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# NAVAL POSTGRADUATE SCHOOL Monterey, California



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## THESIS

THE ARAB BOYCOTT OF ISRAEL  
ECONOMIC POLITICAL WARFARE AGAINST ISRAEL

by

ELIYAU ZEEV GILAT

DECEMBER, 1992

Thesis Advisor:

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Economic Political Warfare Against Israel

by

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### ABSTRACT

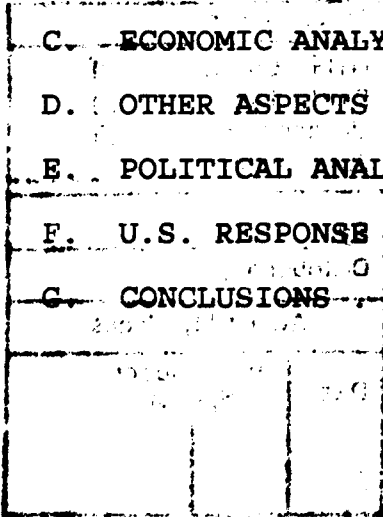
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## I. INTRODUCTION

The Arab boycott of Israel, which began two years before Israel achieved independence, has now been in effect for 46 years. The first formal declaration of the boycott stated that "Jewish products and manufactured goods shall be considered undesirable to the Arab countries".[Ref. 1] As the years passed, the boycott was expanded in an attempt to prevent any trade between Arab countries and international companies that traded with Israel.

Since 1946, several important factors in Middle East politics and economics have had an impact on the boycott. This thesis analyzes these major events and their effect on the boycott of Israel. Arab oil, which was the major Arab export to the Western countries and Japan, is a significant factor in determining the impact of the Arab boycott. The role of the U.S., which makes up a major part of the trade with the Arab countries and with Israel, is also significant in determining the impact of the Arab boycott.

The thesis examines the boycott from a chronological perspective. It analyzes changes in the direction of the Arab boycott through its 46 years of existence. The thesis is divided into four chapters showing the main regional political events that developed in the Middle East. Except for the first chapter, all chapters are built in a structure which

examines the Arab boycott's effectiveness from three perspectives and conclusions. The first perspective is an economic perspective, the second is political, and the third perspective is an examination of the U.S. response to the boycott.

The first chapter presents an introduction to the Arab boycott. The second chapter deals with the Arab boycott from the time it was declared until the 1973 war. The third chapter examines the effectiveness of the Arab boycott under the significant impact of the oil embargo, during the years 1973 - 1979. The fourth chapter examines the effectiveness of the boycott during the era of the Peace agreement between Israel and Egypt, 1979 - 1990. The thesis also includes conclusions on the economic and political impact of the Arab boycott on Israel.

#### **A. RESEARCH QUESTION**

This research will attempt to evaluate the effectiveness of the Arab boycott of Israel during the years 1946 - 1990. Subsidiary questions that will be addressed in the thesis are as follows:

1. What is the Arab boycott? What are the objectives which the boycott was intended to achieve? How does it work in theory and in practice?
2. How much economic influence has the Arab boycott had on Israel since it began in 1946 and how did the Israeli government respond?

3. What major political and economic events have influenced the boycott and what is the nature of this influence?
4. What was the position of the United States on the boycott from 1946 until 1990?
5. What was the position of the Japanese government on the boycott?

#### **B. SCOPE OF THE THESIS**

The scope of this thesis will essentially be to evaluate the impact of the Arab boycott on Israel. It will analyze how and why the Arab boycott changed from a direct boycott on trade with Israel to an indirect boycott that included international companies which traded with Israel. It will analyze the effect of the Arab boycott in both economic and political terms. This thesis will examine the American response to the boycott, in terms of both government policy and corporate practice. It will also identify the response of Japanese companies to the boycott.

#### **C. METHODOLOGY**

Research data were collected through various methods. First, the author researched about 300 articles from newspapers and magazines throughout the applicable years, that dealt with the boycott from the Arab perspective and from the U.S. and Israeli perspectives. Second, the author researched economic and trade data, regulations and books that dealt with this topic.

In general, Israel's trade relations with other countries have been increasing from the date of its independence, in 1948. Had this thesis tried to analyze the impact of the Arab boycott on Israel from Israel's economic perspective only, a mistaken conclusion could have been reached. Many Israeli economic factors like inflation, currency rates, etc., have affected Israeli economic and trade policies during the period of the Arab boycott. An attempt to specify and deal with each factor separately would be difficult without moving into speculation. As a result, this thesis does not analyze these factors separately. In order to assess the effectiveness of the Arab boycott, this thesis focuses on Israel's trade and compares it to Arab countries' trade.

## **II. INTRODUCTION TO THE ARAB BOYCOTT**

The Arab countries have been boycotting Israel and the Jews for many decades. Although the Arab countries had economic sanctions against the Jews for many years, this thesis will begin with the establishment of the Arab League in 1945, when the first organized action was taken by the Arab countries and two years before the independence of Israel. [Ref. 2]

The first chapter will give an overview of the main players and their actions which created the Arab boycott of Israel. The main purpose of this chapter is to give the reader tools to understand common terms that will be used in the next chapters.

### **A. THE ARAB LEAGUE**

The Arab League was established in 1945 by seven Arab countries: Syria, Egypt, Jordan, Lebanon, Yemen, Saudi Arabia and Iraq. The Palestinian Arabs who did not have a state were given a full vote as well. By 1973 the Arab League had 20 independent member states and the Palestine Liberation Organization (PLO). [Ref. 3]

The Arab League executive branch is called the Arab League Council. It is made up of heads of the Arab League countries and their delegated representatives.

## B. THE PRIMARY BOYCOTT

The Arab boycott of Israel began in December 1945 after this declaration of the Council of the Arab League: "... Effective Jan. 1, 1946, Jewish products and manufactured goods shall be considered undesirable in the Arab countries..." [Ref. 4] The primary Arab boycott principally affects imports from Israel to Arab countries. The declaration opened the door for the first organized boycott and the longest one - extending to the present time. In simple terms, the boycott was an attempt to economically isolate Israel from its neighbors.

The Council of the Arab League decided on three directions to attack Israel's independence, which was achieved in 1948. First would be in the field of diplomacy. The second would be war, and the third would be the boycott. By 1949, the Central Boycott Office (CBO) moved from Cairo to Damascus in order to transform declarations and theories to practice. [Ref. 5]

The Arab League which has given specific legal sanction to the anti-Israel boycott by approving a "Unified Law on the Boycott of Israel," the provisions of which have been subsequently incorporated into the domestic legislation of each member state. [Ref. 6] The Primary Boycott, which is the "Unified Law," prohibits all Arab persons from making any trade with any persons or firms resident in Israel, or of Israeli nationality, or acting on behalf or in the

interests of Israel regardless of the commercial or financial nature of the dealing. [Ref. 7]

**C. THE SECONDARY BOYCOTT (1948)**

The secondary boycott prohibited trade with third country companies and individuals that maintained any type of commercial relations with Israel. These are companies and individuals that come from countries other than Israel and the Arab League states. The notion underlying these secondary boycott actions supposedly is that the boycott will be applied solely against those business firms contributing to the economy and war effort of Israel, or expressed another way, against any firm which is found to be violating any of the prohibited practices specified in the boycott regulations. For example, transactions are banned by Arab League members with any manufacturing or trading firm which: has main or branch factories or assembly plants in Israel; has main offices for Middle East operations in Israel; holds shares in Israeli companies or factories; or provides consultative services or technological experience to these factories. [Ref. 8]

**D. EXTENDED SECONDARY BOYCOTT - (TERTIARY BOYCOTT)**

In practice, the Extended Secondary Boycott prohibits trade with any company in which one of its product parts comes from another company that was blacklisted. [Ref. 9]



The tertiary form of boycotting holds that purchases by Arab countries should be eliminated on products and services of those firms which are not in themselves supporters of Israel, but which continue to trade with other companies that have been blacklisted. In other words, the tertiary boycott would require a neutral person or firm A not to have commercial dealings with another person or firm B because B in some perceived way had supported Israel. Ostensibly , the tertiary boycott aims to achieve near total effectiveness of the secondary boycott by preventing even indirect transactions with blacklisted firms, or with Israel. This boycott was established in April 1950. [Ref. 10]

#### **E. BLACKLIST**

From the perspective of foreign corporate entities and individuals, at the heart of the Arab secondary boycott of Israel lies its formal blacklist. [Ref. 11] From the Central Boycott Office (CBO) point of view, any company in the world that does not maintain the declarations of the CBO and makes direct or indirect trade with Israel could not trade with any Arab country. The name of this firm would be printed in a "Blacklist" which was distributed among the Arab countries. [Ref. 12]

## **F. HOW THE ARAB BOYCOTT WORKS**

### **1. Structure**

According to the Arab boycott's decision making, there are four main organizational make ups: The Central Boycott Office (CBO), The Regional Boycott Office, The Units of Communication Officers, and The General Conference of the Arab Boycott of Israel. The responsibility of each of them is described below.

#### ***a. The Central Boycott Office***

The CBO, residing in Damascus, has the primary responsibility for converting decisions made by the General Conference to actions. Throughout the year, information is gathered, analyses are prepared and recommendations are given. The CBO is made up of 18 departments which are responsible to geographic regions all over the world, and it includes departments for development and research. The CBO has 200 staff members to assist the countries' representatives. [Ref. 13]

#### ***b. The Regional Boycott Offices***

Since May, 1949 each Arab country has had a national office for the CBO which is called the 'regional unit' or 'the regional boycott office'. [Ref. 14] These units communicate between the domestic government and the CBO. If the domestic government wants to initiate an idea, its representative must speak with the regional unit and

not with the CBO directly. In this way the domestic government will receive the decision from the General Conference. However, each individual country can elect to follow or ignore the CBO decision.

Each Arab League State has its own boycott law. There is considerable variance among Arab states in the text of laws and regulations. [Ref. 15]

*c. The Communication Officers*

Communication Officers are placed in all the countries of the world which have diplomatic relations with an Arab country. In spite of their position in the embassy, they are acting under orders of the CBO. Their job is to look for companies that trade, directly or indirectly, with Israel. [Ref. 16]

*d. The General Conference*

The members of The General Conference are the representatives of each Arab League country and the CBO. Twice a year, before the Arab League Conference, the General Conference meets and makes decisions to present to the Arab League Conference. The General Conference considers recommendations from the CBO and sets priority objectives for the boycott. The General Conference alternates its meeting place among numerous Arab cities. [Ref. 17]

## **2. How the Blacklist System Works**

The staff of the CBO gathers information from many sources including trade publications, Arab and non Arab businessmen, Regional Offices, Communication Officers, Israeli press and publications. Second, the CBO analyzes the information and takes one of two actions. The CBO either recommends an immediate blacklisting (this action is rare) or the CBO will inform the firm of the "offense" against boycott principles and request that the firm complete a questionnaire designed to verify the information. Reply must be in Arabic and certified by an Arab diplomatic mission. Also, 24 copies must be provided, one for each of the League member states and for the League's executives. Failure to respond in this manner frequently results in blacklisting. [Ref. 18]

If criteria for blacklisting have been met, the CBO will present its proposal to blacklist this firm in the General Conference semi-annual meeting. The General Conference considers each proposal and adds or deletes each violator from the official CBO blacklist. Real action will be taken by each Arab state after its representative and its Regional Boycott Office publish the decision in their official gazettes. [Ref. 19]

### **III. THE ARAB BOYCOTT FROM 1946 UNTIL THE 1973 WAR**

This chapter will overview the characteristics of the Arab boycott since it was established by the Arab League in 1945 until the 1973 (Yom Kippur) War, which was a major point of change.

The chapter will present several examples of the Arab boycott working during this era. Second, statistical data on blacklisting work will be presented. The author will analyze economic and political data and their impact on Israel. Third, the U.S. response to the boycott will be analyzed. Finally, the chapter will end with conclusions.

In this era, the Arab boycott began to transition from declarations to actions. The CBO began to gather data and took action (blacklisting) against more than 2000 companies and organizations as will be described later in this chapter. In addition to the working of the CBO as the combined arm of all the Arab states, some of the Arab countries took actions against Israel individually.

The most extreme decision of an Arab country after the declaration of the Boycott was Egypt's decision on May, 15, 1948 to close the Suez Canal. The Canal was blocked for ships which had cargo going to or from Israel. Ships proceeding southward through the Suez Canal were required to submit their log books. If found to have called at any Israeli port, ships

were placed on a blacklist and were no longer allowed access to Egyptian waters. Included among those ships that were blacklisted were the following: [Ref. 20]

- The Italian ship Franca Maria whose cargo of meat and hides destined for Haifa was forfeited on December 16, 1953.
- The British freighter Socotra, whose shipment of horsehair to Israel was appropriated on April 1, 1961.

In addition to restricting use of the Canal, Egypt built military bases on the islands of Tiran and Sanafir in 1950 to cut off the ability of ships to dock at the Israeli Red Sea Port of Eilat. In December, 1953, the U.S. vessel Albion was fired upon while transporting wheat to Jordan. Israel was forced to develop other trade routes and its own merchant fleet. These cases were some of the major contributing causes of the 1956 war between Israel and Egypt. [Ref. 21]

The victory of Israel in the 1956 War made the lifting of the blockade on Eilat Port in the Red sea a condition for Israeli withdrawal from the Sinai Peninsula. (Egypt decided during the war to sink 12 ships in the Suez Canal just in case Israel would remain near the Canal. The Suez Canal remained closed until 1957.) [Ref. 22]

After the declaration of independence of Israel in 1948, the CBO and the Arab League decided on the Secondary Boycott. This boycott came to be another obstacle for the young Jewish country in trying to develop organized trade with foreign countries. This boycott, as described in the first chapter,

was the first indirect boycott. It was an attempt to leave Israel isolated not only from its neighbors but also from all remote countries. After 1950 this Secondary Boycott was expanded to the Extended Secondary Boycott or Tertiary Boycott (described in Chapter II).

While the Arab blockade continued, Israel had the ability for external trade only through the Haifa Port by the sea and also the air route since trade by land was totally blockaded by Arab countries. The air route was also threatened by the Arab countries when, in 1950, the CBO prohibited all aircraft intending to go to Israel from flying over Arab territory. That prohibition continues even today (except for Egypt) although it violates the rules of the International Civil Aviation Organization (ICAO). An attempt by the Arab League to tighten the air blockade by threatening to ban any international airline which continued to fly to Israel was defeated by the ICAO. The ICAO told the Arab countries that if the current free access by air to Israel was hindered, all airlines would stop all flights to the Arab countries as well. [Ref. 23]

#### **A. THE BOYCOTT OF COCA-COLA**

An example of partial success of the Arab boycott was the boycott of Coca-Cola. In April, 1966, Coca-Cola refused to permit establishment of a plant in Israel. Although Coca-Cola at that time owned plants in other small countries (like

Cyprus, an island with a population of 250,000 citizens, 150 miles from Israel), Coca-Cola determined that Israel, with 2,000,000 citizens, was not ready for this plant. However, the real reason was because of the risk of losing 29 plants in the Arab countries, with 5000 employees. [Ref. 24]

As the issue received increased media attention, American Jews began a consumer boycott of Coca-Cola. New York City's Committee on Human Rights announced it would question Coca-Cola officials on their policies. In just eight days Coca-Cola reversed its decision and decided to approve the investment in a new plant in Israel. [Ref. 25]

In reaction, the CBO gave Coca-Cola three months to freeze its contract in Israel. By November, 1966, Coca-Cola was officially blacklisted but the implementation of this decision was conducted by each of the Arab governments themselves. The Arab countries took another two years to try to convince Coca-Cola to close its plant in Israel. By 1968 (after the 1967 War), its plants were closed in most of the Arab countries. This situation existed until the peace agreement between Israel and Egypt in 1979. [Ref. 26]

From Table I we can see that by 1968, the Arab boycott named 60 countries that had companies in the blacklist. Table II indicates that there were 2,462 companies on the blacklist.



**Table I. . COUNTRIES WITH COMPANIES APPEARING ON ARAB BOYCOTT LIST FOR THE FIRST TIME (BY YEAR)**

Year	No. COUNTRIES
1954	11
1955	2
1956	2
1957	-
1958	1
1959	4
1960	7
1961	3
1962	2
1963	3
1964	10
1965	9
1966	2
1967	4
1968	-
<b>TOTAL</b>	<b>60</b>

Source: Sharrif, *Statistical Study of Arab Boycott*, Beirut, 1970.

**B. ANALYSIS OF THE DATA ON FIRMS AND SHIPS BOYCOTTED**

The total number of firms subject to the Arab boycott by the year 1968 was 2686. Also, 224 firms have been deleted from the blacklist. A total of 2462 firms were blacklisted by the year 1968. [Ref. 27]

From Table II we can see that the Commerce sector of all sectors of businesses leads with 520 firms blacklisted or 21.1 percent of the total net boycotted. The commerce sector was followed by Conglomerates with 379 firms or 15.4 percent, and Engineering and Electronics with 355 firms or 14.5 percent of the net total firms boycotted.

**Table II. ESTABLISHMENT BY SECTOR & SHIP: NUMBER OF FIRMS BOYCOTTED AND NUMBER OF FIRMS DELETED FROM BOYCOTT LIST 1954-1968**

SECTORS	Firms Boy-cotted	Firms De-leted	Net Firms Boy-cotted	Per-cent of total boy-cotted
Chemicals & Pharmaceutical	174	16	158	6.4
Commerce	552	32	520	21.1
Conglomerates	435	56	379	15.4
Engineering & Electronics	401	46	355	14.5
Finance	207	6	201	8.2
Food & Store	313	5	308	12.5
Housing & construction	90	16	74	3.0
Miscellaneous	335	38	297	12.0
Shipping Agents	98	4	94	3.8
Textile Trade & Industry	81	5	76	3.1
<b>TOTAL</b>	<b>2686</b>	<b>224</b>	<b>2462</b>	<b>100.0</b>
Ships	772	260	512	

Source: Sharrif, *Statistical Study of Arab Boycott*, Institute of Palestine, Beirut, 1970.

Research by Sharrif also shows that the number of firms boycotted by year indicates that the highest figures were concentrated during the years 1964-1967 with a total of 823 firms representing 63 percent of the net total on the blacklist. The years with the lowest number of firms boycotted (from 1957 till 1961) totalled 89 firms, only 3 percent of the net total on the blacklist. [Ref. 28]

A total of 512 ships had been boycotted. The boycott list included 32 countries, but eight countries had 74 percent of the total. Greece had 26 percent of the total. UK, with 13 percent and the U.S. with 11 percent were the others leading

the list. Japan was the only major shipping industrial country which did not appear on the blacklist.

[Ref. 29]

### **C. ECONOMIC ANALYSIS**

On the other side of the boycott during the years 1946 - 1973 was the state of Israel, trying to deal with the situation. In order to analyze the Arab boycott's effectiveness, this thesis describes major aspects in Israel which directly or indirectly dealt with the Arab boycott. First the reader must understand that many factors have influenced Israel's political and economic situation and it is difficult to isolate the influence of the Arab boycott. For example, one should consider that one of the aspects of international trade is inflation, and another one is trade rate. At the beginning of the boycott, Israel had just gotten its independence (in 1948). This boycott was just one of many problems for the new country. The day after independence, Israel was attacked by all the Arab countries which surrounded it. During the period 1948 - 1973, Israel was involved in four major wars with Arab countries - (1948, 1956, 1967, and 1973). Second, after World War II hundreds of thousands of Jewish immigrants came to Israel. Third, Israel was a new country with little experience in foreign and domestic matters.

At this time Israel had three main resources to import money: The first was development bonds sold to American Jews. In 1964, \$98.7 million were sold. Second was German restitution payments after World War II (in 1964, \$134.2 million) and third was loans. Israel did not receive much economic aid from the U.S.- about eight million dollars in 1964. [Ref. 30]

After the 1967 war, France, which had given a big supply of military aid to Israel, decided to implement a military embargo on the Middle East. From that time Israel began to develop an expanded military trade with the U.S.

The data which are provided in Tables III, IV, and V indicate continuing growth in imports and exports. It can be seen that the significant growth in the population from 1,370,100 in 1950 to 3,022,000 residents in 1970 (especially because Jews were immigrating to Israel) caused a radical increase in GNP. The GNP rose about five percent per year until 1960 and then between two and three percent until the 1970's.

From Table IV it can be seen that Israel's imports were increasing steadily by 60 percent from 1950 to 1960 (\$300 million in 1950 to \$495 million in 1960). However, in the next ten years, imports tripled from \$495 million to \$1,433 million by 1970.

From Table V it is evident that Israeli exports increased from \$35 million in 1950 to \$211 million in 1960 (500

**Table III. ISRAEL STATISTICAL SUMMARY 1950 - 1970**

	1950	1960	1970
Population <sup>1</sup>	1,370,000 (4.6) <sup>2</sup>	2,150,400 (3.5)	3,022,100 (2.5)
Tourists	33,100 (13.5)	117,700 (14.1)	441,300 (10.4)
Civilian Labor Force	631,200 (3.1)	735,800 (3.1)	1,001,400 (2.8)
% Unemployment	7.2	4.6	3.8
National Economy: <sup>3</sup> GNP-total <sup>4</sup> GNP per capita	851.4 672 (5.2)	2,363.4 1,116 (4.9)	5,342.5 1796 (2.1)

Source: Statistical Abstract of Israel, 1981, no. 32, Jerusalem.

Note 1: Includes Jews and Non-Jews for 1970 in the administrated territories, since Israeli residents after the 1967 war include residents of the new occupied territories.

Note 2: Average annual percent change within decades shown in parentheses.

Note 3: At 1975 prices.

Note 4: In millions of Israel Shekels.

percent). By 1970, exports grew to \$733.6 million (247 percent).

To summarize these tables, in spite of the Arab boycott and because of many factors not addressed in this thesis (e.g., inflation, trade rate), Israel's economy in general grew dramatically during the years 1950 - 1970.

**Table IV. ISRAELI IMPORTS 1959 - 1970**

(in millions of U.S. Dollars)

<b>FOREIGN TRADE</b>	<b>1950</b>	<b>1960</b>	<b>1970</b>
Net Import of goods	300.3	495.7	1,433.5
Consumer goods	76.7 (5.1)	44.1 (11.2)	142.6 (18.7)
Production Inputs	169.1	353.5	972.4
Investment Goods	56.2	105.0	347.0

Source: Statistical Abstract of Israel, 1982, no. 32, Jerusalem.

**Table V. ISRAELI EXPORTS 1950 - 1970**

(in millions of U.S. Dollars)

<b>FOREIGN TRADE</b>	<b>1950</b>	<b>1960</b>	<b>1970</b>
Net Export of Goods	35.1	211.3	733.6
Agricultural Exports	17.0 (19.7)	63.1 (13.2)	129.6 (21.9)
Industrial Exports	9.4	92.6	393.1
Diamonds	8.8	60.9	244.6
Exports as a percent of Imports	11.7	42.6	51.2

Source: Statistical Abstract of Israel, 1982, no.32, Jerusalem.

#### **D. OTHER ASPECTS OF EFFECTIVENESS**

Israeli trade with Western countries increased during the years 1946 - 1973 as shown in Tables III, IV, and V. Since international trade has many factors that influence it (e.g., inflation, rate of interest, etc.), it is useful to compare the growth of Israel's trade with western countries and Japan to the large Arab countries' trade with western countries and Japan to attempt to evaluate the effectiveness of the Arab boycott on Israel.

The purpose of this section is to: (1) determine whether change in the direction of the Arab boycott influenced the trade of Israel and (2) determine whether decisions made to blacklist many firms from one country had a real influence on the trade with that country. Since Israel and the Arab countries both had major trading relations with the U.S., and because Japan was an important country with respect to the boycott (its declarations differed from its real actions), I have chosen to evaluate the trade patterns of these two countries in this chapter.

Since I have presented general data on Israel's trade during this era in Tables III, IV, and V, I have chosen to concentrate here on the years 1966 - 1970, as data was available for this period to make the necessary comparison.

From Table VI, we see that Israel's imports from Japan stayed roughly constant at about \$20 million during the years 1966 - 1970, although Israeli exports to Japan more than

**Table VI. ISRAEL'S TRADE WITH THE U.S. AND JAPAN 1966 - 1970**

(in millions of U.S. dollars)

Year	IMPORTS					EXPORTS				
	66	67	68	69	70	66	67	68	69	70
Japan	21	18	14	18	20	12	16	18	20	28
U.S.	210	196	278	457	594	77	87	117	129	150

Source: Direction of Trade Statistics Yearbook, 1966-1970, International Monetary Fund, 1971.

doubled from \$12 million in 1966 to \$28 million by 1970.

We can see that Israeli trade with the U.S. more than doubled in five years. In 1966 Israel imported goods in the amount of \$210 million, and by 1970 imports were \$594 million. In 1966 Israel exported to the U.S. \$77 million in goods and by 1970 the amount grew to \$150 million.

The data in Table VI indicate that Israel's trade with the U.S. as well as exports to Japan were booming, while Israel's imports from Japan remained at about the same level. The latter fact raises questions about the extent of the impact of the Arab boycott on Israeli imports from Japan, and suggests that the boycott was discouraging Japanese companies from selling to Israel. This question will be addressed after research of the trade of large Arab countries with Japan and some political research.



### 1. The Main Arab Countries Traders with Japan

Japan's position toward the Middle East was officially neutral, as will be described below. In order to compare trade between Japan and the Arab countries to that with Israel, I will present the trade data as close as possible to years that were available in Table VI from the International Monetary Fund. Table VII presents two types of data. The first type is Japanese trade with three biggest Arab trade countries in this era. The second type is Japanese trade with all the Arab countries.

**Table VII. JAPAN AND THE ARAB WORLD TRADE 1966 - 1970**

(in millions of U.S. dollars)

	EXPORTS		IMPORTS	
	1966	1970	1966	1970
Saudi Arabia	74.1	89.6	432.5	666.6
United Arab Emirates	11.8	37	20.6	117.5
Kuwait	48.1	94.9	290.4	308.3
<b>TOTAL ARAB COUNTRIES<sup>1</sup></b>	<b>264.7</b>	<b>347.1</b>	<b>856.2</b>	<b>1,269.4</b>

Source: Direction of Trade Statistics Yearbook, 1966 - 1970, International Monetary Fund, 1971.

Note 1: These amounts do not include Iran. During this period, Iran had trade relations with Israel as well with Japan.

From Table VII it is not hard to see that Japan's trade with the Arab world expanded impressively through the years 1966 - 1970. In total, Japan's imports from Arab

countries increased by 48.3 percent, from \$856.2 million to \$1,269.4 million. Japan's exports to Arab countries increased by 31 percent, from \$264.7 million to \$347.1 million.

**2. The Main Arab Countries Traders with the U.S.**

Table VIII presents two types of data. The first type is U.S. trade with three biggest Arab trade countries in this era. The second type is U.S. trade with all the Arab countries.

**Table VIII. THE U.S. AND THE ARAB WORLD TRADE 1966 - 1970**

(in millions of U.S. dollars)

	EXPORTS		IMPORTS	
	1966	1970	1966	1970
Saudi Arabia	152	140.8	95.6	19.7
United Arab Emirates	26.7	49.2	31.7	60.8
Egypt	189.3	80.7	17.8	22.9
<b>TOTAL ARAB COUNTRIES<sup>1</sup></b>	<b>671.7</b>	<b>508.1</b>	<b>212.3</b>	<b>154.7</b>

Source: Direction of Trade Statistics Yearbook, 1966 - 1970, International Monetary Fund, 1971.

Note 1: These amounts do not include Iran. During this period, Iran had trade relations with Israel as well as with Japan.

Table VIII indicates that U.S. trade with the Arab world decreased during the years 1966 -1970. In totals, the U.S. imports from Arab countries decreased by 27 percent, from \$212.3 million to \$154.7 million. U.S. exports to the Arab

world decreased by 24.4 percent, from \$671.7 million to \$508.1 million.

From the summary of Tables VI, VII and VIII it can be concluded that Israel had problems with imports from Japan compared to Arab countries' imports from Japan. Tables III, IV and V have shown that, in general, Israeli imports from the entire world tripled during the same years that its imports from Japan decreased. On the other hand, the Arab world trade (imports and exports) with the U.S. decreased while Israeli trade with the U.S. increased dramatically.

In general, it can be concluded that, during the years 1966 - 1970, the Arab boycott did not achieve much success in preventing trade between the U.S. and Israel, while the freezing of imports from Japan to Israel during the same era suggests that it had some impact on this aspect of Israeli trade relations.

#### **E. POLITICAL ANALYSIS**

On July 26, 1951, Israel's ambassador to the U.N., Abba Eban, asked the U.N. Security Council to deal with the Arab boycott and the Egyptian restriction of the Suez Canal.

[Ref. 31]

On September 1, 1951, the Security Council passed a resolution which stated

"... that the restrictions on the passage of goods through the Suez Canal to Israeli ports are denying to nations at no time connected with the conflict in Palestine valuable

supplies required for their economic reconstruction and that these restrictions together with sanctions applied by Egypt to certain ships which have visited Israel's ports represent unjustified interference with the rights of nations to navigate the seas and to trade freely with one another, including the Arab states and Israel". [Ref. 32]

However, the Council did not succeed in enforcing the U.N. resolution, since Egypt refused to obey.

As a result and in order to focus world attention, Israel sent the Israeli ship 'Bat-Galim' to try to pass through the Suez Canal. The ship came from Massawa in Eritrea and was stopped by the Egyptians on September 28, 1954. The crew was arrested and held until January 1, 1955, and the ship was given to the Egyptian Navy. [Ref. 33]

The world attention which followed did not help Israel. One of the main reasons for the 1956 War between Egypt and Israel was the Suez Canal and access to Eilat port in the Red Sea. After the 1956 War the Suez Canal was closed until 1957.

#### **1. West German Reparations**

The Arab League engaged in an extensive campaign to convince West Germany to withdraw from the agreement to pay to Israel \$820 million over ten years. This agreement had been signed on September 10, 1952. West Germany, which was flooded with a wave of sorrow and regret for the killing of six millions Jewish people in World War II, agreed to pay Israel this sum of money in order to tie diplomatic relations and to help the people who had survived. These funds would be used

to purchase German goods and services in order to settle Jews victimized by the 'Nazis'. The Arab League threatened West Germany with economic sanctions, but did not succeed in stopping this agreement. West Germany was forced to pay additional funds to Arab countries, in particular Egypt, to avoid boycotts. [Ref. 34]

The Arab League decision to impose sanctions against West Germany was the first time it had announced any kind of boycott against a whole country's firms involved in delivering goods to Israel. Nevertheless, opposition from German industry and four political parties prompted the federal government to buy off Arab hostility through extensive trade credits, foreign aid, and technical assistance, particularly to Egypt, which benefitted from the services of former Nazi scientists in developing its military capability. West Germany also delayed entering into diplomatic relations with Israel until 1965. [Ref. 35]

## **2. Other Aspects of Israel's Response to the Boycott**

In 1953, Israel established a research department to gather all available information on the boycott. This department found that in general, the CBO first blacklisted companies least likely to resist, and put pressure on the stronger companies later. [Ref. 36] The implication of this was that Israel had little to lose from the boycott

since the boycott was not likely to hurt companies which had a strong resistance.

Israel responded to the anti-boycott policy with secret steps, dealing with Western governments and especially the U.S. Israel tried to secretly develop American assistance. Writing in December 1966, Eric Pace, an American *New York Times* journalist, made this observation about the influence of the Arab boycott upon Israel:

"Yet, for all the Boycott Committee's far-flung activity, Israel officials are said to consider the boycott more of a nuisance than a serious hobble on their country's growth... Some Israelis are reported to contend that the boycott has actually spurred aspects of their country's growth by encouraging anti-Arab foreigners to do business in Israel, and by obliging Israel to manufacture some products, like light machinery, which it would otherwise have been content to import." [Ref. 37]

Although 'nuisance' is an extremely mild term to be used by an Israel official, the author would agree that Israel, pushed into a corner, had to develop its own light machinery. Some of this development became the first steps to create a developed military industrial complex.

Israel, which had no other choice, invested many efforts in creating its military industrial complex. After the military embargo of France (1967), the main supplier of its aircraft, Israel developed military aircraft, sea to sea missiles and other missiles. Some of those missiles were very effective against the Egyptian and Syrian fleets in the 1973 War.

In 1971 Israel decided to close its anti boycott department. It was felt the boycott was not effective and the research department (anti boycott department) was no longer needed. [Ref. 38]

### 3. Israel and Japan

Interestingly, the "official" Japanese declaration of policy on the Arab boycott was much different than its practice. Officially, the Japanese view was as declared by Yasihiko Nero, Consul General of Japan in New York:

"...The position of the Japanese Government has been from the very beginning of the establishment of the Arab Boycott Office, completely neutral. The Japanese Government has, in the past, never encouraged or discouraged any of the Japanese companies from trading with either Israel or the Arab countries. Whether a company has more leaning towards Israel or the Arab countries is entirely up to each company concerned...The company that is trading is thus assuming its own risks in trading with any of the parties...". [Ref. 39]

In spite of this report, in practice we can see that Japan's exports to Israel were low compared to Japanese trade with the Arab countries, resulting in a trade surplus for the Japanese (as shown in Tables VI and VII and their analysis summary). These conclusions suggest that the reason for the freeze in Japanese exports to Israel was fear of the Arab countries that supply Japan with 90 percent of their its oil. In this way, Japan represented the first whole country that surrendered to the boycott.

## **F. U.S. RESPONSE TO THE BOYCOTT, 1946 - 1973**

The United States in 1952 discriminated against Jews in compliance with Arab boycott requirements. For example, the U.S. Army Corps of Engineers acknowledged that it did not recruit Jews for American funded defense construction projects in Saudi Arabia. Similarly, Jewish servicemen were not permitted to be stationed at the U.S. air base in Dhahran, Saudi Arabia. The U.S. military advised that it was merely adhering to Saudi Arabia's laws, which it could not change. [Ref. 40]

In 1957 an event involving a tanker, the National Peace, brought the U.S. government to cooperate with the Arab boycott. The U.S. Navy's Military Sea Transportation Service (MSTS) had chartered this vessel to carry fuel oil from Saudi Arabia to the Philippines. Saudi officials refused permission to load since this ship when under another name, had previously carried on trade with Israel. The MSTS had to charter another vessel and pay owners of the National Peace \$160,000 for damages. [Ref. 41]

In response to the increasingly blatant discrimination against American Jews, and the Jewish organizations' publicity about the discriminatory practices, the U.S. Senate adopted the following resolution in 1956:

"Whereas it is a primary principle of our nation that there shall be no distinction among U.S. citizens based on their individual affiliations and since any attempt by foreign nations to create such distinction among our citizens in the granting of personal or commercial access



or any other rights otherwise available to U.S. citizens generally is inconsistent with our principles... Now, therefore be it resolved that it is in the sense of the Senate that it regards any such distinctions directed against U.S. citizens as incompatible with the relations that should exist among friendly nations and that in all negotiations between the U.S. and any foreign state every reasonable effort should be made to maintain this principle". [Ref. 42]

As we have seen in the previous case of MSTs this resolution had limited power.

In 1965 the Senate and the House, after some hearings on the boycott, voted to establish a simple requirement in which American companies were required to report any requests they received to participate in or cooperate with the Arab boycott. Companies were still not prohibited from complying. [Ref. 43]

It can be seen that since the American people felt no direct effects of the boycott, there was little pressure in the Congress to act against it. It may have been more convenient to the U.S. not to take a formal position against the boycott in order to be in a neutral position in the Middle East and to not destroy American companies which traded with Arab countries.

#### **G. CONCLUSIONS**

In summary, the Primary Boycott achieved its main purpose - to prevent any direct trade between Israel and the Arab countries. The other boycotts (Secondary and Extended Secondary Boycotts) failed to achieve their targets - to

prevent any trade between Israel and the rest of the world. However, they did freeze imports from Japan.

In the first round (1946-1973) of the economic and political war between the Arab countries and Israel, no one side came out on top. Although Israel was not destroyed economically, it can be shown that Israel suffered from the Arab boycott. Examples of this suffering include the oil company boycott beginning in 1957 and the inability of Israel to import oil from countries closer than Iran.

Although Israel suffered from the boycott, Israel had considerable success as well. From Table III, IV, V, and VI it can be concluded that Israeli exports and imports increased impressively into the beginning of the seventies. Israel's average annual GNP growth rate in real terms from 1950 to 1973 was as high as nine percent, one of the highest in the world.

All things considered, Israel did not pay a terribly heavy toll from the declaration of the Arab boycott. Two aspects that were somewhat costly were: First, Egyptian restriction of the Suez Canal on Israeli ships and foreign ships which were trading with Israel since May 1948. Second, Japan froze its exports to Israel.

By 1970, the Arab boycott was being enforced with little consistency. It did not attack countries themselves, as indicated in the analysis of West German Reparations, or even companies which violated the boycott regulations consistently. The latter conclusion is drawn from analysis and the summary

of Table II which described 224 companies and 260 ships which were deleted from the blacklist. Even though 60 countries had companies on the blacklist by 1970, some of these countries did much trading with Israel and with the Arab world as well. An example was the United States which, on the one hand, had 11 percent of the blacklisted ships, while on the other hand, led in trade with the Arab world and with Israel as well.

In spite of its declaration of a neutral position with regards to the Middle East, Japan de-facto discouraged exports to Israel, but kept importing goods such as diamonds, as shown in Table VI. Japan did not increase its exports to Israel from 1966 to 1970. On the other hand, its imports from Israel more than doubled from \$12 million to \$28 million over the same period. It can be concluded that in the case of Japan, the Arab boycott was a partial success since Japan was afraid to lose its source of oil.

The evidence indicates that any country that wanted to trade with Israel was able to do it with little problem. Japan did not much like the idea of trading with Israel since it kept its imports frozen as Table VI indicates, but since its citizens liked diamonds, Japan imported diamonds from Israel in large amounts.

The boycott did not have one consistent policy for every company and sector. By the year 1968, 224 branches and companies which had been blacklisted were deleted. From this evidence and from the facts that the CBO did not declare a

boycott on states and countries themselves, I can conclude that the boycott was a tool to use whenever it was convenient.

The Arab boycott did succeed with many blacklisted companies by stopping their trade with Israel, and in some instances Israel paid a very high price. The most expensive price required importing of oil from far away while many nearby Arab countries had plenty of oil.

On the other hand, the boycott had the effect of encouraging Israel to develop industry for some goods that no one wanted to sell to them. Some military industries and diamond industries helped Israel to build national self reliance.

As a result of my research of the U.S. response to the boycott in this era, it appears that the U.S. did not have a big interest in preventing the boycott in the U.S. - As a result, no federal law was passed to prohibit participation in boycotting Israel. On the one hand, even the U.S. Army Corps of Engineers cooperated with the boycott by not recruiting Jews for American funded defense construction projects in Saudi Arabia. On the other hand, Israel's trade with the U.S. doubled in a period of four years (1966 -1970). From this data it can be concluded that the boycott was not effective in regard to Israeli trade with the U.S.

**IV. FROM THE 1973 WAR UNTIL THE 1979 PEACE AGREEMENT  
BETWEEN ISRAEL AND EGYPT**

The major purpose of this chapter will be to examine the impact of the Arab boycott with respect to two main events in this era--the 1973 (Yom Kippur) War and the oil crisis of the 70's. The Arab countries, encouraged by having surprised Israel in the beginning of the 1973 War, created a new weapon against the Western countries and Israel--the oil embargo. As a result of this embargo, many countries throughout the world came to be involved indirectly in the Arab-Israeli crisis, or at least took official positions. By the end of this era, in 1979, the first peace agreement was signed between an Arab country - Egypt - and Israel.

This chapter will analyze the boycott after the 1973 War, focusing on economic and political effects of the boycott on Israel. At the end of this chapter, the author will present the U.S. response to the boycott and will end with conclusions.

**A. THE 1973 WAR AND THE BEGINNING OF THE OIL EMBARGO**

On Yom Kippur, October 6, 1973, the most Holy day of the Jews, Syria and Egypt invaded Israel. In tandem with this

war, member governments of the OAPEC<sup>1</sup> declared on October 17, 1973, that they were cutting production schedules below the September level by a minimum of five percent in each subsequent month. The latter declaration was effective -

"...until Israel withdrawal is completed from the whole Arab territories occupied in June 1967 and the legal rights of the Palestinian people are restored." (The U.S. and the Netherlands were cut off completely from petroleum exports for a few months, as will be described below.) [Ref. 44]

There were many other factors that also caused the escalation of oil prices, and the 1973 war was only a minor one, but its timing was very important. The other main factors were the demand for oil, given declining output outside of OPEC, which raised the proportion of world output originating in OPEC and Libya's President Qadaffi beginning in 1971 to press OPEC to raise oil prices. [Ref. 45]

Israel was the only country which could, in fact, give the Arab countries some of the objectives they requested, so if these were the real goals, Israel was the real target. The U.S. was embargoed to induce it to persuade Israel to change its policy and because of its uncompromising position against the Arab boycott. The logic in embargoing the other Western countries is even more complex, since they could not by themselves alter Israel's policy. They were apparently

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<sup>1</sup> OAPEC is the Organization of Arab Petroleum Exporting Countries, created in 1968 and made up of only the Arab countries of OPEC.

supposed to bring pressure on the U.S. to persuade Israel to alter its policy. [Ref. 46]

The Netherlands also had an uncompromising official position against the Arab boycott of Israel. As a result of the OAPEC declaration of October 17, 1973, the U.S. and the Netherlands were cut off completely from petroleum exports from Abu Dhabi, Libya, Saudi Arabia, Algeria, Kuwait, Katar and Oman. [Ref. 47]

This was the signal to open the race of oil price escalations. On October 16, 1973, one day before the OAPEC declaration, the Arab countries' friends in OPEC raised the price for a barrel of crude oil from \$3.01 to \$5.12--an increase of almost 70 percent. But this was only the beginning. On January 1, 1974, they declared a new price of \$11.65 (an increase of 387 percent in less than three months). The total increase in the price of oil from 1970 (\$1.80 a barrel) to 1974 (\$11.65 a barrel) was 650 percent. [Ref. 48]

The escalation caused a severe economic impact in Western Europe and the U.S. This strong economic crisis brought an unprecedented economic situation of high inflation, high unemployment (stagflation), and a huge deficit in the U.S. and other Western countries.

The oil crisis worked in the opposite direction on the Arab countries. It was estimated by *Time*, The Weekly Newsmagazine that a total of \$112 billion were collectively

earned by 13 countries of OPEC in 1974 because of the oil price escalation. [Ref. 49]

The Arab oil countries began to become very rich. But the CBO was not directly responsible for this increase in oil prices, since the rise in prices began when Western and American negotiators for oil prices left the Vienna oil prices conference, in early October 1973. [Ref. 50]

At that time the oil-exporting Arab countries, which were lacking developed infrastructures, began to spend their income to increase development. By 1980 it was estimated that these nations allocated about \$450 billion for foreign investment in the U.S., Japan and Western Europe. [Ref. 51] This new flow of money called for many companies from the U.S., Japan and Western Europe to develop trade relationships for goods and investments.

After the 1973 War, but not only because of it, the work of the CBO began to expand rapidly. First, as mentioned earlier, the weapon of oil exports became more influential and was used to threaten a country by raising prices or stopping exports. Second, the trade of the Arab countries increased rapidly (as will be described below) and many companies which traded with Israel had to choose among the alternatives. In many cases the alternatives were to trade with Israel and go out of business, or to trade with the Arab countries and remain in business.



## **B. ECONOMIC ANALYSIS**

We know remarkably little about the way in which the Arab governments and the CBO function in Israel, Western Europe and the U.S. We do not have access to the memories of the Arabs' key decision makers and their assistants, as we do to Western leaders' memories which appear in the West almost as they leave office. We do not have a free journalism in the Arab world to work as an effective adversary to government, routinely publishing secret information. Moreover, both the actors (the Arab countries) and the target (Israel) government have attempted to hide crucial aspects of the influential relationship.

In addition, as will be described below, Israel's trade relations were developed rapidly, during this period. If we had tried to analyze only Israel's economic status, a mistaken conclusion could be reached that the Arab boycott of Israel had little impact on Israel's trade in this era. But the political analysis and the comparison of Israel's trade with Arab countries' trade will change this picture, as will be described below.

Finally, the economy of Israel was influenced by many factors that cannot be measured separately, such as inflation, currency rates, etc. As a result, the author chose to develop his research by analyzing Israel's trade with the main Western countries and Japan, and to attempt to evaluate the effectiveness of the Arab boycott of Israel by comparing the

Arab countries' trade with the main Western countries and Japan.

The major purpose of this economic analysis is to emphasize the big picture of Israel's trade with the main Western countries and Japan and to attempt to evaluate the Arab boycott's impact on it. Other factors which have also impacted Israel's trade, such as currency rates, inflation etc., are not measured separately.

**Table IX. ISRAELI IMPORTS FROM MAJOR COUNTRIES 1973 - 1979**

(in millions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979
<b>TOTAL</b>	4240	5439	5999	5667	5787	7403	8332
U.S.	549	754	999	888	981	1126	1512
GERMANY	512	687	436	417	447	594	768
U.K.	479	543	578	609	463	542	688
JAPAN	59	130	89	107	125	123	170

Source: Direction of Trade Statistics Yearbook, 1973-1979, International Monetary Fund, 1980.

**C. GENERAL ANALYSIS OF ISRAELI TRADE, 1973 - 1979**

The data which are provided in Table IX indicate that during the years 1973 - 1979, Israel's total imports rose by 96 percent, from \$4.24 billion in 1973 to \$8.331 billion in 1979. In 1976, imports declined by 5.5 percent for only one year.

**Table X. ISRAELI EXPORTS TO MAJOR COUNTRIES 1973 - 1979**

(in millions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979
<b>TOTAL</b>	1459	1825	1941	2415	3083	3911	4553
U.S.	267	306	307	437	569	688	749
GERMANY	136	135	160	199	274	331	419
U.K.	139	157	171	180	226	282	394
JAPAN	87	65	99	73	99	181	223

Source: Direction of Trade Statistics Yearbook, 1973-1979, International Monetary Fund, 1980.

From Table X it can be seen that during the years 1973 - 1979, Israel's total exports increased by 212 percent--from \$1.459 billion in 1973 to \$4.553 billion in 1979. Comparison of total exports to total imports indicates that total exports increased more than total imports, but the gap in the trade deficit stayed very large. In 1973, the trade deficit was \$2.781 billion. This amount was larger than total exports (\$1.459 billion) at that time. In terms of percentage, it was 65 percent of total imports. In 1979, the trade deficit was \$3.778 billion (a total of 45 percent of imports).

**1. Israeli Trade with the U.S., 1973 - 1979**

Table IX indicates that Israel's imports from the U.S. increased by 81.7 percent from 1973 until 1975. In 1976, imports declined by 11 percent, from \$999 million in 1975 to

\$888 million in 1976. From 1977 until 1979, Israel's imports from the U.S. increased by 70 percent. Total imports from the U.S. to Israel increased by 175 percent from 1973 to 1979--from \$549 million in 1973 to \$1.512 billion in 1979. In 1979, the U.S. claimed 18.15 percent of total imports to Israel, up from six percent in 1973.

From Table X it can be seen that Israeli exports to the U.S. increased by 180 percent from 1973 to 1979--from \$267 million in 1973 to \$749 million in 1979. In 1973, Israeli exports to the U.S. made up 18 percent of total Israeli exports. In 1979, Israeli exports to the U.S. made up 16.4 percent of total Israeli exports.

## **2. Israeli Trade with West Germany, 1973 - 1979**

Table IX indicates that Israel's total imports from West Germany increased by 50 percent from 1973 to 1979. In 1973, Israel imported goods in the amount of \$512 million. By 1979, this amount grew to \$768 million. In the years 1975 and 1976, Israel's imports from West Germany declined by 37 percent from 1974. In 1975, imports decreased by \$251 million from 1974. In 1976 imports declined again. In 1977, Israel's imports from West Germany began to increase again. In 1979, West Germany held 9.2 percent of total Israeli imports, while in 1973 West Germany had 12 percent of the import market.

Table X shows that Israel's exports to West Germany increased by 207 percent from 1973 to 1979. In 1973, Israel's

exports to West Germany were \$136 million and in 1979 they increased to \$419 million. In 1974, the export decline was related to the 1973 War.

### **3. Israeli Trade with the U.K., 1973 - 1979**

Table IX indicates that the U.K. held 8.3 percent of Israel's total import market in 1979. In 1973, the U.K. had 11.3 percent of Israel's import market. From 1973 to 1976 Israel's imports from the U.K. increased by 27 percent--from \$479 million in 1973 to \$609 million in 1976. In 1977, Israel's imports from the U.K. declined by 23.9 percent relative to 1976, with \$463 million. From 1978, Israel's imports began to grow again and by 1979, Israel imported goods in the amount of \$688 million from the U.K., for a total increase from 1973 of 43.6 percent.

From Table X it can be seen that Israel's exports to the U.K. increased by 184 percent--from \$139 million in 1973 to \$394 million in 1979.

### **4. Israeli Trade with Japan, 1973 - 1979**

Table IX indicates that Israel's imports from Japan increased by 186 percent, with \$59 million in 1973 and \$170 million in 1979. An increase in imports occurred in 1974 (120 percent), but in 1975 a large decline in imports occurred (32 percent)--to \$89 million. From 1975, Israel's imports from Japan began to increase again. In 1979, Japan had two percent of Israel's total imports versus 1.4 percent in 1973.

From Table X it can be seen that Israel's exports to Japan increased by 156 percent from 1973 (with \$87 million) to 1979 (with \$223 million). In two years of this era, Israel had reduced exports to Japan. In 1974, a decrease of 225 percent in exports to Japan occurred (with \$65 million) relative to 1973 (with \$87 million), and in 1976 a decrease of 27 percent from 1975 occurred.

In summary, although Israel experienced a considerable increase in exports during this period, the basic problem of the trade deficit was the increase in imported goods. However, when we try to evaluate the effectiveness of the Arab boycott of Israel, the trade deficit suggests that the Arab boycott failed in achieving its goals. It is clear evidence that if the Israeli deficit increased, so did Israeli imports. Since Israeli imports increased more than its exports, the Arab boycott was not fully effective. But in order to get as precise a picture as possible, we have to compare Israeli trade to other factors. In this paper the author compares Israel's trade to select Arab countries' trade. This thesis does not concentrate on Israel's unique economic problems in terms of its trade deficit. Rather, it tries to identify the impact of the Arab boycott of Israel on Israel's economy. One of the major targets of the Arab boycott was and still is to prevent any trade with Israel by non Arab countries as well as by Arab countries. The preceding analysis of Israeli trade

indicates that the Arab boycott of Israel had only partial success in achieving its goals during the years 1973 - 1979.

#### 5. The Main Arab Country Traders with Japan

As explained at the beginning of this analysis, in order to compare trade between Japan and the Arab countries to that with Israel in this era, and to the previous era (1946 - 1973), it is necessary to present the trade data as close as possible to the span of years that were presented in Tables IX and X. Table XI presents Japanese trade with the three largest Arab trading countries in this era.

**Table XI. TRADE BETWEEN JAPAN AND SELECT ARAB COUNTRIES 1973 - 1979**

(in millions of U.S. dollars)

	IMPORTS			EXPORTS		
	1973	1976	1979	1973	1976	1979
Saudi Arabia	1390	7836	12037	389	1892	3802
United Arab Emirates	553	2472	3612	163	637	1038
Iraq	3	579	1799	49	626	1600

Source: Direction of Trade Statistics Yearbook, 1973-1979, International Monetary Fund, 1980.

From Table XI it can be seen that Japan's imports from Saudi Arabia increased almost nine times the \$1.39 billion in 1973 to \$12.037 billion in 1979. Japan increased its exports

to Saudi Arabia by 10 times from 1973 with \$389 million to \$3.802 billion in 1979.

Japan's imports from Iraq in these years multiplied by 600 times, from only three million dollars in 1973 to \$1,799 million in 1979. Japan's exports to Iraq also multiplied by more than 32 times, from \$49 million in 1973 to \$1,600 million in 1979. Similar trade conditions existed between Japan and other Arab countries that exported oil.

During this period, Japan was dependent upon the Arab countries for 90 percent of its oil imports. This will be described more fully below. An interesting point to remember is that the Arab countries were the only countries that Japan had a trade deficit with, except for Israel.

The Arab countries' trade with Japan increased by at least 900 percent as was described in the case of Saudi Arabia trade with Japan, and Japan's exports to Iraq increased by more than 3,200 percent. In comparing this analysis to Israel's trade with Japan (as described in analysis of Tables IX and X), it can be concluded that although Israel's trade with Japan increased by more than 100% during the years 1973 - 1979, it was still far below the Arab countries' trade expansion.

As presented in the beginning of this chapter, the reason for the huge expansion in Arab trade with Japan was the increase in oil prices. Japan, which was more dependent on



Arab oil in this era, as is described below, was afraid to deal with the Arab boycott.

By comparing select Arab countries' trade with Japan and Israel's trade with Japan, and connecting it to the political analysis, it is quite evident that the Arab boycott of Israel in the case of Japan became worse after 1973. Israeli exports to Japan decreased significantly twice. In 1974, Israeli exports to Japan decreased by 225 percent from the 1974 level. In 1976, Israeli exports to Japan decreased by 27 percent from the 1975 level. Israeli imports from Japan decreased by 32 percent in 1975 from the 1974 level. During this same period, Arab countries' trade with Japan was booming.

#### **6. The Main Arab Country Traders with the U.S.**

Table XII presents the U.S. trade with the main Arab countries in this time period. As was explained in the beginning of the economic analysis, in order to evaluate U.S. trade with Israel in this era and to compare it to the previous chapter, Table XII presents some data on trade between the U.S. and some Arab countries which exported oil and some Arab countries which did not export oil (such as Egypt and Syria).

Table XII indicates that U.S. imports from Egypt increased by almost 14 times from 1973 to 1979. In 1973, the U.S. imported \$28 million from Egypt and by 1979 its imports

**Table XII. TRADE BETWEEN THE U.S. AND SELECT ARAB COUNTRIES  
1973 - 1979**

(in millions of U.S. dollars)

	IMPORTS			EXPORTS		
	1973	1976	1979	1973	1976	1979
EGYPT	28	111	413	225	810	1433
SYRIA	7	10	173	21	275	230
SAUDI ARABIA	545	5847	8730	442	2774	4875
LIBYA <sup>1</sup>	229	2406	5544	104	277	468
IRAQ <sup>2</sup>	17	123	671	56	382	442

Source: Direction of Trade Statistics Yearbook, 1973 - 1979, International Monetary Fund, 1980.

Note 1: In 1974, U.S. imports from Libya declined to one million dollars, for only one year.

Note 2: In 1974, U.S. imports from Iraq declined to one million dollars, for only one year.

rose to \$413 million. At the same time, U.S. exports to Egypt in 1979 amounted to \$1.433 billion. This was six times more than in 1973 (\$225 million).

U.S. imports from Syria increased more than 24 times the 1973 total in the period from 1973 to 1979. In 1973, the U.S. imported from Syria in the amount of seven million dollars, and by 1979 it increased to \$173 million. In 1973, U.S. exports to Syria were \$21 million and in 1979, they grew to \$230 million, more than ten times higher. In 1979, the year of the peace talks between Israel and Egypt, U.S. exports to Syria declined from 1978.

Table XII indicates that U.S. imports from Saudi Arabia increased 16 times the 1973 total by 1979. In 1973, U.S. imports from Saudi Arabia were \$545 million and by 1979 they had increased to \$8.73 billion. In 1973, U.S. exports to Saudi Arabia were \$442 million and by 1979, exports rose to \$4.875 billion, about 11 times the 1973 total.

Table XII indicates that U.S. imports from Libya increased more than 24 times during the years 1973 to 1979. In 1973, U.S. imports from Libya totalled \$229 million and by 1979 imports had grown to \$5.544 billion. In 1979, the U.S. exported to Libya a total of \$468 million--more than four times the 1973 total of \$104 million.

From Table XII it can be seen that in the year 1979, U.S. imports from Iraq totalled \$671 million--39 times higher than the amount in 1973 of \$17 million. In 1979, U.S. exports to Iraq were \$442 million--more than seven times the amount that was exported in 1973 (\$56 million).

In summary, it is evident that the U.S. significantly increased its trade with Arab countries during the years 1973 - 1979. In connecting it to the political analysis of the U.S. response to the Arab boycott and in comparing it to the economic analysis of Israel' trade, one conclusion can be drawn. U.S. legislative actions against the Arab boycott did not significantly increase Israeli trade with the U.S. as compared to Arab countries' increase in trade (regarding U.S.

legislative actions, see below, "U.S. Response to the Arab Boycott, 1973 - 1979").

To further illustrate the strength of the position of the Arab countries which boycotted Israel, two additional perspectives are relevant.

First, in comparing U.S. trade with the Arab world to U.S. trade with Israel (as was presented in Tables IX and X and their analysis), it can be concluded that although U.S. trade with Israel increased by more than 100%, this was far below the U.S. trade increase with the Arab countries, including non-oil exporting countries such as Egypt and Syria. The U.S. trade with Arab countries increased by at least six times, as was the case with Egypt, or by 39 times as was the case of Iraq's imports.

Second, Israel had a strong trade position in 1973 as compared to Egypt. For example, from Tables IX, X and XII it can be seen that in 1973, U.S exports to Egypt (\$225 million) were 41 percent of U.S. exports to Israel (\$549 million). But in 1979, U.S. exports to Egypt were almost the same as exports to Israel--about \$1.5 billion. These data support the political analysis which suggests that Israel's strong position in the U.S. declined in comparison to the Arab countries' position for two main reasons. The two reasons are the oil crisis and the Arab boycott. These reasons are described more fully below.

**Table XIII. NUMBER OF BLACKLISTED COMPANIES AND SHIPS FOR TEN MAJOR COUNTRIES (1976)**

Country	Number of companies and Organizations	Number of ships
United States	1,897	32
Britain	1,158	75
France	357	-
Canada	250	-
Turkey	226	18
West Germany	220	45
Belgium	198	-
Italy	174	23
Japan	150	3
India	128	-
Other 59 Countries	1618	438
<b>TOTAL 69 COUNTRIES</b>	<b>6376</b>	<b>634</b>

Source: Edward Hotaling, *The Arab Blacklist Unveiled*, Landia Publishing company, California, 1977.

**7. Analysis of Companies and Ships Blacklisted by 1976**

1976 was the last year that data on the number of companies and ships blacklisted by the CBO were available. From Table XIII it can be seen that by 1976 there were 6,376 companies and organizations and 634 ships from 69 countries blacklisted. The list included companies of both small and large size. The country which had the most ships blacklisted was Greece with 128 ships. Liberia was second with 105 ships. The U.S. and Britain had the most companies and organizations

blacklisted with more than 1,000 companies each.

[Ref. 52]

Comparing the blacklist in 1968 to the blacklist in 1976 and their analysis (Table II and Table XIII), it can be concluded that the CBO enlarged its power by increasing the blacklist by about three times the number in eight years (from 2,462 companies in 1968 to 6,376 companies in 1976). The reasons for this growth are discussed in the political analysis below.

#### **D. POLITICAL ANALYSIS**

The oil crisis and the threat by the Arab oil producers of imposing an oil embargo on states which were in favor of Israel following the 1973 War gave the Arab boycott a renewed lease on life. [Ref. 53]

Toward the end of February 1975, the Arab League adopted a resolution to intensify the Arab boycott of Israel. [Ref. 54] In reply to a question by a Kneset (Israel parliament) member, Eliezer Shostak, on the subject of the Arab boycott, Minister of Foreign Affairs Yigal Alon announced to the Kneset on February 19, 1975 that the government of Israel had been raising the issue in all meetings with Ministers of Foreign Affairs and Economics from various Western countries including the U.S. [Ref. 55]

"...we drew their attention to the fact that the intensification of the Arab boycott is totally at cross purposes with the aspiration to advance towards peace in

the region, in addition to the fact that this boycott, by its mere essence, does not correspond with all that the free states in the world symbolize. We have called upon our interlocutors to act vigorously on this issue, and we believe that we shall see decisive action by Western states, and especially the U.S." [Ref. 56]

As a result of increasing oil prices and the oil crisis, the European community and Israel signed a Free Trade Agreement on May 11, 1975. The nine member countries wanted to show the Arab countries that they were not ready to be pushed to the corner by the oil embargo. [Ref. 57] It can be concluded that in this case, the Arab boycott lost its effectiveness and helped Israel to get involved in agreements which improved its European trade.

In the U.S., Israel's Minister of Industry and Trade, Chaim Bar-Lev, said during a visit in 1975 :

"... the Arab threats to boycott companies which do business with Israel are, to a certain extent, shadows of mountains rather than mountains." [Ref. 58]

In answer to a question in the Israeli Kneset about this statement, Bar-Lev answered:

"In meeting with the media after my talk with the U.S. Secretary of Commerce Roger Morton I tried to create a balanced picture of the situation..." On the one hand, he tried not to discourage American companies from maintaining economic ties with Israel (since 200 American companies have had economic relations with Israel) and on the other hand he pointed out that the boycott caused Israel real damage. [Ref. 59]

Chaim Herzog (today the Israeli President) criticized Israel's government in an article in the Jerusalem Post for not doing anything on the boycott issue.

"Both before the Yom Kippur War when the first clear signs were apparent of the Arab world's preparation to employ the oil weapon, and soon after the end of the war, the present writer suggested in these columns the establishment of an international Jewish Economic Organization to spearhead a world counterattack against the Arab boycott and those who submit to it ... Then Minister of Finance appointed a committee to examine the subject, but there is no more effective means of postponing action than the appointment of a committee. The fact is that nothing has since been heard in public as to activity by the Government in this Matter... Because in all the years of the state's existence, there has been insufficient appreciation of the importance of this subject. No instrument has been created capable of reacting in economic warfare and affording leadership and direction to world jury in this struggle". [Ref. 60]

From the reactions of both Israel's Minister of Industry and Trade and Chaim Herzog, we can see that until 1975, not much had effectively been done by Israel. One more point to concentrate upon is that Israel acknowledged its problem of the damage being done by the boycott.

In July 1975, Israel established the Economic Warfare Authority under the Minister of Foreign Affairs. The Authority had a small staff and a public committee which was created by representatives of industry. Halperin, second director of the Economic Warfare Authority, said in his book *Combatting The Arab Boycott*,

" ... I think it would be true to say that before 1973 people in Israel looked at the boycott as a nuisance... But after 1973 we all realized that the boycott is not only a problem but a danger as well....this time the conclusion was in favor of action". [Ref. 61]

The Western countries suffered severely from the oil embargo after 1973. During the same period, Israel also



suffered from the Arab boycott. The logic behind the conclusion that after 1975 Israel had to act against the boycott, was that it would be easier for Western countries to join in Israel's actions against the Arab boycott because the Western countries suffered from the actions of the Arab countries as well. [Ref. 62]

Israel believed at that time that the more noise one made about the issue, both in Israel and abroad, the easier it would be to bring about the adoption of practical measures to combat the boycott by Western countries. This approach was intended to convince public opinion in North America and Europe that the West could and should stand against the Arab boycott. [Ref. 63]

Halperin interpreted the underlying approach in the U.S.:

"The precondition for success of the anti-boycott action in the U.S. was that it should not be perceived as an Israeli issue, but as an American one. Thus, while Israelis have been very visible in the anti-boycott campaigns in some other countries ... we kept out of the limelight in the U.S." [Ref. 64]

As a result of Israeli and Jewish organizations' actions in the U.S., the Arab boycott was declared illegal in the U.S. and in several European countries. [Ref. 65] But in actuality, a company in the U.S. could surrender to the boycott and pay a fine of \$10,000. Some companies intentionally paid it. This point will be developed further in the paragraph about the U.S. response to the Arab boycott.

In the Western countries, strong public opinion can move legislators to act in favor of an issue. The Economic Warfare Authority attempted to achieve strong public opinion against the Arab boycott in the U.S. and Western Europe. In the U.S., these actions began by mobilizing all three major American Jewish organizations (Anti-defamation League of B'nai B'rith, the American Jewish Committee and the American Jewish Congress). These organizations had dealt with the boycott since the early 1960's but had been hampered before 1973 by Israel's policy of keeping a low profile on the boycott issue. [Ref. 66]

Several months after the establishment of the Economic Warfare Authority, a panel of eminent international jurists ruled in October 1975 that economic boycotts and embargoes levelled against third party countries for political reasons were illegal under international law, and the countries imposing economic boycotts and embargoes must pay reparations to third party states financially injured by the discriminatory actions. [Ref. 67] In spite of this decision, there was no practical implementation, but it was important for diplomatic reasons.

It can be concluded that Israel accepted the Arab boycott as a threat beginning in 1973, and began to deal with the boycott more seriously from 1975 with the establishment of the Economic Warfare Authority. From the analysis provided in this section and from the section discussing the U.S. response

to the Arab boycott, it is evident that something changed in the Israeli reaction to the Arab boycott. (Recall also, from the economic analysis, that Arab countries' trade improved in this era; Israel suffered from trade problems).

#### **1. Japanese Surrender to the Boycott**

The value of the oil imported by Japan from Arab countries in this era amounted to 90 percent of its oil needs. Business was booming for Japanese companies selling products to the rich Arab countries. Japanese companies preferred to trade with Arab countries with markets with hundreds of millions of consumers rather than with Israel with less than four million people. The answer received by Israeli dealers who asked Toyota and Datsun automobile companies why they would not export their cars to Israel was that the car makers "had a shortage of production." [Ref. 68]

Some Japanese companies found underground means to trade with Israel by exporting through Western Europe and by using a third side company. Thus it was possible in those days to find Seiko watches, Canon and Olympus cameras, Sony electronics equipment and many other Japanese products in Israel. One car company in particular achieved success in Israel. Subaru was the only Japanese car imported to Israel at this time. [Ref. 69]

The evidence then, suggests that Japan surrendered to the Arab boycott.

## **2. Israel and Africa Relations**

Prior to the 1973 War, Israel developed very good diplomatic relationships with African countries. After the 1973 War, all African countries except three broke off diplomatic relations with Israel. Until the 1973 War, Israel had helped many African countries to develop their agriculture and their military. After the war, Israeli companies were asked to leave the countries.

The threat to developing African countries of lost OAU aid and the Arab market encouraged these countries to cut diplomatic relations with Israel. One example was the CBO threat to boycott exports from these poor countries. Another example was the CBO threat to stop delivering oil to these African countries. The Arab boycott with the oil power threat succeeded well in this case. [Ref. 70]

### **E. U.S. RESPONSE TO THE ARAB BOYCOTT, 1973 - 1979**

The main factor affecting the U.S. response to the boycott was the oil crisis and its byproducts of high inflation, increased deficits, and high unemployment (stagflation). When OPEC imposed an embargo on the shipment of oil to the U.S. because of American military support to Israel during the 1973 War, great pressure was placed on Congress to deal with the oil crisis and the Arab boycott. The boycott issue was presented by the Jewish organizations as a domestic American

concern and not just a concern of Israel (as described on page 56). [Ref. 71]

On the other hand, President Gerald Ford had been convinced by Secretary of State Henry Kissinger that the goodwill of the Arab countries needed to be cultivated to benefit U.S. efforts to facilitate a Middle East peace settlement. This meant that new legislative measures against the Arab trade boycott would be opposed by the administration, since it was feared they could provoke Arab hostility toward the U.S. As a result, the Ford administration tried to block congressional action until 1977. [Ref. 72]

In February 1975, the Senate Foreign Relations Committee published a list of 1,500 American companies that were on the Arab blacklist. The House of Representatives Subcommittee on Oversight and Investigation reported that in 1975 alone, \$4.4 billion worth of U.S. sales to Arab countries were subject to boycott requests. [Ref. 73]

A report issued by the Commerce Department showed that 2,213 firms reported 118,627 boycott-related requests to comply with the boycott in 1976. [Ref. 74]

In 1975, 12 states responded by legislating specific anti-boycott statutes. The statutes ranged from broad laws prohibiting discrimination, boycotts and blacklists (as in New York) to narrow regulations (as in California). [Ref. 75]

Senator Abraham Ribicoff sponsored an anti-boycott amendment to the Tax Reform Act of 1976 which penalized boycott compliance but did not prohibit it. This amendment affected only those taxpayers who sought foreign tax benefits while cooperating with a foreign boycott. [Ref. 76]

More specifically, the taxpayers could suffer from losing three tax benefits:

1. Loss of foreign tax credits (Sec. 908);
2. Inability to claim a tax deferral on unrepatriated foreign income earned in boycott countries (Sec. 952 (a) (3) (B));
3. Loss of the deferral of U.S. tax with respect to Domestic International Sales Corporation (DISC) income (Sec. 995 (b) (1) (F)). [Ref. 77]

Firms were required to report to the IRS all business with any of the boycott countries as part of their annual tax return. This amendment to the Tax Reform Act was approved, since President Ford decided not to veto the tax bill on the eve of the presidential elections. [Ref. 78] The international boycott provisions of the Internal Revenue Code ("I.R.C.") were signed into law by President Ford on October 4, 1976, as part of the Tax Reform Act of 1976. [Ref. 79]

In the 1976 presidential campaign, Governor Jimmy Carter announced his support for legislation barring U.S. compliance with secondary and tertiary Arab boycott requirements. After Carter's victory, the Congress had problems with elements within the American business community that opposed

legislation against the boycott. Some business leaders worked to weaken and restrict the impact of this legislation. After a long period of negotiation among all sides, on June 22, 1977, President Carter signed into law comprehensive anti-boycott legislation in the form of amendments to the Export Administration Act. [Ref. 80]

These 1977 amendments attempted to prohibit compliance with, or participation in, the secondary or tertiary Arab boycott of Israel by Americans or persons doing business in the U.S. The amendments permitted Americans to comply with the primary boycott since the U.S. itself had primary boycotts on another foreign country (South Africa). The amendments stated that a violation of the boycott may result in a fine not to exceed \$50,000. [Ref. 81]

Examination of U.S. legislation against the boycott provides understanding of the strength of the leverage of the Arab countries with the power of oil. On the one hand, a strong Jewish lobby tried to bring the U.S. Congress to legislate a major prohibition against the boycott. On the other hand, the fear of losing more money to other Western countries from trade cuts with the Arab countries, and the effective pressure of the business community brought the Congress to the 1977 compromise amendments. These amendments prohibited the secondary and tertiary boycott, but many companies preferred to pay the fine of \$50,000 and to surrender to the Arab boycott. [Ref. 82]

## F. CONCLUSIONS

In the second round of the Arab boycott of Israel, neither side really won; both achieved some successes and failures.

The CBO did not succeed in destroying Israel's economy as it had declared it would do, although Israel had many economic problems at this time. Some of the problems were related directly to the CBO, but some of them were related to the Arab boycott indirectly. For example, the African market that was for Israel a big place for exports, was closed after the 1973 War by pressure of Arab countries.

The oil embargo on the Western countries caused a new threat to Israel. On the one hand, Israel had difficulty trading with many companies and countries that were targeted by the embargo (like Japan). But on the other hand, Israel gained export contracts that it could not achieve before (for example, the Free Trade Agreement with nine Western European countries).

In spite of the fact that Israel's imports and exports rose by more than 100 percent in this era, we cannot conclude that Israel did not suffer from the Arab boycott. From the explanations provided in the beginning of the economic analysis, and by comparing Israel's trade to Arab countries' trade, we must also observe the fact that the Arab countries at the same time increased trade by hundreds of percent, even including Arab countries that did not export oil (like Egypt and Syria).



Over a period of 29 years, Israel basically ignored the Arab boycott and no serious action took place by Israel's government. The Kneset did not develop any committee or subcommittee to deal with the Arab boycott. Israel's government, except for talking from time to time with Western Ministers, also took no serious action. The first time Israel dealt with the boycott seriously was in 1975, by establishing the Anti-Boycott Authority. Still, only seven people worked in this office compared to 200 in the CBO and many others in the Arab countries' Regional Offices. From these facts, we can conclude that Israel considered the boycott as a threat only from 1975 (after the oil crisis). But, it may also be the case that Israel simply did not have enough resources to deal with it more dramatically.

Israel had received aid from the U.S. and a few Western countries declared the boycott illegal and prohibited their companies from complying with it. Although some companies did surrender to the boycott and intentionally paid a fine, the Arab boycott had a new obstacle to fight rather than just Israel.

The Arab countries changed the rules of the trade game by declaring for the first time an oil embargo on the U.S. and some European countries, forcing these countries to react. Although the oil embargo on the U.S. only lasted a short time, it opened the door to legislation against the boycott.

In summary, between 1973 and 1979, the Arab boycott changed its appearance and achieved international effectiveness largely as a result of the power of oil. In this era, Israel began to be seriously threatened by the Arab boycott. Use of Arab oil as a weapon in 1973 may be viewed as a turning point in the effectiveness of the Arab boycott.

**V. THE ARAB BOYCOTT FROM THE 1979 PEACE AGREEMENT  
UNTIL 1990**

The result of the 1979 peace agreement between Israel and Egypt was a lifting of the Arab boycott by at least one Arab country, Egypt. The major purpose of this chapter will be to examine the impact of the peace agreement on the Arab boycott of Israel and on Egypt's trade with Israel.

This chapter will evaluate Israel's trade with Egypt and other major trading countries in the world. After the economic analysis, this chapter will provide a political analysis of Israel and present research on the U.S. response to the Arab boycott in this era.

The peace agreement between Israel and Egypt, signed in 1979 at Camp David in the U.S., gave Israel many expectations about a trade increase, at least with the biggest Arab country, Egypt. Prior to the signing of the peace agreement, Egypt had a lot of influence on most of the Arab countries.

Under this peace agreement, Israel gave back to Egypt the Sinai peninsula, including new oil fields developed by Israel just a few years before. Under the peace agreement, Egypt had to give Israel the opportunity to buy oil from the new oil fields, and permits to pass through the Suez Canal. (Recall

that the Suez Canal had been closed after the 1967 War until 1975, and from the 1956 War until 1957). After the peace agreement was signed, the Arab countries (except for Egypt), led by Syria and Libya, still did not agree to any trade with Israel and imposed a limited embargo on Egypt. [Ref. 83]

In 1979, another major factor was changed - Iran. Until 1979, Iran was controlled by a non-religious Moslem regime led by the Shah. The Shah believed that good relationships with Israel would help him to develop good trade relations with the Western world, particularly with the U.S. Iran was the only Moslem country that was not a member of the Arab boycott of Israel. By 1979, Israel exported military equipment and imported oil from Iran.

After Khomeini came to power, Israel lost a big market for exports and more importantly, lost oil imports from Iran. During that time, Israel suffered an economic hit, but increasing supplies of oil in the 1980's, and the new peace agreement, with an opportunity to import oil from Egypt, solved at least the oil problem. [Ref. 84]

In 1985, Israel and the U.S. began an era of full implementation of a Free Trade Region which was supposed to reduce all import taxes for both countries' goods, as is described below.

## **A. ECONOMIC ANALYSIS**

As in previous chapters, to evaluate the effectiveness of the Arab boycott on Israel, it is useful to compare the growth of Israel's trade with Western countries and Japan to the large Arab countries' trade with Western countries and Japan.

The purpose of this section is: (1) To determine whether a change in the direction of the Arab boycott (after the peace agreement between Israel and Egypt) influenced the trade of Israel; (2) To determine whether legislative acts made by the U.S. Congress against the Arab boycott had a real influence on the trade with Israel, as compared to Arab countries; and (3) (Since Japan is a different industrial country with regard to the Arab boycott), to evaluate Japan's trade relations with Israel and Arab countries. The tables are built in patterns of every two years.

## **B. ANALYSIS OF ISRAELI TRADE, 1979 - 1990**

The data provided in Table XIV indicate that during the years 1979 - 1990, Israel's total imports increased by 98 percent--from \$8.332 billion in 1979 to \$16.508 billion in 1990. In 1983, Israel's total imports declined by 6 percent for one year. During the years 1979 - 1990, Israel's total exports increased by 157 percent--from \$4.553 billion in 1979 to \$11.704 billion in 1990, as shown in Table XV.

Although Israel's total exports increased 1.6 times, its imports were not enough to reduce Israel's trade deficit,

**Table XIV. ISRAELI IMPORTS FROM MAJOR COUNTRIES 1979 - 1990**

(in millions of U.S. dollars)

	1979	1981	1983	1985	1987	1989	1990
<b>TOTAL</b>	8332	10191	9591	10136	14360	14389	16508
U.S.	1512	1630.3	1723	1705.6	1935	2358	2723
GERMANY	768	840.9	1040	900.5	1537	1428	1794
U.K.	688	603.8	667	755.1	1117	1157	1317
BELGIUM-LUX.	288	319.8	583	992.9	1686	2010	2029
JAPAN	170	127.7	274	186.2	401	356	546

Source: Direction of Trade Statistics Yearbook, International Monetary Fund, 1980, 1988, 1991.

which increased by 27 percent, from \$3.779 billion in 1979 to \$4.804 billion in 1990.

From this analysis it can be concluded that Israel's trade relations increased steadily. More conclusions on this subject are provided after analysis and comparison to Arab world trade.

**1. Israeli Trade with the U.S., 1979 - 1990**

From Tables XIV and XV, it can be seen that the U.S. remained as the most important trade market for Israeli exports and imports. Israel's imports from the U.S. increased by 80 percent during the years 1979 - 1990. In 1979, Israel's imports from the U.S. were \$1.512 billion, and by 1990, imports rose to \$2.723 billion. In 1985, imports declined one

**Table XV. ISRAELI EXPORTS TO MAJOR COUNTRIES 1979 - 1990**

(in millions of U.S. dollars)

	1979	1981	1983	1985	1987	1988	1990
<b>TOTAL</b>	4553	5670	5108	6260	8454	10737	11704
U.S.	749	1222	1329	2134	2562	3313	3458
GERMANY	419	401	356	334	412	526	701
U.K.	394	462	411	477	598	749	838
BELGIUM - LUX. <sup>1</sup>	219	204	251	242	267	549	680
JAPAN	223	206	189	210	484	758	871

Source: Direction of Trade Statistics Yearbook, International Monetary Fund, 1980, 1988, 1991.

Note 1: Israel trade data with Belgium and Luxembourg are combined in the *Direction of Trade Statistics Yearbook*.

percent for one year. Israel's exports to the U.S. increased by 362 percent--from \$749 million in 1979 to \$3.458 billion in 1990.

It can be seen that an interesting change was made in this decade, when Israel for the first time had a trade surplus with the U.S. In 1990, Israel had a trade surplus of \$735 million, compared to a \$763 million trade deficit in 1979. It can be suggested that the reason was the Free Trade Region agreement signed in 1985, and tougher regulations against the boycott in the U.S.

In general, The Arab boycott did not succeed very well in influencing U.S. trade with Israel in this era.

## **2. Israeli Trade with West Germany, 1979 - 1990**

Tables XIV and XV indicate that West Germany was the second largest country for Israeli trade. Israel's imports from West Germany increased by 133 percent--from \$768 million in 1979 to \$1.794 billion in 1990. In 1989, Israel's imports declined by seven percent for one year. Israel's exports to West Germany increased by 67 percent--from \$419 million in 1979 to \$701 million in 1990. During the years 1981 to 1985, Israel's exports to West Germany declined 20 percent.

In 1990, Israel's trade deficit with West Germany was \$1.093 billion compared to a trade deficit of \$349 million in 1979. Israel's main branch of exports to Germany was textiles, in the amount of \$112 million, out of \$701 million in total exports. [Ref. 85]

From our Israel and West Germany analysis, it can be seen that the Arab boycott of Israel did not succeed in preventing Israeli trade with West Germany and trade between Israel and West Germany improved rapidly.

## **3. Israeli Trade with the U.K., 1979 - 1990**

From Table XIV it can be seen that Israel's imports from the United Kingdom increased by 90 percent--from \$688 million in 1979 to \$1.317 billion in 1990. In 1981, Israel's imports declined for one year by 12 percent. Israel's exports to the U.K. increased by 112 percent--from \$394 million in 1979 to \$838 million in 1990. The main branch of exports to



the U.K. was textiles, accounting for \$171 million. Israel's trade deficit with the U.K. increased from \$294 million in 1979 to \$479 million in 1990. [Ref. 86]

During the years 1979 - 1990, Israeli and U.K. trade relations improved in spite of the Arab boycott.

#### **4. Israeli Trade with Belgium and Luxembourg, 1979 - 1990**

In this decade, Belgium and Luxembourg rose to be the second biggest exporters to Israel. The main branch of imports was unworked diamonds in the amount of \$1.422 billion for 1987, from total imports in that year of \$14.360 billion. [Ref. 87]

From Table XIV it can be seen that Israel's total imports from Belgium and Luxembourg increased by 645 percent--from \$282 million in 1979 to \$2.029 billion in 1990.

Table XV indicates that Israel's exports to Belgium and Luxembourg increased by 210 percent--from \$219 million in 1979 to \$680 million in 1979.

Although Israel's exports to Belgium and Luxembourg doubled in this decade, the Israeli trade deficit was significantly increased from \$63 million in 1979 to **\$1.349 billion** in 1990, about 30 percent of Israel's total deficit.

Israel's trade with Belgium and Luxembourg showed a big improvement in this decade. It is clearly evident that in Belgium and Luxembourg, the Arab boycott did not make any improvement during this decade.

## 5. Israeli Trade with Japan, 1979 - 1990

The data in Table XIV indicate that Israel's imports from Japan increased by 221 percent during the years 1979 (with \$170 million) until 1990 (with \$546 million). Israel's exports to Japan increased by 290 percent during the years 1979 (with \$223 million) until 1990 (with \$871 million). The main make-up of Israel's exports to Japan in 1987 was diamonds, precious stones and precious metals, for a total amount of \$389.8 million, about 80.5 percent of Israel's total exports to Japan. [Ref. 88]

Israel is one of a few countries in the world that has a trade surplus with Japan. In 1979, Israel had a trade surplus of \$53 million, which grew to \$325 million in 1990. As described in the political analysis, it is suggested that the major reason for that surplus was the Arab boycott. But, with the political change in Japanese policy towards Israel as Japan became less dependent on Arab oil (as will be presented in the political analysis), we can understand such a change in the trade relations between these two countries.

To summarize, three main factors influenced Israeli trade:

1. In comparison to previous periods, Israel's trade with Western countries and Japan was booming.
2. A significant increase in Israeli exports to the U.S. was accomplished.
3. Another significant change was the increase of unworked diamonds imported to Israel from Belgium and Luxembourg.

It can be concluded from these three main changes in Israeli trade that the Arab boycott of Israel lost most of its power in this era, or at least that the boycott could not eliminate a broad improvement in Israel's trade relations compared to previous periods. This conclusion will be shown more strongly below.

**Table XVI. ISRAELI TRADE WITH EGYPT 1979 - 1990**

(in millions of U.S. dollars)

	1979	1981	1983	1985	1987	1989	1990
<b>IMPORTS</b>	0	.1	2.3	.7	3.8	4.7	5.0
<b>EXPORTS</b>	0	15.7	7.1	7.5	2.3	4.5	6.3

Source: Direction of Trade Statistics Yearbook, International Monetary Bank, 1979, 1988, 1991.

#### 6. Israeli Trade with Egypt, 1979 - 1990

The peace agreement between Israel and Egypt was signed in 1979. But Table XVI indicates that little trade occurred between the two countries following the agreement. The total amount of trade increased up to \$5 million in imports from Egypt into Israel, and \$6.3 million in exports from Israel to Egypt in 1990. The biggest amount of trade that Israel exported to Egypt was \$15.7 million in 1981, ten years ago.

It may be concluded that although Israel and Egypt signed a peace agreement in 1979, which included easing the Arab boycott on Israeli - Egyptian trade relations, the two countries did not develop extensive trade agreements. There are several possible explanations for this. First, Egypt opposed Israel's involvement in the Lebanese War in 1982. This explains why Israeli exports increased until 1981 only. Second, there was internal pressure from Egyptian public opinion and external pressure from Arab countries against the peace agreement with Israel. And third, the Egyptian government was dissatisfied with Israel's way of dealing with the Palestinian issues.

Indirect conclusions can be drawn from these data. Israel did not use the opportunity provided by the trade agreement to buy crude oil from Egypt. Israel preferred to buy oil from other long distance Western countries for two reasons. First, the prices that Egypt asked for oil were much higher than other long distance countries, even though the price of carrying the oil from Egypt to Israel should be lower than the long distance carrying prices. Second, there is no scarcity of oil in the market, hence Israel can achieve all of its needs from the free market. For these two reasons, and from the political analysis and the economic analysis, it can be understood why the declining power of oil decreased the power of the Arab boycott of Israel.

## 7. Main Arab Nation Trade with Japan

Japan was and still is a very unique country with regard to the Arab boycott of Israel, as was explained in chapter III. In order to compare Japanese and Israeli trade direction with Arab countries' trade with Japan, and to determine whether Japan is less dependent upon Arab oil in this era, I chose to examine Japan's trade with select Arab countries. The data which are provided in Table XVII are as close as possible to the years of Tables XIV and XV.

**Table XVII. TRADE BETWEEN JAPAN AND SELECT ARAB COUNTRIES 1981 - 1990**

(in millions of U.S. dollars)

	IMPORTS			EXPORTS		
	1981	1985	1990	1981	1985	1990
SAUDI ARABIA	21,424	10,300	10495	5,857	3,922	3,350
UNITED ARAB EMIRATES	8,811	8,930	9,083	1,489	1,173	1,553
IRAQ	927	626	893	3,022	1,318	271
EGYPT	206	551	121	792	738	526
SYRIA	11	3	5	253	128	70

Source: Direction of Trade Statistics Yearbook, International Monetary Fund, 1988, 1991.

It can be seen from Table XVII that the years 1981 to 1990 were a turning point in trade relationships between Japan and the Arab world.

Saudi Arabia's exports to Japan declined 51 percent-- from \$21.424 billion in 1980 to \$10.300 billion in 1985. In this decade, Japan's exports to Saudi Arabia decreased by 43 percent (from 1981 to 1990).

Iraq, Egypt and Syria all showed extreme declines both in imports from and exports to Japan during the years 1981 - 1990. The United Arab Emirates is the only country that succeeded in maintaining about the same trade with Japan, actually experiencing a small increase of about three to four percent both in imports and exports.

It may be concluded that Japanese trade with the big Arab world traders decreased significantly during the years 1979 - 1990.

#### **8. The Main Arab Countries Trade with the U.S.**

The U.S. was the big trading country both with the Arab world and with Israel, until 1979. The economic analysis of Israel's trade with the U.S. also showed an increase of trade and particularly the new situation of an Israeli trade surplus with the U.S. In order to examine U.S. trade with Arab countries and to compare it to U.S. trade with Israel, I chose to examine U.S. trade with select Arab countries. The data in Table XVIII are as close as possible to the data in Tables XIV and XV.

The decade between the years 1980 and 1990 was not as good a trade decade as the previous decade for the Arab

**Table XVIII. TRADE BETWEEN THE U.S. AND SELECT ARAB COUNTRIES  
1981 - 1990**

(in millions of U.S. dollars)

	IMPORTS			EXPORTS		
	1981	1985	1990	1981	1985	1990
SAUDI ARABIA	15237	2027	10733	7327	4474	4035
UNITED ARAB EMIRATES	2102	722	952	1077	597	998
IRAQ	167	491	3247	914	427	640
EGYPT	412	84	435	2159	2323	2249
SYRIA	88	3	57	143	107	151

Source: Direction of Trade Statistics Yearbook, International Monetary Fund, 1988, 1991.

countries. During the 1980's, trade with the U.S. either remained steady or declined. Table XVIII indicates that in 1990, Saudi Arabia exported to the U.S. 30 percent less compared to 1981. In 1990 Saudi Arabia exported to the U.S. in the amount of \$10.733 billion compared to 1981 with the amount of \$15.237 billion and the year 1985 with \$2.027 billion! At the same time U.S. exports to Saudi Arabia decreased by 45 percent.

From Table XVIII it can be seen that U.S. imports from the United Arab Emirates decreased by 55 percent--from \$2.021 billion in 1981 to \$952 million in 1990. During the same time, 1981 to 1990, U.S. exports to the United Arab Emirates

decreased by seven percent--from \$1.077 billion in 1981 to \$952 million in 1990.

The data in Table XVIII indicate that U.S. imports from Egypt increased by five percent--from \$412 million in 1981 to \$435 million in 1990. U.S. exports to Egypt increased by four percent--from \$2.159 billion in 1981 to \$2.249 billion in 1990.

An interesting trade increase the U.S. developed with Iraq before the Gulf War is shown. Table XVIII indicates that U.S. imports from Iraq increased by 1,844 percent from 1981 (with \$167 million) to 1990 (with \$3.247 billion). U.S. exports to Iraq decreased by 29 percent--from \$914 million to \$640 million.

From Table XVIII it can be seen that U.S. imports from Syria decreased from \$88 million in 1981 to \$57 million in 1990 (a 35 percent decrease). U.S. exports to Syria increased from \$143 million in 1981 to \$151 million in 1990 (about a six percent increase).

It may be concluded that U.S. trade with most of the Arab countries decreased significantly in this period. By connecting this conclusion to an economic analysis of Israeli trade during the same period of time, we can conclude that the Arab boycott lost a lot of its power. For example, during the same period, Israeli exports increased by 362 percent, and Israeli imports from the U.S. increased by 80 percent. It appears that the U.S. anti-boycott regulations were a turning



point in U.S. policy towards the Arab boycott, as will be described below.

#### **9. Israel - The Loss of the Iranian Market**

In 1978 Israel and Iran had a full diplomatic relationship. Israel exported to Iran in the amount of \$96.8 million and imported from Iran in the amount of \$7.8 million. After Khomeini came to power, Israel lost an important export market and trade declined to zero. [Ref. 89] The new government in Iran adopted the Arab boycott regulations against Israel.

### **C. POLITICAL ANALYSIS**

#### **1. Israel's Response to the Boycott**

The Israel Economic Warfare Authority presented a document to the participants in the 1984 Brussels Seminar on "Freedom of Trade with Israel" which included the following description of how individual boycott cases are dealt with by the Authority. Such cases, the document stated, are referred to the Authority by Israeli and foreign companies, Israeli representatives abroad, or voluntary organizations in Israel and abroad, or are brought to its attention by press reports.

[Ref. 90]

"The handling of these cases usually starts with an investigation as to whether they are indeed boycott related, or whether abstention from doing business with Israel is based on commercial reasons only. If the suspicions are substantiated, documentary proof is sought."

After that any of the following steps may be taken: The Economic Warfare Authority can initiate an approach to the foreign company involved in the boycott. Also, an Israeli representative, or a member of a local bi-national Chamber of Commerce, or a client or supplier of the company, can ask the foreign company to withdraw from surrender to the boycott. Sometimes the Authority might ask for participation of public opinion through the media. [Ref. 91]

Some of the non-Israeli participants in the Brussels Seminar in 1984 complained about the apparent lack of interest in the subject in the Israeli Government. One of the specific complaints was that whereas Israel was pushing foreign countries to pass anti-boycott legislation, none was passed in Israel. [Ref. 92]

However, the Economic Warfare Authority seldom succeeded in its work in dealing with cases brought to its attention. [Ref. 93] The reasons why Israeli companies which suffered from the boycott did not approach the Authority are: First, the larger companies, and conglomerates especially, had their own ways of dealing with the boycott. Second, many companies were averse to working too closely with the Ministry of Finance, which was responsible to the Authority. Third, many companies simply did not know of the existence of the Economic Warfare Authority. [Ref. 94]

Two major events caused increasing 'Voluntary Boycott'<sup>2</sup> of Israel by foreign companies and caused foreign governments not to take a full pro-Israeli position in the boycott issue. The first of these was Israel's involvement in the Lebanese War during the years 1982 - 1985. The second was the 'Intifada,' the Palestinian civil war against Israel. Both events brought strong public opinion against Israel all over the world, beginning in 1987.

For example, President Francois Mitterand of France, fulfilled his preelection promise of reactivating the 1977 anti-boycott legislation and removing all obstacles from its application. This was done within the framework of the Mauroy circular of July 17, 1981. However, as a result of Israeli involvement in the Lebanese War, which began in June 1982, the implementation of the new policy was put off until 1984.

[Ref. 95]

In an article, "Israel's Best-Kept Secret," Hesh Kestin from *Forbes* magazine dated October 22, 1984, noted that

"despite the Arab boycott, Israeli businessmen do a thriving business-perhaps \$500 million worth of goods annually-with their sworn enemies... This recent trade is apart from Israel's thriving international arms sales, some of which find their way to Moslem countries. Israeli manufacturers, working with Arabs in Israeli-administered territories and with sympathetic European and American traders abroad, have found ways to penetrate even the most

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<sup>2</sup> This boycott resulted from a logical extension of the implications of the secondary and tertiary boycotts. In such cases, companies simply declined to deal with Israel or companies related to Israel for fear of antagonizing present or prospective Arab clients.

hostile countries in the Arab market, selling everything ..." [Ref. 96]

Kestin also described an incident in which

" ... An Arab League official who enforces the 35-year-old Arab boycott against Israel got a nasty shock recently. He opened a box of chocolates in Kuwait and found they were embossed with little Stars of David." (a Jewish symbol). [Ref. 97]

It can be concluded that Arab countries, after 35 years of boycotting Israel, became weak in enforcing the Arab boycott of Israel even in their own countries.

## **2. Israeli and Egyptian Trade**

Israeli businessmen had hoped that the peace agreement with Egypt would bring healthy trade, but they were disappointed. Israel's trade with Egypt has been insignificant - about two million dollars or so annually. In view of the high hopes, peace with Egypt, all in all, has been a trade bust. Hesh Kestin, a *Forbes* reporter, wrote that "The Egyptians themselves don't want to be blacklisted. They are doing business with the Arabs." [Ref. 98]

In a non-democratic country such as Egypt, the Arab boycott is not the main issue. In Egypt, the majority of the trade decisions are made by the government. So in this case, other things influence the Israeli - Egyptian trade, like Israeli involvement in the Lebanese War in 1982, and Israel's policy on the Palestinian issues in the West Bank and Gaza.

### 3. Japan and the Arab Boycott Policy

Japan has always been most supportive of the Arab boycott. Most of the large Japanese companies publicly refuse to do any direct or indirect trade with Israel. The Japanese Government has refused to do anything to change the companies' policy. [Ref. 99]

In "Japan Israel's Problem," dated March 9, 1987, Howard Stanislawski of *The New Republic*, described the Israeli - Japanese relationship as follows:

"... There is a long way in which Japan has been unwilling to deal with Israel. Japan Air Lines has refused to establish mutual landing rights with the Israeli airline, El Al. Although Israeli ships call on Japanese ports, no Japanese ships drop anchor in Israel. No Japanese governmental minister, political or economic, has ever visited Israel. No Japanese economic delegation has ever visited Israel. Even proposed cultural exchanges, including those initiated by officials of the Japanese Embassy in Israel, have reportedly been met with foot-dragging and opposition at the Japanese end, often effectively scuttling the proposals. The Japanese government has stated many times that it will not advise Japanese companies whether or not to comply with the boycott." [Ref. 100]

In June 1988, a turning point can be seen when a Japanese Foreign Minister, Souke Uno, visited Israel, the first to do so. After various projects for economic cooperation were presented to him, the Japanese response was that such cooperation could take place once progress was made in the peace process. Nevertheless, Israeli officials expressed the hope that the mere occurrence of the visit would serve as an indication to the Japanese business community that contacts with Israel were no longer taboo. [Ref. 101]

In order to sell Honda automobiles in Israel and not be hurt by both the new U.S. regulations (Export Administration Act, see below) and by the CBO, U.S. Honda spokesman Robert Butorac announced in August 7, 1989, that "American Honda would start selling cars manufactured at its Marysville, Ohio, plant in Israel next year." [Ref. 102]

From the Los Angeles Times published on October 10, 1990, we learn that Israel's relations with Japan have improved:

".. Japanese - Israeli relations have gradually improved in recent years. The two countries agreed to explore possible economic and technological collaboration late last year after then - Israeli Foreign Minister Moshe Arens made a short five-day visit to Japan.." [Ref. 103]

In the beginning of 1991, Toyota, the world's No. 2 auto maker, announced that it would begin selling 5,000 Corollas a year in Israel beginning in 1992. Nissan has indicated it is ready to make a similar move, and Mazda appears to be not far behind. [Ref. 104]

Israel's well known journalist, Yehuda Litani, said in response to this issue:

"Toyota is the beginning of a new era. If Toyota is not afraid, no one is afraid. If Toyota is here, the boycott does not exist". [Ref. 105]

After reading both the political and economic analysis of Japan's dealing with the boycott, it is quite evident that Japan's position toward the boycott has changed during this

decade. Japan has begun to trade with Israel in spite of the boycott regulations. This is further evidence that the power of the boycott decreased significantly in this decade.

#### **D. U.S RESPONSE TO THE ARAB BOYCOTT, 1979 - 1990**

The U.S. Department of Commerce enforced the anti-boycott policy which resulted from the Export Administration Amendments (EAA). These were revised by Congress into the Export Administration Act of 1979 and signed by President Carter on September 29, 1979. The department's office of Anti-Boycott Compliance imposed fines against U.S. firms and their foreign subsidiaries that complied with boycott demands and levied increasing fines against companies that failed to report receipt of boycott requests. For example, Citibank of New York was penalized with the largest fine in 1983 - \$323,000. [Ref. 106]

In fiscal year 1983, only 3.8 percent of reporting U.S. companies obeyed prohibited boycott requests. These companies' total fines were \$1.4 million. Over 2,100 noncomplying companies refused to surrender to boycott conditions in transactions worth \$8.1 billion. [Ref. 107]

The 1979 Export Administration Act contained, in addition to maximum civil penalties of \$10,000 per infraction, criminal penalties calling for fines of up to \$50,000 or five times the value of the exports involved, whichever was greater, or

imprisonment for up to five years, or both. Furthermore, revocation of the authority to export goods generally could be imposed as an administrative sanction. [Ref. 108]

The Briggs and Stratton Corporation of Wauwatosa, Wisconsin, a manufacturer of internal combustion engines, claimed in its 1980 suit against the U.S. Government, that its annual sales of equipment to Arab countries would be lost if it was prevented from responding to a boycott questionnaire. The questionnaire inquired whether Briggs and Stratton Corporation had any business with a number of American companies and whether it had engaged in business activity with Israel or with Israeli firms. The court rejected this suit. [Ref. 109]

In the largest penalty of its kind, Safeway Stores Inc. announced March 14, 1988, that it had agreed to pay the Commerce Department \$995,000 to settle the Department's charges that the company had illegally complied with the Arab boycott against Israel. Paul Freedenberg, Undersecretary of Commerce for Export Administration, said:

"I am pleased with the settlement... It is equitable, and it indicates we take enforcement of the anti-boycott laws very seriously and will continue to vigorously enforce them". [Ref. 110]

It may be concluded that enforcement of the Export Administration Act of 1979 has had a very effective restraining impact on companies that might have contemplated violations.



**Table XIX. BOYCOTT REQUESTS REPORTED BY U.S. FIRMS 1965 - 1983**

<b>Period</b>	<b>No. of Requests</b>
Oct. 1965 - June 1969	24,500
Oct. 1970 - June 1975	21,000
Oct. 1975 - Sept. 1976	169,710
Oct. 1976 - Sept. 1977	153,815
Oct. 1977 - Sept. 1978	67,942
Oct. 1978 - Sept. 1979	39,293
Oct. 1979 - Sept. 1980	37,737
Oct. 1980 - Sept. 1981	50,204
Oct. 1981 - Sept. 1982	57,456
Oct. 1982 - Sept. 1983	37,500

\* Note: Reporting requirements in late 1975 were broadened to include freight forwarders, banks, shipping companies, and service organizations. Previously, only exporters of goods were obligated to file reports.

Source: U.S. Department of Commerce, Export Administration Reports, 1977 - 1983, Washington D.C., and Aaron Sarna, Boycott and Blacklist, 1986.

From Table XIX it can be seen that the number of boycott requests received by U.S. companies decreased from 1976 to 1983. In fiscal year 1976, 169,710 requests were reported, compared to a low of 37,500 requests in the 1982 fiscal year.

It can be concluded that the Export Administration Act of 1979 forced the Arab countries to decrease the number of questionnaires in order not to damage and to ruin their trade relations with the U.S.

The Tax Reform Act, which was legislated in 1976, has also been successful in preventing American companies from participating in the Arab boycott. From 3000 companies which reported on business with boycotting countries in 1982, 160 disclosed that they had agreed to participate in the boycott. These companies lost tax benefits totaling \$10 million. [Ref. 111]

The U.S. Office of Anti-Boycott Compliance announced in 1985 that Lockheed Engineering and Management Services of Houston and its consultant had agreed to pay separate civil penalties of \$10,000 each and incur the loss of their export privileges for one year with respect to Saudi Arabia, on the grounds that they had refused to consider a Jewish applicant for employment in that country. [Ref. 112]

It is evident that the tough U.S. regulations against the Arab boycott had a major impact on reducing the Arab boycott of Israel in this decade.

#### **E. CONCLUSIONS**

The time period 1979 - 1990 witnessed a decrease in the power of the Arab boycott of Israel. From the analysis of this chapter, it can be concluded that two major factors account for this reduction in the power of the Arab boycott.

First, the legislation of the Export Administration Act by the Congress of the U.S. had a significant impact. This Act

decreased significantly the numbers of questionnaires required by Arab countries.

Second, in spite of the change of regime in Iran and the temporary escalation of oil prices in 1979, the finding of oil in the North Sea brought a decrease in oil prices and seemed to solve the problem of blackmailing by oil crisis, as was the situation until 1979. The diminishing power of oil created a significant drop in both Japanese and U.S. trade with the Arab countries.

In spite of the Arab boycott, the Free Trade Region agreement between Israel and the U.S. (1985) increased Israeli exports to the U.S. significantly and was the major reason for Israel's surplus trade with the U.S.

The high expectations of trade arising from the Israeli - Egyptian peace agreement were not realized. This was because of the Lebanese War (1982), Israel's dealings with Palestinian issues and heavy pressure on Egypt from other Arab countries.

The Israeli government's attitude to the Arab boycott has never radically changed. In Brussels, for example, the Israeli government was blamed by Jewish organizations for ignoring the Arab boycott during this era.

It can be concluded from the Japanese response to the Arab boycott of Israel, as well as the impact of U.S. legislation against the Arab boycott and the decrease of oil power in the world, that the Arab boycott lost a lot of its power during this era. Thus the Arab boycott by itself was very weak.

Recall that as a result of the oil crisis and the increase in oil prices, the Arab boycott began to be a danger and threat to Israel's economy during the years 1973 - 1979.

In summary, the Arab boycott of Israel became a turning point in this decade. From the difference between the period 1973 and 1979, and 1979 and 1990, it appears that the Arab boycott was much stronger when supported by the economic weapon of the oil embargo to convince and threaten firms and countries to comply with the boycott. Without such an oil weapon, as was present after 1979, and with the tough actions of Western countries such as the U.S. against the Arab boycott, the Arab boycott would have lost its teeth.

## VI. GENERAL CONCLUSIONS

Evidence has been presented that the Arab boycott of Israel reflects two kinds of failure. On the one hand, the Arab countries, with their oil power, failed to affect totally Israel's economic growth, as was declared in the beginning of the boycott as its objective. On the other hand, Israel failed to take more effective steps against the Arab boycott, both by itself and by convincing the free world nations to act against the Arab boycott more strongly.

This research has presented and proved economically and politically, that the Arab boycott of Israel had three distinct phases.

(1) The first of these was the period from the declaration of the Arab boycott in 1946 until the 1973 War. In this era, the Arab boycott achieved its main aim to prevent any direct trade between Israel and Arab countries. The other boycotts (Secondary and Tertiary boycott) had less success in achieving their target, which was to prevent any trade between Israel and the rest of the world. Japan, however, almost totally froze its exports to Israel.

Although Israel suffered from the Arab boycott in this period, people in Israel looked at the boycott as merely a nuisance. No substantive or sustained Israeli actions were taken against the Arab boycott.

During this period, it appears that the U.S. did not have a significant interest in preventing the boycott in the U.S. As a result, no federal law was passed to prohibit participation in boycotting Israel.

(2) **The second phase of the boycott took place between the 1973 War and the 1979 peace agreement between Israel and Egypt.** In this phase the Arab boycott changed its appearance and achieved international effectiveness largely as a result of the power of oil. The Arab oil weapon of 1973 can be seen as a turning point for the Arab boycott. As a result of both the 1973 War and particularly the Arab oil weapon, Israel and most of the Western countries realized that the Arab boycott was not only a problem but a danger and a threat as well.

As a result of the Arab boycott and the oil weapon, and although Israeli total imports and exports rose by more than 100 percent in this era, economic data indicate that Israel did suffer from the Arab boycott. A comparison of Israel's trade with Arab countries' trade, specifically non oil exporting countries such as Egypt and Syria, shows that Israel's trade growth was much lower than the Arab countries' trade growth.

Israel recognized that the Arab boycott was a real threat in this era. As a result, Israel, for the first time in the 29 years of the Arab boycott's existence, established the Anti-Boycott Authority. This Authority initiated actions against the boycott from Israel and abroad by convincing

Western countries to resist the Arab boycott, as described in Chapter IV and V.

The main factor affecting the U.S. response to the Arab boycott in this period was the oil crisis and its byproducts of high inflation, large deficits, and high unemployment (stagflation). As a result, the boycott came to be viewed as an American domestic problem as well. The U.S. reaction to the Arab boycott is evident in two major pieces of legislation: the amendment to the Tax Reform Act of 1976 and the 1977 amendments to the Export Administration Act.

**(3) The third phase of the Arab boycott began with the 1979 peace agreement between Israel and Egypt and ends in 1990.** In this period, the power of the Arab boycott declined. Two factors account of this change: the diminishing power of oil, and the tough U.S. legislation against the Arab boycott. These developments also improved Israeli trade relations with the rest of the Western world, not only with the U.S.

The peace agreement between Israel and Egypt in 1979 brought frustration to those who expected that Israel's trade with such a close and big country as Egypt would open a huge trade market. The relatively low level of trade between Israel and Egypt can be explained by Egyptian dissatisfaction with Israel because of the Lebanese war in 1982, and Israel's policies toward Palestinian issues (Intifada). Heavy political pressure from other Arab countries also influenced Egypt in its trade relations with Israel.

In assessing the points presented by this study and from comparing these three eras of change in the direction and impact of the Arab boycott, it can be concluded that the Arab boycott was strongest when it had the economic weapon of the oil embargo to convince and threaten firms and countries to comply with the boycott. Without such leverage (in the period since 1979 and before 1973) and with tough actions of Western countries such as the U.S. opposing the Arab boycott, it can be said that the Arab boycott lost its teeth.

As in every conflict in the Middle East, the U.S. role was significant. When the U.S. decided to take serious actions against the Arab boycott of Israel beginning in 1975, the power of the Arab boycott declined dramatically. Without the power of oil, the Arab countries preferred not to attack the U.S. directly, in spite of its tough regulations against the Arab boycott.

In sum, the Arab boycott did not succeed in destroying Israel economically as was its declared intention when it was established in 1946.



## APPENDIX A. THE BOYCOTT AFFIDAVIT

### A. THE AFFIDAVIT

A firm doing business in the Arab world for the first time must have a corporate officer sign a notarized affidavit that it does not, and will not, violate boycott regulations. A sample follows:

We hereby, certify under our own responsibility, that our firm, namely, \_\_\_\_\_, has no commercial, industrial, and/or any other relations with Israel; our firm does not constitute a branch, subsidiary, or main office of any other Israeli firm. We further declare that we have no direct or indirect interests in all or any Israeli concerns, whether governmental or nongovernmental. [Ref. 113]

**APPENDIX B. THE ARAB BOYCOTT CERTIFICATE OF ORIGIN**

**A. THE CERTIFICATE OF ORIGIN**

Firms shipping goods to Arab countries must provide a negative certificate of origin. The following is a sample from the San Francisco Chamber of Commerce:

I hereby certify that I have investigated the foregoing statements and to the best of knowledge and belief the articles described above are the growth, product, or manufacture of the United States of America; furthermore that these articles are not of Israeli origin, and that no Israeli products were used in their manufacture. [Ref. 114]

## APPENDIX C. THE ARAB BOYCOTT QUESTIONNAIRE

### A. THE QUESTIONNAIRE

Firms suspected of dealing with Israel receive a questionnaire from the Central Boycott Office (CBO) in Damascus demanding private information and assurance that trade with Israel will be discontinued. A sample Questionnaire follows:

Gentlemen:

We wish to inform you that we have acquired reliable information to the effect that you are the agents of the \_\_\_\_\_ Company of Israel.

In this regard, we believe that it is of mutual interest to both of us to draw your attention to the fact that the Arab countries are still in a state of war with Israel. Therefore, as a measure of self-defense and with a view to safeguarding the rights and vital interests of the Arabs of Palestine, the Arab countries strictly adhere to a set of boycott rules directed at Israel.... Violation of these regulations entails the boycott of violators in the Arab countries.

However, before any action is taken against your firm, we find it beneficial for you, as well as for us, to contact you directly so that you may inform us of the nature of the dealings of your firm with Israel. This will have to be done in the form of a declaration duly signed before the competent governmental authorities and should also bear a final authentication to the signature of the authorized representative of your firm appended thereto by the closest consulate or diplomatic mission of any Arab country. The required declaration will have to contain complete answers to the following questions:

1) Do you have any branch, office, or agency in Israel? In case you have, please state the nature of its activity.

2) Do you act as general agents of Israeli companies? Particularly, the \_\_\_\_\_ company of Israel.

3) Have you ever owned shares in Israeli firms or businesses?

4) Is your firm or any of its directors a member of any foreign-Israeli chamber of commerce in Israel or abroad?

If your answer is in the positive, you will then be kindly requested to present the following:

a) An official copy of your agency agreement with the said company [other Israeli company], provided that it be duly

certified by your chamber of commerce in writing and authenticated by your competent governmental authorities and by any Arab consulate in your area of activity.

b) Documentation to the effect that you have terminated the agency agreement and showing the consent of the Israeli side to such termination. Such documents will have to be duly certified as shown in the above paragraph.

c) An undertaking to the effect that you will never represent Israeli companies in the future.

We look forward to receiving your reply in the above-mentioned form within a maximum period not to exceed three months from the date of this letter.

Finally, we do hope that you will extend sympathetic understanding of the compelling considerations which render this measures mandatory. It is our sincere hope that you will find it appropriate to maintain your commercial relations with the Arab countries.

Very truly yours,

Mohammed Mahmoud Mahgoub  
Commissioner General,  
Central Office for the  
Boycott of Israel

[Ref. 115]

APPENDIX D. DOCUMENTS EVIDENCING BOYCOTT COMPLIANCE

KAWASAKI DOCKYARD CO., LTD.

14 Higashi-Kawasaki-Cho

2-Chome

Ikuta-Ku, Kobe, Japan

Our File No. KMB-67-10291

Kobe, July 6, 1967

Mr. E. Epstein

Representative

Zim Israel Navigation Co., Ltd.

C/o Sannomiya Bldg.,

KOBE

Re: Abt. 100,000 DWT Oil Tanker

Dear Sir:

With regard to the subject matter, it is our real regret to inform you by this letter that we have to decline this new building deal on the ground of the following aspects for all of our various negotiations with you until this very day.

Namely, one of the Kawasaki Group company has a business transaction with the U.A.R. which fact was not made known to

us at the time of our early negotiation with you for this deal. However, this fact has been recently put before us at a consultation meeting of the Kawasaki Group and at that meeting, the said company has strongly made his appeal to us that we discontinue this particular business for Israel.

Under the above circumstances, we, all of a sudden are compelled to put forward this declination to you with a thousand pities and this matter will trouble our conscience for your very kind assistance made in negotiation of this deal to date. Please understand our position and accept our deep apology for this unhappy situation.

Taking this opportunity, we wish to add that this action has no bearing with the Japanese government and we have never received their instruction nor suggestion and the decisions made by us is purely based on our discretion.

We trust that this declination will not have any unfavorable influence on our amicable relations with your esteemed company.

Your very truly,

**KAWASAKI DOCKYARD CO., LTD.**

**s/Y Madono**

**Manager**

**Marine Business Section**

**[Ref. 116]**

**SHIBA ELECTRIC CO., LTD.**

Our Reference No. 1434

**Messrs. M. Schewiger**

**POP 4368**

**Haifa**

**Israel**

Tokyo, 15th May 1967

Dear Sirs:

Subject: Closed Circuit Television

Thanks for your kind letter dated 7 May 1967 for the subject.

In this regard, to our regret, we wish to refrain from quoting the article, because our company has closely dealt with Arabic countries.

Please understand our position as above.

Yours faithfully,

Shiba Electric Co., Ltd.

M. Takekawa

Manager of Overseas Dept.

[Ref. 117]



## APPENDIX E. UNIFIED LAW ON THE BOYCOTT OF ISRAEL

1. All persons within the enacting country are forbidden to conclude any agreement or transaction, directly or indirectly with any person or organization (i) situated in Israel; (ii) affiliated with Israel through nationality; or (iii) working for or on behalf of Israel., regardless of place of business or residence.
2. Importation into the enacting country is forbidden of all Israeli goods, including goods manufactured elsewhere containing ingredients or components of Israeli origin or manufacture.
3. Foreign companies with offices, branches or general agencies in Israel shall be considered prohibited corporations for purposes of the prohibition on agreements or transactions.
4. All goods destined for Israel, directly or indirectly, or for persons prohibited by the preceding paragraphs, are considered Israeli goods and therefore subject to the ban on exports as well as transit.
5. In addition to these provisions in the Unified Law, the Central Boycott Office maintains a number of blacklists--for instance of firms that permit their trademarks or patents to be used in Israel; of banks that have engaged in financing major projects in Israel, selling Israel bonds elsewhere; and of ships, (not generally shipping companies) that call at an Arab and an Israeli port on the same voyage.

[Ref. 118]

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