?" And then a silence ensues. The proponents of S.J. Res 1 say they support the President and his policy, but they just wish to give sanctions alone an indefinite chance. We believe that peaceful means have a far greater chance of success now if there is no doubt, no doubt, that other means are authorized, including the use of force.

Mr. President, we all hope -- and indeed, in the privacy of our prayers -- that there will be no further acts of aggression, no more bloodshed in the Persian Gulf. We all hope and pray that Saddam Hussein will understand that he must withdraw from Kuwait. The sponsors of this resolution, however, believe that we as a nation must stand together with the President if Saddam Hussein is to clearly and unequivocally get that message. This fact, if there is to be any truly long-term solution to this crisis without conflict, has got to be made unequivocally clear -- unequivocally clear.

I urge each of my colleagues to give deep and serious thought and consideration to the issues before us, as we are doing, and to support this resolution which today is laid before the Senate. We wish the Secretary General of the United Nations the best of good fortune. But in this 11th hour, no message, no messenger, can be more decisive than a decisive action by the Congress of the United States in support of the President of the United States and the United Nations. If we fail, if a conflict ensues, future generations will search forever to the answer to that question: Could bloodshed have been avoided had Congress had acted in support of the United States and the United Nations.

Thank you.

END

- Thursday, January 10, 1991
House of Representatives Debate: Rep. Robert Michel
Transcript ID: 670818 (175 lines)

UNITED STATES HOUSE OF REPRESENTATIVES DEBATE
ON THE PERSIAN GULF CRISIS AND THE USE OF FORCE

REMARKS BY REPRESENTATIVE ROBERT H. MICHEL (R-IL)

REP. MICHEL: Mr. Speaker, I'm going to yield myself such time as I may consume. And at the conclusion of my remarks, we'll devote -- we're going to have a system of rotating -- managing on this side for the time being. The distinguished ranking member of the Foreign Affairs Committee then, Mr. Broomfield, will manage the time.

SPEAKER: The gentleman from Illinois is recognized.

REP. MICHEL: I ask the Speaker to revise and extend my remarks.

SPEAKER: Without objection, so ordered.

REP. MICHEL: May I first pay my compliments to the distinguished Majority Leader for the tenor of his remarks. He's the Majority Leader in this body. I happen to be the Minority Leader.

Later on, we're going to be supporting differing resolutions because we have a difference of views on this. But I would applaud and certainly subscribe to the thought -- to the expression of the distinguished Majority Leader that after all the debate is over and it has been concluded, we will abide by the will of the majority when all is said and done. That's our system.

And even if it carries by one vote, that's the way we operate in this country -- to give everybody an opportunity to have their say. And I am happy and proud that the resolution which I support -- the bipartisan resolution is one that's in the form of a joint resolution. That would obviously go to the other body -- require the signature of the President. Then we would all be speaking with one voice.

But Mr. Speaker, as this debate opens and the United States of America has over 370,000 troops in the Gulf area, they're face to face with troops of a ruthless dictator, and our troops will be aware of every word we say in this debate and so will the dictator.

And the question we have to ask ourselves is this: When this debate is finished, will the House be seen as a tower of strength or as a tower of battle?

I speak from the prejudice of being a combat veteran of World War II, and those of our generation know from bloody experience that unchecked aggression against a small nation is a prelude to an international disaster.

Saddam Hussein today has more planes and tanks and, frankly, men under arms than Hitler had at the time when Prime Minister

Chamberlain (sp) came back from Munich with that miserable piece of paper, Peace in Our Time. I'll never forget that replay of that movie in my life, and I have an obligation, I guess, coming from that generation to transmit those thoughts I had at the time to the younger generation who didn't experience what we did.

Saddam Hussein not only invaded Kuwait, he occupied, terrorized, murdered civilians, systematically looted and turned a peaceful nation into a wasteland of horror. He seeks control over one of the world's vital resources, and he ultimately seeks to make himself the unchallenged anti-Western dictator of the Mideast. Either we stop him now and stop him permanently or we won't stop him at all.

Now, the President has clearly presented the reasons why we can't stand by idly in his words, and I'd quote them, "We're in the Gulf because the world must not and cannot reward aggression, and we're there because our vital interests are at stake." Now we're told by some that we must show patience. We must wait for sanctions to work. We must wait six months or a year before force is used. We must stay the course. My question is this: Stay what course? A course that allows Saddam to know he is free from surprise attack, free from sudden offensive movement for six months or a year or more? And I guess to you who advocate that course, I would have to ask you to do -- what you would do about the attitude of the American people in that interval period of time. How long is the American people -- will the American people put up with that? How long with that delicate coalition that we have pulled together currently? How long will they stay that kind of course -- not to mention our troops abroad and an extended period of time, and in that kind of an environment, when frankly over an extended period of time we'd have to be thinking seriously of rotation and all that that implies. So I think during the course of this debate, those who advocate that course are going to have to answer some of those questions.

Patience and delay can be virtues when they help bring about military or diplomatic goals. But when patience and delay become foreign policy goals in themselves, as I fear they have with some of our colleagues, they're no longer virtues.

I understand principal pacifism, which holds that nothing justifies the taking of a human life. I grew up in that tradition, and I respect it because World War II caused me to come grips with the very same question in my mind and in my conscience. What I can't understand is a policy that asks us to believe that after six months or a year the alliance will still hold, our sophisticated equipment will be in better shape than it is now after frying in the desert, our troops will have higher morale and better readiness.

Such a policy is not just an uncertain trumpet to the men and women in our armed forces. It is a veritable brass choir of

indecision, doubt and confusion. Patience at any price is not a policy; it's a cop-out.

We will be told by those who want delay that they don't want to risk American lives in combat. Let no one in this chamber or anyone else lecture me on the horrors of war.

And I see my friend, the gentleman from Florida, and several others, the gentleman from Ohio, Mr. Wylie, similarly who know of all the horrors of war. We've seen it at its worst. The memory will remain within our heart and minds for the rest of our lives. It's Saddam Hussein who will be responsible for those who make the supreme sacrifice and Saddam Hussein himself.

If Saddam convinces his neighbors he can survive this crisis, he'll become something more than a former hit man with delusions of grandeur. He'll be someone who has triumphed over a worldwide coalition. And if you seriously think that you wouldn't be -- that that wouldn't be a sinister event in the history of the 20th century, I think you're fooling yourself.

In our democracy, we elect our President to speak and act for us, primarily in foreign affairs, that our message might be clear and unmistakable. And we in the Congress have our role to play, and we can't shirk our responsibility. This is the time, it seems to me, for us to rally around the Chief and give him the support he deserves for our well-crafted bipartisan resolution.

And may I, in conclusion, thank my colleagues, my co-sponsors of this joint bipartisan resolution for the excellent work that's been done on this side of the aisle and on our side of the aisle by those who are listed as sponsors of our bipartisan resolution.

I hope the debate will go forward on a very high plane. As the distinguished Majority Leader said, this is the time to really come to grips with probably one of the most important issues we'll have, certainly, in this Congress and, for some of us, during the tenure of our Congress here. We hope it's conducted on a high plane and, ultimately, then come to a resolution of it sometime Saturday and will abide by the will of the majority. Hopefully, that will be in strong support of the action the President has taken thus far and feels he may have to take in the future.

I yield back. (Applause.)

END

~~SECRET~~ ATTACHMENT

THE SECRETARY OF THE TREASURY
WASHINGTON

August 14, 1990

MEMORANDUM FOR THE HONORABLE BRENT SCOWCROFT
ASSISTANT TO THE PRESIDENT
FOR NATIONAL SECURITY AFFAIRS

FROM: JOHN E. ROBSON
ACTING SECRETARY OF THE TREASURY

SUBJECT: Report of the Economic Analysis Group on the Oil Supply Situation

As you requested of Secretary Brady, attached is a report from the Economic Analysis Group which studied the effects on the U.S. and world economies of various oil supply and oil price scenarios. This report is an interagency effort reflecting extensive participation by many agencies (see cover page of report). There was exceptional cooperation and intense work by all parties in producing this report.

We have considered different scenarios, primarily keyed off the supply interruption of Kuwaiti and Iraqi oil. The scenarios assume varying supply gaps over timeframes ranging up to one year.

I should note a few things we have not tried to do in this study:

- Consonant with our assignment to perform an economic analysis, and in light of the many uncertainties, we have not made judgments about which scenarios are more likely or attempted to draw policy conclusions.

- We have not tried to capture certain indirect economic effects of the Mid-East developments which are not factored into the existing economic models. For example, possible effects on financial markets are not addressed.

- We have focused our study of changes on the broader crude oil prices, not on possible impacts in particular sectors (e.g., impact on jet fuel price and the aviation industry).

Finally, while it is accurate to represent that there is consensus among the many participating agencies on the data contained in the report, one agency representative would have preferred a different format for presentation or chosen other supply gap scenarios.

Given the dynamic nature of events, let us know if you feel additional work would be useful.

cc: Secretary Brady

~~SECRET~~ ATTACHMENT

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

August 14, 1990

Honorable John H. Sununu
Chief of Staff
The White House
Washington, D. C. 20500

Dear ~~Governor~~ John Sununu:

Secretary Brady has specifically asked that I deliver to you a copy of the Economic Analysis concerning the oil supply situation which we are delivering at the same time to General Scowcroft.

Sincerely,

John

John E. Robson

Enclosure

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Report of the

ECONOMIC ANALYSIS GROUP

on the

IMPACT OF THE OIL SUPPLY SITUATION

August 14, 1990

Participating Agencies:

Central Intelligence Agency
Council of Economic Advisors
Economic Policy Council
Department of Energy
Energy Information Administration
Federal Reserve Board
National Security Council
Office of Management and Budget
Office of the Vice President
Department of State
Department of the Treasury
White House Office of Policy Development

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IMPACT OF THE OIL SUPPLY SITUATION

Contents

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EXECUTIVE SUMMARY

Against the background of the loss 4.3 million barrels per day ("mmbd") of Kuwaiti and Iraqi oil, this report analyzes the economic effects of several alternative oil supply scenarios. These scenarios cover a range of net supply losses, without addressing the likelihood of any particular scenario.

Offsets to Loss of Supply

- Increased Production: There is enough available unused oil production capacity worldwide to offset the loss of Kuwaiti and Iraqi oil, assuming all such capacity were brought on stream.

- Excess Stocks: Substantial excess stocks exist worldwide which could be used to make up a supply shortfall.

- The combination of potential increased production and potential stock usage more than equals the 4.3 mmbd loss from Kuwait and Iraq. However, this paper addresses only the technical availability of production capacity and stocks to offset supply losses. It does not address the likelihood that these potential sources of supply will actually come on stream on a timely basis.

Reduced Demand

- Demand will decrease due to lower economic activity, fuel switching and reduced consumption. However, any stockpiling or hoarding could offset demand reductions.

Domestic Economic Effects

- The economic effects of loss of Kuwaiti and Iraqi oil will depend principally on the duration of the supply loss and the extent to which the loss is offset by other supplies and various market factors.

  -- A three month supply loss of 1.5 mmbd (about 1/3 of combined Kuwait-Iraq supply) would have a short-term effect on economic growth, but the economy would be expected to recover quickly with a negligible effect when averaged over a full year.

  -- A six month net supply loss of 1.5 mmbd would likely reduce annual growth by 0.2-0.5%, increase inflation by 0.4-0.7%, and increase unemployment by 0.1-0.2%.

  -- A full year net supply loss of 2.9 mmbd (about 2/3 of combined Kuwait-Iraq supply) would likely reduce growth by 1.0-2.1%, increase inflation by 1.6-3.1%, and increase unemployment by 0.4-0.8%.

Global Economic Effects

o Other Major Industrial Countries ("G-6"):

-- Lower real GNP growth: Growth would be reduced by 0.5% for a 1.5 mmbd loss over 1 year; 1.0% for a 2.9 mmbd loss over 1 year. Negative consequences are less than for the U.S. because of a smaller energy to output relationship for the G-6.

-- Inflation: Inflation rates would rise 0.75% for the 1.5 mmbd loss, and 1.3% for the 2.9 mmbd loss. Smaller increases for G-6 are due to lower energy use relative to GNP, smaller increases in retail prices due to higher excise taxes, and currency appreciation.

-- Current accounts: Japan's surplus would be reduced noticeably. The U.K. as a net exporter would see a moderately smaller deficit.

o Developing Countries (Impact on Current Account Balances):

-- Losers: Among the larger economies of the 20 losers, Philippines and Turkey would be hardest hit. Other major losers would include: Brazil, India, Korea and Ivory Coast.

-- Winners: Nigeria and Venezuela would be primary beneficiaries. Other winners would include: Egypt, Mexico, Colombia and Indonesia.

o Eastern Europe:

-- Increased oil import bill would sharply reduce GDP, increase inflation, and worsen current accounts; it would also cut deeply into debt service capability.

-- Soviet shift to both world prices and hard currency settlement for oil imports in 1991 would greatly intensify these effects.

o Soviet Union:

-- Soviet oil export revenues would benefit greatly, as would gas export revenues ($3 billion last year) which rise by roughly same percentage as oil prices.

I. NET SUPPLY LOSS AND PRICE SCENARIOS

This report presents the results of USG analysis of the potential economic effects from the loss of Persian Gulf oil supply on the U.S. and selected other countries. For reference, daily oil exports before the Iraqi invasion were 4.3 million barrels per day ("mmbd") from Iraq and Kuwait. These scenarios were arbitrarily selected to cover a range of net supply losses, from 0 to 6.2 mmbd, without addressing the likelihood of any particular scenario. The scenarios could result from a combination of supply losses, offsetting production increases and demand reductions.

Based on current government and commercial stocks and production capacity, the technical potential exists to more than offset any of these supply losses. Actual offset will, of course, depend upon decisions by governments and commercial holders of stocks, and by producers. This study does not address these decisions.

Scenario 1 assumes, as a baseline scenario, that other supply sources fully offset the loss of Kuwaiti and Iraqi oil.

Scenarios 2A-2D assume net supply losses from 1.5 to 4.3 mmbd.

Scenario 3 assumes a net supply loss of 6.2 mmbd.

SUMMARY OF NET SUPPLY LOSS SCENARIOS

Scenario	Net Loss in Oil Supply (MMBD)	Duration of Net Loss	Estimated Price of Oil* Range	Estimated Price of Oil* Point**
1	0 mmbd	N/A	$19-25	$19***
2A	4.3 mmbd	1 yr.	$31-49	$37
2B	2.9 mmbd	1 yr.	$25-37	$31
2C	1.5 mmbd	1 yr.	$21-27	$25
2D	1.5 mmbd	6 mos.	$20-25	$23
3	6.2 mmbd	1 yr.	$38-70	$47

* Represents estimate of weighted average of worldwide oil prices.

** Oil price used in analysis of economic impacts.

*** Low end of range is used in this scenario to define a baseline case of $19.

Observations

- The use of price ranges is intended to reflect the significant market uncertainties that exist in predicting behavior resulting from oil supply disruptions of this nature.

- Recent historical crude oil prices are shown for reference on the following page.

II. OFFSETS TO SUPPLY LOSS

Both supply and demand for oil will adjust to the loss of supply from the Persian Gulf. The principal factors are discussed below. Actual responses will likely reflect a combination of all factors.

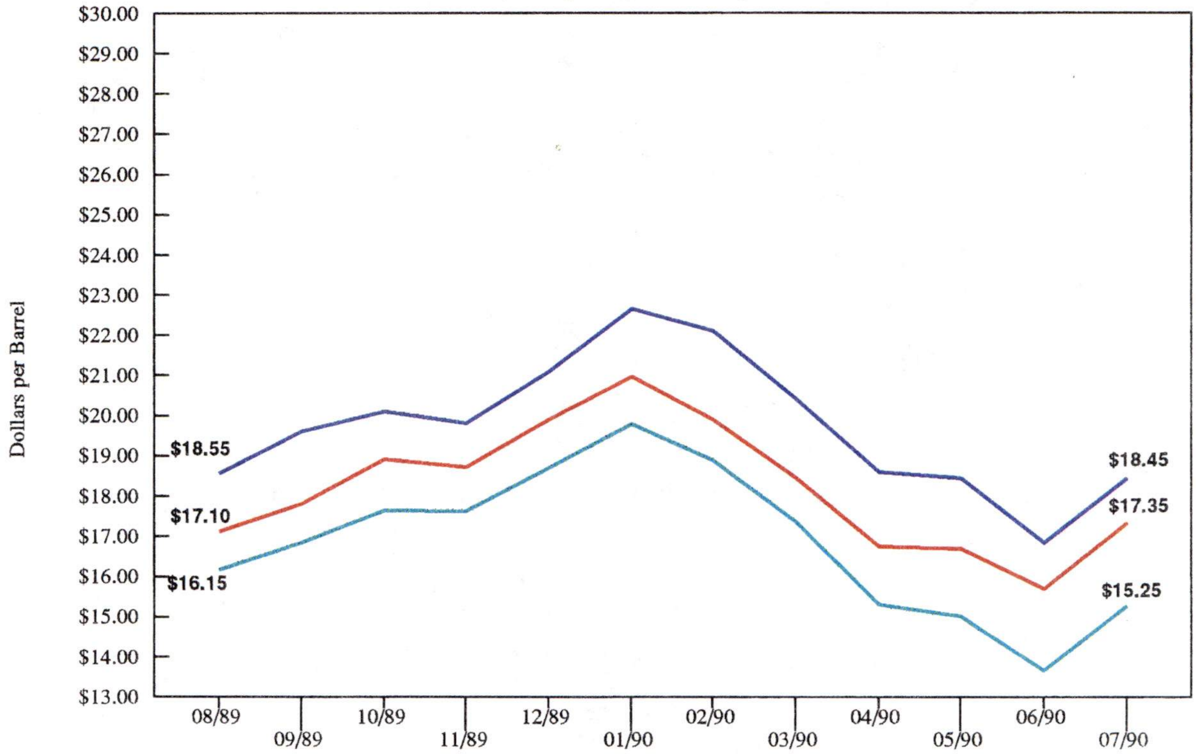
A. Supply Responses

Excess Production Capacity

Sources of potential supply are detailed below in Table 1, which presents estimates of both sustainable capacity (production sustainable for a year after a 90 day buildup) and "surge" capacity (production levels achievable within 30-90 days but which may not be sustainable beyond 1-2 months).

Crude Oil Prices

(monthly average, August 1989-July 1990)



(daily, July 30-August 13)

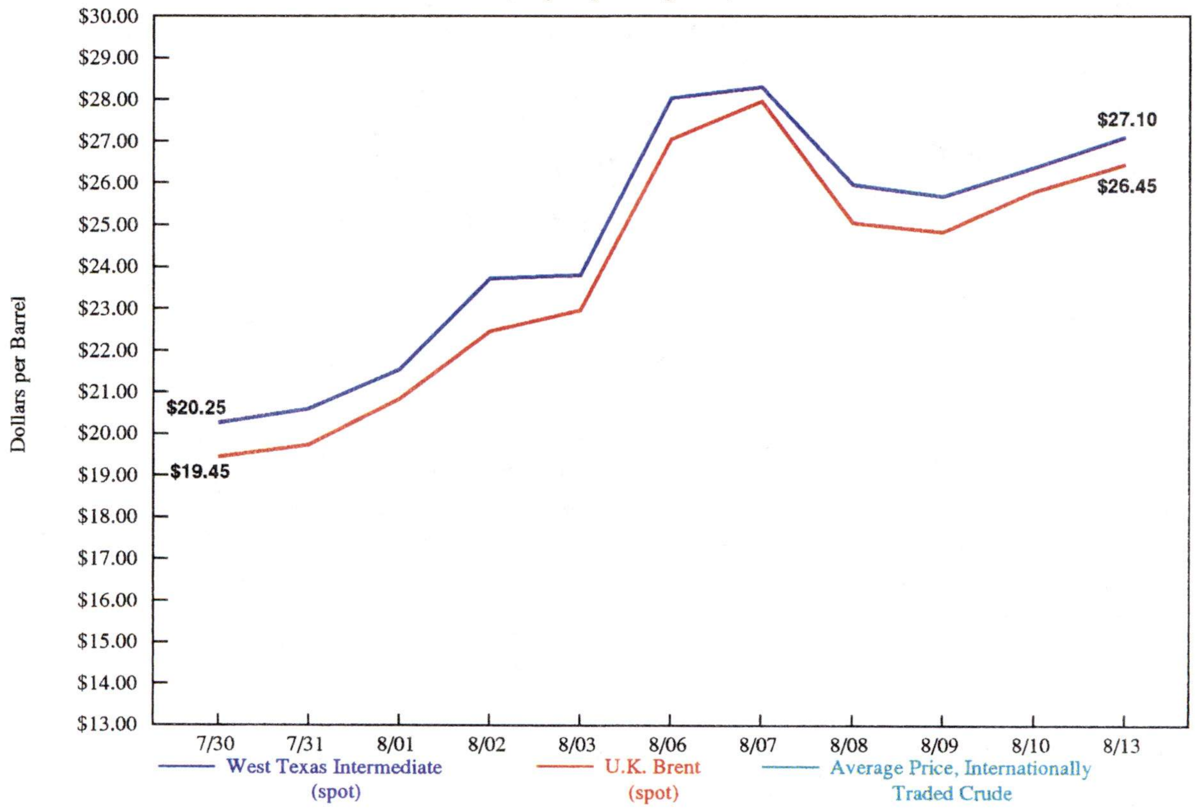


TABLE 1
OIL PRODUCTION AND EXCESS CAPACITY 1/
(millions of barrels per day)

Country	Production July	Production August	Capacity Sustained	Capacity Excess	Capacity Additional Surge
OPEC					
Saudi Arabia	6.2	6.2	8.2	2.0	.2
Iran	2.9	3.0	3.2	0.2	.2
U.A.E.	2.1	1.7	2.3	0.6	.2
Qatar	0.4	0.4	0.4	---	
Algeria	1.1	1.1	1.2	0.1	
Ecuador	0.3	0.3	0.3	---	
Gabon	0.3	0.3	0.3	---	
Indonesia	1.4	1.4	1.4	---	
Libya	1.3	1.3	1.6	0.3	
Venezuela	2.3	2.3	2.5	0.2	
Nigeria	1.6	1.6	1.8	0.2	.1
SUBTOTAL	19.9	19.5	23.3	3.6	.7
Iraq	3.0	0.4			
Kuwait	1.8	0.0			
TOTAL	24.7	19.9	23.3	3.6	.7
United States	8.8	8.8	9.0	0.2	
Other	19.4	19.4	19.9	0.5	
TOTAL	52.9	48.1	52.2	4.3	.7

1/ Technically achievable production levels which do not reflect considerations such as availability of tankers and qualified personnel, and without regard to policy constraints. The conditions required for achievement of these production levels are not analyzed in this report, nor is Iraqi and Kuwaiti capacity considered.

Observations

- Enough worldwide oil production capacity existed as of August 2 to offset the loss of Kuwaiti and Iraqi oil supplies (4.3 mmbd), if all available unused capacity were brought on stream.

- "Surge" production levels are levels that can only be sustained for 1-2 months without damaging fields; output would decline thereafter until maintenance operations were performed.

- o Existing world-wide capacity could be substantially augmented over time through investment. For example, additional investment could enable Saudi Arabia to produce an additional 0.5 million barrels per day within 6 months, and an additional 0.25 million barrels within 1 year. The extent of any potential capacity expansion would depend on expectations for sustained higher prices.
- o Any material capacity expansion in the United States would likely require sustained prices above $25 per barrel.

Stocks

Part of any supply response to a disruption of exports from the Mideast would involve changes in petroleum stocks. The following table sets forth current estimates of worldwide stocks.

TABLE 2
ESTIMATED EXCESS PETROLEUM STOCKS*
(millions of barrels)

United States (as of August 3, 1990)

	MMB
Commercial Stocks	
Crude Oil	84
Gasoline	15
Distillate	37
Other	76
SUBTOTAL	212
Strategic Petroleum Reserve (SPR)	587
TOTAL	799

Total Market Economies (as of June 30, 1990)

	MMB
Commercial Stocks	1640
Government Stocks	850
TOTAL	2490

* "Excess" amounts are defined as those in excess of the roughly 3,100 mmb in minimum operating inventory levels. However, before minimum operating inventory levels are reached, substantial disruption of the refining and distribution system would occur. Thus, the full amount of "excess" stocks would probably not be usable.

Observations

o If half of excess commercial stocks and all government stocks were usable, worldwide excess stocks would be adequate in aggregate to cover shortfalls for the following periods:

Daily Shortfall	Excess Commercial Stocks	Government Stocks	Total
4.3 MMBD	.5 yrs.	.5 yrs.	1.0 yrs.
1.5 MMBD	1.5 yrs.	1.6 yrs.	3.1 yrs.

o Behavior affecting commercial stocks in the current environment is exceptionally difficult to forecast, as it is dependent on a wide range of variables, including in particular expectations of further price changes.

Demand Responses

o The economic models used to forecast the price of oil attempt to reflect all changes in demand that would result from a net supply shortfall and the resulting price increases. These "demand responses", largely market driven, can be analyzed as follows:

1. Reduced demand due to lower economic activity: Higher oil prices mean reduced growth which means lower demand for oil.

2. Fuel switching: As the price of oil rises, certain fuel users switch from oil to alternative fuels. Worldwide switching capacity has been estimated by the International Energy Agency at roughly 0.5 mmbd.

3. Reduced oil use: Consumers use less oil as prices increase.

III. ESTIMATED EFFECTS ON THE U.S. ECONOMY

An increase in the price of oil brought about by a temporary supply disruption would temporarily reduce economic growth, raise inflation and increase the trade deficit. These impacts occur for the following reasons:

o Higher oil prices would reduce real incomes and wealth and thereby reduce consumption and investment expenditures.

- Higher oil prices would also raise the prices of many energy related products and thereby increase consumer price inflation.

- Higher oil prices would raise the dollar value of U.S. imports and increase the trade deficit.

The magnitude of these impacts depends on the size and the duration of the supply reduction. Hence, the alternative scenarios -- which differ in size and duration -- can be expected to have widely different effects on GNP growth, inflation and the trade deficit. The magnitude of the effects could also strongly depend on the policy response. Regulatory interventions would exacerbate the effects, as they did in the 1970s; none are assumed in these scenarios. U.S. short-term interest rates are assumed not to change in response to the oil price rise. Fiscal policy is also assumed to be unchanged, other than through the automatic effects on government outlays and revenues brought on by a changed economy.

EFFECTS ON THE U.S. ECONOMY OF ALTERNATIVE SCENARIOS
1990 Third Quarter through 1991 Second Quarter
(percentage points unless otherwise identified)

Scenario	2A (4.3MMBD/ 1 yr)	2B (2.9MMBD/ 1 yr)	2C (1.5MMBD/ 1 yr)	2D (1.5MMBD/ 6 mos)	3 (6.2MMBD/ 1 yr)
Oil Price (Midpoint)*	$37	$31	$25	$23	$47
Reduction in Real GNP Growth	1.7-3.4	1.0-2.1	0.4-0.8	0.2-0.5	3.0-5.9
Increase in Inflation (CPI)	2.6-5.2	1.6-3.1	0.7-1.4	0.4-0.7	3.9-7.8
Increase in Unemployment (1991-Q2)	0.7-1.3	0.4-0.8	0.2-0.3	0.1-0.2	1.1-2.2
Increase in Trade Deficit (billion $)	30-50	20-30	5-15	2-7	40-80

* Figures represent average over next 12 months. Midpoints of estimated ranges are not predicted as "most likely".

Observations

o Experience with previous oil shocks provides a guide to the magnitude of offsets, but there is considerable uncertainty about any estimate. The estimates in the above table are stated in terms of ranges that reflect this uncertainty.

o The econometric models used in this study reflect past experience and thus may overstate the impact on the U.S. economy, because the resiliency of the economy to oil price increases has increased.

o A full-year loss of 4.3 mmbd would be expected to reduce real GNP growth by about 1-1/2 to 3-1/2% and increase inflation by 2-1/2 to 5% over four quarters. Growth would begin to pick up again in later 1991.

o With a supply loss of shorter duration, economic growth would recover more quickly and the average effects over a year would be much smaller:

-- A six month loss of 1.5 mmbd would be expected to reduce growth by 0.2 to 0.5 percent over the four quarters, roughly half of the effect of a full year supply loss.

-- A three month supply loss of the same magnitude would have a short-term effect on economic growth, but the economy would be expected to recover quickly with a negligible effect when averaged over a full year.

o The trade deficit would be expected to rise by about $30 billion to $50 billion with a full-year 4.3 mmbd disruption. A full-year 1.5 mmbd loss would be likely to increase the trade deficit by about $5 billion to $15 billion.

IV. ESTIMATED EFFECTS ON THE GLOBAL ECONOMY

A. OTHER MAJOR INDUSTRIAL COUNTRIES

The effect of oil supply loss and associated increases in the price of oil would lower real GNP growth, raise inflation and worsen the aggregate current account balance for the other major industrial countries ("G-6 countries").

Growth (See Appendix 1, Table 1)

- o Prior to the Middle East crisis, aggregate GNP growth in the G-6 over the next four quarters was projected to average 3 percent, with the strongest growth in Germany and Japan, and the weakest in the UK and Canada.

- o For a 1.5 mmbd oil supply loss, growth would fall 0.5%.

- o For a 2.9 mmbd loss, growth would decline about 1.0%.

- o The negative consequences of higher world oil prices for real economic growth in the G-6 would likely be less than for the United States because of a smaller energy to output relationship for the G-6.

Inflation (See Appendix 1, Table 2)

- o Inflation rates, assuming a 1.5 mmbd supply loss, would rise about 0.75% on average in G-6 countries.

- o A 2.9 mmbd supply loss would produce a rise in inflation rates of about 1.3%.

- o These increases for the G-6 would likely be smaller on average than for the United States because of lower energy use relative to GNP, smaller percentage increases in retail energy prices owing to a considerably higher excise tax component in prices and a probable rise in these countries' currencies relative to the dollar.

Current accounts (See Appendix 1, Table 3)

- o Japan, dependent on imports for most of its energy needs, would be hit the hardest.

- o UK, as net oil exporter, would see a moderately smaller deficit.

B. DEVELOPING COUNTRIES

This study examined 30 oil-producing and oil-importing developing countries (LDCs) to identify the financial effects of oil price increases. Appendix 2 shows the "winners" and "losers" among these 30 countries.

"LOSERS"

- o The magnitude of the consequences from higher priced oil varies dramatically among the 20 "losers" depending on the scenario examined. Economic effects will be heavily influenced by each country's policy response and by the availability of additional external financing.

Selected LDC "Losers"		
Brazil	India	Ivory Coast
Korea	Philippines	Turkey

- Among these six, relative to base GDP, the largest effect of an oil price increase will be felt by Turkey and the Philippines.
- Most of the 20 losers would require additional balance of payments financing from private or official sources.
- Others (e.g., Korea, Hong Kong, Singapore, Thailand) should be able to finance themselves largely by drawing down reserves, tapping commercial lenders, and attracting equity capital inflows, except in the case of an extreme price increase.
- Many smaller economies will suffer a large impact compared to the size of their economy (e.g., Jordan, Bolivia, and Ivory Coast), even though the absolute amount of additional financing required to cover the added import bill would be relatively small. These countries are the most likely to experience negative growth.

"WINNERS"

Selected LDC "Winners"		
Colombia	Egypt	Indonesia
Mexico	Nigeria	Venezuela

- Because of the continuing importance of oil in their economies, the relative effect of the oil price increases on Nigeria and Venezuela is particularly large.
- The relative effect for Mexico and Indonesia is less because both of them have implemented policies to reduce their dependence on oil.

- The "winners'" actual current account surpluses, however, would probably be smaller than the first round effects shown in the tables and charts would suggest. In response to higher export revenues, they would increase imports.

- Some "winners" (Argentina, Peru, and Egypt) are likely to remain in current account deficit.

C. <u>EASTERN EUROPE</u>

- Higher oil prices would reduce GDP, increase inflation, and worsen current account performance, possibly increasing external debt.

- The regional hard currency oil bill could rise as much as $1 billion in the fourth quarter of 1990 in the event of a one year loss of 2.9 mmbd, or as little as $400 million in the event of a six month loss of 1.5 mmbd.

- In addition to these effects, the pending movement to both world prices and hard currency settlement for oil imports from the Soviet Union will likely require the Eastern European countries as a group to pay the Soviets as much as $3 billion more in 1991 in the event of a one year loss of 2.9 mmbd, or as little as $1 billion in the event of a six month loss of 1.5 mmbd.

- The higher loss scenarios would put substantial pressure on reserve levels in all countries. The lower loss scenarios would be manageable for high reserve level countries such as Yugoslavia and Poland, but would strain low reserve level countries such as Romania, Hungary and Bulgaria.

D. <u>SOVIET UNION</u>

- Soviet oil export revenues benefit from price increases.

- Annual gains could range from as much as $6.0 billion in the event of a one year 2.9 mmbd loss, to barely $800 million in the event of a six month 1.5 mmbd loss.

APPENDIX 1

OTHER MAJOR INDUSTRIAL COUNTRIES

(G-7 SUMMIT ex U.S.)

Graphs and Commentary:

Effects on:

- GNP Growth
- Inflation
- Current Account Balances

Effects of Oil Supply Disruptions for each G-6 Country

Tables:

- Real GNP Growth Rates
- Inflation Rates
- Current Account Balance

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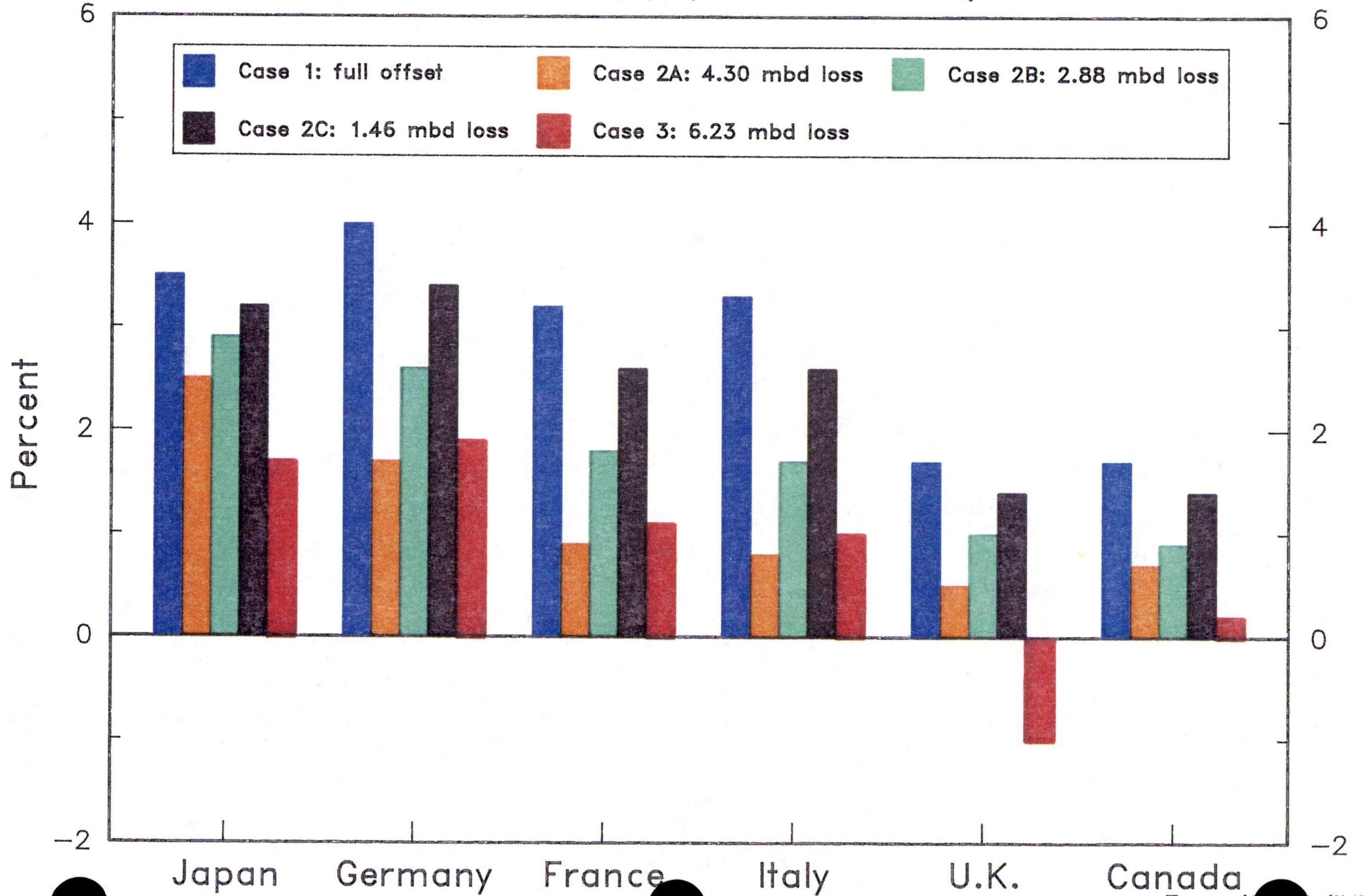
Real GNP/GDP Growth of G-7 (ex U.S.) Due to Oil Supply/Price Impacts



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G6: EFFECTS ON GNP GROWTH

- Chart shows, for each G6 (foreign Summit) country, effect of oil supply reductions and consequent oil price increases on real GNP/GDP growth for a year (1990Q3 to 1991Q2), compared with a pre-Iraq crisis baseline forecast.
- For small disruption (Case 2C: 2/3 of Iraq/Kuwait loss is offset), foreign (G-6 average) growth falls roughly 1/2 point, averaging a still respectable 2.6 percent (vice 3.1 percent).
- A smaller or shorter (3 to 6 month) disruption would probably have only transitory effects on growth in the foreign Summit countries.
- For large disruption (Case 3: loss of production from Iraq, Kuwait, Saudi Arabia, with only 1/3 of loss offset), G-6 growth is sharply curtailed, to 1 percent for year (vice 3.1 percent), although it is assumed that monetary policies outside North America would be easier in this case. Other oil supply loss cases fall in between.
- Large reductions in foreign growth would react unfavorably on U.S. via weaker U.S. exports.
- Effects on foreign industrial country GNP are generally smaller for a given disruption than on U.S., because of lower energy use in relation to GNP abroad.
- A significant slowdown or recession for G-7 would be heavy blow to non-oil developing country growth and exports.
- **NOTE:** For purposes of this graph Case 1 "full offset" is a baseline case assuming no oil interruption. The estimates of the economic effects of the various supply disruption scenarios should be interpreted as points in ranges at least as wide as those associated with the effects on the U.S. economy presented elsewhere in this report.

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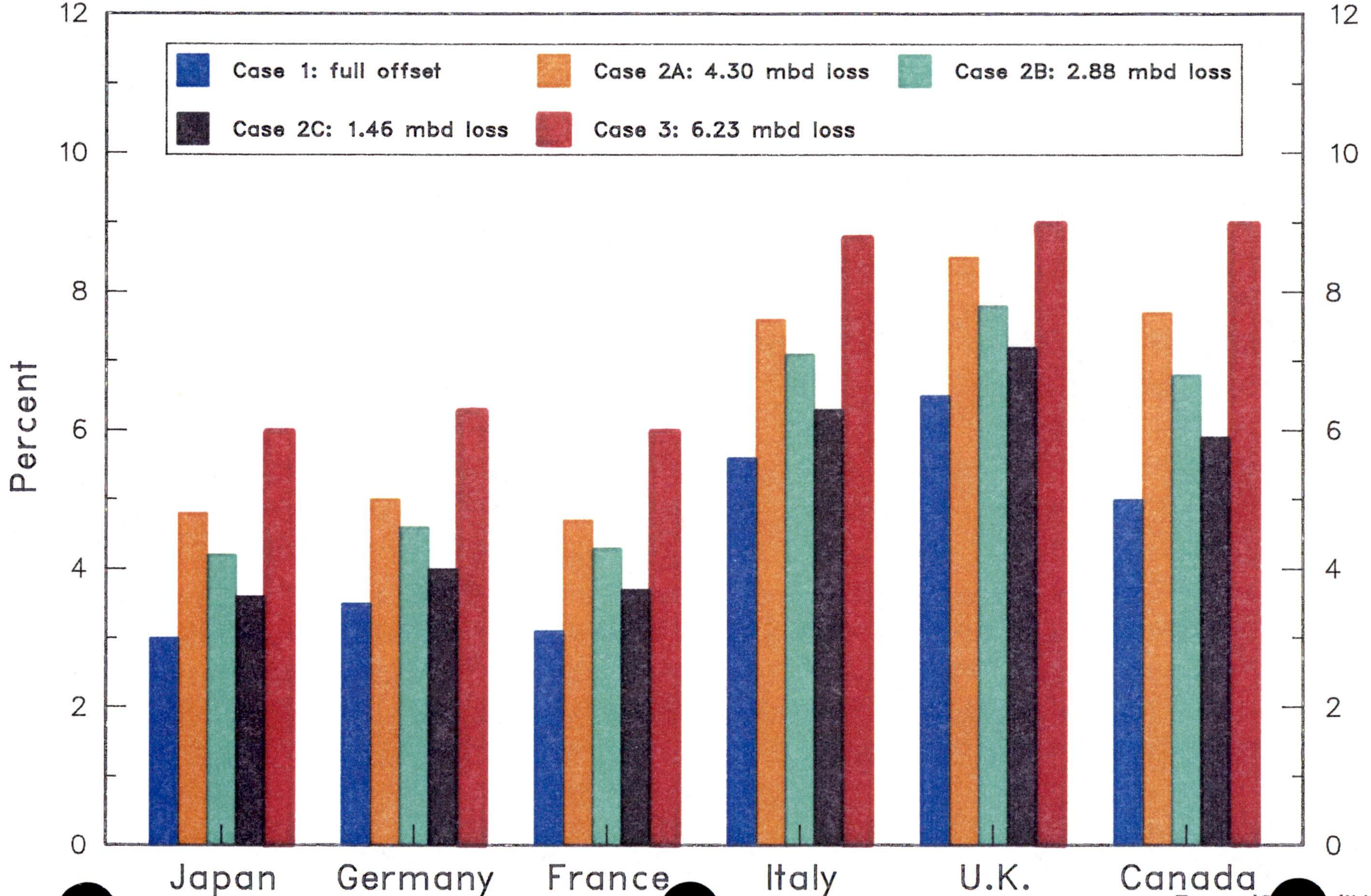
Inflation Rates of G-7 (ex U.S.) Due to Oil Supply/Price Impacts



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G6:EFFECTS ON INFLATION

- Chart shows, for each G6 (foreign Summit) country, effect of oil supply disruptions and consequent oil price increases on average inflation rate for year encompassing 1990Q3 to 1991Q2, compared to a pre-Iraq crisis baseline forecast.

- G6 inflation rates rise with increasing severity of oil supply shortages, with small shortage (Case 2C: 2/3 of Iraq/Kuwait loss is offset) raising average G6 inflation rates by about 3/4 point (to near 5 percent), and large shortfall (Case 3: loss of production from Iraq, Kuwait and Saudi Arabia with only 1/3 of loss offset) adding 3 points to G6 inflation (reaching 7 percent) under the assumption that monetary policy outside North America would be easier.

- Very small or short (3 to 6 months) disruptions would probably have only transitory effects on inflation in the G6 countries.

- Effect on these foreign industrial countries is less than for U.S., because of: (1) lower energy use in relation to GNP, (2) smaller effect on retail energy prices owing to higher excise tax component (e.g., high gasoline taxes) of retail price, and (3) the probable rise of these countries' currencies vis-a-vis the dollar (which derives in part from assumption that foreign monetary policies will be relatively less accommodating).

- If supply disruptions subsequently ceased, falling oil prices could lead to sharply lower inflation for awhile. Even if disruptions remained, with oil prices still high, inflation rates would fall in absence of new inflation pressures (e.g., from catchup wage and non-oil price increases).

- **Note:** For purposes of this graph Case 1 "full offset" is a baseline case assuming no oil interruption. As with other calculations, these estimates are rough and should not be taken as precise. It is best to think of point estimates as mid-points of a fairly wide range.

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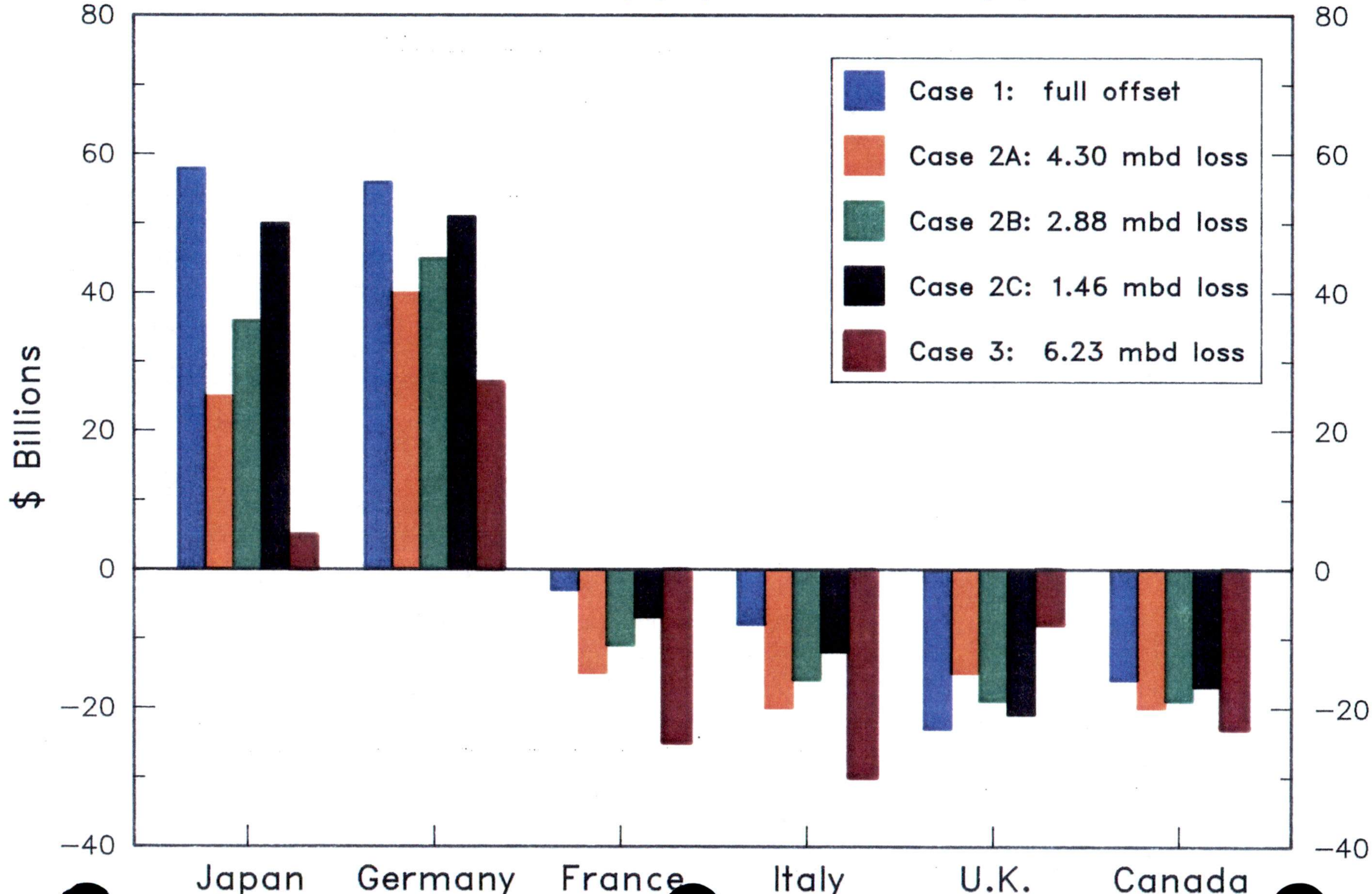
Current Account Balances of G-7 (ex U.S.) Due to Oil Supply/Price Impacts



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G-6: EFFECTS ON CURRENT ACCOUNT BALANCES

- Chart shows, for each G-6 (foreign Summit) country, effect of oil supply reductions and consequent oil price increases on current account (merchandise trade balance plus balances on services trade and international grants) for the 1990Q3 to 1991Q2 year, in billions of dollars. (As with other calculations, these rough estimates should be treated as mid-points of a fairly wide range.)

- For the G-6 countries, higher oil prices would have a significant effect on their external balances in most cases. As a net oil exporter, the UK would find its current account deficit reduced, and Canada's deficit would be little changed (with higher oil export prices balanced by weaker exports to a slow-growing U.S. market). Japan, which imports nearly all its energy, would see a large reduction in its surplus except in the small (Case 2C) shortfall case.

- **NOTE:** For purposes of this graph Case 1 "full offset" is a baseline case assuming no oil interruption. As with other calculations, these estimates are rough and should not be taken as precise. It is best to think of point estimates as mid-points of a fairly wide range.

G6: Effects of Oil Supply Disruptions

Tables 1-3 show estimated impacts of various possible oil supply disruptions on the G6 (foreign Summit country) economies. Growth, inflation and current account figures should be interpreted as the midpoint of ranges and are not intended to convey a false impression of precision.

Japan

Almost wholly dependent on imports for energy, Japan would experience a relatively large reduction in its current account surplus if a sizeable and long-lasting disruption were to occur. But Japan has shown itself able to adjust effectively and quickly to oil price increases in the past.

Germany

German growth would remain the highest (except for Japan) among the Summit countries, and its current account surplus, while falling, would remain sizeable.

France

Although likely to experience slower growth, higher inflation and current account deterioration in common with most other G7 countries, France would still have one of the lowest inflation rates in the group.

Italy

Italy's current account deficit would grow substantially, and with a large oil price increase could be somewhat more difficult to finance than the deficits of other Summit countries.

United Kingdom

UK oil production has peaked, with net oil exports down to 0.2 mmbd in 1Q90. While the UK will gain oil revenues from price increases, slowing trading partner growth and exchange rate appreciation will offset much of the gains.

Canada

As a small net oil exporter (0.3 mmbd in 1Q90), Canada would gain higher oil export revenues from an increase in oil prices. But its heavy dependence on exports to the United States (70 percent of Canadian exports) means that slower U.S. growth from oil supply disruptions would have a significant negative impact on Canada.

TABLE 1

G6: Real GNP Growth Rates
(for four quarters ending 1991 Q2)

Scenarios:	1	Assumed Oil Supply Reductions 2A (4.30mmbd)	2B (2.88mmbd)	2C (1.46mmbd)	3 (6.23mmbd)
Japan	3.5%	2.5%	2.9%	3.2%	1.7%
Germany	4.0	1.7	2.6	3.4	1.9
France	3.2	0.9	1.8	2.6	1.1
Italy	3.3	0.8	1.7	2.6	1.0
UK	1.7	0.5	1.0	1.4	-1.0
Canada	1.7	0.7	0.9	1.4	0.2
G6 Average	3.1	1.5	2.1	2.6	1.0
Memo:G6 Average Deviation from baseline scenario 1		-1.6	-1.0	-0.5	-2.1

NOTE: For purposes of this table Case 1 "full offset" is a baseline case assuming no oil interruption. The estimates of the economic effects of the various supply disruption scenarios should be interpreted as points in ranges at least as wide as those associated with the effects on the U.S. economy presented elsewhere in this report.

TABLE 2

G6: Inflation Rates
(for four quarters ending 1991 Q2)

Scenarios:	1	Assumed Oil Supply Reductions 2A (4.30mmbd)	2B (2.88mmbd)	2C (1.46mmbd)	3 (6.23mmbd)
Japan	3.0%	4.8%	4.2%	3.6%	6.0%
Germany	3.5	5.0	4.6	4.0	6.3
France	3.1	4.7	4.3	3.7	6.0
Italy	5.6	7.6	7.1	6.3	8.8
UK	6.5	8.5	7.8	7.2	9.0
Canada	5.0	7.7	6.8	5.9	9.0
G6 Average	4.1	6.0	5.4	4.8	7.1
Memo: G6 Average Deviation from baseline scenario 1		+0.9	+1.3	+0.7	+3.0

NOTE: For purposes of this table Case 1 "full offset" is a baseline case assuming no oil interruption. As with other calculations, these estimates are rough and should not be taken as precise. It is best to think of point estimates as mid-points of a fairly wide range.

TABLE 3

G6: Current Account Balances
($ billions for four quarters ending 1991 Q2)

Scenarios:	1	Assumed Oil Supply Reductions 2A (4.30mmbd)	2B (2.88mmbd)	2C (1.46mmbd)	3 (6.23mmbd)
Japan	$58	$25	$36	$50	$ 5
Germany	56	40	45	51	27
France	-3	-15	-11	-7	-25
Italy	-8	-20	-16	-12	-30
UK	-23	-15	-19	-21	-8
Canada	-16	-20	-19	-17	-23
G6 Average	64	-5	17	44	-54
Memo:G6 Average Deviation from baseline scenario 1		-69	-47	-20	-118

NOTE: For purposes of this table Case 1 "full offset" is a baseline case assuming no oil interruption. As with other calculations, these estimates are rough and should not be taken as precise. It is best to think of point estimates as mid-points of a fairly wide range.

APPENDIX 2

DEVELOPING COUNTRIES

- Overview of Developing Country Outlook
- Tables:
    - Initial Impact of Average Oil Price (Cases 2A, 2B, 2C, 3)
- Charts and Commentary:
    - LDC Losers
    - LDC Winners
    - Impact as Percent of Base GDP

OVERVIEW OF DEVELOPING COUNTRY OUTLOOK

- The initial balance of payments effects of the scenarios were examined for 30 oil-producing and oil-importing less developed countries (LDCs), including selected heavily-indebted middle income countries, "front-line" states in the Iraq-Kuwait conflict, large South Asian countries, dynamic East Asian economies (DAEs), and Sub-Saharan African states.

- The effects of the oil price increases on growth and inflation will depend on the countries' policy responses to their increased oil revenues or expenditures and, in the case of the "losers", on the availability of additional financing. As substantial uncertainties exist in this regard, it was not possible to make meaningful estimates of the growth and inflation effects. As a proxy for the impact on growth, however, the estimated balance of payments impact for each country is expressed as a percentage of its base GDP.

- The first LDC chart shows the current accounts for selected "losers" in Case 1 (the base), Cases 2A-C, and Case 3. The current accounts are expressed in absolute dollar terms and as percentages of GDP. The second chart shows the same effects for selected "winners". The final chart expresses the incremental first round current account effects as a percentage of base GDP for both "winners" and "losers".

  -- Current accounts expressed in dollar terms indicate the financial impact on the LDCs.

  -- The current accounts expressed as a percentage of GDP help capture the magnitude of the economic impact from the LDCs' perspective.

  -- The incremental current account gains or losses expressed as a percentage of GDP provide a measure of the relative size of the economies' first round gain or loss of consumption/investment potential. These ratios suggest rough orders of magnitude of the impact of those gains and losses on their GDP growth rates.

- The tables show calculations for all 30 countries examined for Cases 2A-C and 3.

  -- Case 2D, a 6-month supply disturbance variation on Case 2C which is analyzed for the United States, is not covered for the 30 LDCs because LDC data do not permit this degree of precision.

"LOSERS"

o The additional oil import bill for the 20 "losers" ranges from $9 billion in Case 2C to $50 billion in Case 3.

Selected LDC "Losers"

Brazil	India	Ivory Coast
Korea	Philippines	Turkey

-- Most of the 20 will seek additional balance of payments financing from private or official sources.

-- Some "losers" (e.g., Brazil and Ivory Coast) may finance their additional oil import bill in part by building up additional arrears.

-- Others (e.g., Korea, Hong Kong, Singapore, Thailand) should be able to finance themselves largely by drawing down reserves, tapping commercial lenders, and attracting equity capital inflows, except in the case of an extreme price increase.

-- Two of the "losers" (Chile and Taiwan) could retain rough balance on their current account, even in Case 3.

o Many smaller economies will suffer a large impact compared to the size of their economy (e.g., Jordan, Bolivia, and Ivory Coast), even though the absolute amount of additional financing required to cover the added import bill would be relatively small. These countries are the most likely to experience negative growth. In Case 3, the effect would be crippling.

"WINNERS"

o The 10 "winners'" incremental export revenues range from $12 billion in Case 2C to $86 billion in Case 3, exceeding the incremental import bill of the LDC "losers" by substantial margins.

Selected LDC "Winners"

Colombia	Egypt	Indonesia
Mexico	Nigeria	Venezuela

- The "winners'" actual current account surpluses, however, would probably be smaller than the first round effects shown in the tables and charts would suggest. In response to higher export revenues, they would increase imports.

- In the more extreme price scenarios, the winners' demand for industrialized countries' products could increase significantly, with possible secondary effects for the industrialized countries' demand for non-oil LDC exports.

- Some "winners" (Argentina, Peru, and Egypt) are likely to remain in current account deficit.

- Because of the continuing importance of oil in their economies, the relative effect of the oil price increases on Nigeria and Venezuela is particularly large. The relative effect for Mexico and Indonesia is less because both of them have implemented policies to reduce their dependence on oil.

KEY COUNTRY "SNAP-SHOTS"

"LOSERS"

- Asian NIEs: The effect of moderate oil price rises on Hong Kong, Korea, Singapore, and Taiwan -- both in dollar terms and as a percentage of their rapidly growing economies -- should be manageable. Singapore and Taiwan have large reserves; all should be able to tap international capital markets.

- Bolivia: Rising prices would exacerbate an already weak current account situation.

- Brazil: The effects of various oil price hikes range from easily manageable to highly disruptive. Prices above $28/bbl will prompt, in the medium term, increased alcohol fuel production and substitution for imported oil.

o **Ivory Coast**: Although the absolute effects on Ivory Coast are not as large as for some other "losers", its financial situation is already precarious. Additional shocks could create further difficulties for the country's fragile adjustment program. A number of other Sub-Saharan oil importers, such as Senegal, are likely to experience similar effects.

o **Philippines**: The Philippines macroeconomic and balance of payments performance is already deteriorating. Oil price increases will stimulate pressure for increased concessional assistance, particularly from the United States in the context of the upcoming base rights renewal negotiations.

o **Thailand**: While the effects on Thailand are relatively large in absolute terms, this dynamic Asian economy has a good record of adjustment to external shocks. It should be able to finance moderate price increases in the commercial markets and from foreign investors.

o **Turkey**: This is a "front-line" state for which Iraq is a major trading partner. The tables do not fully reflect the probable first-round negative current account effects, as Turkey obtains half its oil from Iraq and has been exporting about $2 billion in goods and services to Iraq -- including $500 million in petroleum pipeline service fees.

"WINNERS"

o **Argentina**: As a marginal net oil exporter, oil price hikes would modestly cut Argentina's current account deficit and could help constrain the build-up of additional external arrears.

o **Colombia**: Price rises would ease an already quite manageable current account deficit. This would bolster the GOC's creditworthiness and lower the costs of refinancing its sovereign debt on international capital markets. Sharp price hikes would hasten Colombia's return to "voluntary" borrowing on international markets.

o **Ecuador**: Price hikes would ameliorate (or eliminate in the more extreme cases) a large current account deficit and improve prospects for a resumption of partial interest payments to commercial banks.

- <u>Egypt</u>: Egypt's slight current account gain in Case 3 would not be enough to overcome its serious financial problems, particularly its $10 billion in arrears and large projected financing gaps.

- <u>Indonesia</u>: The rapid growth of non-oil exports in response to policy reforms has already reduced the relative importance of the petroleum sector in Indonesia's economy. Indonesia would move from a slightly negative current account to an increasingly positive one. Its need in recent years for extraordinary balance of payments financing from Japan and other creditors would be reduced if not eliminated.

- <u>Mexico</u>: The larger price hikes (Cases 2A and 3) would turn a large current account deficit into an impressive surplus. A U.S. inflation-adjusted oil price above $14/bbl in the four quarters preceding July 1996 would begin to trigger additional payments to creditor banks ("value recovery") on par and discount bonds issued under the 1989-92 financing package.

- <u>Nigeria</u>: Under all scenarios Nigeria is the biggest "winner" in this survey -- whether measured in dollar amounts or as a percentage of GDP. Nigeria's campaign to win concessional treatment from the Paris Club and from its commercial bank creditors would be weakened.

- <u>Venezuela</u>: Adding to its substantial windfall from the price hikes, the GOV would benefit further from some excess capacity that it could bring on-stream. A sustained price increase would begin to trigger higher principal payments by the GOV in April 1996 to those creditor banks who select the option of oil-indexed par and discount bonds issued under the 1990 Financing Plan.

Initial Impact of Ave[illegible] Oil Price = 36.96

Case 2A
August 14, 1990

	Base Current Account ($ Mil.)	Base CA as Percent of GDP	Impact on "Winners" ($ Mil.)	Impact on "Losers" ($ Mil.)	Impact As Percent of Base GDP	Revised Current Account ($ Mil.)	Revised CA as Percent of GDP
<u>Latin America & Caribbean:</u>							
Argentina	–1600	–2.1%	288		0.4%	–1312	–1.7%
Bolivia	–304	–6.9%		–72	–1.6%	–376	–8.5%
Brazil	–1200	–0.3%		–3597	–1.0%	–4797	–1.3%
Chile	1100	4.3%		–432	–1.7%	668	2.6%
Colombia	–820	–1.9%	1223		2.8%	403	0.9%
Ecuador	–712	–7.6%	1200		12.8%	488	5.1%
Mexico	–4800	–3.5%	8302		6.1%	3502	2.5%
Paraguay	–499	–8.7%		–58	–1.0%	–557	–9.7%
Peru	–600	–3.1%	72		0.4%	–528	–2.7%
Uruguay	–152	–2.0%		–216	–2.8%	–368	–4.8%
Venezuela	–1800	–3.5%	9966		19.3%	8166	15.1%
<u>N. Africa & Asia:</u>							
Bangladesh	–1400	–6.9%		–288	–1.4%	–1688	–8.3%
Egypt	–2500	–6.1%	1655		4.0%	–845	–2.1%
Hong Kong	1600	2.5%		–1583	–2.4%	17	0.0%
India	–7000	–2.5%		–3453	–1.2%	–10453	–3.7%
Indonesia	–1700	–1.9%	6083		6.6%	4383	4.8%
Jordan	–206	–4.5%		–504	–10.9%	–710	–15.6%
Korea	1500	0.8%		–6763	–3.5%	–5263	–2.7%
Malaysia	–690	–2.0%	2590		7.6%	1900	5.5%
Morocco	–452	–1.8%		–719	–2.9%	–1171	–4.7%
Pakistan	–1959	–4.9%		–1079	–2.7%	–3038	–7.6%
Philippines	–1387	–2.8%		–1799	–3.7%	–3186	–6.5%
Singapore	1200	4.0%		–2158	–7.2%	–958	–3.2%
Taiwan	8800	6.0%		–3165	–2.2%	5635	3.9%
Thailand	–2700	–5.2%		–2302	–4.4%	–5002	–9.6%
Turkey	200	0.3%		–2878	–4.6%	–2678	–4.3%
<u>Sub-Saharan Africa:</u>							
Ivory Coast	–1177	–12.7%		–216	–2.3%	–1393	–15.0%
Kenya	–506	–6.0%		–288	–3.4%	–793	–9.4%
Nigeria	–1459	–4.7%	11263		36.1%	9804	28.0%
Senegal	–158	–3.4%		–65	–1.4%	–223	–4.8%
TOTAL	–21380		42642	–31633		–10371	

Initial Impact of Average Oil Price = 31.44

Case 2B
August 14, 1990

	Base Current Account ($ Mil.)	Base CA as Percent of GDP	Impact on "Winners" ($ Mil.)	Impact on "Losers" ($ Mil.)	Impact As Percent of Base GDP	Revised Current Account ($ Mil.)	Revised CA as Percent of GDP
<u>Latin America & Caribbean:</u>							
Argentina	-1600	-2.1%	178		0.2%	-1422	-1.9%
Bolivia	-304	-6.9%		-44	-1.0%	-348	-7.9%
Brazil	-1200	-0.3%		-2225	-0.6%	-3425	-1.0%
Chile	1100	4.3%		-267	-1.0%	833	3.2%
Colombia	-820	-1.9%	756		1.7%	-64	-0.1%
Ecuador	-712	-7.6%	650		6.9%	-62	-0.7%
Mexico	-4800	-3.5%	4658		3.4%	-142	-0.1%
Paraguay	-499	-8.7%		-36	-0.6%	-535	-9.3%
Peru	-600	-3.1%	44		0.2%	-556	-2.8%
Uruguay	-152	-2.0%		-133	-1.8%	-285	-3.8%
Venezuela	-1800	-3.5%	6462		12.5%	4662	8.7%
<u>N. Africa & Asia:</u>							
Bangladesh	-1400	-6.9%		-178	-0.9%	-1578	-7.8%
Egypt	-2500	-6.1%	1023		2.5%	-1477	-3.6%
Hong Kong	1600	2.5%		-979	-1.5%	621	1.0%
India	-7000	-2.5%		-2136	-0.8%	-9136	-3.3%
Indonesia	-1700	-1.9%	4185		4.6%	2485	2.7%
Jordan	-206	-4.5%		-311	-6.8%	-517	-11.3%
Korea	1500	0.8%		-4182	-2.2%	-2682	-1.4%
Malaysia	-690	-2.0%	1602		4.7%	912	2.6%
Morocco	-452	-1.8%		-445	-1.8%	-897	-3.6%
Pakistan	-1959	-4.9%		-667	-1.7%	-2626	-6.6%
Philippines	-1387	-2.8%		-1112	-2.3%	-2499	-5.1%
Singapore	1200	4.0%		-1335	-4.4%	-135	-0.5%
Taiwan	8800	6.0%		-1958	-1.3%	6842	4.7%
Thailand	-2700	-5.2%		-1424	-2.7%	-4124	-7.9%
Turkey	200	0.3%		-1780	-2.8%	-1580	-2.5%
<u>Sub-Saharan Africa:</u>							
Ivory Coast	-1177	-12.7%		-133	-1.4%	-1310	-14.1%
Kenya	-506	-6.0%		-178	-2.1%	-684	-8.1%
Nigeria	-1459	-4.7%	8040		25.8%	6581	19.2%
Senegal	-158	-3.4%		-46	-1.0%	-204	-4.4%
TOTAL	-21380		27599	-19570		-13351	

Initial Impact of Average Oil Price = 24.58

Case 2C
August 14, 1990

	Base Current Account ($ Mil.)	Base CA as Percent of GDP	Impact on "Winners" ($ Mil.)	Impact on "Losers" ($ Mil.)	Impact As Percent of Base GDP	Revised Current Account ($ Mil.)	Revised CA as Percent of GDP
Latin America & Caribbean:							
Argentina	-1600	-2.1%	78		0.1%	-1522	-2.0%
Bolivia	-304	-6.9%		-19	-0.4%	-323	-7.4%
Brazil	-1200	-0.3%		-973	-0.3%	-2173	-0.6%
Chile	1100	4.3%		-117	-0.5%	983	3.8%
Colombia	-820	-1.9%	331		0.7%	-489	-1.1%
Ecuador	-712	-7.6%	278		3.0%	-434	-4.6%
Mexico	-4800	-3.5%	1603		1.2%	-3197	-2.3%
Paraguay	-499	-8.7%		-16	-0.3%	-515	-8.9%
Peru	-600	-3.1%	19		0.1%	-581	-3.0%
Uruguay	-152	-2.0%		-58	-0.8%	-210	-2.8%
Venezuela	-1800	-3.5%	2537		4.9%	737	1.4%
N. Africa & Asia:							
Bangladesh	-1400	-6.9%		-78	-0.4%	-1478	-7.3%
Egypt	-2500	-6.1%	447		1.1%	-2053	-5.0%
Hong Kong	1600	2.5%		-428	-0.7%	1172	1.8%
India	-7000	-2.5%		-934	-0.3%	-7934	-2.8%
Indonesia	-1700	-1.9%	2044		2.2%	344	0.4%
Jordan	-206	-4.5%		-136	-3.0%	-342	-7.5%
Korea	1500	0.8%		-1829	-1.0%	-329	-0.2%
Malaysia	-690	-2.0%	700		2.0%	10	0.0%
Morocco	-452	-1.8%		-195	-0.8%	-647	-2.6%
Pakistan	-1959	-4.9%		-292	-0.7%	-2251	-5.6%
Philippines	-1387	-2.8%		-486	-1.0%	-1873	-3.8%
Singapore	1200	4.0%		-584	-1.9%	616	2.1%
Taiwan	8800	6.0%		-856	-0.6%	7944	5.5%
Thailand	-2700	-5.2%		-623	-1.2%	-3323	-6.4%
Turkey	200	0.3%		-778	-1.2%	-578	-0.9%
Sub-Saharan Africa:							
Ivory Coast	-1177	-12.7%		-58	-0.6%	-1235	-13.3%
Kenya	-506	-6.0%		-78	-0.9%	-584	-6.9%
Nigeria	-1459	-4.7%	3865		12.4%	2406	7.4%
Senegal	-158	-3.4%		-18	-0.4%	-176	-3.8%
TOTAL	-21380		11901	-8554		-18033	

Initial Impact of Ave[illegible] Oil Price = 46.69

Case 3
August 14, 1990

	Base Current Account ($ Mil.)	Base CA as Percent of GDP	Impact on "Winners" ($ Mil.)	Impact on "Losers" ($ Mil.)	Impact As Percent of Base GDP	Revised Current Account ($ Mil.)	Revised CA as Percent of GDP
Latin America & Caribbean:							
Argentina	-1600	-2.1%	459		0.6%	-1141	-1.5%
Bolivia	-304	-6.9%		-115	-2.6%	-418	-9.5%
Brazil	-1200	-0.3%		-5738	-1.6%	-6938	-1.9%
Chile	1100	4.3%		-689	-2.7%	411	1.6%
Colombia	-820	-1.9%	1951		4.4%	1131	2.6%
Ecuador	-712	-7.6%	2113		22.5%	1401	14.5%
Mexico	-4800	-3.5%	15049		11.0%	10249	7.4%
Paraguay	-499	-8.7%		-92	-1.6%	-591	-10.2%
Peru	-600	-3.1%	115		0.6%	-485	-2.5%
Uruguay	-152	-2.0%		-344	-4.5%	-496	-6.5%
Venezuela	-1800	-3.5%	22385		43.2%	20585	35.4%
N. Africa & Asia:							
Bangladesh	-1400	-6.9%		-459	-2.3%	-1859	-9.2%
Egypt	-2500	-6.1%	2639		6.4%	139	0.3%
Hong Kong	1600	2.5%		-2525	-3.9%	-925	-1.4%
India	-7000	-2.5%		-5508	-2.0%	-12508	-4.5%
Indonesia	-1700	-1.9%	12733		13.9%	11033	11.9%
Jordan	-206	-4.5%		-803	-17.5%	-1009	-22.4%
Korea	1500	0.8%		-10787	-5.6%	-9287	-4.8%
Malaysia	-690	-2.0%	4131		12.0%	3441	9.9%
Morocco	-452	-1.8%		-1148	-4.6%	-1600	-6.4%
Pakistan	-1959	-4.9%		-1721	-4.3%	-3680	-9.2%
Philippines	-1387	-2.8%		-2869	-5.8%	-4256	-8.7%
Singapore	1200	4.0%		-3443	-11.5%	-2243	-7.5%
Taiwan	8800	6.0%		-5049	-3.5%	3751	2.6%
Thailand	-2700	-5.2%		-3672	-7.0%	-6372	-12.2%
Turkey	200	0.3%		-4590	-7.3%	-4390	-7.0%
Sub-Saharan Africa:							
Ivory Coast	-1177	-12.7%		-344	-3.7%	-1521	-16.4%
Kenya	-506	-6.0%		-459	-5.4%	-965	-11.4%
Nigeria	-1459	-4.7%	23983		76.9%	22524	54.5%
Senegal	-158	-3.4%		-109	-2.4%	-267	-5.8%
TOTAL	-21380		85557	-50464		13713	

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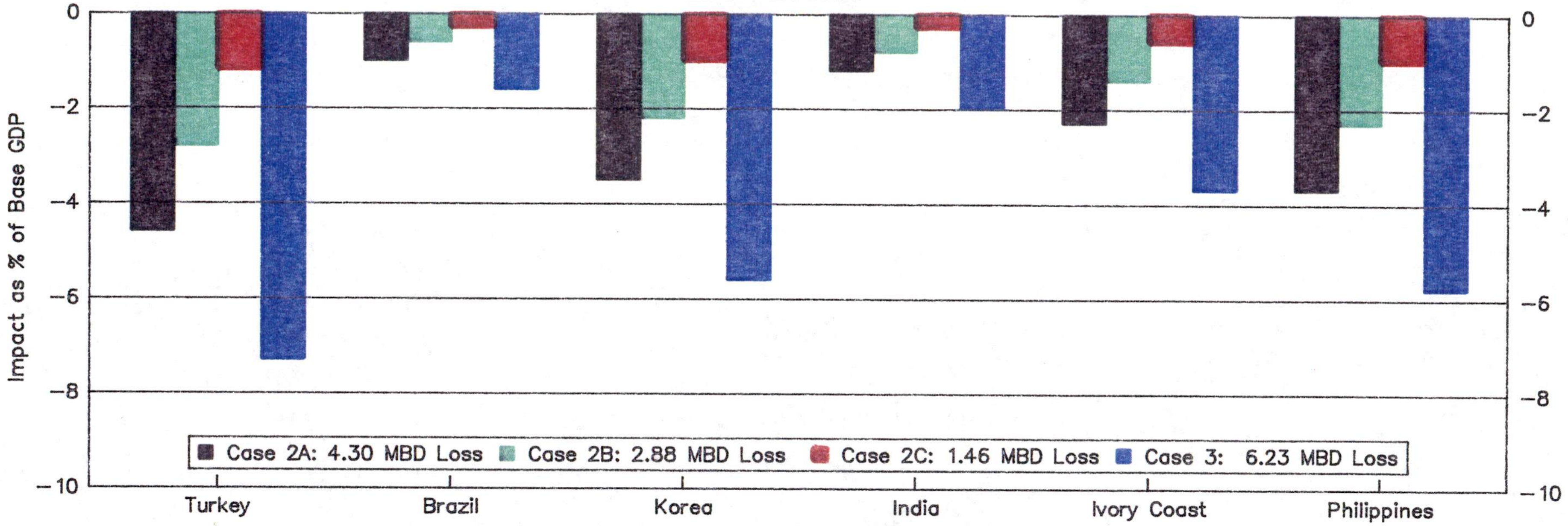
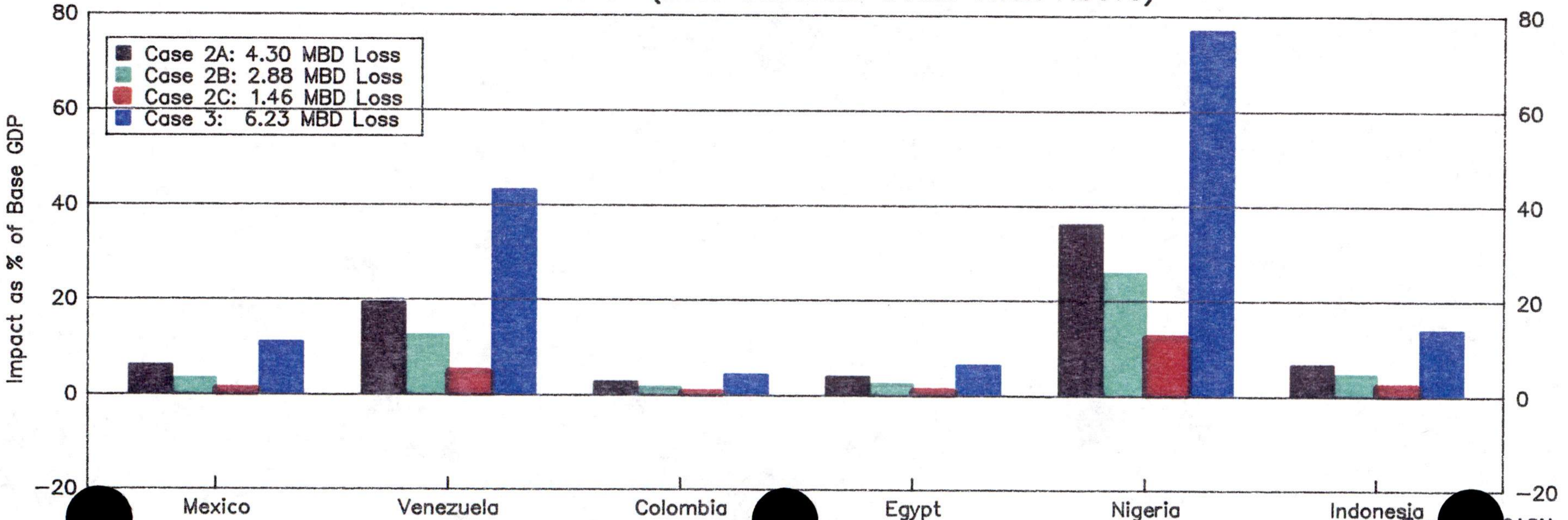
Impact as % of Base GDP: Four Scenarios of Six LDC "Losers"



Impact as % of Base GDP: Four Scenarios of Six LDC "Winners" (Note Different Scale Than Above)



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LDC LOSERS

-- The six selected losers are all driven into current account deficit, or into deeper deficit, by any loss in production. Under the extreme scenarios, severe compression of non-oil imports and lower real GDP growth would result.

-- Korea's deficits are large in dollar amounts and as a percentage of GDP, but should be manageable given its record of successful adjustment and standing in international capital markets.

-- Brazil's and India's deficits are large in dollar terms but not as a percentage of GDP. Nonetheless, large price hikes could cause financing problems due to these countries' limited creditworthiness.

-- These two countries' deficits are less significant as a percentage of GDP, indicating that, in the absence of additional external finance, a relatively small amount of domestic purchasing power might have to be diverted from other consumption and investment.

-- For Turkey and the Philippines, deficits are large as a percent of GDP and financing could be problematic, especially in Cases 2A and 3. The tables do not express the full current account impact of Turkey's participation in the embargo against Iraq.

-- Ivory Coast and other small economies could be crippled by large price hikes. Their deficits would be large relative to the size of their economies and difficult to finance from official sources or by compression of non-oil imports.

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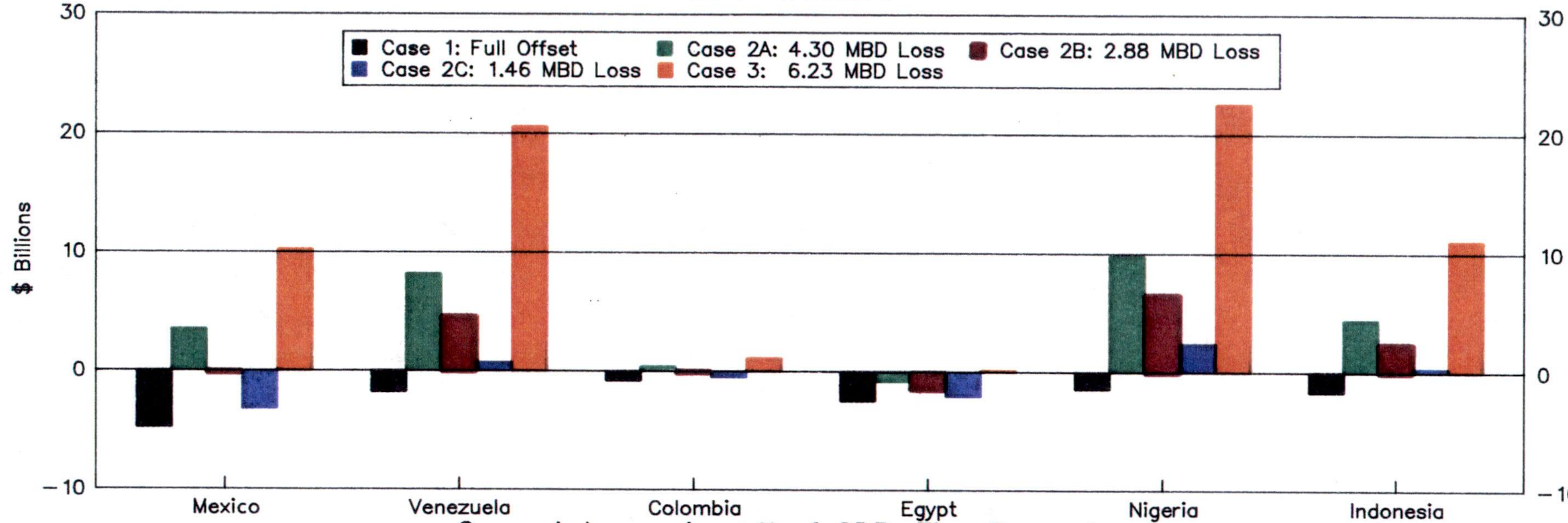
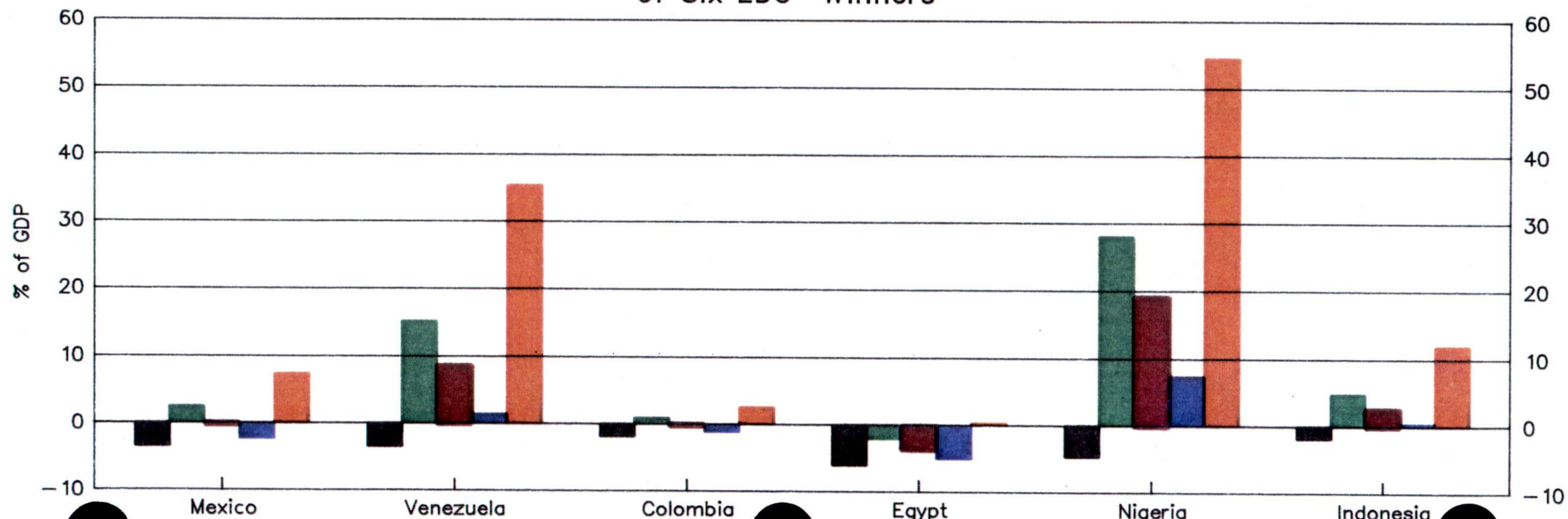
Current Account Balances: Five Scenarios of Six LDC "Winners"



Current Account as % of GDP: Five Scenarios of Six LDC "Winners"



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LDC WINNERS

-- Reflecting continued high dependence on petroleum, Nigeria and Venezuela would be the biggest "winners" -- both in dollar amounts and as a percent of GDP.

-- For them, the massive influx of liquidity in cases 2A and 3, unless sterilized, could result in production bottlenecks and rapid inflation for non-tradeables.

-- Mexico and Indonesia would benefit less due to their success in reducing dependence on oil; indeed, Mexico would move into surplus only in the scenarios involving no offsets. Both countries also could experience bottlenecks and inflation.

-- In all four cases, actual current account surpluses likely would be smaller than shown, as winners would increase imports and build reserves.

-- If part of lost production were offset, Indonesia's and Mexico's scope for additional import spending would be limited. Their creditworthiness in international capital markets, however, would still improve.

-- Colombia would marginally improve its current account position in all cases, but reach a small surplus only in Cases 2A and 3 (no offsets).

-- None of these scenarios would be a cure for Egypt's massive financing gaps or a substitute for needed fundamental economic reform. Egypt would have a current account surplus only in Case 3.

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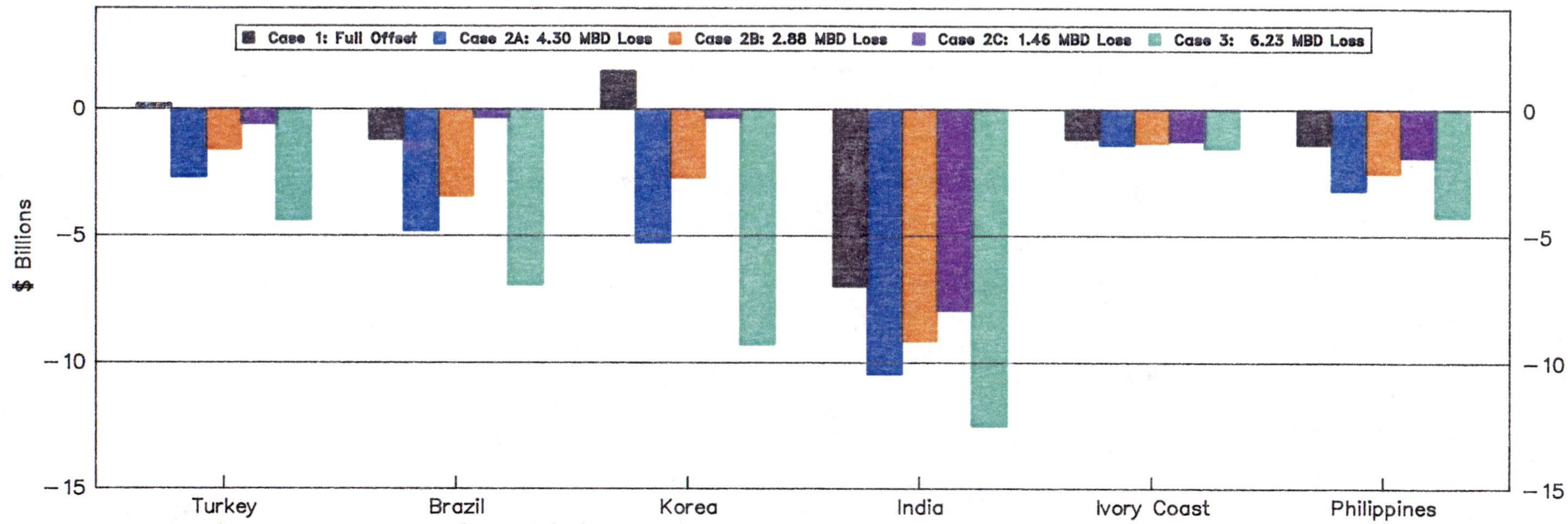
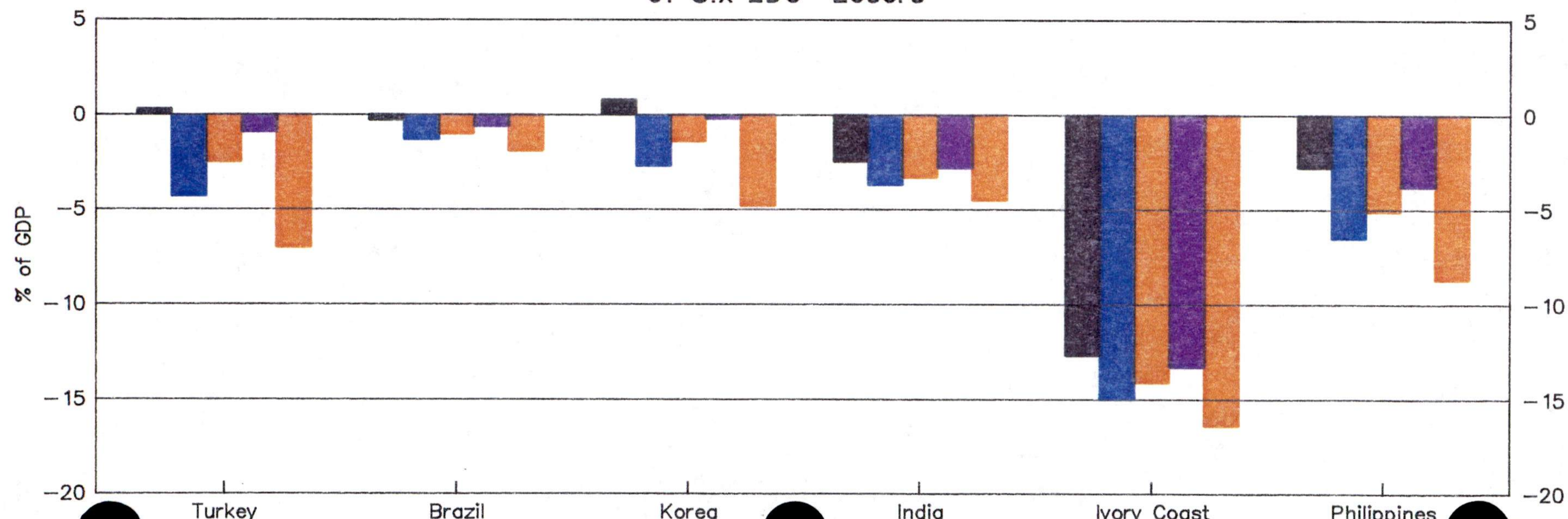
Current Account Balances: Five Scenarios of Six LDC "Losers"



Current Account as % of GDP: Five Scenarios of Six LDC "Losers"



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IMPACT AS PERCENT OF BASE GDP

Losers

-- "Impact" was measured by calculating the additional oil revenues or expenditures as a percentage of base GDP. This provides a measure of the relative first round gain or loss of consumption/investment potential.

-- Relative to base GDP among these six, the largest effects of an oil price increase would be felt by Turkey. The full effect on Turkey would be even larger than shown, however, since about $2 billion in direct exports of Turkish goods and services to Iraq are now embargoed.

-- The size of the relative effects on Korea and the Philippines would be similar, but Korea is a more dynamic, better-managed economy and probably would adjust more quickly. The Philippines growth rate already has been slowing and inflation is rising, suggesting that a loss of consumption/investment potential equal to 4-6% of GDP could have a serious effect on growth and inflation.

-- The effects on Brazil and India would be relatively small, suggesting little effect on growth and inflation. Given India's low per capita income, however, a loss of consumption/investment potential of 1-2% of GDP could be serious. Oil price hikes would further weaken the Ivory Coast's already precarious financial position and threaten its fragile adjustment program.

Winners

-- The potential windfalls to Nigeria and Venezuela are very large relative to base GDP, suggesting that the substantial additional liquidity might result in higher inflation as well as GDP growth.

-- Growth effects for Mexico and Indonesia are likely to be smaller than for Nigeria and Venezuela, since they have taken policy actions to reduce the relative importance of their petroleum sectors.

-- The potential gains to Egypt and Colombia are relatively small and are likely to have little effect on GDP growth rates, particularly in Egypt's case where serious macroeconomic distortions impede growth.