

The Economic Club of New York

68th Year

Harry Bridges
President and Chief Executive Officer
Shell Oil Company

William E. Colby, Director
U.S. Central Intelligence Agency

November 13, 1974

Waldorf-Astoria
New York City

Questioners: John H. Lichtblau, Executive Director
Petroleum Industry Research Foundation

Harrison E. Salisbury, Journalist
The New York Times

Introduction

Chairman Charles C. Tillinghast, Jr.

Mr. Bridges, Mr. Colby, members of the Economic Club, and guests, it's a pleasure to welcome you to our dinner and program this evening. Tonight we begin the Club's 68th year. (Applause) Our evening's program is both interesting and timely. But before I get to the speakers, I want to say something about the question period which is a feature of these meetings as most of you know. After both speeches have been completed, the question period will begin.

Mr. John Lichtblau will question Mr. Bridges. Mr. Lichtblau is Executive Director of the Petroleum Industry Research Foundation. He is a member of the National Petroleum Council and has been a consultant to the State Department and other federal agencies. He is obviously well informed on the petroleum industry and its problems.

Mr. Harrison Salisbury is the second member of the question panel. Many of you have seen Mr. Salisbury's byline in the New York Times and have read his stories. For close to two decades, he has sent his dispatches from Moscow, Siberia, Central Asia, Communist China, North Korea, and Vietnam. He has also written a number of books, several of which take their theme from World War II and from international conflicts. He will question Mr. Colby.

I have no reason to believe that any of you suspect that the questions have been shown to the

speakers or that the questions have been contrived to make it easy for the speakers. But to set your minds at rest, let me assure you that the question period is spontaneous and completely unrehearsed. (Applause)

Our nation and the world have often been faced with extraordinary problems and I suspect that each generation is tempted to assume that those of current concern are of a proportion beyond anything of the past. However, I truly believe that when the historians look back on this century, the crisis of energy supplies in general and of oil in particular will rank as one of the Western World's most serious issues – at least for those of us for whom petroleum products are our most important and expensive raw material.

I'm certain that there are very few subjects of greater current worldwide importance than the use and control of our energy resources, particularly petroleum. The economic, political, geographic, and social character of future generations will be shaped by decisions made in this decade in response to the energy challenge.

We're very fortunate this evening to have with us one of the men who has an important voice in shaping this future. His entire life has been devoted to the exploration, production, and sale of today's most vital commodity. Early in his career, he lived and worked in some of the world's most difficult places. The trials of those inhospitable jungles and deserts no doubt helped prepare him for the rigors of his current critical assignment which requires him regularly to pass through

the jungles and deserts of hostile public opinion, unsympathetic politicians, and irate customers.

It is my great and distinct pleasure to introduce to you this evening, Mr. Harry Bridges, President and Chief Executive Officer of the Shell Oil Company. Mr. Bridges. (Applause)

Harry Bridges

President and Chief Executive Officer

Shell Oil Company

Mr. Chairman, thank you very much for that warm introduction. I hope that you are not portraying me as more of an expert than I really am. I'm reminded very much of a story told about Winston Churchill during the dark days of 1940 when it appeared that France would collapse completely. And Winston was authorized to fly over to France and meet Marshal Petain and, in fact, promise him virtually anything to keep the French in the war. The hope was to get the fleet out of Toulon into North Africa and so on. Well, Winston went off and then came back a little later to report to the Cabinet. And he said that when he had arrived in France, he had unfortunately found that Marshal Petain was in seclusion with his mistress. And he said, unfortunately, she had a lot more to offer him than I had. (Laughter)

When I received my invitation to talk to you this evening, it came from Mr. Eckerman, he also sent me a selected list of previous speakers, and I must add that it was an awe-inspiring

experience to read that list. And this makes me feel doubly fortunate to be here today to discuss some of the elements of our complex, worldwide energy situation with such an important leadership group.

Less than a year ago, just last January in fact, when I was appearing before Senator Jackson's committee, I was beginning to despair that anyone was seriously interested in the many and complex factors which underlie this country's and the world's long-term energy problems. Obviously, someone was to blame for the sudden appearance of long gasoline lines, the higher prices. And in the absence of an understanding of the real forces behind the troubles, oil companies presented the most visible target.

Nevertheless, it was astounding to me that despite the fact that we were under an Arab embargo, relatively few Americans blamed the Arabs for the shortages they were suffering. It was equally amazing to me that although the oil-producing countries had quite openly announced their decision to unilaterally quadruple world crude oil prices, most of the general public still put the blame for the higher prices on the oil companies. Indeed, they went a stage further and believed that these higher prices were being funneled into the oil company profits even though the industry was, and still is, under strict price controls.

Since those dark days of last January, we have seen an explosion of information on energy matters. That you invited me here tonight, I take as an encouraging sign that America's leaders,

at least this important part of it, recognize the scope and dimensions of the problems that confront us as a nation and the whole world.

One of the reasons that the United States has had difficulties in coping with our energy problems is the suddenness with which they became critical. The European countries, on the other hand, have had long experience with dependence on foreign sources for the major part of their energy needs and, in fact, have experienced embargos in the past. But because of America's abundance of energy resources, which I might add allowed her to come to the aid of her European allies during previous crises, this country has not had to concern itself excessively with events which might be taking place halfway around the world. Unfortunately, when last winter's embargo forced upon the American people the fact that they were deeply involved in a worldwide energy system, the tendency was to focus on the immediate problems of shortages and high prices rather than the underlying causes of them.

Energy problems cannot be isolated for political considerations, economic aspirations, and nationalistic ambitions. The Arab-Israeli War and the ensuing embargo just accelerated developments which have been building for many years. The greatly accelerated growth rates of the industrialized importing countries have put us on an eventual collision course with existing energy supplies and we would have reached our present state in a few years anyway.

By examining some of the long-term trends which have led to our present problems, I believe we

can better understand the dilemma facing the oil-exporting nations. In a nutshell, they are looking for the optimum development of their finite resources over the long term and still must consider the impact of their decisions on the importing countries in the short term. And it is clear that they believe that the industrialized countries can adapt their economies to current or even higher price levels.

This understanding should enable us to better decide what actions the consuming countries should take to more effectively deal with our side of the energy dilemma – for we are faced with a problem of maintaining a healthy rate of economic growth while at the same time trying to reduce our rate of increasing energy consumption and cope with sharply higher prices.

First, I think we should all understand just what is meant by OPEC, the Organization of Petroleum Exporting Countries. OPEC is not synonymous with Arabs, although Arab nations do comprise a bare majority of its membership and have a disproportionate share of the world oil reserves. But the OPEC countries range from Venezuela and Ecuador in the western hemisphere to Indonesia in the Far East. There are the African nations of Nigeria, Algeria, and Libya. And in the Middle-East are Saudi Arabia, Iran, Kuwait, Iraq, Qatar, and the United Arab Emirates. Their governments include democracies, traditional kingdoms and sheikdoms, military and revolutionary civilian governments. They have a variety of national interests, often conflicting, and are at vastly different stages along the road to full economic development. The OPEC countries are united only in having more oil than they need for themselves and in dependence on

oil for a very substantial part of their exports and government revenues. For some of these countries oil provides more than 90% of government revenue.

OPEC was formed in 1960 by the Big Four in the Middle-East – Saudi Arabia, Iran, Iraq, and Kuwait – together with the then largest oil exporter in the world, Venezuela. And it was formed as a direct result of falling market prices for oil. The governments of these countries saw their income threatened by market forces beyond their control. They made it clear to oil companies holding concessions in their countries that government revenue would be maintained – in spite of falling prices, all the companies would suffer.

The threats were not very specific at that time, but the mere existence of OPEC ensured that the so-called posted prices, the prices which form the basis for the producing government's taxes, would never again be reduced. And it was during this period that Venezuela's Oil Minister, Dr. Juan Perez Alfonso, outlined plans for control of oil production which OPEC today is only beginning to explore seriously. He argued publicly that the major oil-producing countries were behaving stupidly in allowing the individual oil companies to set their own production levels. Venezuela formally proposed a pro-rationing scheme to the other OPEC members which would have allocated production amongst the various nations and thereby reduce the possibility of crude surpluses. It was argued that such a plan would also have firmed up international crude prices as indeed it would have done.

But he was not able to convince the other members for several reasons. Some of the countries that wished to see their exports grow probably felt that the main cutbacks would be allocated to them. Some may have feared economic retaliation or even military intervention. Others may have feared it was premature. Many consuming countries still had alternatives available if oil became too expensive.

So with a substantial surplus of crude oil available for the international markets during the 60s, the OPEC countries concentrated on improving their tax revenues and did not concern themselves greatly with market prices or with a control over oil company operations. They achieved modest gains which in fact did not keep pace with inflation in per barrel terms, although total revenues increased substantially with the growth in volume of exports.

It was not until 1971, with the crude oil surplus now much smaller in relation to demand, that the OPEC countries intensified their demands to the point that they were able to extract increases of about 50% in government revenues per barrel. Then during 1972, events unfolded that began to shape the situation dramatically. The governments of the United States and the other major industrialized countries were stimulating economic growth and consequently the growth of oil demand.

Iraq summarily nationalized the companies which had been reducing exports during the weak market of 1971 and half of that country's oil production was temporarily halted during the

ensuing dispute. Libya had already, late in 1971, arbitrarily limited production from some oil concessions in the course of disputes over taxes and had also nationalized one company for quite unrelated political reasons. Kuwait, which had no current need for larger oil revenues, enforced a rigid limit on production on the grounds that resources should be conserved for future generations. Thus, the world oil surplus producing capacity evaporated.

At the same time, the U.S. had finally reached the limits of its own spare production capacity that had existed for decades, and natural gas production reached a plateau causing additional demand for oil. The U.S., therefore, joined Europe and Japan in increasingly heavy reliance on oil from the exporting countries. At this point, the OPEC countries seized their opportunity and intensified their pressure on the oil companies not just for increased taxes, but also for participation, a direct share in the control of the companies producing within their boundaries and a share of the oil which the governments themselves could sell in the improving market conditions. The oil companies had previously been able to achieve reasonable results in normal negotiations with the OPEC countries, but when it came to a real trial of strength they had to yield to sovereign governments. And the governments of the importing countries proved powerless to help.

During 1973, this pressure steadily increased as the oil companies were caught between the demands of the host governments and the need to meet an ever-increasing worldwide demand for oil. Thus, the stage was set when war in the Middle East again broke out in October. Again, the

Arabs used the oil weapon as they had during previous outbreaks, but this time there was a real difference. This time it was also directed against the United States. And this time there was no excess capacity in the oil fields of Louisiana and Texas to fill the gap.

In this atmosphere the OPEC countries could practically write their own ticket. Who was to stop them from increasing prices to a level which, I think it is safe to say, even they had not expected to reach for many years? Who was to step in when they decided their schedules for gradually increasing participation and their oil operations were not moving fast enough? Who was to tell them that they could not cut back on their oil production?

What we have seen is a basic change in the oil supply mechanism. Governments of the OPEC countries have taken over from the international oil companies the responsibility of producing enough oil to balance the supply-demand equation of the world. And consuming countries are in the position of tailoring their needs to meet the amounts of oil that OPEC decides to make available if they can afford to buy it at OPEC's prices.

Before I go on to look at the importance of these events for the future, I'd like to briefly review their economic impact on the U.S. oil industry. As the worldwide surplus capacity evaporated and crude oil prices began to firm, it should have meant a general increase in petroleum product prices. However, wholesale product prices in this country have been either frozen or controlled since 1971. For over a year now, the only exception to the price ceiling has been the pass-

through to the consumer of increased costs for raw materials and purchased products.

As a consequence, the refining and marketing segments of the oil business in this country has not been profitable. The profit increases that we all read about come primarily from two sources – the crude oil production and the petrochemical segment of the business. To stimulate the search for the remaining crude oil and natural gas reserves of the U.S., which had stagnated due to inadequate prices and reduced offshore lease sales resulting from new environmental regulations, the Cost of Living Council decided to free part of the production from controls and to permit a limited increase in the price of the remainder. Some relatively minor and still totally inadequate increases in the price of new natural gas moving into the interstate trade were also permitted by the FPC.

These changes, together with greatly improved results in petrochemicals, have caused the improvements in the results of the domestic oil companies and have provided the stimulus for increased exploration. Unfortunately, lead times are long and it will take some years to arrest the declines which are presently taking place and to reverse the trend. In effect, the OPEC moves to increase prices of their own crude oil have stimulated our search for oil in this country. But current U.S. crude prices are still below the replacement cost of alternative liquids from such unconventional sources as oil shale, tar sands, and coal.

With this background then, what can we expect from the OPEC countries over the next decade,

the most critical period for all of the oil-importing countries? Despite their differences, the OPEC countries have several common interests which will have a profound effect on their actions. First, oil is overwhelmingly important in the economies of most of these countries as a source of government revenue and foreign exchange earnings. And secondly, they have seen the importance of coordinated action between the producers. Thirdly, they all wish to join the ranks of the developed countries.

From this, I think it follows that we are unlikely to see during the next decade a breakdown in the front OPEC presents to the importing countries. Reduced demand in Europe and Japan and this country due to increased prices and voluntary or enforced conservation have resulted in their being currently a large potential excess of about 6 million barrels a day or about 12% of total non-Communist production. Even without a formal pro-rationing agreement, the OPEC countries have shown themselves capable of containing the surplus and have carefully avoided any risk of prices falling by virtue of competing amongst themselves.

It would appear that nothing short of a worldwide depression with dramatic reduction in demand would cause any of them to break away from this firm front. I do not mean by this to imply that there are no disagreements within OPEC. The current dissension on crude pricing is a good example. Most of you are, I am sure, aware of the fact that a two-tiered pricing system now exists also in the Persian or Arabian Gulf. There's a spread of about \$2.50 a barrel between the cost of that proportion of the crude oil which still remains the equity ownership of the company

concerned, usually 40%, and the so-called buy-back price from the government oil company which has taken over the remainder of the equity, usually 60%.

Much of the crude which has been moving into world trade has therefore been moving at a weighted average price of \$1.00 or more per barrel below the buy-back price. Within OPEC, it appears that there's general agreement that the equity price and the buy-back price should be brought very much closer together, but there is much dissension on how this should be done. It was hoped that Saudi Arabia would take the lead in persuading other OPEC members not to increase the weighted average price, but recent statements attributed to them have dashed this hope.

Their new pricing formula is being interpreted differently by different observers, and in any event it may be altered when the next OPEC Ministers Meeting takes place in mid-December. But there seems little doubt that the Saudi intention is to increase the weighted average price by \$.40 to \$.50 a barrel. An increase of this magnitude will add further billions of dollars to the cost of crude oil being used by the consuming countries and ultimately will be paid for by the individual consumer.

And so another ring has been added to the upward spiraling cost of internationally-traded crude oil, magnifying the already serious worldwide inflationary problems. Unfortunately also, it is going to magnify the problems importing countries face in fashioning new international

agreements to deal with the problems in trade, balance of payments, and recycling of oil revenues.

As far as we in the U.S. are concerned, there are initiatives that this country can undertake, and I should say must undertake, for dealing with the internal problems arising from the developments of the international scene. I believe that any programs we undertake must have a full understanding and support of American business. Looking back, I must admit to some disappointment at the lack of appreciation by many of this country's business leaders of the seriousness of our energy problems. Too often we have heard narrow views expressed concerned only with the short-term impact of their own particular operations, ignoring the broader implications for this country, the economy as a whole, and indeed the whole world.

Frankly, the standoff which exists at the moment between the administration and Congress on energy matters is such that we would almost be ready, in Shell at least, to endorse any program which attempts a positive combination of energy conservation and accelerated development of indigenous fossil fuels. The keystone of the president's program is the goal of reducing oil imports by a million barrels a day by the end of next year. Achieving this goal may very well mean much greater sacrifices than the average person realizes. Considering the decline in domestic production of crude oil and natural gas, it will mean that Americans must reduce their consumption of oil by closer to 2 million barrels a day by the end of 1975.

To put this figure in perspective, it is almost 12% of our total oil consumption and almost 6% of our total energy consumption. I wonder personally if this can be achieved by voluntary programs based solely on jawboning, and I note that President Ford recently has said that he will move towards mandatory controls if needed. The other conservation measures he recommended are a 40% savings in fuel consumption of new automobiles and the substitution by 1980 of some other form of fossil fuel in all oil or gas-fired utility boilers.

With regard to the first objective, the only comment I must add is that if the solutions involve the manufacture of different kinds of gasolines, there must be adequate consideration by the automobile industry and the government of the energy tradeoffs involved. I say this because refineries cannot switch overnight between radically different gasoline specifications. It has been costly but not impossibly costly for the oil industry to produce the octane levels in an unleaded gasoline for approximately 8% of the total U.S. gasoline sales which will be required in 1975 for 1975 cars.

As the population of automobiles with catalytic converters grows, assuming that there's no major change in the means of achieving post-1975 EPA standards, the cost of increasing octanes as a substitute for lead will grow geometrically. If, on top of these factors, other major changes are made in gasoline specifications in order to achieve our president's goals without simply reducing the size and the weight of U.S. automobiles, I have to warn you that there could be serious doubts about the ability of the oil industry to meet these requirements. Moreover, the energy

consumed in a refinery in making higher octane, unleaded fuels increases so rapidly above about 96% research octane number that it exceeds the energy saved in the automobile.

Finally, I would like to comment on the proposal to substitute some other form of fuel by 1980 for those utilities which are currently burning oil and natural gas. Essentially the only alternative fuel is coal and here we have a variety of problems in meeting the president's goal. The first problem is a technical one involving the type of boiler already existing in these plants. Clearly, new boilers can be built, but we believe that only a limited number of conversions can be built in the time span specified. Then there is the problem of the grade of coal. EPA continues to insist that stack-gas scrubbing techniques for the utilization of high sulphur coal already exist. This is not the case. But it is true that research is well advanced and in a few years time the appropriate proven techniques may be here. The final problem is the opening of new mines and the construction of sufficient rolling stock on our railroads to transport the coal to the utilities involved.

All of these add up to a high degree of improbability that the target can be achieved. However, having said that the targets may be impossible to achieve does not mean that we should not try. Our aim should exceed our grasp. Otherwise, we may not try hard enough. The other factor in the equation, increasing the supply of other forms of domestic energy, is the task of the energy industries. But this cannot be achieved without the assistance of the administration and Congress. This assistance, in turn, will require the understanding of the people of this country and some

needling of the government to get on with the job.

The real question we face today is not whether the world has or will have enough energy; rather the real problems are those of location and distribution, of the cost, and the wise use of energy and of the protection of the environment. These are the challenges we face now for the next 15 years and perhaps even longer.

What I have attempted to do tonight is to demonstrate the global complexities of these problems, of the interdependence of our futures with those of peoples everywhere, for our energy problems are intertwined with all other difficulties our world faces – problems of hunger, of nationalism, of economic growth for undeveloped countries. It is clear, to me anyway, that all of us here have a common interest in finding sensible solutions. Let's hope that now we can find the collective will to take action and do something about them. Thank you very much. (Applause)

Chairman Charles C. Tillinghast, Jr.: The gathering and interpreting of information has been a part of the military structure since it was first discovered that other men were prepared to go to war to achieve goals and ambitions contrary to one's own. Over the centuries it has been clearly demonstrated that the nation with the most efficient, intelligence service, has had a significant advantage in maintaining its position in the world. An effective, intelligence service is universally recognized as an essential part of every nation's basic defense system. Yet the use that is made of this service is a subject of great controversy, at least in this country.

It is both a tribute to our system of government and a measure of one of our weaknesses that the able man who will speak to us tonight is the only Chief of Intelligence for a major nation that has ever gone before a public forum to justify his role in this vital aspect of national defense. He has been described as a professional's professional by senior members of the intelligence community, and I can think of no other where such credentials have greater importance to the citizens of our nation. I am honored and proud to have the privilege of introducing to you tonight, Mr. William E. Colby, Director of the U.S. Central Intelligence Agency. (Applause)

William E. Colby, Director

U.S. Central Intelligence Agency

Thank you Mr. Tillinghast. I think if I'm on the record I really ought to clarify that all those policemen out in front do not work for me. (Laughter) Intelligence has been with us at least since Moses sent a man from each tribe to spy out the land of Canaan. Throughout this long history, however, the concept of intelligence was very much that of the spy. From Nathan Hale in the earliest days of the American republic to the more recent images of Mata Hari and James Bond, we recognize both women's lib and male chauvinism. (Laughter)

As with many other disciplines in our times, however, intelligence has been the subject of accelerated change. Indeed, this change is so comprehensive as to make the older image of intelligence so small a portion of its total function that it is in truth erroneous. Change has

affected the techniques, the subjects, and the control of intelligence. We Americans must revise our older images if we are not to make erroneous decisions about intelligence and deprive us of the contribution that modern intelligence can make to our national security and welfare.

The techniques of intelligence have particularly been revolutionized. Intelligence today is primarily an intellectual process, assembling facts from a multiplicity of sources, subjecting them to rigorous and disciplined analysis, and deriving assessments and projections of likely future events abroad of importance to our country. The United States has led in the development of this new concept and process of intelligence. And the core of intelligence analysts in our country today rivals the faculty of any large university in its depth of knowledge, adherence to intellectual discipline, and breadth of coverage of diverse political, economic, scientific, and military specialties.

If our policy leaders are to meet the many problems facing our country in today's world, they must be informed of a vast number of subjects from the military and industrial uses of atomic energy to the political and economic factors involved in European trade and monetary policies. Our intelligence community serves them in all these fields with objective assessments, independent of departmental or political bias. Indeed, our recruiters find that a particular attraction of a career of intelligence to many of our young people is that nowhere else can one do research and derive judgments from such exceptional raw information in as undirected an atmosphere and on subjects of such great importance to our society.

Change has affected the volume of information our intelligence must handle. The data explosion from the airwaves, the press, and the normally published results of today's extensive commercial and cultural interchange among nations must be absorbed and analyzed. In this connection I pay particular tribute to the contributions made by many American business leaders who privately share with their government their knowledge of foreign situations through CIA's Domestic Collection Service for no reward beyond their protection as a source and the satisfaction of a patriotic act.

The increase in the volume of information has been most marked from the dramatic applications of American technology to the profession of intelligence. This has literally revolutionized our knowledge of many parts of the world through photography from the U-2 and its successors, through electronic collection, and through the enormous increase in the pace and precision of our analysis through data processing. As a result, many matters which formally were shrouded in secrecy and unobtainable through normal means can now be made available to our analysts for study and their conclusions therefrom have come to a certainty which years ago would have been thought unobtainable.

But clandestine collection must still be carried on, and is by most nations. The research plans still on the drawing board, the political dynamics of closed societies, and the intentions of potentially dangerous foreign leaders are not subject to technical or open collection but could put our nation in peril. Thus, the clandestine agent still has his role even if he, too, depends more on technology

and lives a less flamboyant lifestyle than Mata Hari or James Bond.

Change has also affected the subjects of intelligence. Traditionally intelligence for national security was conceived almost exclusively in military terms. It is clear today, however, that national security must include political security against subversion of ourselves or our allies or terrorism against our citizens. It must also include economic security against threats to our financial, industrial, commercial, and agricultural well-being. Thus, today's data must be collected and analyzed and assessments made on a wide variety of subjects beyond those of direct military significance.

Our intelligence today must also extend beyond the immediate because the interdependence of our world is such that political, economic, or military concerns need to be faced long before they become critical. If this can be done, they can become the object of intense negotiation which lessens or removes them. Thus, the intelligence contribution to negotiations is a major responsibility today, be these negotiations over critical military situations, or long-term anticipation of possible economic problems. The Strategic Arms Limitation Agreements are perhaps the most vivid example of a negotiation which rests fundamentally on the fact that intelligence has identified the subjects needed to be negotiated and has provided the means of monitoring the adherence of the two parties to the agreements reached.

But our intelligence assessments have also contributed to such international negotiations as the

Law of the Sea, food and population, and even energy. Indeed, in some cases our intelligence has been able to establish the factual base and identify the issues involved, thus helping the negotiations focus on the real problems and sometimes pointing out areas of possible concession and agreement.

In the military field, of course, intelligence still makes a major contribution to American decisions as to necessary weapon systems and defenses. Accurate intelligence can not only warn us of our need for new weapons, it can also suggest possible savings of enormous expenditures otherwise seen as needed to meet threats which are actually not there. But in this field too change has occurred in our intelligence activity in the increased stress on the peacekeeping role of intelligence. In a number of situations conflicts have been avoided or forestalled by accurate intelligence which has provided the basis for active negotiations or reassured one side of a potential conflict that the other did not have hostile intentions or dispositions.

The great changes which are occurring to intelligence include those with respect to the control of intelligence. As in other aspects, we, in America, have taken the lead in this field. Not only some of the great intelligence figures of the past would be astonished at the exposure of American intelligence to public control, indeed some of my fellow intelligence chiefs around the world are somewhat unsteadily adjusting to an increase in their own government's demand for some similar accountability of their actions.

Our country is leading the process of changing intelligence traditions to meet the requirements of a constitutional and open society. Our intelligence functions depend upon acts of Congress and our intelligence budgets are annually appropriated by the Congress. It is true that Congress has arranged that our operations and our budgets be reviewed in detail only by sub-committees of the armed services and appropriations committees in each house. This is to ensure that the matters which must remain secret do remain secret from the kind of exposure which would accompany the revelation to the full Congress.

But from these committees we have no secrets, and it is my further obligation to raise with them matters they would not know to ask. Thus, to the normal administrative and policy controls over intelligence by the executive branch, we, in America, have added an independent review and control by the legislative branch. Various suggestions have been made from time to time to change the manner of this legislative review. This is a matter for Congress to determine. And we, in the executive branch, have long taken the position that we are confident that whatever system is developed will protect those secrets which must be protected.

But beyond the legislature, our American intelligence is also subject to public scrutiny and accountability. It is for that reason that I am here, and that a number of my fellow intelligence officers have appeared publicly or met the press privately to explain the workings of American intelligence and to provide assessment – assessments of world situations drawn from our extensive collection and analytical efforts. In this way we hope to demonstrate the contribution

that American intelligence makes to informed decision making by our government, by our Congress, and by our people.

But we do need to keep some secrets. If our potential adversaries learn of our access to carefully hidden information, they could identify the individual who gave it to us, or they could correct the technical leak that allowed us to pick it up. If our officers abroad are identified, they can be carefully followed by local authorities or targeted by local terrorists. Our country's laws provide that the unauthorized disclosure of an income tax return, a census return, or cotton statistics is a criminal offense. But the revelation of an intelligence source is only a crime if it is given to a foreigner or is done with intent to injure the United States. I believe it essential that we Americans tighten the secrecy of our intelligence sources and methods if American intelligence is still going to lead the world in its development of new techniques and in providing our national leaders and our people the kind of intelligence support we Americans expect second to none.

American intelligence is unique in another way. It is restricted to foreign intelligence. The basic charter of CIA provides that it will have no police, subpoena, or law enforcement powers or internal security functions. These are the job of the local police and of the FBI. There is a bill in Congress to add the word "foreign" to the word "intelligence" wherever it appears in CIA's charter – a clarification that we in CIA fully support and, in fact, suggested.

We did exceed our bounds during the Watergate affair but only in giving Howard Hunt a wig and some paraphernalia and riding a psychological profile of Daniel Ellsberg. While neither of these was of earth-sinking importance, and while the CIA had nothing to do with the actual Watergate affair and refused to go along with the coverup, our employees and our management in CIA are firmly resolved to avoid even a minimal misstep in this direction in the future.

In these remarks you will note I have not yet mentioned covert action, the subject of most of the press criticism of CIA today. I'm not ducking this subject nor am I trying to indicate that it is not one of our responsibilities. I am trying to bring out the point that it is a relatively small portion of our efforts at this time and that the pure intelligence functions of collecting, analyzing, and producing assessments for our national leadership should be clarified to you and to the American people as the overriding mission and justification for our intelligence activities.

Nevertheless, we have conducted covert political and paramilitary action programs in the past, some of which have come to light and have caused a certain amount of excitement. These have been conducted through our intelligence mechanism because they use the same techniques of secrecy and many times the same people as our intelligence activities. Because of the change in the world and our national policies from the confrontation period of the 1950s and the insurgencies of the 1960s, we are doing very little of this today.

We do feel it important, however, that our government have the flexibility to respond to some

actual or potential danger abroad through some discreet help to people who want to be our friends as against those hostile to us. We do not want to wash our hands of them, and we do not want to send in the Marines. And so long as our help is a conscious reflection of our government's policies and is known to and approved by our elected officials and representatives, I think it is in the best interest of our country that we continue to do such operations. I'm glad to say that both the Senate and House seem to have agreed with this by 3 to 1 majorities when the question of barring us from these activities was recently posed to them.

Thus, American intelligence is changing. Nathan Hale would have been given better training, better technical equipment, and especially better direction than he received on his intelligence mission which ended so tragically a short distance from this spot. He would not recognize American intelligence today but neither would he recognize the world today. The changes in American intelligence have come as a result of the acceleration of change in the world, in the role of America in the world today, and in the enormous changes which have occurred in the intellectual and scientific techniques which characterize what Allen Dulles once called the craft of intelligence. They have made our intelligence product a major contribution to our foreign policymaking from which all of our citizens benefit. Thank you very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN CHARLES C. TILLINGHAST, JR.: Thank you Mr. Bridges, and thank you Mr.

Colby. We will now begin the question period with Mr. Lichtblau.

JOHN H. LICHTBLAU: Mr. Bridges, as you know, yesterday the Federal Energy Agency released a long-awaited blueprint on project independence. All of these bureaucratic documents, it was extremely heavy and it doesn't exactly make exciting reading. The executive summary alone was over 100 pages long so I'm sure none of us have fully read it. But there are a couple of things that I would like to ask you. Maybe you have some views on it already. For one thing, the report says that by 1985, at U.S. import prices of \$7 in constant dollars which would probably be \$12 - \$13 by 1985 in current dollars, there would be an export surplus of, there is an excess capacity in world exports of about 12 million barrels a day. And at \$11 which is the present price, if that price maintained in terms of current dollars throughout the next 11 years, we would have an excess capacity, worldwide excess capacity of 24 million barrels a day. That is 24 million barrels more would be available than actually will be needed by the world importing countries. This suggests that one thing we will not have for the next 10 or 12 years is a shortage of oil. Now your company made a study in July which shows a somewhat different conclusion. You talk about, I think, the fact that by 1985 or thereabouts we will have reached a peak in world production and from then on world production will decline and the requirements in oil will have to be met from other sources. Now somehow these two views seem to be, seem to differ. Could you talk about this for a moment?

HARRY BRIDGES: Yes indeed, I'd be glad to. This 745-page document supported by 30

volumes of other documents, of course, we haven't had a chance to study yet. (Laughter) But with some of the sort of apparent conclusions, I could add a few words. First of all, the real problem is to know to what extent world demand for crude oil is going to be lowered by the impact of price. You'll all have read yesterday that in England they decided to increase the motor gasoline tax by another \$.20 a gallon to reduce demand. I don't know what would happen if they were to, shall we say, put a \$.50 tax a gallon on gasoline in this country, what it would do to demand. It would undoubtedly bring it down. And in all of these estimates, we face this real problem of being able to assess consumer reaction to increased price. And this makes it, therefore, really very difficult for us to know what the supply/demand balance is going to be in some years' time. It's pretty easy to forecast what supply capability could be. As I mentioned in my talk, at the moment there's 6 million barrels a day of crude oil shut in, in the world, because the demand isn't there to meet it. You mentioned that the report says that that will be 12 million barrels a day by 1985. I find that very hard to believe quite frankly. I will be surprised if the world can go on, at least outside North America where we're still too wasteful, but they're not very wasteful in Europe and Japan, I find it hard to believe that there can be any economic growth at all in those countries unless there's a resumption in the growth of the consumption of petroleum products. So I don't look to a 12 million barrel a day gap by 1985. I'd be surprised, in fact, if there's any gap at all. But even, notwithstanding that, I still believe that the OPEC countries will be earning all they need to earn to satisfy their infrastructure and therefore there is no need whatsoever for them to engage in price wars in the sale of crude oil. And they will therefore tend to maintain the prices at these high levels. I have a tremendous regard for Bill

Simon, but I think when he prophesized that economic and political factors will reduce the price of crude oil to seven barrels a day in an unstated number of years, I just don't think it's going to happen.

JOHN H. LICHTBLAU: Along with the same lines, again using the report as a base, the FEA blueprint report, it says that at \$11 prices, there will be a very small, a relatively small amount of imports in the United States by 1985. I think the phrase used, it will be quite unimportant. Three, three and half million barrels a day will be the total amount of imports of which more than half will be considered safe. So our import problem in terms of security according to the FEA report at this \$11 price will be more or less solved. And even at \$7 the report says we could achieve near zero independence from imports at what they call an accelerated development. And that accelerated development is not a wartime crash program, but merely the removal of some restrictions that the government has against additional energy development, and perhaps a general encouragement of the energy industries. So that as the FEA seems to see it, under these two price scenarios, we could possibly end up with a relatively insignificant import problem. And again, this does not fit in with the July forecast of your company which you projected; I think, for 1980, an import figure of 16 million barrels a day as the most probable one. And then you said perhaps one could reduce this by 3 million barrels a day as a result of conservation measures, and another 3 million barrels a day as a result of the most optimistic additional production that you could get out of domestic sources. But you still end up with, in the early 1980s, something like a 10 million barrels a day import, yet the FEA says why worry about

imports under those conditions?

HARRY BRIDGES: Well, in our study we started off with one assumption. The assumption was that the government would try to maintain the lifestyle that the average American individual has shown that he wants. In other words, we've taken the position in our own estimates that whilst things are going to be forced on us to some extent to reduce the size of our automobiles and not have our houses quite so warm in winter and quite so cool in summer, that basically there's going to be no attempt made to force a drastic change in lifestyle on the American people. I believe that these figures being quoted to me, which I heard for the first time incidentally, I believe that they cannot be achieved unless there is a drastic change in our lifestyle. That was the fault, for instance, of the Ford Foundation Study which appeared a few weeks ago, that it again made similar assumptions that there was really no need to go ahead and develop coal or shale oil, that we could do the whole job by conservation. And we could still have, and therefore we could gradually work ourselves into these positions of virtual self-sufficiency. I don't think we can without a dramatic change in lifestyle. And I hope that this dramatic change is not going to be forced on us because I don't think it's necessary. I think we can reduce waste, still have a good lifestyle, if we combine sensible conservation with an all-out effort to try and produce alternatives. And I think this is what we should do.

JOHN H. LICHTBLAU: Do you think we should try to achieve independence even in ten or twelve years?

HARRY BRIDGES: No. I don't think there's any point at all in trying to achieve a numerical supply and demand balance with no imports whatsoever. I don't think we can retreat to isolationism in this country. I think we, all we've got to do is get ourselves into a position that we cannot be, by an abrupt action of foreign governments, simply thrown into an internal recession or depression in this country. We've just, in other words, got to reduce our dependence but not eliminate our dependence on foreign oil.

JOHN H. LICHTBLAU: My last question on this point is that production in the United States onshore is currently about 8 million barrels a day. Prices have, new oil prices have been raised to very, very high levels as a result of OPEC price increases. Despite that fact, domestic crude oil production has been declining in the 11 months since the price increase took place. The FEA projects that by 1985, production from onshore areas will be much lower than it is today. So that all the increases would come either from offshore areas, from so-called exotic areas, or from Alaska which is several years off. Does it mean that no matter what we do for the next several years, despite the very high prices of new oil, domestic crude oil production can be expected to decline steadily?

HARRY BRIDGES: These high prices for so-called new oil are, of course, stimulating a tremendous increase in exploration for new oil. I think that exploration, by whatever standard you want to measure it – numbers of seismic crews working or number of drill rigs operating,

numbers of feet drilled – they're up by 30 or 40% compared with the pre-embargo situation. And this, of course, has only been possible by virtue of the increased prices of new oil. Now, I agree with you that for onshore, the onshore production, all we can hope to do – and I'm not counting the North Slope at the moment, I'm talking about the onshore, the Lower 48 – all we can hope to do is slow down the decline rates. What we've really got to do is to get onto the untested areas in the United States, the offshore Atlantic coast, offshore California, Gulf of Alaska, and of course Alaska in general. And I still have high hopes that we are going to find some very important, make some very important discoveries in those areas which will indeed arrest the decline in domestic production. Unfortunately, they're all in what you might call frontier areas in many ways, and therefore, the lead times are long. And so we cannot expect miracles, as some of our friendly senators do expect, that we'll be able to reverse the situation within six months or a year. It's going to take a few years, but we will reverse it. I'm confident of that.

JOHN H. LICHTBLAU: I think I'll give Mr. Salisbury a chance now.

HARRISON E. SALISBURY: Mr. Colby, I think that probably in many American minds there's a feeling about the CIA as a sort of invisible government, a sort of a phantom that looms over the regular government. Perhaps you could explain to us a little bit, what is the actual relationship of the CIA to the president and what is its function as defined in the statutes?

WILLIAM E. COLBY: With respect to the president, of course, there's a piece of paper over my

desk which says that I serve at his pleasure. (Laughter) It's fairly simple. There are institutional ways provided in the statute by which he exerts that control over me. The statute says that CIA will do certain things and it will do such other functions and duties related to intelligence affecting the national security as the National Security Council may from time to time direct. Now our activities are directed by the National Security Council. Our responsibilities abroad, our responsibilities for various kinds of collection of foreign broadcasts and so forth are all outlined in a series of directives by the National Security Council to me to carry out. And I, of course, have to report to the National Security Council through a variety of committees, one of which you've heard of particularly called the 40 Committee which is a group of senior officials from the State, Defense departments, the National Security Council, before whom I must justify and receive authority to do any action in the so-called covert action field. This does not mean that I sit quietly until they tell me what to do. I look around at a problem, I come up with recommendations, but I get their approval before I actually can go ahead and carry them out.

HARRISON E. SALISBURY: In this conception of the CIA function, what are the checks and balances? Who really scrutinizes the inscrutable there? Is it done within the government apparatus itself? Or does this only occur in those sub-committees of Congress?

WILLIAM E. COLBY: There are days in which I think I'm very carefully scrutinized indeed by the press, among others, which I really don't have any objection to and can't under our system. But to start at the top, the president obviously has to be satisfied with what we're doing. He has

appointed a Foreign Intelligence Advisory Board of 12 very distinguished private citizens who meet every two months, hold hearings, ask questions, do independent investigations. A measure of their reputations can be gathered from the fact that they include such gentlemen as Dr. Teller, Dr. Din Land, Mr. Gordon Gray, Governor Rockefeller, various other people, and Mrs. Luce. These are all members of this particular board and they look into our affairs and they make recommendations to the president about foreign intelligence. And sometimes they take issue and they say that we have not appreciated a situation properly. And we've had a few arguments which is fair enough. I then have to justify the position we've taken. With respect to our budgets, we are subject to the normal Office of Management and Budget review of our budgets. We have examiners who come in and examine our requests, cut us, and the normal relationship with any department, conducted in a compartmented and secret way. But these gentlemen work for the Office of Management and Budget and they have the problem of squeezing our desires into their availabilities. And so they consequently look around for what can be cut satisfactorily. With respect to the Congress, there are, by Congressional establishment a long time ago, two sub-committees of the armed services. The reason it's armed services is because CIA was set up in the National Security Act and in the jurisdictional arrangements in the Congress, this then carries on and gives them authority for oversight. And I appear before those. We have a standing arrangement with both of these committees. I call the chairman of one every Monday morning at 10:00 and tell him anything I think that should be brought to his attention or arrange a meeting during the week to discuss something. And the other, we have a formal hearing once every two weeks and we then go up and tell them what we think is going on in the world and any problems

that have arisen in our operations. We also have the Appropriations Committee where there are sub-committees again and, of course, once a year we go to them, describe our budget in great detail, in depth, and go into any detail that they are interested in on that subject. So in terms of the Congressional Review, I think it's very intense. It obviously has increased in intensity in the past few years because quite frankly in the early days of our agency, the aura of mystery and secrecy was around intelligence and frequently the congressmen themselves or the senators decided that they really didn't want to probe into the secrets because they were afraid if they learned them, they might spill them. Actually I have frequently said that the record of the Congress at keeping our secrets compares extremely favorably to that of the executive branch.

(Laughter)

HARRISON E. SALISBURY: Mr. Colby, there has been, I know you're aware of some criticism of the actual work of these Congressional committees, some allegations by some other members of Congress who are not on those committees and also in the press suggesting that you've tamed these watchdogs so well that really they eat right out of your hands. I suppose you wouldn't agree with that evaluation?

WILLIAM E. COLBY: I've been subjected to some very sharp questioning by them. And believe me, some of those nice, soft, Southern political leaders, they can be very good county prosecutors too.

HARRISON E. SALISBURY: I'm wondering whether in the system, what protections are built into it against two phenomenons? One is the self-fulfilling prophecy which seems to be a problem that you must confront constantly. And then there is the other thing, when you have an action program, of tilting the evidence in favor of something which the agency has decided it wants to have approval on.

WILLIAM E. COLBY: Those are very good questions. The first one is a problem we frankly have to wrestle with because it is true that people sit, look at the evidence, make tentative estimates about what that means. And there is a bit of a tendency to receive that additional item of information and carefully fold it into the preconceived notion. There's no question about that – that that's a danger. And we quite frankly have made intelligence mistakes as a result of that. I can think of one rather prominent one. The fact is, however, that we try to set ourselves up against that. We have a procedure by which the different agencies of the intelligence community must consult on an estimate of some particular situation, and the man who is responsible for signals intelligence will feel very strongly as to what his particular evidence indicates, while the man who is responsible for political intelligence perhaps will say, oh, don't worry about it. The fact that you have to consult on this, the fact that the final estimate has to be mine, period, no others, but that I am obliged to present any substantially dissenting opinions, does give the president and the National Security Council a different opinion. And I have in my bag one that we are working on tomorrow where the number of different opinions in the particular paper in question we're addressing is such that it's almost a little hard to follow the rationale of the paper

because the various departments and agencies are differing. On the second question about, the question whether engaged in an operation we then only see the things that support it, this is a criticism that was made with some justice on the Bay of Pigs. That the operators who were in charge of the operation, they kept it very careful and very secret as they had to, and that the analysts didn't get a chance to be critical about it. Our analysts did get a chance to be critical about the war in Vietnam and you've heard a little about our position on that in which they were critical of even steps taken at the highest levels of our government. And that, I think, is a function of intelligence to take that independent assessment and appraisal. We do have it arranged that if we are engaged in some covert action today, this paper that goes up to the National Security Council seeking approval to conduct that activity must be shown to the analytical side of our agency. And I have had situations in which the gentlemen, one or two gentlemen on that side of the agency have come up to me and said that they really didn't agree with this, that it didn't seem to make sense, which then required me to review and think about it.

HARRISON E. SALISBURY: Several years ago I happen to be out in Honolulu and I was approached by the Chief Intelligence Officer for SYNC-PAC(?) out there who had a problem. He said that his commander insisted that when he laid down his intelligence analysis daily, that he place beside that a copy of The New York Times so that the commander had the choice of the information that the intelligence officer gave him and what was in The Times. (Laughter) Now the problem which this officer had was that he wanted to receive The New York Times by airmail. At that time, we had an edition, the only edition we supplied airmail was the Paris

edition. And he was getting the Paris edition several days late and he had to delay his intelligence estimates for that reason. I arranged for him to get the New York copy flown out very rapidly to help him with his problem. You don't have that problem. You have The Times every day and the Washington Post also. (Laughter) Do you think it is a wise precaution for anyone, before acting on your analysis, to take a check of these newspapers as well? (Laughter and Applause)

WILLIAM E. COLBY: I would say that we not only use The New York Times, we use a variety of other newspapers. (Applause) No, we have the greatest respect for the function of the press and what it does – sometimes against us – but particularly in terms of trying to assess and understand a foreign situation. We do have additional sources. (Laughter) However, sometimes the press can get into things that are very difficult for our people to get to. And I think the whole concept behind the establishment of CIA was not that we would run a competing service, but that we would profit, but that we would profit by the contribution made by the press. Add to it, the additional matters that cost us a lot of money to get. Subtract out of it what somebody has leaked to The New York Times. And hopefully arrive at a better, a total appraisal. (Applause)

JOHN H. LICHTBLAU: Mr. Bridges, getting to the much more prosaic subject of shale oil, which is not exactly on the same level as CIA matters, but which is of some importance to the national energy supply. A number of companies have recently decided to get out of this particular business, or rather not to get into it. Your company is one of them. Atlantic Richfield, your company in Canada, Atlantic Richfield in Colorado is another one. Yet we see all these

projections that in the absence of development of these synthetic oils, shale and tar sands, we will not be able to meet our energy demand in the 1980s. Yet the argument is made that this is generally too expensive. I think ARCO said the cost of oil would have to be \$12 a barrel for them to go ahead, and there was really no assurance that shale oil could be sold at \$12 a barrel in the early 1980s. Yet a recent Bureau of Mines Study insists that you could make shale oil under \$6 a barrel with a very high, very normal profit – I think 12% discounted cash flow. Now I'm not naive enough to believe a government report just because it says so, but I wonder whether you could comment on this?

HARRY BRIDGES: Yes, I'd like to. Whilst we are thoroughly convinced that these sources of oil are going to be needed by this country, as a commercial company we simply cannot go ahead with something we can't justify to our shareholders, going ahead with something unless we can see a reasonably good chance that it's going to be an economic proposition. Now let's start with shale. When the oil in Louisiana and Texas was worth \$3.50 a barrel, we used to say, well, shale oil is not yet in the ballpark because we're going to need \$7 or so before it will get that way. And then suddenly it came, the new oil concept, new and old oil, and we saw a price of \$11. So we said, oh, great, it's now going to be in the ballpark. But then something else happened, construction costs started escalating at a very alarming level. Construction costs in most mining or manufacturing operations like refineries and so on, in the past year alone, have risen by a factor of over 25%. And we don't see any immediate slowing down in this process. So once again we've had to say to ourselves, well, let's just hasten slowly. We have responsibilities to

shareholders and we'd like to see what's going to happen to this terribly high escalating cost.

Now you can make all kinds of assumptions, and depending on the assumptions you make of the rate at which costs will escalate, not only the capital cost plan but of the operating costs of the personnel and so on, and you can then figure out what kind of a price you're going to need for your crude oil at the time that that plant comes on stream. And we're always looking at very long lead times. If we started building or designing a plant today, it would not come into operation until 1981 or 1982 which is a very, very long period to make these guesses. Now what we are, I think, really alarmed at ourselves is the fact, and I can only for Shell in this sense, is that if we had a complete belief that by the time one of these plants came on stream, that we would be able to operate in a completely free enterprise system, we might be prepared to go ahead and take the gamble and start investing these colossal sums of money. But all the indicators are that the oil industry is going to be a controlled industry in some way or another for a very, very long time. And this being the case, we just felt that we had to wait for the dust to settle a little, let's put it that way. Now we have another problem when we talk about tar sands. The processes are known both for shale oil and for tar sands. Maybe there will be an improvement in the processes in due course so that you'll get a higher productivity and that will help, of course, in the economic evaluation. But one of the problems we face personally with the tar sands was that we are told quite distinctly that there's going to be a Tax Reform Act early in 1975 and that one of the elements that's going to be considered for reform is the treatment of foreign income – depletion allowance and everything that goes with foreign operations, tax credits and so on. Now as a U.S. company which has a Canadian subsidiary engaged in the tar sand business, we simply have to

wait there also to find out what kind of a regime we're going to have to face in our economic evaluations. So really basically what I'm saying is that the clouds of uncertainty that exist with regard to the economic environment in which we're going to be allowed to operate are such that we, at this time, do not feel that we can go ahead with such plans. (Applause)

JOHN H. LICHTBLAU: Turning briefly to the foreign scene now, you said before that changes that were made in the last two or three days in Saudi Arabia, Abu Dhabi and Qatar increased the cost of oil from these countries. Now these countries themselves, that was my understanding when I read it, but these countries themselves have denied that they have set, all they've really done is taken profits away from the oil companies, but the consumer would not be affected by this. So that there's no real increase in oil prices around the world, it's just a decrease in oil profits. That's the way they have stated it. Could you comment on this?

HARRY BRIDGES: Yes, well, I think you probably all know the Shell Oil Company is a domestic United States company. We do not have overseas affiliates. And therefore, I'm not talking now theoretically rather than from practical experience. I did mention during my talk that the manufacturing and the marketing side of our business here in the United States is at a miserably low level of profitability, if indeed there's any profitability at all, because we've been under price controls for three or four years and we've only been allowed to pass along the increased cost of raw materials and not the increased cost of labor and all the other things that are occurring in our operations. Now in these circumstances to believe, or for these OPEC countries

to expect the people of this country to believe that the oil industry can absorb a further increase of \$.40 to \$.50 a barrel in the cost of their material is obviously ridiculous. They are – I suppose you can't blame them for this, if I'd been a lawyer employed by OPEC I probably would have recommended to them exactly the steps they're taking – but they are first of all, claiming that there is a price reduction and indeed there is a price reduction of their buy-back crude. But there's such a huge increase in the price of equity crude that the overall thing is a price increase. And there's just no way that the oil industry can absorb that price increase in the profits, or so-called profits, it's making in its manufacturing and marketing business. Because we're just not making those profits. The profits are coming from entirely different sources which I mentioned in my speech – our chemical business and the crude-producing business in this country.

HARRISON E. SALISBURY: I wonder if I could have one question for Mr. Colby. Most of your remarks and most all of my questions were devoted to intelligence which is a field of which the agency, I think, has extraordinarily high marks. And those who've had a peek at the Pentagon Papers, it shows that its record in Vietnam was extremely good, and generally speaking it's very good. The criticism of the agency is no secret to you. It comes from the covert operations in many different countries. And particularly there's been an outburst on Chile of late. In the very recent days we've had Dr. Kissinger in India having to pledge, cross his heart to Madam Gandhi that you're not going to overturn her government or operate in India. There's a story from Italy about the fears that the CIA is going to do something dreadful there. And yet you say that at the moment you've practically phased out clandestine activity. And I think you were quoted as

saying phase it down. And that you didn't think the heavens would...didn't you tell Congress last spring that the heavens wouldn't fall if you had to give it up entirely.

WILLIAM E. COLBY: At this time, that they wouldn't fall at this time. (Laughter)

HARRISON E. SALISBURY: You want to keep a hand in there.

WILLIAM E. COLBY: I think it's important that we have the potential, yes.

HARRISON E. SALISBURY: Isn't it, I've seen estimates, you've had sort of a deluge of exposes in the CIA and some of your people are telling all, and all that sort of thing, suggesting that actually in your budget the clandestine side is taking a lion's share, four-fifths or something like that out of your budget. Wouldn't that, if you really were to phase it down, wouldn't that cut you back enormously?

WILLIAM E. COLBY: I think here you have to distinguish the difference between what I call clandestine collection which does take a substantial amount and the covert actions or political operations that you're mentioning. It's the latter that by reason of the change in the world today are at quite a low level. I don't say, I was misquoted one time as saying they've been stopped, that is not so. There still are some, but at a very low level in deference to the kind of world we live in today. But again I do say that this is an important tool for our country to have available to

it.

HARRISON E. SALISBURY: Can I squeeze in one question about the Middle Eastern situation which I think most everyone in this room is worried about? Is there anything clandestine or unclandestine you could tell us about that?

WILLIAM E. COLBY: Well, obviously there are a lot of things you can talk. I would not refer to our operations. I cannot do that in public, unfortunately, because they become known to the various people who really don't think very well of them. (Laughter) But the fact is that the Middle East obviously is a major problem to our country. It's a major political problem. It's a major economic problem. It's a major arena in which we have a problem to face with the Soviet Union. And consequently, it's a very important intelligence target for our assessments, for our technical intelligence, for our covert collection through our Foreign Service officers and through our listening to radio broadcasts, and through our clandestine operations. No question about it. It's a very important subject for our intelligence today.

HARRISON E. SALISBURY: Would it be violating your standards or principles if I asked you whether or not you had accurately forecast and predicted the Arab oil embargo?

WILLIAM E. COLBY: The easiest, in the first place in answer to your basic question, there are no indiscreet questions, there are only indiscreet answers. (Laughter) With respect to the Arab oil

embargo, the easiest thing for any intelligence officer to do after an event is to reach down and find that one report down here that said it was going to happen. That's simple. The question really, however, is were our leaders alerted to this danger? I think I'd give us sort of pretty good marks on that, but not perfect ones by a long shot.

HARRISON E. SALISBURY: Do you have any predictions for the Middle East?

WILLIAM E. COLBY: It's going to be a subject of great importance and great difficulty to us.
(Laughter and Applause)

CHAIRMAN CHARLES C. TILLINGHAST, JR: On behalf of the Economic Club, let me extend our sincere appreciation to both of our fine speakers for a most stimulating evening. Mr. Bridges, Mr. Colby, we thank you very much for taking the time to join with us this evening. There are some of us here who believe in on-time departures and for all such, you'll be happy to know we stand adjourned.