Arab Boycott Challenging Major U.S. Corporations

Concerns Work Behind Scenes to Offset Anti-Israel Policy—Ford, Coca-Cola and R.C.A. Affected by Blacklist

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CAIRO, Oct. 16 — The Arab boycott of Israel, in effect 15 years, is posing its most striking challenge to American industry.

Such industrial giants as the Ford Motor Company, its subsidiary, the Philco Corporation, Coca-Cola International Corporation, the Radio Corporation of America, the Zenith Radio Corporation and Sears, Roebuck & Co., have either felt the bite of the boycott or are working to avoid a threatened embargo by the Arab states.

Action or impending action against these major American companies has set off extensive behind-the-scenes politicking and bargaining in the silent, largely hidden, pressure game that arises from the Arabs' economic cold war with Israel.

The Ford and Coca-Cola cases are particularly tricky because of potential repercussions of a boycott on their widespread operations in the Arab world, mostly owned and operated by Arab businessmen.

Both companies have discreetly approached Arab officials with offers to increase their operations in Arab countries to offset planned expansions in Israel, which got them in trouble in the first place. Their argument is that boycott action against them would work against Arab economic self-interest in the long run.

The League of Arab States, formed in 1945, consists of the United Arab Republic, Iraq, Jordan, Lebanon, Saudi Arabia, Syria, Yemen, Algeria, Kuwait, Libya, Morocco, the Sudan and Tunisia.

The situation is rapidly approaching a showdown. The Arab Boycott Committee, composed of the 13 Arab countries and several small states from the Persian Gulf region, will hold its semi-annual meeting in Kuwait on Nov. 16 to decide whether to blacklist Ford and Philco, the Coca-Cola Export Corporation and R.C.A. All have been placed on the agenda for the session and have been warned against dealing with

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Arab Boycott Challenging U.S. Industry

ANTI-ISRAEL MOVE GAINING STRENGTH

Corporations Work Behind Scene to Counter Effect of 13 States' Blacklist

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Israel. General Motors may also be discussed.

Zenith and Sears, Roebuck have already been blacklisted, Zenith for its decision to forsake Arab markets and produce television sets in Jerusalem and Sears out of apparent confusion with an unrelated British company named Sears. The American Sears has nettled boycott officials by declining even to explain its innocence.

To some ardent Arab nationalists, this fall, the culmination of a steady build-up in boycott activities, represents a make-or-break test. Others see the situation in reverse: a deliberate attempt by Israel to "up the ante" by soliciting offers from important American manufacturers to pose a direct challenge to the boycott.

Still others, most notably the United States Government, would like to avert a head-on economic clash with its inevitable political overtones. But Washington's hands are technically tied by a Congressional resolution approved in June, 1965, which asserts that it is against United States policy to recognize a foreign boycott against a friendly nation.

Even to complain about the Arab boycott or to help negotiate a solution to the present impasse would be to recognize the boycott, American diplomats feel.

Furthermore, while the United States presses its own embargoes against Cuba and North Vietnam, among others, it is in an awkward position to protest to the Arbs about the impropriety of their anti-Israel boycott or to the Israelis about their counterboycott of the Arabs.

Long a Problem

For businessmen, walking an economic tightrope in the Middle East is an old problem. For years they have faced a dilemma. whether to do business with Israel, a nation of 2½ million people, and run the risk of having their products banned by 13 Arab countries with 100 million people; or whether to cater to the Arab market, ignore Israel and risk pressures from Zionists and Jewish groups in the United States, Europe and elsewhere.

Now, American companies have an additional problem — Congress has encouraged them to refuse to answer an Arab boycott questionnaires, though such refusal can lead to blacklisting in some cases. Instead, the companies are supposed to report to the Commerce Department any approach from Arab or Israeli boycott offices.

The Arab boycott began in earnest in 1951 as a campaign to weaken Israel's economy and armed forces by limiting her access to foreign markets, sources of arms and supplies, and foreign capital and technical know-how.

Arab officials assert that though the boycott has not crippled Israel it has nonetheless achieved considerable success. Mohammed Mahgoub, the Egyptian commissioner-general of the boycott, says that since 1951 the organization has taken action against 8,000 to 9,000 companies.

Of these, he says roughly 90 per cent eventually complied with boycott regulations. The other 10 per cent, or about 800 companies, refused because, according to Mr. Mahgoub, they are "Zionist controlled."

Arms Still Delivered

Israeli officials are said to consider the boycott more of a nuisance than a serious deterrent to economic development or military security. Arms deliveries from France, West Germany and others have not been significantly affected.

Israeli officials also maintain that each time important companies, such as major airlines, stand firm, action against them is dropped not because they have complied with regulations but because the Arab states have found they cannot enforce the boycott.

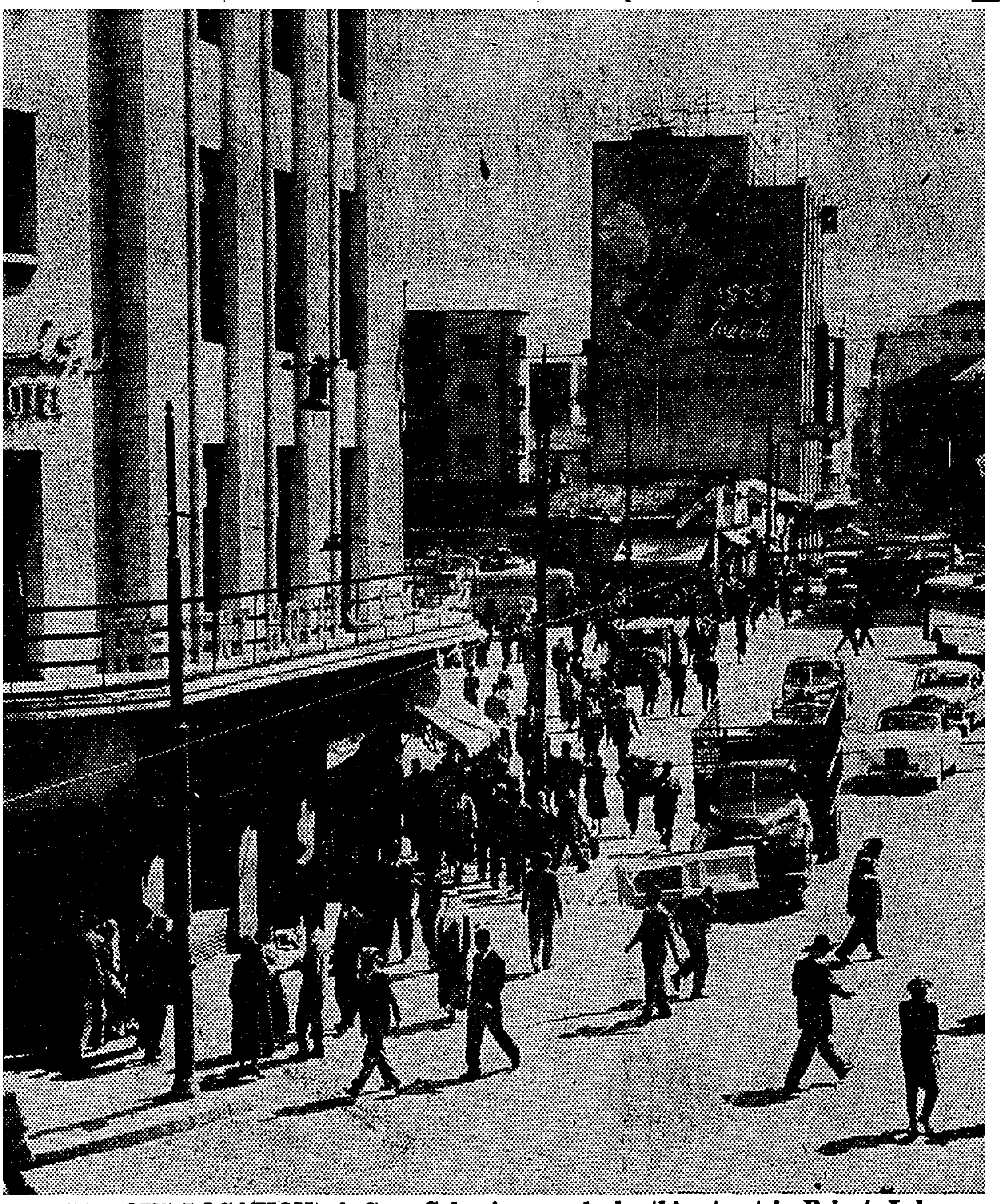
Independent observers also note important boycott loopholes. Japanese industry, for example, which does 25 times as much business with the Arabs as with Israel, has segregated its foreign trading companies into those that deal with Israel and those that deal with the Arabs.

Communist countries adopt the same approach, setting up special companies to deal only with Israel. In the West, such concerns as Revlon, Inc., the Chemstrand Corporation and Zenith have written off the Arab market and concentrated on Israel.

Others trade with Israel through middlemen, or relabel the products they sell in Israel or handle their trade through third countries.

According to an assessment by the United States Commerce Department last May, there is "a general pattern of refusal by American firms" to comply with boycott warnings about their over-all business relations with Israel. The study, added, however, that exporters were "more inclined to cooperate" with boycott rules on shipping, which affect roughly two-thirds of the Arab boycott cases involving American companies.

Some analysts report that Arab countries have had to pay a considerable price for boycott regulations on international shipping. The reason is that shippers eventually pass on to Arab customers the costs of delays or blocked cargos caused by enforcement of the boycott.



PRECARIOUS LOCATION: A Coca-Cola sign overlooks this street in Beirut, Lebanon. A committee of 13 Arab countries will meet to decide whether to blacklist the Coca-Cola Export Corporation, among other American companies, for dealing with Israel.

Although the most sensational boycott cases often involve the United States, Britain, West Germany and France, the boycott's effect is worldwide. The most recent group of additions to the Arab blacklist included Israeli ventures in four African countries—Sierra Leone, the Congo, Ethiopia and Nigeria.

India, one of the Egyptians' most important trade and payments partners, has 21 concerns on the blacklist, including the Government-owner Praha Machine Tools Co., Ltd. Ships from Bulgaria, Poland and other Communist countries are periodically barred from Arab ports because of blacklisting.

Arab spokesmen, asserting that the boycott is not based on religious or racial discrimination, note that Arab countries deal with some Jewish companies, whereas Moslem-owned companies in Turkey, Iran and Cyprus have been blacklisted by the Israelis.

Inconsistency in applying the recommendations of the boycott headquarters in Damascus, Syria, or the decisions of the Arab League Boycott Committee, has made it exceedingly difficult for businessmen to know the ground rules. Major oil companies have clerical workers constantly keeping track of which ships are blacklisted.

Technically, the boycott is not applied, as one Arab League document explains, against companies with "pure normal trade dealings with Israel" in which Israeli customers pay hard currency for finished imported products, unless they are "helpful to the war effort of Israel."

Officially, the boycott is imposed against companies that have factories or assembly plants in Israel either run by the parent concern or its agent; companies that import Israeli products; companies that help Israel prospect for oil or other natural resources that will strengthen her economy; companies that provide consultant or technical services to Israeli industry or grant Israeli companies manufacturing licenses or the right to use brand names; and the parent concerns or subsidiaries of blacklisted companies.

Hotels in Both Areas

Generally, service industries have not been affected, even though they may provide jobs and hard currency earnings for Israel. The Hilton International Corporation, for example, has hotels in Cairo and Tunis, is opening a new one in Morocco, and has one in Tel Aviv. The Sheraton Corporation of America, which has a hotel in Israel, signed a contract this summer to run a hotel in Cairo.

Trans World Airlines, Pan American World Airways and other international carriers serve Israel as well as the Arab states. Some banks have acted as financial agents for Israel while handling Arab accounts and loans. A ripple of anxiety went through the New York financial community two years ago when the Arabs threatened to boycott the Chase Manhattan Bank on grounds that it had handled an Israeli bond issue. But the boycott was never imposed.

Ships are blacklisted if they try to stop at an Israeli and an Arab port on the same round-trip, if they transport Jewish immigrants or articles of war into Israel, or if they carry Israeli industrial, commercial or agricultural exports.

Some Arab officials insist that the current cases involving major American companies fall under these rules. Ford is in hot water for having licensed its Israeli dealer, Palestine Automobile Corp., Ltd., to assemble knocked-down British and American Ford trucks and tractors. Coca-Cola is in trouble for having granted a franchise for a bottling plant in Israel to Abraham Feinberg, a New York banker.

The Israeli agent of General Motors, Leo Goldberg, announced in late September a "concrete offer" by the giant American car manufacturer to invest in an automobile assembly plant in Israel. Five days later the boycott dirctor of Lebanon warned that if this were true he would move to put General Motors on the agenda for the boycott meeting in Kuwait. Press reports from Kuwait said General Motors issued a statement there last Wednesday denying plans to invest in an assembly plant in Israel.

No Arab official has yet publicly disclosed the alleged offense by R.C.A., but other sources suggest that it may involve the pressing of phonograph records in Israel.

The Ford case has potentially the widest implications of any so far affected by the boycott. If carried out to the letter against Ford, the boycott not only would affect the parent company but also 30 subsidiaries, including Philco, which has sizable television and radio sales in Lebanon, Libya and Saudi Arabia and reported military communications contracts in Jordan, Lybia, Morocco, Saudi Arabia and Tunisia.

John Andrews, Ford's vice president for foreign operations, is said to have pointed out to Arab officials that there were about 60,000 Ford vehicles in Arab countries that would continue to need spare parts. To this, Mr. Mahgoub, the boycott chief, replies that Ford parts are made by three independent American companies and if Ford is boycotted, Arab customers will buy directly from these concerns.

In addition to a network of Arab-owned dealerships in Arab countries, Ford has two assembly plants, one in Morocco and one in Alexandria. The Egyptian plant, with 300 employes, has been idle except for spare-parts business for 18 months because Cairo did not allocate the foreign exchange to buy assembly kits abroad.

Egyptian authorities have repeatedly urged Ford to manufacture trucks and cars for re-export to offset import costs and to help Cairo earn hard currency. Not long after the first boycott warning, Ford is reported to have made "an attractive offer" to comply with this request to make trucks and other vehicles for export.

New Coca-Cola Arrangements

Like Ford, Coca-Cola has been doing business in Israel for years but the boycott office maintains that new arrangements for a local bottling plant there, to replace direct sales of bottled soft drinks to Israel, "violates permissible activities."

But as in the Ford case, boycotting Coca-Cola could have a boomerang effect in the Arab world. According to Arab statistics, Coca-Cola has 29 bottling plants in Arab countries with 5,000 local employes.

When Americans observe that these plants would close and people be thrown out of work, Arab boycott enthusiasts reply that the plants could be nationalized and converted to production of local soft drinks. The United Arab Republic has started promoting a new Coke-colored drink called Randa, but it has failed to gain wide acceptance.

Coca-Cola has recently taken large advertisements in Egyptian newspapers to emphasize its contribution to the economy and to disclose plans for building a concentrate plant, its first in the Middle East, at Port Said. This is a new development since the boycott warnings to Coca-Cola.

A number of boycott administrators privately take a pragmatic approach to blacklisting foreign concerns. One high official in Alexandria confided to a foreign friend that "if it's in our interest, we should continue to import a product" even if it technically should be boycotted.

"The problem," one businessman explained, "is to get this off a question of principle and onto the level of practicality. What is needed is a new recognition of what is in the Arab self-interest and what is not. We hope for a rational turn in this direction."

Legalistic application of boycott rules in the past has occasionally led to bewildering results. Several years ago an American ship arrived in Beirut to unload some wheat after a stop at Haifa. She was forced to go to Cyprus and unload there to purge herself, then take on the wheat again and deliver it to Beirut.

More recently, American vessels have been able to clear themselves of the blacklist when they delivered American food shipments to Cairo by declaring they would not return to Israel again.

Actor a Victim

Sal Mineo, the American movie actor, was once blacklisted for having played a Zionist fanatic in the movie "Exodus" but the ban was lifted after he portrayed an Arab nationalist in another film, "Escape From Bahrein."

Two years ago, the Lebanese boycott office refused to permit the showing of Walt Disney's "Sleeping Beauty" because the horse in the movie had an Old Testament name—Samson. The Lebanese boycott director wanted it changed to Simson, but that would have required a new soundtrack.

Even athletic teams are supposed to "keep clean." Three years ago, however, the Tottenham Hotspurs, one of Britain's leading soccer teams, played an exhibition in Cairo shortly after appearing in Tel Aviv. There was not a word of protest.

"When it suits them, they stew about it," one Britain said. "And when it doesn't, they ignore it."

Implementation of the boycott is left to each country or its boycott director. Recommendations from the central boycott office or decisions of the twice-a-year boycott meetings, attended by the 13 Arab League states plus five Trucial States, are not binding. Each country applies them as it sees fit, or can initiate action on its own.

In Lebanon, censors carefully clip out newspaper and magazine advertisements of El Al, the Israeli airline, from foreign publications. In the United Arab Republic, these pass without notice.

Egyptians Most Pragmatic

In the past, Syria and Lebanon have been among the most aggressive in raising boycott cases. Kuwait, Libya and Saudi Arabia also have reputations for harsh enforcement.

One theory is that the oil producing countries are rich enough to buy substitutes for the products they embargo. Another is that private businessmen who do most of the trading have less influence than state-owned companies in the socialist Arab states with the public officials who run boycott offices, and are less able to get concessions for their favorite products.

Ironically, the United Arab Republic, though it is the self-proclaimed leader of Arab nationalism, is considered the most pragmatic in its approach, often overlooking violations of companies with which it feels it must deal.

Algeria, Morocco and Tunisia, the western Arab countries, reportedly ignore the boycott more than they observe it, since they are generally less involved in the Israeli issue than eastern Arabs.