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12 Questions
and Answers
About

The ARAB
BOYCOTT

How long has the Arab boycott been going on?

The Arab League began its boycott of Jewish-owned companies and Jewish-made goods even before 1948 when the State of Israel was established. Its initial purpose was to prevent the establishment of the Jewish state; later, its goal was to undermine the Israeli economy.

Before 1973, the Arab boycott was largely ignored by businesses in the West, since Israel, with its sophisticated industrial plant and extensive import and export capacity, was a far more attractive market than most of the Arab world.

After the Arab oil embargo in 1973, however, and the quadrupling of oil prices that followed, several Arab states began accumulating huge petrodollar surpluses which could be translated into investment and purchasing power.

With this new economic strength, the Arab states are seeking to convince businesses in the U.S. and other Western countries that compliance with the boycott is a condition for doing business in the Arab world.

What forms does the boycott take?

A primary, or direct, boycott covers all Israeli-made goods and services, and bans all trade arrangements with Israel by Arab states.

A secondary boycott is directed against companies that invest in Israel or do business there—a ban that is honored or ignored depending on the whims and business preferences of the individual Arab states.

Most recently (and less openly) there are signs of a tertiary boycott aimed at companies that do business with companies that do business with Israel, and even at companies with

“Zionists” (read Jews) on their boards or in executive posts.

Beyond these, there is a “shadow boycott”—the self-imposed discrimination practiced by some businesses against American Jews and American Jewish companies in an effort to curry favor with potential Arab customers.

How does the boycott work?

Boycott demands on American business take several forms.

American exporters have been asked by Arab customers to state they do not sell to Israel. Shipping companies have been asked to certify that vessels carrying goods to Arab countries do not put in at Israeli ports. Manufacturers may be asked to declare that they have no operations in Israel, or that their products contain no Israeli-made components; banks may be asked to honor letters of credit valid only for those recipients who do no business with or in Israel.

In general, companies that want Arab business may be given to understand their chances are better if they do not deal with Jewish-owned or managed companies. And Saudi Arabia and some other Middle East states usually will not grant entry visas to Jews assigned to work teams of American companies.

Is it legal for American companies to comply with the boycott?

The Export Administration Act of 1969 declared it U.S. policy to oppose boycotts imposed by foreign countries against countries friendly to the U.S., and empowered the President in certain cases to prohibit or curtail exports by firms that participate in them.

That law expired on Sept. 30, 1976—despite

overwhelming votes in both houses of Congress to extend the act with amendments strengthening its anti-boycott provisions — because of Administration opposition and last-minute parliamentary roadblocks by a few Congressional opponents. On Oct. 1, 1976, however, President Ford issued an Executive Order reinstating many of the original provisions of the expired statute.

In addition, particular aspects of the boycott — especially those that result in discrimination against American citizens or companies — are barred by Federal civil-rights law and a number of other Federal laws and regulations.

The Export Administration Act required companies to report to the Commerce Department all requests for boycott compliance. In December 1975, the Commerce Department announced it had fined four companies and warned 212 others for failing to report boycott requests properly. And on Oct. 6, 1976, President Ford directed the Commerce Department to make public the names of companies that report compliance with the boycott.

Tightened Commerce Department regulations now extend these requirements to banks, insurers, freight forwarders, shipping companies and other businesses that serve exporters, and also oblige them to state whether they plan to comply with boycott requests.

What are some American laws that apply to Arab boycott pressures?

The Sherman Anti-Trust Act bans contracts, combinations or conspiracies in restraint of interstate or foreign trade. Violations of this act can bring heavy civil and criminal penalties. In January 1976, the Justice Department brought suit against the Bechtel Corporation, a San Francisco company, for allegedly refusing to deal with a boycotted subcontractor on products intended for Arab markets. If the suit is sustained, Bechtel — and other companies li-

able to similar Federal suits — may also find themselves facing triple-damage lawsuits by the excluded companies.

Boycotts have also been ruled to come under the Federal Trade Commission Act, which provides that an importer or a third party who enters into an agreement to boycott goods or articles of another person (such as an Israeli producer or manufacturer or an American Jewish producer or manufacturer) may be required to pay three times the normal duty on his imports. The Act also empowers the Federal Trade Commission to declare a practice unfair if it conflicts with the basic policies of Federal anti-trust acts—even if that practice does not actually violate those laws.

The Tax Reform Act, signed into law in Oct. 1976, requires companies doing business with countries that impose boycotts to file reports with the Treasury Department. Firms which agree to comply with boycott demands will be deprived of important tax benefits stemming from their foreign operations.

Companies failing to divulge certain actions abetting the boycott may also be violating the Securities Exchange Act, which requires disclosure of various dealings to the Securities and Exchange Commission.

In addition, there are numerous Federal, state and local laws barring religious discrimination in business and employment, and several states have enacted or are considering new laws expressly barring compliance with boycotts against American companies doing business with nations friendly to the U.S.

What are some Federal regulations governing boycott activity?

Businesses must report to the Commerce Department any boycott requests they receive and indicate whether they intend to comply.

A U.S. State Department regulation requires its Authenticating Officer to refuse to certify

documents related to international trade if there is "good reason to believe that the certification is required for an unlawful or improper purpose"; and the Department has ruled that documents "furthering or supporting the restrictive trade practices or boycotts fostered or imposed by foreign countries against countries friendly to the U.S. shall be considered contrary to public policy. . . ."

Private contractors or subcontractors on government projects overseas must report to the State Department any attempts by foreign countries to exclude employees or job applicants on religious grounds. Federal agencies may not take the discriminatory policies of host governments into account in assigning personnel overseas and must report discriminatory visa rejections or other exclusionary acts to the State Department.

Banks have been warned by the Comptroller of the Currency not to accept deposits, investments or loans conditioned on a stipulation that none of their board members or controlling stockholders be Jewish.

President Ford has asked the Federal Deposit Insurance Corporation, the Federal Reserve Board and the Federal Home Loan Bank Board to make it clear to member institutions that discriminatory practices directed against customers, stockholders, employees, officers or directors will not be tolerated.

The U.S. Equal Opportunity Commission has instructed its staff to guard against discriminatory employment practices generated by the boycott. Such practices are also banned by many state laws and monitored by appropriate state agencies.

What new anti-boycott provisions did Congress propose, and why are they needed?

The Stevenson-Williams Bill, approved by the Senate by a vote of 65-13, and the compan-

ion Bingham-Rosenthal Bill, passed by the House of Representatives, 318-63, generally would have expanded the provisions of the EAA by requiring full disclosure of companies complying with the boycott, imposing new penalties for violation of anti-boycott statutes, and barring American companies from refusing to deal with countries friendly to the U.S., or with other American companies, in compliance with foreign boycotts.

The sponsors of these measures have pledged to reintroduce such bills as soon as Congress reconvenes, and several other legislators are considering additional anti-boycott measures, because they are convinced that only such Federal legislation can effectively safeguard the rights and integrity of the American business community, protect American businessmen against unethical pressures, and prevent the Arab states from playing individual American states and businesses against one another in a competition for petrodollars.

Will Americans lose business if they don't comply with the boycott?

"Despite anti-American sentiment in some of the Near and Middle East countries through the past decade, and sharp Japanese and European competition, there is marked preference for American products. U.S. products are often the standard by which all other industrial machinery, transport equipment and consumer durable goods are evaluated," Mitchell, Hutchins, Inc., a respected investment banking and management company, reported in late 1975.

The Arab states are large customers for only a small cluster of products, which they buy from a few firms in a few countries. By far the largest Arab purchases in the U.S. involve military weapons, hardware and parts. Only American companies can provide the technology for this sophisticated equipment, and the personnel to teach the Arabs how to use and maintain it.

Shifting this business to other countries would mean not only scrapping expensive equipment but retraining pilots, artillerymen and essential civilian workers.

The Arab members of OPEC are also not the largest purchasers of American goods and services: Iran, Venezuela, Indonesia and Nigeria account for almost 50 per cent of the oil states' imports from this country, and if arms purchases are omitted from the calculation, their share of the total is even larger.

And, while the purchases of goods and services by OPEC nations have risen sharply since 1973, Mitchell, Hutchins points out that "exports to the oil-producing countries still occupy only a small place in the trading activity of the developed world." If the U.S. maintains its current share of this market, these exports "could represent about 0.7 of 1 per cent of GNP in 1976."

How rigidly is the Arab boycott enforced?

Enforcement is often pragmatic, erratic or capricious. The Arab League and the various Arab governments all maintain separate blacklists. A company may be on one list but not on another, and may be added to or removed from such lists for no apparent reason. What's more, Arab interests, both government and private, often ignore their own boycott restrictions when a particular business deal is important to them. Thus, exports to the Middle East from the U.S. and the Netherlands, both primary targets of the 1973 oil embargo because of their pro-Israel policies, increased considerably in 1974 and 1975, whereas exports from France, a country whose policies are expressly pro-Arab, have lagged.

Ford, Bacon & Davis, a large engineering firm on Algeria's blacklist, was awarded a \$4 million contract by Saudi Arabia; and Air Products & Chemicals, blacklisted by Saudi

Arabia, is supplying the technology for a sizable plant in Algeria.

Egypt, for example, which has for some time been negotiating with the blacklisted Ford Motor Company for a \$150 million joint venture to build diesel engines and assemble trucks and tractors, has made it clear to potential investors that she will not blacklist foreign companies whose stake in Egypt equals their investments in Israel. Other Arab countries have recently been hinting the same thing.

Many American companies—including IBM, TRW, General Electric, Textron, General Telephone and Electronics, Raytheon, McDonnell Douglas, United Aircraft, TWA, Boeing, Hilton, Hertz, Avis—do business with both Israel and the Arab world.

Does the boycott cover all business in the Middle East?

Several Middle East states—Turkey and Iran, for example—do not boycott Israel. And, of course, Israel, too, is a Middle East country, with a sizable market for goods and services.

Business International (May 7, 1976) reports that more than 30 U.S. firms located or expanded their plants in Israel in 1975, with ten more new projects under way in early 1976.

Israel's per capita income tops Great Britain's and Italy's; its skilled and educated labor force requires little or no training to handle the most sophisticated machinery. The country also offers generous tax, trade and other incentives to companies that produce there for export and sets no limits on foreign equity ownership in a business.

Because Israel is an associate member of the European Economic Community, Israeli-based firms selling to the Common Market enjoy an initial 60 per cent reduction in EEC customs duties. And because she is one of the developing nations of the Middle East, U.S.

firms investing there enjoy higher credits for the taxes they pay there than those they pay to any Western state.

What are the ethical issues involved in the boycott?

The direct—or primary—boycott is an issue between the Arab states and Israel. But, the secondary and tertiary boycotts are tantamount to blackmail and of concern to every American company doing, or planning to do, business in the Arab world.

The United States has always been committed to the protection of businesses, large and small, against unfair practices. The Arab boycott is a direct assault on this tradition, harmful not only to American Jewish businesses facing direct discrimination, but to all American businesses dedicated to ethical standards and practices.

“The Committee strongly believes,” wrote the Senate Committee on Banking, Housing and Urban Affairs, in reporting favorably on a bill to strengthen the anti-boycott provisions of the Export Administration Act, “that the United States should not acquiesce in attempts by foreign governments through secondary and tertiary boycotts to embroil American citizens in their battles against others by forcing them to participate in actions which are repugnant to American values and traditions.”

And *The Wall Street Journal* has warned: “The blacklisting of [Jewish] firms appears less to be an attempt to undermine Israel than . . . to interject anti-Semitism into Western business practice. In terms of both morality and self-interest, it is incumbent on Western businesses to resist such pressures. . . .”

“For businesses to follow the Arab bidding and introduce ethnic discrimination into their dealings would be morally repugnant. In anything but the shortest view it would also be very bad for business.”

What can you do about the Arab boycott?

As a business executive, you can make it clear that your company will not participate in restrictive boycotts against nations friendly to the U.S. or comply with any demands that entail discrimination against American businesses, employees or subcontractors. And you can help to rally the business community against efforts by Arab contractors to dictate unfair and unethical terms for doing business.

As a shareholder in a corporation, you can insist that your corporation reject all requests for compliance with Arab blacklisting and report such requests to the appropriate Federal and local authorities.

As a banker, you can refuse to process international letters of credit that discriminate against American citizens and businesses on the basis of religion.

As a legislator, you can initiate or support laws that bar American companies from complying with boycott demands and strengthen the penalties against violators.

As a regulatory official, you can guard against infringements of law and national policy involved in boycott transactions and enforce the letter and spirit of protective legislation.

As a citizen, you can report discriminatory business practices to appropriate authorities, refuse to engage in such practices yourself and urge your representatives in Congress to outlaw practices complying with boycotts against friendly nations.

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