FOREIGN RELATIONS OF THE UNITED STATES

1969–1976

VOLUME XXXVI

ENERGY CRISIS, 1969–1974

DEPARTMENT OF STATE

Washington

Foreign Relations of the
United States, 1969–1976

Volume XXXVI

Energy Crisis, 1969–1974

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Preface

The *Foreign Relations of the United States* series presents the official documentary historical record of major foreign policy decisions and significant diplomatic activity of the United States Government. The Historian of the Department of State is charged with the responsibility for the preparation of the *Foreign Relations* series. The staff of the Office of the Historian, Bureau of Public Affairs, under the direction of the General Editor of the *Foreign Relations* series, plans, researches, compiles, and edits the volumes in the series. Secretary of State Frank B. Kellogg first promulgated official regulations codifying specific standards for the selection and editing of documents for the series on March 26, 1925. These regulations, with minor modifications, guided the series through 1991.

Public Law 102–138, the Foreign Relations Authorization Act, established a new statutory charter for the preparation of the series which was signed by President George H.W. Bush on October 28, 1991. Section 198 of P.L. 102–138 added a new Title IV to the Department of State's Basic Authorities Act of 1956 (22 U.S.C. 4351, et seq.).

The statute requires that the *Foreign Relations* series be a thorough, accurate, and reliable record of major United States foreign policy decisions and significant United States diplomatic activity. The volumes of the series should include all records needed to provide comprehensive documentation of major foreign policy decisions and actions of the United States Government. The statute also confirms the editing principles established by Secretary Kellogg: the *Foreign Relations* series is guided by the principles of historical objectivity and accuracy; records should not be altered or deletions made without indicating in the published text that a deletion has been made; the published record should omit no facts that were of major importance in reaching a decision; and nothing should be omitted for the purposes of concealing a defect in policy. The statute also requires that the *Foreign Relations* series be published not more than 30 years after the events recorded. The editor is convinced that this volume meets all regulatory, statutory, and scholarly standards of selection and editing.

Structure and Scope of the Foreign Relations *Series*

This volume is part of a subseries of volumes of the *Foreign Relations* series that documents the most important issues in the foreign policy of the administrations of Richard M. Nixon and Gerald R. Ford. This volume documents U.S. policy toward the global energy crisis beginning in 1969 and ending with Nixon's departure from office in Au-

gust 1974. It will be followed by volume XXXVII, which covers the energy crisis during the administrations of Presidents Gerald R. Ford and Jimmy Carter, from 1974 until 1980.

Focus of Research and Principles of Selection for Foreign Relations, *1969–1976, Volume XXXVI*

This volume documents the U.S. response to the changes that took place between and among the oil producing nations, the consuming nations, and the oil companies. From 1969 to 1974 the established practices of the international oil industry, based on contractual obligations between producing nations and corporate entities that established production amounts and a pricing structure for oil, disappeared. The consequences were global in nature, stretching from budgetary windfalls for the producing states, to equally significant windfall profits for the corporations, to a shift in the global monetary balance of power, and finally to budgetary drains on all consuming nations. As a consequence of this power shift, the oil-producing Arab nations were able to impose an embargo on the United States in the wake of the 1973 Arab-Israeli war as a punishment for its support of Israel and as leverage in the post-war peace negotiations. While the volume's spotlight is on U.S. policymaking, a secondary focus is on events and policy repercussions in major energy consuming and producing states such as Canada, Venezuela, Great Britain, France, Germany, Japan, Iran, Saudi Arabia, and Kuwait.

Within this broad framework, the volume covers a range of topics and themes, the foremost of which is the U.S. effort to negotiate an end to the 1973 oil embargo. Additionally, there is in-depth coverage of the administration's attempt to reformulate its oil import program in 1969, negotiations between international oil companies and oil producing states, efforts to create bureaucratic institutions to deal with energy issues, and attempts to prepare U.S. consumers to adjust to the long-term consequences of a tighter oil market and higher priced oil. One theme that emerges from the documentation is the difficulty the Nixon administration faced in reconciling often contradictory foreign policy demands with equally contradictory domestic political and economic demands. The strain on the U.S. bilateral relationship with Saudi Arabia during the embargo from October 1973 until March 1974 also emerges as an important theme. This paralleled the strain on the Atlantic Alliance as the allies found themselves in the uncomfortable position of needing U.S. assistance in securing energy sources, even as they sought to distance themselves from its Middle East policy. The extent to which energy influenced and was influenced by the ongoing Arab-Israeli dispute is a theme that runs throughout the volume. Similarly, the competitive tension between Iran and Saudi Arabia, and Libya's galvanizing role in focusing Mid-

dle Eastern economic nationalism on oil, are apparent throughout the volume.

The volume concludes with Nixon's resignation from office in August 1974. It will be followed by volume XXXVII, Energy Crisis, 1974–1980. Readers who want a more complete content for U.S. policy during this period should consult additional volumes in the series. For coverage of the October 1973 Arab-Israeli war see volume XXV, Arab-Israeli Crisis and War, 1973. For post-war negotiations see volume XXVI, Arab-Israeli Dispute, 1974–1976. Bilateral relations with Iran, including energy related topics, can be found in volume E–4, Documents on Iran and Iraq, 1969–1972, and in volume XXVII, Iran; Iraq, 1973–1976. Bilateral relations with Saudi Arabia are covered in volume XXIV, Middle East Region and Arabian Peninsula, 1969–1972; Jordan, September 1970, and in volume E–9, Part 1, Documents on Northern Africa, 1973–1976, and E–9, Part 2, Documents on the Middle East Region, 1973–1976.

Editorial Methodology

The documents are presented chronologically according to Washington time. Memoranda of conversation are placed according to the time and date of the conversation, rather than the date the memorandum was drafted.

Editorial treatment of the documents published in the *Foreign Relations* series follows Office style guidelines, supplemented by guidance from the General Editor and the chief technical editor. The documents are reproduced as exactly as possible, including marginalia or other notations, which are described in the footnotes. Texts are transcribed and printed according to accepted conventions for the publication of historical documents within the limitations of modern typography. A heading has been supplied by the editor for each document included in the volume. Spelling, capitalization, and punctuation are retained as found in the original text, except that obvious typographical errors are silently corrected. Other mistakes and omissions in the documents are corrected by bracketed insertions: a correction is set in italic type; an addition in roman type. Words or phrases underlined in the source text are printed in italics. Abbreviations and contractions are preserved as found in the original text, and a list of abbreviations is included in the front matter of each volume.

Bracketed insertions are also used to indicate omitted text that deals with an unrelated subject (in roman type) or that remains classified after declassification review (in italic type). The amount and, where possible, the nature of the material not declassified has been noted by indicating the number of lines or pages of text that were omitted. Entire documents withheld for declassification purposes have been

accounted for and are listed with headings, source notes, and number of pages not declassified in their chronological place. All brackets that appear in the original text are so identified in footnotes. All ellipses are in the original documents.

The first footnote to each document indicates the source of the document, original classification, distribution, and drafting information. This note also provides the background of important documents and policies and indicates whether the President or his major policy advisers read the document.

Editorial notes and additional annotation summarize pertinent material not printed in the volume, indicate the location of additional documentary sources, provide references to important related documents printed in other volumes, describe key events, and provide summaries of and citations to public statements that supplement and elucidate the printed documents. Information derived from memoirs and other first-hand accounts has been used when appropriate to supplement or explicate the official record.

The numbers in the index refer to document numbers rather than to page numbers.

Advisory Committee on Historical Diplomatic Documentation

The Advisory Committee on Historical Diplomatic Documentation, established under the *Foreign Relations* statute, reviews records, advises, and makes recommendations concerning the *Foreign Relations* series. The Advisory Committee monitors the overall compilation and editorial process of the series and advises on all aspects of the preparation and declassification of the series. The Advisory Committee does not necessarily review the contents of individual volumes in the series, but it makes recommendations on issues that come to its attention and reviews volumes, as it deems necessary to fulfill its advisory and statutory obligations.

Presidential Recordings and Materials Preservation Act Review

Under the terms of the Presidential Recordings and Materials Preservation Act (PRMPA) of 1974 (44 U.S.C. 2111 note), the National Archives and Records Administration (NARA) has custody of the Nixon Presidential historical materials. The requirements of the PRMPA and implementing regulations govern access to the Nixon Presidential historical materials. The PRMPA and implementing public access regulations require NARA to review for additional restrictions in order to ensure the protection of the privacy rights of former Nixon White House officials, since these officials were not given the opportunity to separate their personal materials from public papers. Thus, the PRMPA and implementing public access regulations require NARA

formally to notify the Nixon estate and former Nixon White House staff members that the agency is scheduling for public release Nixon White House historical materials. The Nixon Estate and former White House staff members have 30 days to contest the release of Nixon historical materials in which they were a participant or are mentioned. Further, the PRMPA and implementing regulations require NARA to segregate and return to the creator of files private and personal materials. All *Foreign Relations* volumes that include materials from NARA's Nixon Presidential Materials Staff are processed and released in accordance with the PRMPA.

Nixon White House Tapes

Access to the Nixon White House tape recordings is governed by the terms of the PRMPA and an access agreement with the Office of Presidential Libraries of the National Archives and Records Administration and the Nixon Estate. In February 1971, President Nixon initiated a voice activated taping system in the Oval Office of the White House and, subsequently, in the President's Office in the Executive Office Building, Camp David, the Cabinet Room, and White House and Camp David telephones. The audiotapes include conversations of President Nixon with his Assistant for National Security Affairs, Henry Kissinger, other White House aides, Secretary of State Rogers, other Cabinet officers, members of Congress, and key foreign officials. The clarity of the voices on the tape recordings is often very poor, but the editor has made every effort to verify the accuracy of the transcripts produced here. Readers are advised that the tape recording is the official document; the transcript represents an interpretation of that document. Through the use of digital audio and other advances in technology, the Office of the Historian has been able to enhance the tape recordings and over time produce more accurate transcripts. The result is that some transcripts printed here may differ from transcripts of the same conversations printed in previous *Foreign Relations* volumes. The most accurate transcripts possible, however, cannot substitute for listening to the recordings. Readers are urged to consult the recordings themselves for a full appreciation of those aspects of the conversations that cannot be captured in a transcript, such as the speakers' inflections and emphases that may convey nuances of meaning, as well as the larger context of the discussion.

Declassification Review

The Office of Information Programs and Services, Bureau of Administration, conducted the declassification review for the Department of State of the documents published in this volume. The review was conducted in accordance with the standards set forth in Executive Order 12958 on Classified National Security Information, as amended, and applicable laws.

The principle guiding declassification review is to release all information, subject only to the current requirements of national security as embodied in law and regulation. Declassification decisions entailed concurrence of the appropriate geographic and functional bureaus in the Department of State, other concerned agencies of the U.S. Government, and the appropriate foreign governments regarding specific documents of those governments. The declassification review of this volume, which began in 2006 and was completed in 2008, resulted in the decision to make excisions of a paragraph or more in 9 documents, and minor excisions of less than a paragraph in 15 documents.

The Office of the Historian is confident, on the basis of the research conducted in preparing this volume and as a result of the declassification review process described above, that the record presented in this volume provides an accurate and comprehensive account of the Nixon administration's energy policy from 1969 to 1974.

Acknowledgments

The editor wishes to acknowledge the assistance of officials at the Nixon Presidential Materials Project of the National Archives and Records Administration (Archives II), at College Park, Maryland. The editor also wishes to acknowledge the Richard Nixon Estate for allowing access to the Nixon Presidential recordings and the Richard Nixon Library & Birthplace for facilitating that access. Special thanks are due to Scott Koch, of the Historical Staff of the Central Intelligence Agency, who was extremely helpful in arranging full access to the files of the Central Intelligence Agency. John Earl Haynes of the Library of Congress was responsible for expediting access to the Kissinger Papers, including the transcripts of Henry Kissinger's telephone conversations. The editor was able to use the Kissinger Papers, including the transcripts of telephone conversations, with the kind permission of Henry Kissinger. The editor would like to thank Sandra Meagher at the Department of Defense. The editor would also like to thank Alex Wieland for his assistance and contributions in the final stages of producing the volume.

Linda Qaimmaqami collected documentation for this volume and selected and edited it under the supervision of Edward C. Keefer, General Editor of the *Foreign Relations* series. Chris Tudda coordinated the declassification review under the supervision of Susan C. Weetman, Chief of the Declassification and Publishing Division. Keri E. Lewis, Kristin Ahlberg, and Mandy A. Chalou did the copy and technical editing. Do Mi Stauber prepared the index.

Bureau of Public Affairs
December 2011

Ambassador Edward Brynn
Acting Historian

Contents

Sources

Sources for the Foreign Relations *Series*

The 1991 *Foreign Relations* statute requires that the published record in the *Foreign Relations* series include all records needed to provide comprehensive documentation on major U.S. foreign policy decisions and significant U.S. diplomatic activity. It further requires that government agencies, departments, and other entities of the U.S. Government engaged in foreign policy formulation, execution, or support cooperate with the Department of State Historian by providing full and complete access to records pertinent to foreign policy decisions and actions and by providing copies of selected records. Most of the sources consulted in the preparation of this volume have been declassified and are available for review at the National Archives and Records Administration.

The editors of the *Foreign Relations* series have complete access to all the retired records and papers of the Department of State: the central files of the Department; the special decentralized files ("lot files") of the Department at the bureau, office, and division levels; the files of the Department's Executive Secretariat, which contain the records of international conferences and high-level official visits, correspondence with foreign leaders by the President and Secretary of State, and memoranda of conversations between the President and Secretary of State and foreign officials; and the files of overseas diplomatic posts. All the Department's indexed central files through 1976 have been permanently transferred to the National Archives and Records Administration at College Park, Maryland (Archives II). Many of the Department's decentralized office files covering the 1969–1976 period, which the National Archives deems worthy of permanent retention, have been transferred or are in the process of being transferred from the Department's custody to Archives II.

The editors of the *Foreign Relations* series also have full access to the papers of President Nixon and other White House foreign policy records. Presidential papers maintained and preserved at the Presidential libraries and the Nixon Presidential Materials Project at Archives II include some of the most significant foreign affairs-related documentation from the Department of State and other Federal agencies including the National Security Council, the Central Intelligence Agency, the Department of Defense, and the Joint Chiefs of Staff. Dr. Henry Kissinger has approved access to his papers at the Library of Congress. The papers are a key source for the Nixon-Ford subseries of *Foreign Relations*.

Research for this volume was completed through special access to restricted documents at the Nixon Presidential Materials Project, the Library of Congress, and other agencies. While all the material printed in this volume has been declassified, some of it is extracted from still classified documents. Nixon's papers were transferred to their permanent home at the Nixon Presidential Library and Museum, in Yorba Linda, California, after research for this volume was completed. The Nixon Library staff is processing and declassifying many of the documents used in this volume, but they may not be available in their entirety at the time of publication.

Sources for Foreign Relations, *1969–1976, Volume XXXVI, Energy Crisis, 1969–1974*

In preparing this volume the editor made extensive use of Presidential papers and other White House records held at that time at the Nixon Presidential Materials Project at Archives II, which proved the best source of documentation on President Nixon's and the National Security Council's role in conceptualizing, formulating, and implementing energy policy. Within the NSC Files, the NSC Institutional Files (H-Files) are of particular importance. These contain the relevant National Security Study Memoranda, the resulting National Security Decision Memoranda, supporting study and policy papers, other background material, and memoranda of note. They contain documents prepared for National Security Council, Senior Review Group, and Washington Special Actions Group meetings, and the minutes of those meetings.

Also in the Nixon Presidential Materials Project, as part of the NSC Files, are the Agency Files, Country Files, Saunders Files, Kissinger's Office Files, Presidential/HAK Memcons, and Subject Files. The Agency Files contain high-level documents and communication between the White House and other agencies. For this volume, the most relevant Agency files were those of the CIA, the OEP, and the National Energy Office. The Country Files are critical for researching bilateral relations. Although much of the material in the Country Files can also be found in the Department of State Central Files in Record Group 59, the Country Files contain cable traffic on topics deemed most significant by the White House. This includes communication on bilateral oil arrangements and negotiations on the embargo. The Country Files also include memoranda of conversation with various Middle Eastern leaders, and White House, State Department, and NSC assessments of each country's importance to the United States in terms of energy. The Country Files, used in tandem with the Presidential Correspondence Files (correspondence between Nixon and key figures such as King Faisal), the Presidential Trip Files, and VIP Visits Files (which include important briefing material) pro-

vide comprehensive documentation on high-level meetings. The most critical Country Files for this volume are Iran, Iraq, Saudi Arabia, Middle East General, and Venezuela. Also significant for researching Middle East issues during this period are the Harold H. Saunders Files. Saunders regularly maintained copies of critical cable traffic, most NSC internal memoranda, study papers, background and briefing material prepared for Kissinger, and letters to Kissinger for Nixon. His individual files include those on Iran, Middle East Oil, and Saudi Arabia. Kissinger's Office Files, particularly the Country Files on Egypt, the Middle East, Iran Oil, and Saudi Arabia, are an invaluable source. The Presidential/HAK Memcons contain critical memoranda of conversation for the embargo period. The Kissinger Telephone Conversation collection provides an invaluable source in cases when oil and embargo issues received immediate attention.

Also in the Nixon Presidential Materials Project are the White House Central Files, Special Files, invaluable for tracking administration changes pertaining to domestic energy, early efforts to create a department of energy, and political calculation. They are also useful for tracking administration thinking on international energy. Among the most useful files are the Staff Member and Office Files, particularly those of Charles J. DiBona, Egil Krogh, Hendrik A. Houthakker, and John D. Ehrlichman. Similarly, the White House Special Files, Subject Files, Confidential Files contain White House memoranda on energy issues. Files on Saudi Arabia, Oil Import Controls, CIEP 1971, Oil, and Tariff Imports are useful. It should be noted that the White House Special Files were originally part of the White House Central Files. Around 1970 the White House staff removed those documents from Central Files deemed politically sensitive and placed them into the new White House Special Files. Once the 1972 election was over, the White House Special Files remained as an independent collection. Some duplication between the two filing systems remained, along with a very confusing naming system.

For this particular volume, the Department of State Central Files, held at NARA in Record Group 59, are essential for documenting those times when the Department of State dominated policy on oil and energy related issues. Among the most important files in this collection are the petroleum files (PET) for Canada, Europe, Iraq, Iran, Kuwait, Libya, Near East, OECD, Saudi Arabia, United Kingdom, United States, and Venezuela. Political files (POL) were consulted as needed. A full listing is below.

The Department of State Lot Files, also in Record Group 59, are of primary importance for Secretary of State Kissinger's Staff Meetings, which detail the information Kissinger passed on to upper level officers within the Department, and their discussions on major issues.

These meetings replaced NSC and WSAG meetings by the end of 1973.

The Cabinet Level Task Force on Oil Import Controls was primarily domestic in nature. It required a different approach to research and a broader net. Among the files most critical are the NSC Files, Subject Files, the White House Special Files, and the White House Central Files in the Nixon Presidential Materials Project. Because Secretary of Labor George Shultz led the Task Force, the Records of Secretary of Labor George P. Shultz, in Record Group 174, Records of the Department of Labor, were consulted. Of note here are the Subject Files, which includes records on the Cabinet Committee on Oil Imports and Separate Reports on the Oil Import Question. The David M. Kennedy Records in the Office of the Assistant Secretary for Public Affairs, and the Paul Volcker Files in the Office of Under Secretary of the Treasury Paul Volcker, both in Record Group 56, Records of the Department of the Treasury, are also important for a fuller understanding of Task Force deliberations. The main White House collection of documents on the Task Force is Record Group 220, Records of the Cabinet Task Force on Oil Import Control. Other documentation was found in Record Group 429, Council on International Economic Policy.

The Henry A. Kissinger Papers in the Manuscript Division of the Library of Congress are essential. The Kissinger Papers contain copies of telegrams and memoranda of conversation not available elsewhere. Within the Geopolitical Files, the Chronological Files for Egypt, France, Great Britain, Japan, and Germany, and for Algeria, Iran, Middle East, and Saudi Arabia contain useful documentation. Within the Subject Files, the Washington Energy Conference Files and Energy Files are essential for material on the Conference.

Documentation in Record Group 218, Records of the Joint Chiefs of Staff, and in Record Group 330, Records of the Office of the Secretary of Defense, both at the Washington National Records Center in Suitland, Maryland, are of minimal importance because the Department of Defense perceived oil as a commodity and not as a strategic necessity. The Central Intelligence Agency records are helpful for finished intelligence and the occasional papers on oil, OPEC, and consumerism. They also contain invaluable correspondence on resolution of the embargo.

The following list identifies the particular files and collections used in the preparation of this volume. In addition to the paper files cited below, a growing number of documents are available on the Internet. The Office of the Historian maintains a list of these Internet resources on its website and encourages readers to consult that site on a regular basis.

Unpublished Sources

National Archives and Records Administration, College Park, Maryland

Record Group 59, Records of the Department of State

Central Files, 1969–1973

DEF 12–5 ISRAEL
DEF 1 NEAR E
FN 9 SAUD
FN 9 US–SAUD
FSE 13
FSE 1 US
FSE 15 US
IT 11–16 UAR
OECD 8–2
ORG 7 D
PET 2
PET 6
PET 10
PET 17–1
PET 17–1 CAN
PET 1 CAN–US
PET 17–2 CAN–US
PET 12–3 EUR
PET 17–2 EUR
PET 4 IRAN–US
PET 6 IRAN
PET 14 IRAQ
PET 15–2 KUW
PET 1 LIBYA
PET 6 LIBYA
PET 14 LIBYA
PET 15–1 LIBYA
PET 15–2 LIBYA
PET 15–2 NEAR E
PET 18 NEAR E
PET 3 OECD
PET 3 OPEC
PET SAUD
PET 6 SAUD
PET 12 SAUD
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POL 5–1 SAUD
POL 7 SAUD
POL 15–1 IRAN
POL 15–1 SAUD
POL 15–1 US
POL 27 ARAB–ISR
POL 33 PERSIAN GULF

Central Foreign Policy Files, 1973–1974
Department of State telegrams transferred electronically to the National Archives

Lot Files

Lot 72D30, Bureau of Near Eastern and South Asian Affairs, Office of Arabian Peninsular Affairs, Records Relating to Saudi Arabia

Lot 74D174, S/S Files, President's Evening Reading

Lot 81D286, Records of the Office of the Counselor 1955–77, Sonnenfeldt Lot Files

Lot 78D443, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977

Lot 80D212, S/S-NSC Files

Record Group 56, General Records of the Department of the Treasury

Records of the Office of the Under Secretary of the Treasury
Files of Under Secretary Volcker 1969–1974

Records of Secretary of the Treasury George P. Shultz, 1971–74
GPS Council on International Economic Policy C–1974
GPS Secretary of State C–1974

Records Relating to the Tenure of Secretary of the Treasury David M. Kennedy, 1969–71
Office of the Assistant Secretary for Public Affairs

Record Group 174, General Records of the Department of Labor

Records of Secretary of Labor George P. Shultz, 1969–1970
Subject Files

Record Group 218, Records of the Joint Chiefs of Staff

Records of Admiral Thomas H. Moorer

Record Group 220, Records of the Cabinet Task Force on Oil Import Control

Agency Comments on Draft Report

Record Group 429, Records of the Council on International Economic Policy, 1971–77

Central File, 1972–77

Records of Executive Committee Meetings, 1973–74

Nixon Presidential Materials Project, National Archives and Records Administration, College Park, Maryland (now at the Nixon Presidential Library and Museum, Yorba Linda, California)

National Security Council (NSC) Files
- Agency Files
- Country Files
  - Africa
  - Europe
  - Latin America
  - Middle East
- Kissinger Office Files
  - Country Files
  - HAK Administrative and Staff Files
  - HAK Trip Files
- Kissinger Telephone Conversation Transcripts
- NSC Institutional Files (H-Files)
- NSC Unfiled Material
- Presidential Correspondence
- Presidential Daily Briefings
- Presidential/HAK Memcons
- President's Trip FIles
- Harold H. Saunders Files
- VIP Visits
- White House Central Files
  - President's Daily Diary
  - Staff Member and Office Files
- White House Special Files
  - Staff Member and Office Files
  - Subject Files
- White House Tapes

Central Intelligence Agency

Files of the Office of the Director of Intelligence, Richard M. Helms (1966–1973)
- Executive Registry Files
  - Job 80–B01086A
  - Job 80–M01048A
  - Job 80–T01315A
- Files of the National Intelligence Council
  - Job 79–R01012A
  - Job 80–B01495R
  - Job 82–M00587R

Files of the Office of Research and Reports
Job 79–T00935A
Job 79–T01092A

Department of Energy, Germantown, Maryland

Executive Secretariat, Historian's Office

Gerald R. Ford Presidential Library, Ann Arbor, Michigan

National Security Adviser
Scowcroft Daily Work Files
Memoranda of Conversations

Library of Congress, Washington, DC

Papers of Henry A. Kissinger
Department of State 1968–1977
Geopolitical Files
Subject Files

The National Archives, London, United Kingdom

PREM 15/1768

Washington National Records Center, Suitland, Maryland

FRC 330, Records of the Office of the Secretary of Defense
OASD/IL Files, FRC 330–85–0035

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Abbreviations and Terms

AD, *Acción Democrática*, Venezuelan political party
AEC, Atomic Energy Commission
AF, Bureau of African Affairs, Department of State
AF/I, Office of Inter-African Affairs, Bureau of African Affairs, Department of State
AF/N, Office of North African Affairs, Bureau of African Affairs, Department of State
AGEC, Arabian Gulf Exploration Company
AID, Agency for International Development
AmEmbassy, American Embassy
API, American Petroleum Institute
APQ, Annual Programmed Quantity. This is a means of determining the amount of oil that could be lifted from Iran in any one year, based on proportion of shares the companies held in the Consortium.
ARA, Bureau of Inter-American Affairs, Department of State
ARAMCO, Arabian-American Oil Company, a subsidiary of Socal (30 percent), Texaco (30 percent), Esso (30 percent), and Mobil (10 percent)
ARCO, Atlantic-Richfield Company
ASD, Assistant Secretary of Defense
ASD(I&L), Assistant Secretary of Defense (Installations and Logistics)
AUB, American University of Beirut
Auction or Bilateral Oil Price, one of the prices at which crude oil is sold, constituting the price governments obtain for their royalty oil and that portion of their participation oil that they do not sell back to the companies. The oil must be sold at or above the posted price, and if not sold back to the companies, is either actioned to the highest bidder or sold under bilateral agreement. In 1974 approximately 10–15 percent of OPEC production was auction/bilateral oil.

bbl, barrel, equivalent to 42 U.S. standard gallons or 35 imperial gallons
b/d, bpd, barrels per day
bil., B, billion
BOAC, British Overseas Airways Corporation
BP, British Petroleum
BS, Brent Scowcroft
Buyback Oil Price, one of the prices at which crude oil is sold, the buyback price is a negotiated price at which companies buy back participation oil—that is, oil owned by governments as a result of their equity shares. In 1974 approximately 20 percent of OPEC production was sold at buyback prices. It was somewhere between the equity-oil price and the posted price.

C, Confidential
C–20, Committee of 20, IMF Committee to develop proposals on international monetary reform
CA, Circular Airgram
CDS, Construction Differential Subsidy
CEA, Council of Economic Advisers
CENTO, Central Treaty Organization
CEO, Chief Executive Officer
CFP, *Compagnie Française des Pétroles*

Cherokee, communication channel for eyes only and sensitive messages between the Secretary of State and Ambassadors
Chrm., Chairman
CIA, Central Intelligence Agency
CIEP, Council on International Economic Policy
c.i.f., cost, insurance, and freight
CINCPAC, Commander-in-Chief, Pacific Command
CINCUSAFE, Commander-in-Chief, U.S. Air Force, Europe
ConGen, Consul General
Consortium, those oil companies that operated the oil concession in Iran. The shares of the Consortium were held by BP, Shell, CFP, Exxon (Esso), Mobil, Socal, Texaco, Gulf, and Iricon (the shares of which were owned by 12 independents).
COPEI, *Comité de Organización Política Electoral Independiente—Partido Social Christiano de Venezuela* (Social Christian Party of Venezuela)
CORCO, Commonwealth Oil Refinery Company
Cutback, reduced production due to unilateral decisions. The difference between production in a designated base period and the period of cutback is used to determine sharing; 60 percent of any cutback is shared by all Libyan producers including any cutback party(s).
CSCE, Conference on Security and Cooperation in Europe
CVP, *Corporación Venezolana del Petróleo* (Venezuelan Petroleum Corporation)

D, Office of the Deputy Secretary of State
D.C., District of Columbia
DCM, Deputy Chief of Mission
DDO, Deputy Director of Operations, Central Intelligence Agency
DefMin, Defense Minister
Del(s), delegate(s), delegation(s)
Deminex, the German state oil supply company
DENR, Department of Energy and Natural Resources (proposed)
Depto, indicator for telegrams from the Deputy Secretary of State
Deptoff(s), Department Officer(s)
Dissem, dissemination
DOD, Department of Defense
DOI, Department of Interior
DOT, Department of Transportation
Downstream, activities focused on product distribution, i.e., refining and the transportation, marketing and distribution that occurs after refining.
DNR, Department of Natural Resources (proposed)
DPRC, Defense Program Review Committee
DTI, Department of Trade and Investment (United Kingdom)
DWT, deadweight tons

E, Bureau of Economic Affairs, Department of State
EAG, Energy Action Group
EB/FSE, Office of Fuels and Energy, Bureau of Economic and Business Affairs, Department of State
EB/OIA, Office of Investment Affairs, Bureau of Economic and Business Affairs, Department of State
EB/ORF/FSE, Office of Fuels and Energy, International Resources and Food Policy, Bureau of Economic and Business Affairs, Department of State
EB/ORF/ICD, Office of International Commodities, International Resources and Food Policy, Bureau of Economic and Business Affairs, Department of State
EC, European Community

ECG, Energy Coordinating Group
EconCounselor, Economic Counselor
EconMin, Economics Minister
EE, Office of Eastern European Affairs, Bureau of European Affairs, Department of State; also, Eastern Europe
EEC, European Economic Community
EEAG, Energy Emergency Action Group
ENI, *Ente Nazionale Idrocarburi*, Italian oil company
EPA, Environmental Protection Agency, formed on July 9, 1970
Equity Oil Price, one of the prices at which crude oil is sold; based on the companies' tax and royalty payments to the producer governments. In 1974 approximately 65 percent of OPEC oil was sold at the equity oil price.
ERDA, Energy Research and Technology Administration
Esso, phonetic pronunciation of "S O" for Standard Oil of New Jersey
EUR/BMI, Office of United Kingdom, Ireland, and Malta, Bureau of European Affairs, Department of State
EUR/CAN, Office of Canadian Affairs, Bureau of European Affairs, Department of State
EUR/FBX, Office of France and Benelux Affairs, Bureau of European Affairs, Department of State
EUR/RPE, Office of Organization for Economic Cooperation and Development, European Community, and Atlantic Political-Economic Affairs, Bureau of European Affairs, Department of State
EUR/RPM, Office of North Atlantic Treaty Organization and Atlantic Political-Military Affairs, Bureau of European Affairs, Department of State
EXCOM, Executive Committee
Exdis, exclusive distribution
Ex-Im, Export-Import Bank of the United States
Exxon, the trade name for Standard Oil of New Jersey, adopted in 1972

FBI, Federal Bureau of Investigation
FBIS, Foreign Broadcast Information Service
FCO, Foreign and Commonwealth Office (United Kingdom)
FEA, Federal Energy Administration
FEO, Federal Energy Office
FinMin, Finance Minister
FOB, free on board, the value of goods up to the point of embarkation
FonMin, Foreign Minister; Foreign Ministry
FonOff, Foreign Office
FPC, Federal Power Commission
FRC, Federal Records Center
Free Trade Zones, geographic areas exempt from import and/or taxation restrictions
FRG, Federal Republic of Germany
FSE, *see* E/FSE
FY, fiscal year
FYI, for your information

GATT, General Agreement on Tariffs and Trade
GB, George H.W. Bush
G.E., General Electric
GMT, Greenwich Mean Time
GNP, Gross National Product
GOC, Government of Canada
GOE, Government of Egypt

GOF, Government of France
GOI, Government of Iran, Government of Israel, Government of Indonesia
GOJ, Government of Japan, Government of Jordan
GOK, Government of Kuwait
GON, Government of Netherlands
GOV, Government of Venezuela
Govt., government
Gravity (specific) (API gravity), a measure of weight per barrel of oil; the higher the gravity the heavier the crude. The common measurement, or API gravity, is expressed in terms of degrees and is inversely related to specific gravity, so that the heavier the crude the lower the API gravity, or conversely, the higher the API gravity the lighter and more valuable the crude. Most crudes range between 30–45° API. A light crude yields a larger percentage of more valuable products after refining than does a heavy crude of low API gravity. Lighter crude often carried a higher posted price.
GSA, General Services Administration
GWG, Governance Working Group, Organization for Economic Cooperation and Development

HAK, Henry A. Kissinger
Hakto, series indicator for telegrams sent by Kissinger while away from Washington
H.E., His (Her) Excellency
HLG, High-Level Group, Organization for Economic Cooperation and Development Oil Committee
HIM, His Imperial Majesty
HMG, Her Majesty's Government

IA–ECOSOC, Inter-American Economic and Social Council
IBRD, International Bank for Reconstruction and Development, World Bank
IDB, International Development Bank
IEP, integrated emergency program
IERG, International Energy Review Group
IIAB, International Industry Advisory Board
IL, Installations and Logistics Office, Department of Defense
IMF, International Monetary Fund
Independents, the term for relatively small oil companies, commonly based in the United States, but with some international marketing or production
INR, Bureau of Intelligence and Research, Department of State
IPC, Iraq Petroleum Corporation
ITT, International Telephone and Telegraph

J, Office of the Under Secretary of State for Political Affairs
JAEC, Joint Committee on Atomic Energy
JCS, Joint Chiefs of Staff

K, Henry A. Kissinger
KOC, Kuwait Oil Company

L, Office of the Legal Adviser, Department of State; also Melvin Laird
LAPCO, Lavan Petroleum Company
LARG, Libyan Arab Republic Government
LDC, Less Developed Country
L/E, Office of Economic Affairs, Office of the Legal Adviser, Department of State

Lifting, the amount of crude oil taken by a company by virtue of its equity share in the production operation or by virtue of a purchase from the producer. Once lifted, the oil becomes the property of the company.
Limdis, limited distribution
L/NEA, Office of Near Eastern and South Asian Affairs, Office of the Legal Adviser, Department of State
LNG, liquefied natural gas
LNOC, Libyan National Oil Company
London Policy Group, Atlantic, American Independent, Amerada Hess, Ashland, Arabian Oil, British Petroleum, Bunker Hunt, CFP, Continental, Gelsenberg, Gulf, Hispanoil, Iricon, Marathon, Murphy, Mobil, Occidental, Participations and Explorations, Petrofina, Phillips, Shell, Standard of California, Standard of New Jersey, Texaco
LOU, Limited Official Use
LPG, liquefied petroleum gas

Majors, the term used to designate those companies that dominated the international oil industry; that is, BP, Shell, Exxon (Esso), Texaco, Mobil, Gulf, and Socal. Sometimes CFP is included.
MBD, million barrels per day
MCF, million cubic feet
ME, Middle East
Memcon, memorandum of conversation
MFN, Most Favored Nation
Mil., million
MinPet, Minister of Petroleum
MinState, Minister of State
MIT, Massachusetts Institute of Technology
MITI, Ministry of International Trade and Industry, Japan
Mm b/d, million barrels per day
Mobil, trade name for Standard Oil Company of New York (Socony)
MOIP, Mandatory Oil Import Program. Established in 1959, the MOIP was designed to protect the U.S. domestic industry by limiting foreign oil imports into the United States.
MSA, Most Seriously Affected (Less Developed Countries)

N, Richard M. Nixon
NATO, North Atlantic Treaty Organization
NEA, Bureau of Near Eastern and South Asian Affairs, Department of State
NEA/ARN, Office of Lebanon, Jordan, Syrian Arab Republic Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State
NEA/ARP, Office of Saudi Arabia, Kuwait, Yemen, Aden, Gulf States Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State
NEA/IRN, Office of Iran Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State
NEA/UAR, Office of United Arab Republic Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State
Neths., Netherlands
NIE, National Intelligence Estimate
NIOC, National Iranian Oil Company
Nodis, no dissemination
Noforn, no foreign dissemination
NPC, National Petroleum Council
NSA, National Security Agency

NSC, National Security Council
NSDM, National Security Decision Memorandum
NSSM, National Security Study Memorandum

O/A, on or about
OAPEC, Organization of Arab Petroleum Exporting Countries
OASD, Office of the Assistant Secretary of Defense
OASIA, Office of the Assistant Secretary of the Treasury for International Affairs
OBE, overtaken by events
OCS, Outer Continental Shelf
OC/T, Communications Center, Department of State
OD, Office Director
OECD, Organization for Economic Cooperation and Development
OEP, Office of Emergency Preparedness
OER, Office of Economic Research, Central Intelligence Agency
OFP, Office of Federal Procurement Policy (Office of Management and Budget)
Offtake, the amount of crude oil to which a company or companies is entitled based on the equity holding. A company that wants less than its entitlement is called an underlifter; if it wants more, it is called an overlifter.
OMB, Office of Management and Budget
OPEC, Organization of Petroleum Exporting Countries
OST, Office of Science and Technology
OXY, Occidental Oil Company

Parents, companies that fully owned the shares of another company, then designated as a subsidiary
Participation, host producing government involvement in the production part of the oil business, through ownership in equity shares of the concessionary oil operating companies
PET, petroleum
Petromin, General Petroleum and Mineral Organization (Saudi Arabia)
PL, Public Law
PM/ISP, Office of International Security Policy and Planning, Bureau of Political-Military Affairs, Department of State
Posted price, price set (in dollars) by the producing company(ies) to indicate the price they would sell crude oil to all purchasers (often, due to vertical integration, an affiliated company). The posted price was used as the basis for profit calculation (revenue minus cost), and was the base price against which taxes and royalties to host producing countries were assessed. The companies regarded the setting of the posted price as their prerogative and would reduce (or increase) the posted price depending on market conditions. The host producing countries established Organization of Petroleum Exporting Countries in order to restore cuts in the posted price. The posted price became obsolete in the 1970s.
POW, prisoner of war
PPC/PDA/TP, Trade and Payments Division, Office of Policy Development and Analysis, Bureau of Program and Policy Coordination, Agency for International Development
Pres., President
PriMin, Prime Minister
PWRS, prepositioned war reserve stock

RCC, Revolutionary Command Council, Libya
R&D, research and development
Ref, reference

reftel, reference telegram
RG, Record Group
Rep(s), Representative(s)
rpt, repeat
RTK, Richard T. Kennedy

S, Office of the Secretary of State; George Shultz; Secret
S/PC, Policy and Coordination Staff, Department of State
S/S, Executive Secretariat, Department of State
SAG, Saudi Arabian Government
SAMA, Saudi Arabian Monetary Agency
SARG, Government of the Syrian Arab Republic
SC, Security Council
SCI, Office of International Scientific and Technological Affairs, Department of State
SEA, Southeast Asia
SecGen, Secretary General
septel, separate telegram
Seven Sisters, a term referring to the closeness and cartel operations of British Petroleum, Shell, Exxon (Esso), Mobil, Standard Oil of California, and Texaco
Socal, Standard Oil Company of California
Sonatrach, *Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation Hyrocarbures* (Algerian Government-owned oil company)
Spot price, one of the prices at which crude oil is sold, it constitutes the market price for oil sold on the open market by either companies or governments. In 1974 less than 1 percent of Organization of Petroleum Exporting Countries production was sold on the spot market.
SRG, Senior Review Group
subj., subject
subsidiary, a company fully owned by other oil companies

Tapline, Trans-Arabian Pipeline; Trans-Arabian Pipeline Company; Trans-Alaska Pipeline
TDY, temporary duty
telcon(s), telephone conversation(s)
Texaco, the Texas Oil Company
Tohak, series indicator for telegrams sent to Kissinger while away from Washington
TRV, Tax Reference Values

U, Office of the Under Secretary of State; Unclassified
UAE, United Arab Emirates
UAR, United Arab Republic (Egypt)
UK, United Kingdom
UN, United Nations
UnSec, Under Secretary
upstream, activities associated with the production of crude oil, i.e., exploration, production, and transportation prior to refining
US, United States
USA, United States of America; United States Army
USAF, United States Air Force
USEC, United States Mission to the European Community
USG, United States Government
USIA, United States Information Agency
USIB, United States Intelligence Board
USINT, United States Interests Section
USN, United States Navy

USNATO, United States Mission to the North Atlantic Treaty Organization
USOECD, United States Mission to the Organization for Economic Cooperation and Development
USSR, Union of Soviet Socialist Republics

VIP, very important person
VP, Verification Panel

WSAG, Washington Special Actions Group
WEC, Washington Energy Conference

Z, Zulu time (Greenwich Mean Time)

Persons

Abdesselam, Belaid, Algerian Minister of Energy and Industry
Adham, Kamal, brother-in-law to King Faisal, adviser to King Faisal of Saudi Arabia; Chief of the Saudi Intelligence Secretariat
Afshar, Amir Aslan, Iranian Ambassador to the United States from 1969
Agnew, Spiro T., Vice President of the United States from January 1969 until October 1973
Akins, James E., Director, Office of Fuels and Energy, International Resources and Food Policy, Bureau of Economic and Business Affairs, Department of State from April 1969 until November 1972; U.S. Ambassador to Saudi Arabia from October 1973 until May 1975
Alam, Assadollah, Iranian Court Minister
Albert, Carl B., Democratic Representative from Oklahoma; Speaker of the House
Amouzegar (Amuzegar), Jamshid, Iranian Finance Minister
Anderson, Robert O., Chairman of the Board, Atlantic Richfield Company
Annenberg, Walter, U.S. Ambassador to the United Kingdom from April 1969 until October 1974
Arafat, Yassir, Chairman, Central Committee, Palestine Liberation Organization
Areeda, Phillip, Executive Director, Cabinet Task Force on Oil Import Controls from 1969 until 1970
Armstrong, Willis C., Assistant Secretary of State for Economic and Business Affairs from February 1972 until April 1974
al-Asad (Assad), Hafez, Syrian President from 1971
Ash, Roy L., Director, Office of Management and Budget from February 1973
Atherton, Alfred L., Jr., Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs from March 1970 until April 1974; thereafter Assistant Secretary of State for Near Eastern and South Asian Affairs
al-Atiqi (Atiiqi, Ateegi), Abdul Rahman, Kuwaiti Minister of Oil and Finance
Austin, Jack, Deputy to Canadian Minister of Energy, Mines, and Resources

Bahr, Egon, State Secretary, West German Federal Chancellery until 1972; Minister for Special Affairs from 1972 until 1974; Minister for Economic Cooperation from 1974
Ballou, George T., Vice President, Standard Oil Company of California
Barran, David H., Chairman, Committee of Managing Directors, Royal Dutch Shell
Beckett, J. Angus, British Under Secretary for Petroleum in the Ministry of Technology; British delegate to the High Level Group of the OECD Oil Committee; Chairman of the OECD Oil Committee
Bell, Darwin M., Deputy Assistant Secretary of Labor
Benhima, Ahmed Taibi, Moroccan Minister of Foreign Affairs from July 1972
Bennett, Jack F., Under Secretary of the Treasury for International Monetary Affairs from 1971 until 1974
Bennsky, George, Director, Office of Fuels and Energy, International Resources and Food Policy, Bureau of Economic and Business Affairs, Department of State from September 1973 until August 1974
Bergsten, C. Fred, member, National Security Council staff from 1969 until 1971
Blake, James, Deputy Country Director, Office of North African Affairs, Bureau of African Affairs, Department of State from November 1969 until March 1974; Assistant Secretary of State for African Affairs from March 1974
Bohlen, Charles E. (Chip), Deputy Under Secretary of State for Political Affairs until 1969
Bostwick, Donald, Vice President, Export-Import Bank

Boumedienne, Houari, Algerian President until 1976; Chairman of the Revolutionary Council until 1976
Bourguiba, Habib, Tunisian President
Bousselham, Abdelkader, Algerian Ambassador to the United States
Bouteflika, Abdel Aziz, Algerian Minister of Foreign Affairs
Bowdler, William G., Assistant Secretary of State for Inter-American Affairs from September 1973 until August 1974
Brandt, Willy, Chancellor of the Federal Republic of Germany from 1969 until 1974
Bremer, L. Paul, Executive Assistant to the Secretary of State from 1974
Brewer, William D., Country Director, Office of Arabian Peninsular Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State from November 1966 until May 1970
Brockett, Ed, Jr., Chairman, Gulf Oil Corporation
Brondel, Georges, Director for Oil and Gas, European Commission
Brosio, Manlio, Secretary General, North Atlantic Treaty Organization until 1971
Brougham, Robert, President, ARAMCO
Brown, Gordon S., Office of Fuels and Energy, International Resources and Food Policy, Bureau of Economic and Business Affairs, Department of State from August 1969 until July 1973
Brownell, Herbert, representative, Planet Oil and Mineral Company; Attorney General from 1953 until 1957
Burns, Arthur F., Counselor to the President from January 1969 until February 1970; Chairman, Federal Reserve Board from February 1970 until January 1978
Bush, George H.W., Republican Representative from Texas until 1971; U.S. Representative to the United Nations from 1971 until 1973; Chairman, Republican National Committee from 1973 until 1974

Cabot, Louis, Chairman, Cabot Company (District Gas)
Cadieux, Joseph David Romeo Marcel, Canadian Ambassador to the United States from November 1969
Caldera, Rafael, Venezuelan President from 1969 until 1973
Calvani Silva, Aristides, Venezuelan Minister of Foreign Affairs
Carrington, Lord (Peter), British Secretary of State for Defence from June 1970 until January 1974; Secretary of State for Energy from January 1974 until March 1974
Carter, Jared G., Assistant Legal Adviser for Economic Affairs, Department of State from September 1969 until 1971
Casey, William J., Under Secretary of State for Economic Affairs from February 1973 until March 1974
Castillo de Lopez Acosta, Haydee, Venezuelan Minister of Development
Cecchini, Leo F., Jr., Office of Economic Research and Analysis, Bureau of Intelligence and Research, Department of State from October 1970 until March 1974
Clark, Warren, Office of North African Affairs, Bureau of African Affairs, Department of State from 1971 until 1973
Clements, William P., Jr., Deputy Secretary of Defense from 1973
Cline, Ray S., Director, Bureau of Intelligence and Research, Department of State from October 1969 until November 1973
Colby, William E., Deputy Director of Operations, Central Intelligence Agency from March 2 until August 24, 1973; Director of Central Intelligence from September 4, 1973
Collado, Emilio, Executive Vice President, Standard Oil Company of New York
Connally, John B., Jr., Secretary of the Treasury from 1971 until June 12, 1972; Special Emissary of the President, 1973
Cooper, Charles A., member, National Security Council staff from 1973 until 1974; President's Deputy Assistant for International Economic Affairs, 1974

Cotton, Norris, Republican Senator from New Hampshire
Countryman, John, Chief, Economic Section, U.S. Consulate in Dhahran until 1970; Deputy Principal Officer, U.S. Embassy in Tripoli from 1970 until 1971; Chief, Economic Section, U.S. Embassy in Tripoli from 1971 until 1973
Critchfield, James H., Special Assistant to the Deputy Director of Plans, Central Intelligence Agency; after March 1973, Special Assistant to the Deputy Director of Operations, Central Intelligence Agency
Crocker, Chester A., member, National Security Council staff from 1970 until 1972
Cromer, Lord (George Rowland Stanley Baring), British Ambassador to the United States from 1971 until 1974

Dam, Kenneth, Assistant Director for National Security and International Policy, Office of Management and Budget from 1971 until 1973; Executive Director, Council on Economic Policy, 1973
David, Edward E., Jr., Science Adviser to the President; Director of the White House Office of Science and Technology from 1970 until 1973
Davies, Rodger P., Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs until February 1974
Davis, Jeanne W., Staff Secretary, National Security Council staff
Dayan, Moshe, Israeli Minister of Defense until June 1974
DeCrane, Allan, head, Middle East operations, Texaco
De Gaulle, Charles, French President until 1969
De La Gorce, François, Minister of the French Embassy in the United States
Dent, Frederick B., Secretary of Commerce from 1973 until 1974
Den Uyl, Joop, Dutch Prime Minister from May 1973
DiBona, Charles J., President's Special Consultant for Energy and President's Deputy Assistant for Energy Matters from 1973 until 1974
Dickman, Francois M., Economic and Commercial Officer, U.S. Embassy in Jidda from July until November 1969; Political and Economic Officer, U.S. Embassy in Jidda from November 1969 until February 1972; Director, Office of Arabian Peninsular Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State from February 1972
Dole, Hollis M., Assistant Secretary of the Interior for Mineral Resources from 1969 until 1973
Donaldson, William H., Under Secretary of State for International Security Affairs from November 1973 until May 1974; Adviser to Vice President Nelson Rockefeller from 1974
Dorsey, Robert, Chairman, Gulf Oil Company
Douglas-Home, Sir Alec, British Secretary of State for Foreign and Commonwealth Affairs from June 1970 until March 1974
Dowell, Robert L., Jr., Office of Economic Research and Analysis, Bureau of Intelligence and Research, Department of State
Drake, Sir Eric, Chairman of the Board, British Petroleum
Dulles, John Foster, Secretary of State from 1953 until 1959
Dunlop, Robert, Chairman, Sun Oil

Eagleburger, Lawrence S., Executive Assistant to the President's Assistant for National Security Affairs from 1969 until 1971; Deputy Assistant Secretary of Defense from July 1971 until June 1973; member, National Security Council staff from June until October 1973; Executive Assistant to the Secretary of State from October 1973 until February 1975
Easum, Donald B., Assistant Secretary of State for African Affairs from March 1974 until April 1975
Eban, Abba, Israeli Minister of Foreign Affairs until 1974

Ehrlichman, John D., Assistant to the President for Domestic Affairs from 1969 until 1974
Eilts, Hermann F., U.S. Ambassador to Saudi Arabia until July 1970
Eisenhower, Dwight D., President of the United States from 1953 until 1961
Eliot, Theodore L., Jr., Special Assistant to the Secretary of State and Executive Secretary of the Department of State from August 1969 until September 1973
Elliott, David, member, National Security Council staff
Ellsworth, Robert, Assistant to the President, 1969; Assistant Secretary of Defense for International Security Affairs from June 5, 1974, until December 22, 1975
Enders, Thomas O., Assistant Secretary of State for Economic and Business Affairs from June 1974 until December 1975
Epley, Marion, Executive, Texaco
Ernst, Maurice C., Director of Economic Research, Central Intelligence Agency

Fahd ibn Abd al-Aziz al-Saud, Prince, Saudi Minister of the Interior; Second Deputy Prime Minister
Fahmy, Ismail, Egyptian Minister of Foreign Affairs from October 1973
Faisal ibn Abd al-Aziz al-Saud, King of Saudi Arabia
Fallah, Reza, Director for International Affairs, National Iranian Oil Company
Farland, Joseph S., U.S. Ambassador to Iran from May 1972 until March 1973
Flanigan, Peter M., Assistant to the President from April 1969 until January 1972; President's Assistant for International Economic Affairs from January 1972 until 1974; Executive Director of the Council on International Economic Policy from February 1972 until 1974
Folmar, Lawrence W., Vice President, Texas Oil Company
Ford, Gerald R., Jr., Republican Representative from Michigan; House Minority Leader until December 6, 1973; Vice President of the United States from December 6, 1973, until August 9, 1974; President of the United States from August 9, 1974
Freeman, John, British Ambassador to the United States from March 1969 until January 1971
Freeman, S. David, Director, White House Energy Policy Staff, Office of the Science Adviser until 1971
Fukuda Takeo, Japanese Minister for Foreign Affairs from 1971 until 1972; Minister of Finance from 1972 until 1974; Director, Economic Planning Agency from 1974
Fulbright, J. William, Democratic Senator from Arkansas until 1974

Gehlhoff, Walter, West German Ambassador to the United Nations
Gergen, David, Staff Assistant to the President from 1971 until 1972; Special Assistant to the President, Chief, White House writing/research team from 1973 until 1974
Ghiardi, John F.L., Director, Office of Economic Research and Analysis, Bureau of Intelligence and Research, Department of State from April 1972 until 1973
Giscard d'Estaing, Valéry, French Minister of the Economy and Finance from 1969 until 1974; French President from May 1974
Goodpaster, Andrew J., General, USA; Commander-in-Chief, U.S. European Command, and Supreme Allied Commander, Europe from 1969 until 1974
Granville, Maurice F., Chairman of the Board, Texaco
Greenhill, Sir Denis, British Permanent Under Secretary of State for Foreign and Commonwealth Affairs
Greenwald, Joseph A., U.S. Representative to the Organization for Economic Cooperation and Development from July 1969 until October 1972
Greenwald, William J., Executive Vice President, Esso Middle East
Gromyko, Andrei A., Soviet Minister of Foreign Affairs

Haferkamp, Wilhelm, Vice President, European Communities

Haig, Alexander M., General, USA; Senior Military Adviser to the President's Assistant for National Security Affairs from June 1969 until June 1970; President's Deputy Assistant for National Security Affairs from June 1970 until January 1973; Assistant to the President and White House Chief of Staff from August 1973 until August 1974
Haldeman, H.R., Assistant to the President and White House Chief of Staff from January 1969 until April 1973
Hale, William E., Council on International Economic Policy
Hansen, Clifford, Republican Senator from Wyoming
Hardesty, Howard, Executive Vice President, Continental Oil
Harlow, Bryce, President's Assistant for Congressional Relations from 1969 until 1970; member, National Security Council staff from 1973 until 1974
Hartman, Arthur A., Staff Director, Under Secretaries Committee; Assistant Secretary of State for European Affairs from January 1974
Hassan II, King of Morocco
Haynes, Harold, Chairman, Standard Oil of California
Heath, Edward R.G., British Prime Minister from June 9, 1970, until March 6, 1974
Hedlund, Charles, head, Middle East operations and Vice President, Esso
Helms, Richard, Director of Central Intelligence until February 2, 1973; U.S. Ambassador to Iran from February 1973
Herring, Bob, Chairman of the Board, Houston Power and Lighting Company
Herz, Martin F., Deputy Assistant Secretary of State for International Organization Affairs from June 1969 until March 1974
Hess, Leon, Chairman, Amerada Hess
Hickel, Walter J., Secretary of the Interior from January 1969 until November 1970
Hill, Robert C., Assistant Secretary of Defense for International Security Affairs from 1973 until 1974
Hillenbrand, Martin J., Assistant Secretary of State for European Affairs from February 1969 until April 1972; thereafter U.S. Ambassador to the Federal Republic of Germany
Hinton, Deane R., Assistant Director, Council on International Economic Policy from 1971 until 1973
Hoffman, Ladisaus von, Executive Vice President, International Finance Corporation, International Bank for Reconstruction and Development
Holifield, Chester E., Democratic Representative from California
Horan, Hume, Deputy Chief of Mission, U.S. Embassy in Jidda from February 1972
Hormats, Robert D., member, National Security Council staff from 1970 until 1972
Hoskinson, Samuel, member, National Security Council staff from 1970 until 1972; National Intelligence Officer for the Middle East and Islamic World, Central Intelligence Agency from 1973
Houthakker, Hendrik S., member, Council of Economic Advisers from 1969 until 1971
Hoveyda, Amir Abbas, Iranian Prime Minister
Howe, Jonathan T., Commander, USN; member, National Security Council staff
Howland, R.D., Chairman, National Energy Board (Canada)
Hughes, Thomas L., Director, Bureau of Intelligence and Research, Department of State until August 1970
Hummel, Arthur W., Deputy Assistant Secretary of State for East Asian and Pacific Affairs from February 1972 until 1973; Acting Assistant Secretary of State from May until December 1973; Deputy Assistant Secretary of State from January 1974
Hunt, Nelson Bunker, President, Bunker Hunt
Hussein I, ibn Talal, King of Jordan
Hyland, William, member, National Security Council staff from 1970 until 1972

Idris I, King of Libya until September 1969
Ikle, Fred, Director, Arms Control and Disarmament Agency from 1973

Ingersoll, Robert S., Assistant Secretary of State for East Asian and Pacific Affairs from December 1973 until June 1974; Deputy Secretary of State from July 1974
Irwin, John N., II, Under Secretary of State from September 1970 until July 1972; Deputy Secretary of State from July 1972 until February 1973

Jackson, Henry (Scoop), Democratic Senator from Washington
Jallud, Abdul Salam, Major, Libyan Vice Premier and Minister of Industry and Economy
Jamieson, J. Kenneth, Chairman of the Board, Standard Oil Company of New Jersey
Jarman, John, Democratic Representative from Oklahoma
Javits, Jacob K., Republican Senator from New York
Jobert, Michel, French Foreign Minister from 1973 until 1974
Johnson, Lyndon B., President of the United States from 1963 until 1969
Johnson, U. Alexis, Under Secretary of State for Political Affairs from February 1969 until February 1973
Jorden, William J., member, National Security Council staff
Joukhdar, Muhammad, Deputy Governor, Petroleum and Minerals Organization (Saudi Arabia)
Jungers, Frank, Vice President, ARAMCO; President from October 1971 until 1973; Chairman of the Board from 1973

Katz, Julius L., Deputy Assistant Secretary of State for International Resources and Food Policy until 1971; Acting Assistant Secretary of State for Economic and Business Affairs from 1971 until 1974
Kauper, Thomas, Assistant Attorney General for Antitrust, Department of Justice from 1972
Kearns, Henry, Chairman, Export-Import Bank
Kennedy, David M., Secretary of the Treasury from January 1969 until February 1971
Kennedy, Edward M., Democratic Senator from Massachusetts
Kennedy, John F., President of the United States from 1961 until 1963
Kennedy, Richard T., Colonel, USA; member, National Security Council staff from 1970 until 1972
Keogh, James, Special Assistant to the President from January 1969 until December 1971
Khalid (Khaled) bin Abdul Aziz, Crown Prince of Saudi Arabia
Kashoggi, Adnan, Saudi entrepreneur
Kircher, John, Executive Vice President, Continental Oil Company
Kissinger, Henry A., President's Assistant for National Security Affairs from January 21, 1969, until November 3, 1975; Secretary of State from September 22, 1973
Knubel, John A., member, National Security Council staff from 1971 until 1972
Kosciusko-Morizet, Jacques, French Permanent Representative to the United Nations from February 1970 until May 1972; French Ambassador to the United States from May 1972
Krogh, Egil, Deputy Assistant to the President for Domestic Affairs
Kubisch, Jack B., Assistant Secretary of State for Inter-American Affairs from May 1973 until September 1974

Laird, Melvin R., Secretary of Defense from January 22, 1969, until January 29, 1973
Lawson, Richard L., Brigadier General, USAF; Military Assistant to the President from August 1973 until March 1975
Leber, Georg, West German Minister of Defense from July 1972
Lee, James, President, Gulf Oil Company
Lehfeldt, William W., Economic Counselor, U.S. Embassy in Tehran
Levy, Walter, oil analyst and consultant to the Department of State
Lincoln, Franklin B., member, President's Foreign Intelligence Advisory Board

Lincoln, George A. (Abe), General, USA; Director, Office of Emergency Preparedness from 1969 until 1973
Lindenmuth, William, General Manager for the Middle East, Mobil Oil Corporation
Lodal, Jan M., member, National Security Council staff
Long, Russell B., Democratic Senator from Louisiana
Lord, Winston, member, National Security Council staff from 1969 until 1970; Special Assistant to the President's Assistant for National Security Affairs from 1970 until 1973; Director, Policy Planning Staff, Department of State from October 1973
Love, John A., Governor of Colorado until 1973; Director, White House Energy Policy Office and President's Assistant for Energy from June 1973
Luns, Joseph, Dutch Foreign Minister until 1971; Secretary General of the North Atlantic Treaty Organization from October 1971
Lynn, Lawrence E., Jr., Director, Program Analysis Staff, National Security Council

MacArthur, Douglas, II, U.S. Ambassador to Iran from October 1969 until May 1972
MacDonald, Donald, Canadian Minister of Energy, Mines, and Resources from January 1972 until September 1975
Magnuson, Warren G., Democratic Senator from Washington
Mansfield, Michael J., Democratic Senator from Montana; Senate Majority Leader
Marshall, Andrew, member, National Security Council staff
Martin, Alan, Executive, Gulf Oil Company
Marwan, Ashraf, son-in-law of former Egyptian President Gamal Abdel Nasser; Adviser to President Anwar Sadat
Mau, Frank, Office of Fuels and Energy, International Resources and Food Policy, Bureau of Economic and Business Affairs, Department of State from July 1971 until July 1974
Maw, Carlyle, Legal Adviser, Department of State from October 1973 until July 1974
McClaren, Richard W., Assistant Attorney General, Antitrust Division, Department of Justice from 1969 until 1972
McClintock, Robert, U.S. Ambassador to Venezuela from June 1970
McCloskey, Robert J., Deputy Assistant Secretary of State for Press Relations until 1973; U.S. Ambassador to Cyprus from May 1973 until January 1974; U.S. Ambassador at Large from January 1974
McCloy, John J., Attorney, Millbank and Tweed
McCormack, John W., Democratic Representative from Massachusetts
McCracken, Paul W., Chairman, Council of Economic Advisers from January 1969 until November 1971
McDonald, Walter J., Acting Deputy Director for Economic Research, Central Intelligence Agency
McGovern, George, Democratic Senator from South Dakota
McLean, John, President, Continental
McPhail, D.S., Director General, Economic and Scientific Branch, Canadian Department of External Affairs
McQuinn, Jones, head, Middle East operations, Standard Oil of California
Meir, Golda, Israeli Prime Minister from 1969 until 1974
Mendolia, Arthur I., Assistant Secretary of Defense for Installations and Logistics from June 1973
Meyer, Charles A., Assistant Secretary of State for Inter-American Affairs from April 1969 until March 1973
Middendorf, J. William, II, U.S. Ambassador to The Netherlands from June 1969 until June 1973
Miklos, Jack C., Country Director for Iran, Bureau of Near Eastern and South Asian Affairs, Department of State from July 1969 until April 1974
Miller, Otto N., Chairman of the Board, Standard Oil Company of California

Mina, Parviz, National Iranian Oil Company
Mitchell, John C., Attorney General of the United States from 1969 until 1972
Moore, C. Robert, Deputy Assistant Secretary of State for African Affairs until 1972
Moorer, Thomas H., Admiral, USN; Chief of Naval Operations, until July 1, 1970; Chairman of the Joint Chiefs of Staff from July 2, 1970, until July 1, 1974
Moro, Aldo, Italian Minister of Foreign Affairs from May 1969 until July 1972 and from July 1973 until November 1974; Prime Minister from November 1974
Morton, Rogers C.B., Secretary of the Interior from January 29, 1971
Mosbacher, Emil, Jr., Chief of Protocol, Department of State from January 1969 until June 1972
Moses, Henry, Head, Middle East operations, Mobil Oil Corporation
Mosher, Charles Adams, Republican Representative from Ohio
Mossadeq (Mossadegh), Mohammed, Iranian Prime Minister from 1951 until 1953
Mostowfi, Bagher, Managing Director, National Petrochemical Company (Iran)
Moynihan, Daniel P., Assistant to the President for Urban Affairs from January 1969 until December 1969; Counselor to the President from January 1970 until January 1971
Musa'ad (Musa'id) Abd al-Rahman Al Saud, Prince, Saudi Minister of Finance and National Economy

Nakasone Yasuhiro, Japanese Minister of Trade and Industry from 1972 until 1974
Nasser, Gamal Abdel, President of Egypt until September 1970
Nassikas, John N., Chairman, Federal Power Commission from 1969 until 1974
Nawwaf ibn Abd al-Aziz al-Saud, Prince, Royal Counselor to King Faisal of Saudi Arabia
Nazir (Nazer), Hisham, Saudi Minister of State and President of the Central Planning Organization
Nelson, William E., Deputy Director of Operations, Central Intelligence Agency
Newsom, David D., Assistant Secretary of State for African Affairs from July 1969 until January 1974
Newton, David G., Principal Political Officer, U.S. Embassy in Jidda from 1970 until December 1972
Nguyen Van Thieu, President of the Republic of Vietnam
Nixon, Richard M., President of the United States from January 20, 1969, until August 9, 1974

O'Brien, J., Vice President, Standard Oil Company of California
Odeen, Philip A., member, National Security Council staff from 1972 until 1973
Ohira Masayoshi, Japanese Minister for Foreign Affairs from 1972 until 1974
Ortoli, François-Xavier, President, European Communities from 1973

Pachachi, Nadim, Secretary General, Organization of Petroleum Exporting Countries from January 1, 1971, until December 31, 1972
Packard, David, Deputy Secretary of Defense from 1969 until December 13, 1971
Pahlavi, Mohammed Reza, Shah of Iran
Palmer, Joseph, Ambassador to the Libyan Arab Republic from July 1969 until November 1972
Parker, Richard B., Country Director for United Arab Republic, Bureau of Near Eastern and South Asian Affairs, Department of State from July 1969 until November 1972
Parkhurst, George, Vice President, Standard Oil Company of California
Parra, Francisco R., Secretary General, Organization of Petrolum Exporting Countries from January until December 1968
Patterson, David R., Petroleum Officer, U.S. Embassy in Tehran from July 1973
Pecora, William T., Under Secretary of the Interior until June 1972
Perez la Salvia, Hugo, Venezuelan Minister of Mines and Hydrocarbons

Peterson, Peter G., President's Assistant for International Economic Affairs, 1971; Secretary of Commerce from January 1972 until January 1973
Pharaon, Rashad, Royal Counselor to King Faisal of Saudi Arabia
Pickering, Thomas R., Executive Secretary of the Department of State from July 1973 until January 1974
Piercy, George, Senior Vice President and chief negotiator, Standard Oil Company of New Jersey
Pierre-Brossolette, Claude, French Ministry of Economy and Finance from 1971; French Director of the Treasury until 1974; Assistant to the French President from 1974
Pompidou, Georges, French President from June 1969 until May 1974
Porter, William J., Under Secretary of State for Political Affairs from February 1973 until February 1974
Proctor, Edward W., Assistant Deputy Director of Intelligence, Central Intelligence Agency until May 1971; thereafter Deputy Director of Intelligence
Proxmire, William, Democratic Senator from Wisconsin
Puaux, François, Director of Political Affairs, French Ministry of Foreign Affairs from 1972

Qadhafi, Muammar (Quadhaffi, Quaddafi, Quadafi), President of the Revolutionary Command Council (Libya) from January 1970
Quandt, William B., member, National Security Council staff from 1972 until 1974

Rampton, Sir Jack, Permanent Secretary, British Department of Energy
Ray, Dixie Lee, Chairman, Atomic Energy Commission, from 1973 until 1974
Rhinelander, John B., Deputy Legal Adviser, Department of State, 1969
Richardson, Elliot L., Under Secretary of State from January 23, 1969, until January 23, 1970
al-Rifa'i, Rashid, Iraqi Oil Minister
Ritchie, A. Edgar, Canadian Ambassador to the United States until 1970; thereafter Canadian Under Secretary of State for External Affairs
Rockefeller, David, Vice Chairman, Rockefeller Brothers Fund; Chief Executive Officer, Chase Manhattan Bank
Rockwell, Stuart W., Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs until March 1970
Rodman, Peter W., member, National Security Council staff
Rogers, William P., Secretary of State from January 22, 1969, until September 3, 1973
Ross, Claude G., Deputy Assistant Secretary of State for African Affairs from August 1972 until April 1974
Rostow, Eugene V., Under Secretary of State for Political Affairs until 1969
Rothschild, Victor, Head, British Central Policy Review Staff from 1970 until 1972
Ruckelshaus, William D., Administrator, Environmental Protection Agency from December 1970 until April 1973
Ruser, Claude, Deputy Director for Policy Analysis and Resources, Planning and Coordination Staff, Department of State from August 1972 until October 1974
Rush, Kenneth, Deputy Secretary of State from February 1973 until May 1974; Counselor to the President for Economic Policy from May 1974 until September 1974; thereafter U.S. Ambassador to France

Sabah al-Salem al Sabah, Shaikh, Amir of Kuwait
Sadat, Anwar, Egyptian President from September 29, 1970
Samuels, Nathaniel, Deputy Under Secretary of State for Economic Affairs from April 1969 until May 31, 1972
Saqqaf, Sayyid Omar, Saudi Minister of State for Foreign Affairs

Saud bin Faisal bin Abdul Aziz, Prince, Saudi Deputy Minister of Petroleum and Mineral Resources

Saunders, Harold H., member, National Security Council staff from 1969 until 1971

Sauvagnargues, Jean, French Foreign Minister from 1974

Scali, John A., U.S. Representative to the United Nations from February 1973

Scheel, Walter, West German Vice Chancellor and Minister of Foreign Affairs from 1969 until 1974; President, Council of Ministers, European Communities

Schiller, Karl, West German Minister of Economics until July 1972; also, Minister of Finance from May 1971 until July 1972

Schlesinger, James R., Chairman, Atomic Energy Commission from 1971 until 1973; Director of Central Intelligence from February 2 until July 2, 1973; Secretary of Defense from July 21, 1973, until November 19, 1975

Schmidt, Helmut, West German Minister for Economics and Minister of Finance from July 1972 until November 1972; Minister of Finance from December 1972 until May 1974; Chancellor from May 1974

Scott, Hugh D., Jr., Republican Senator from Pennsylvania

Scowcroft, Brent, Major General, USAF; Military Assistant to the President from February 1972 until August 1973; Deputy Assistant to the President for National Security Affairs from August 1973

Seigle, John W., Executive Assistant to the Director, Office of Emergency Preparedness, 1969

Sharp, Mitchell, Canadian Secretary of State for External Affairs until 1974

Shillito, Barry J., Assistant Secretary of Defense for Installations and Logistics from February 1969 until February 1973

Shultz, George P., Secretary of Labor from January 22, 1969, until July 1, 1970; Chairman, Cabinet Task Force on Oil Import Control from 1969 until 1970; Director, Office of Management and Budget from July 1970 until June 1972; Secretary of the Treasury from June 12, 1972, until May 8, 1974; Council on Economic Policy and Assistant to the President from 1972 until 1974

Simmons, John, Vice President, Atlantic Richfield Company

Simon, William E., Deputy Secretary of the Treasury from January 22, 1973, until May 8, 1974; Administrator, Federal Energy Office, from December 4, 1973, until May 7, 1974; Secretary of the Treasury from May 8, 1974, until January 20, 1977

Simonet, Henri, Vice President, European Commission, 1973

Sisco, Joseph J., Assistant Secretary of State for Near Eastern and South Asian Affairs from February 1969 until February 1974; Under Secretary of State for Political Affairs from February 1974

Smith, Abbot, Chairman, Board of National Estimates, Central Intelligence Agency, 1969

Smith, Margaret Chase, Republican Senator from Maine

Smith, Robert S., Deputy Assistant Secretary of State for African Affairs from December 1969 until February 1973

Smyser, William R., member, National Security Council staff

Sober, Sidney, Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs from January 1974

Sonnenfeldt, Helmut, member, National Security Council staff from 1969 until 1972; Counselor of the Department of State from 1974

Sosa Rodriguez, Julio, Venezuelan Ambassador to the United States

al-Sowayel, Ibrahim Abd Allah, Saudi Ambassador to the United States

Spaak, Fernand, Director General for Energy, European Communities Commission; European Delegate to the High Level Group of the Organization for Economic Cooperation and Development Oil Committee

Spahr, Charles, Chairman, American Petroleum Institute

Springsteen, George S., Deputy Assistant Secretary of State for European Affairs from April 1973 until January 1974; Special Assistant to the Secretary and Executive Secretary of the Department of State from January 1974

Staden, Berndt von, West German Ambassador to the United States from February 1973
Stans, Maurice H., Secretary of Commerce from January 21, 1969, until February 15, 1972
Stein, Herbert, member, Council of Economic Advisers from 1969 until 1972; Chairman from 1972 until 1974
Sternfeld, Ray, member, Executive Committee, Council on International Economic Policy
Stevenson, John R., Legal Adviser of the Department of State from July 1969 until December 1972
Stoessel, Walter J., Jr., Assistant Secretary of State for European Affairs from August 1972 until January 1974
Stoltzfus, William A., Deputy Chief of Mission, U.S. Embassy in Jidda until December 1971; U.S. Ambassador to Kuwait from February 1972; non-resident U.S. Ambassador to Bahrain, Oman, Qatar, and the United Arab Emirates from January 1972 until May 1974
Sultan ibn Abd al-Aziz al-Saud, Prince, Saudi Minister of Defense and Aviation
Swearingen, John, Chairman of the Board, Standard Oil Company of Indiana

Tahir, Abd al-Hadi, Governor, General Petrolum and Mineral Organization (Saudi Arabia)
Tanaka Kakuei, Japanese Prime Minister from 1972 until 1974
Tarr, Curtis W., Under Secretary of State for Security Assistant from May 1972 until November 1973
Tavoulareas, William T., President, Mobil Oil Corporation
Taylor, David P., Cabinet Level Task Force On Oil Import Controls, 1969
Thacher, Nicholas G., U.S. Ambassador to Saudi Arabia from September 1970 until September 1973
Tinoco, Pedro Rafael, Jr., Venezuelan Minister of Finance
Tito, Josip Broz, Yugoslav President
Tower, John, Republican Senator from Texas
Train, Russell, Under Secretary of the Interior until 1970; Chairman, Council on Environmental Quality from 1970 until 1973; Administrator of the Environmental Protection Agency from May 1973
Trend, Sir Burke, British Secretary of the Cabinet until 1973
Trezise, Philip H., Assistant Secretary of State for Economic and Business Affairs from July 1969 until November 1971
Trudeau, Pierre Elliott, Canadian Prime Minister

al-Utayba (Oteiba) ibn Abdallah, United Arab Emirates Minister of State for Affairs of the Council of Ministers

Vaillaud, Michel, French Delegate to the High Level Group of the Organization for Economic Cooperation and Development Oil Committee
Vaky, Viron P. (Pete), Deputy Assistant Secretary of State for Inter-American Affairs until January 1969; Acting Assistant Secretary from January 1969 until May 1969; detailed to the National Security Council staff from May 1969 until 1970
Van den Wall Bake, Hugo Maurice, Admiral, Chief of the Dutch Defense Staff from January 1969 until December 1971; President, Military Committee, North Atlantic Treaty Organization from 1969 until 1970
Van der Stoel, Max, Dutch Minister of Foreign Affairs from May 1973 until December 1977
Van Lennep, Emile, Secretary General, Organization for Economic Cooperation and Development
Van Reeven, Jan, Executive, Shell Oil Company; Managing Director, Iranian Consortium

Vest, George S., Secretary of State's Special Assistant for the Commission on Security and Cooperation in Europe from October 1972 until October 1973; Director, Bureau of Political-Military Affairs, Department of State, April 1974; Deputy Coordinator for Security Assistance, May 1974
Volcker, Paul, Under Secretary of the Treasury from 1969 until 1974
Volpe, John A., Ambassador to Italy from March 1973 until January 1977

Wagner, Jerry, Chairman, Royal Dutch Shell
Wakefield, Stephen A., Assistant Administrator, Federal Energy Office from 1973 until 1974
Waldheim, Kurt, Secretary General of the United Nations from 1972
Walsh, John P., U.S. Ambassador to Kuwait from October 1969 until December 1971
Walters, Vernon A., Deputy Director of Central Intelligence from May 1972; Acting Director of Central Intelligence from July until September 1973
Wansink, L.G., Dutch Delegate to the High Level Group of the Organization for Economic Cooperation and Development Oil Committee; Dutch General Director for Energy, Ministry of Economic Affairs
Warner, Rawleigh, Jr., Chairman of the Board of Directors, Mobil Oil Corporation
Watson, Marvin, Vice President, Occidental International
Weinel, John P., Vice Admiral, USN; Assistant to the Chairman of the Joint Chiefs of Staff
Weintraub, Sidney, Deputy Assistant Secretary of State for International Monetary Affairs from October 1969 until May 1970; Deputy Assistant Secretary of State for International Finance and Development from May 1970 until September 1974
Weiss, Leonard, Deputy Director, Bureau of Intelligence and Research, Department of State from April 1970 until 1974
Weiss, Seymour, Acting Deputy Director of Planning and Coordination Staff, Department of State from August 1972 until August 1973; Director, Bureau of Political-Military Affairs, Department of State from August 1973 until January 1974; member, Policy Coordination Staff, Department of State from January until July 1974
Whitaker, John C., Under Secretary of the Interior from 1973 until 1975
White, John, Vice President, Esso
Wickham, John, Major General, USA; Military Assistant to the Secretary of Defense
Wilhelm, John K., member, Policy Planning Staff, Department of State
Williamson, George, Vice President, Occidental Oil Libya
Wilson, Harold, British Prime Minister from October 1964 until June 1970 and from March 1974
Wittmer, Bill, former President, Tennessee Gas Pipeline Company
Wright, Sir Denis, British Ambassador to Iran from 1963 until 1971
Wright, Sir Oliver, Under Secretary, Foreign and Commonwealth Office (United Kingdom)

Yamani, Ahmad Zaki, Saudi Petroleum Minister
Yasukawa Takeshi, Japanese Ambassador to the United States from 1973
Young, David R., member, National Security Council staff from 1970 until 1973
Young, W.R., Vice Chairman, Texaco

Zahedi, Ardeshir, Iranian Minister of Foreign Affairs until 1973; Iranian Ambassador to the United States from 1973
Zayid bin Sultan Al Nahyan, Shaikh, Amir of Abu Dhabi and President of the United Arab Emirates from December 1971
Ziegler, Ronald, White House Press Secretary from January 1969 until January 1973
Zook, Donovan, Director, Office of Atomic Energy Affairs, Bureau of International Scientific and Technological Affairs, Department of State

Energy Crisis, 1969–1974

February 20, 1969–February 19, 1970

1. Editorial Note

On February 20, 1969, President Richard M. Nixon sent a memorandum to Secretary of the Interior Walter Hickel that stated:

"A wide range of complex and highly important issues affecting the nation's oil import policies must be dealt with in the near future. These issues, which have not been examined in depth for a decade, are of such moment to the United States and their impact on national policy is so far-reaching that they require extensive review in detail and in the aggregate.

"I am therefore reassuming full responsibility for oil import policies—a responsibility delegated to the Department of the Interior some five years ago—so that there may be full opportunity for the several affected agencies efficiently to coordinate and assert their views.

"This undertaking will include a full review of the nation's oil import policies by the Executive Offices of the President." (*Public Papers: Nixon, 1969,* page 122)

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2. Memorandum From President Nixon to Secretary of Labor Shultz[1]

Washington, March 25, 1969.

I have decided to form a task force within the Executive Branch to accomplish a comprehensive review of the question of the oil import controls.[2]

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[1] Source: National Archives, RG 59, Central Files 1967–69, PET 17–2 US. No classification marking. Sent as a Presidential Directive. A copy was sent to Robert Ellsworth and Arthur Burns.

[2] According to President's Assistant for National Security Affairs Henry Kissinger, White House responsibility for the Task Force was delegated to Peter Flanigan with the NSC exercising a "watching brief" in the "unlikely" event that national security issues emerged. (*Years of Upheaval,* pp. 855–856)

The group will consist of the Secretaries of State, Defense, Interior, Treasury and Commerce and the Director of the Office of Emergency Preparedness.

I have decided to designate you the Chairman of the task force because of your experience and background, and because Labor has no direct involvement in the issues to be weighed.

I suggest you include as observers representatives of the Department of Justice, the Federal Power Commission, the Office of Science and Technology, the Council of Economic Advisers, the Office of the Special Trade Representative, and the Bureau of the Budget. You may form an independent central staff by detail from existing Departments and agencies. It has been suggested that the Energy Policy Staff in OST could serve as its nucleus.

Robert Ellsworth, Assistant to the President, has done considerable work in this area recently, and you will undoubtedly want to talk with him and Dr. Arthur Burns about the many issues involved.[3]

RN[4]

[3] David Taylor of the Task Force met with Ellsworth March 29; see Document 3. No record of a meeting with Burns was found.

[4] Printed from a copy that bears the President's typed initials with an indication that he signed the original.

3. Memorandum to the Files[1]

Washington, March 29, 1969.

SUBJECT

Discussion with Robert Ellsworth on Oil Imports

I. Domestic Considerations

A. The major sources of domestic pressure against higher imports are:

[1] Source: National Archives, RG 174, Records of Secretary of Labor George P. Shultz, 1969–1970, Subject Files, Box 63, Cabinet Committee on Oil Imports. No classification marking. Prepared by David P. Taylor.

1. The independent producers.
2. The oil producing states:
   a. Texas
   b. Oklahoma
   c. Louisiana
   d. Wyoming
   e. Alaska

Alaska poses a special problem since the north slope is expected to start producing soon and the exact proportions of the reserves in that area will not be known for as long as five years. The supply also leads to a shipping problem since American flag shipping will be demanded for the intercoastal transport of this oil. The largest American flag tanker is 100,000 tons, while the more efficient foreign ships are in the 300,000 ton to 500,000 ton class. Thus there will be demands to subsidize the construction of two or three 400,000 ton American flag vessels.

B. The major sources of domestic pressure in favor of higher imports are:

1. Petrochemical industry.
2. Refiners other than major oil companies.
3. Consumers.
4. Politicians in the oil consuming states, particularly in New England where the development of the Machaisport, Maine trade center is under consideration.

The major international oil companies are neither for nor against increased imports.

II. International Considerations

A. Venezuela and Canada have special quotas because of a Western Hemisphere agreement. They may be expected to oppose a general increase in U.S. imports which would reduce the value of their quotas.

B. Iran wants a special quota so it can construct a hydroelectric plant with the revenue. G.E. is the contractor/supplier and can be expected to support Iran's request. There is a need for some immediate work on this particular problem since the Shah is going to visit the President in June and an answer in May is desirable.

C. One bizarre suggestion is to give the State Department a quota to distribute as it deems appropriate.

III. National Security Considerations

A. The traditional argument against higher imports is based on the need for domestic crude supplies during wartime. Low quotas serve to subsidize exploration and the development of domestic reserves. (On the other hand, low quotas also lead to depletion of domestic reserves.)

The two Suez crises are used to illustrate this point. In 1956 when there were no quotas (?) there were shortages in the U.S. and Western

Europe after Suez closed. In 1967, with quotas, no shortages occurred. (U.S. producers, however, made a lot of money in the European market.)

B. If low quotas are maintained there is a threat that Middle East suppliers will consummate long term agreements to provide "unfriendly powers" with oil. This would have an unspecified but disadvantageous effect on stability in that area.

IV. Organizational Considerations

A. A preliminary report should be ready in 90–180 days.

B. Immediate attention must be given to the Machaisport and the Iranian situations.

C. Some sort of regular procedure should be established to permit concerned parties to communicate their views to the task force. Advisory panels might be established for this purpose.

D. The office of the task force will be in the Executive Office Building.

David P. Taylor[2]

[2] Taylor initialed "DPT" above his typed signature.

4. Memorandum From Darwin M. Bell of the Department of Labor to Secretary of Labor Shultz[1]

Washington, April 1, 1969.

SUBJECT

Oil Import Program

The attached background information[2] may be helpful to you in your role as Chairman of the Cabinet Committee on Oil Imports. It is largely what we prepared or collected in the course of our involvement over the past several years in various aspects of the oil program, par-

[1] Source: National Archives, RG 174, Records of Secretary of Labor George P. Shultz, 1969–1970, Subject Files, Box 63, Cabinet Committee on Oil Imports. No classification marking.

[2] All attachments are attached but not printed.

ticularly the potential employment impact of changes affecting petrochemical production in the United States.

The basic questions which have been, or are being, raised about the program concern the effect of both the level and range of products under control upon the total national security. It is now ten years since import controls were imposed to avoid "deleterious effects upon adequate exploration and the development of additional reserves which could only be generated by a healthy domestic production industry." The quantity of imports permitted to enter the area east of the Rockies is currently set at 12.2 percent of estimated annual domestic output for the year—should this level be raised or lowered, maintained more rigidly than at present, or should the entire import control program be dropped?

Imports of oil produced in Canada and Mexico enter the U.S. outside the quota system if they are delivered across the border by pipeline. Substantial increases in imports from Canada, both by pipeline and as part of the quota, have "weakened" the quota system and have also raised some problems about the volume imported from other countries, particularly Venezuela. Should the "overland exemption" be continued, and if so, should the system be expanded to cover other Western Hemisphere sources like Venezuela?

When the control program was established in 1959,[3] U.S. petrochemical companies had adequate supplies of low cost feedstocks as by-products of domestic refining operations. Increased refinery efficiency has reduced relative feedstock availability, demand has increased, and U.S. companies are feeling increasing competition from foreign producers who have access to lower cost foreign oil feedstocks. In 1966 the petrochemical companies were given limited access to imported crude oil within the program, but they claim their share (less than 1 percentage point of the 12.2 percent) is not sufficient for them to continue to compete successfully in world markets. Should the domestic petrochemical companies be assigned a larger share of the quota or is it possible and desirable, as the industry has suggested, to establish a system which would completely segregate and decontrol oil imports for use as feedstocks from controlled imports to be used for energy purposes? Is there any potential for obtaining support from the

[3] On March 10, 1959, President Eisenhower issued Proclamation 3279 establishing the Mandatory Oil Import Program, which imposed restrictions on the amounts of imported crude oil, unfinished petroleum oils, and finished petroleum products and gave preferential treatment to oil imports from Canada, Mexico, and, somewhat later, Venezuela. The resulting quota system was administered by the Department of the Interior. See *Public Papers: Eisenhower, 1959,* pp. 240–241. Proclamation 3279, "Adjusting imports of petroleum and petroleum products into the United States," is published in the *Federal Register*. (24 *Fed. Reg*. 1781)

petrochemical companies for the American Selling Price System package, negotiated as a supplementary agreement during the Kennedy Round, in exchange for greater availability of low-cost feedstocks? The supplementary agreement provided that if the U.S. shifted its import valuation system for certain chemicals from the American Selling Price System to the usual foreign value basis, the Europeans and Japan would make additional concessions on U.S. chemical exports as well as reducing certain non-tariff barriers.

New England has chronically had a tight supply situation for oil, the major source of energy for heating homes in the area. Various makeshift solutions have been applied in emergency situations, such as allocating part of the Department of Defense quota last year, but a more permanent solution seems required. What is the demand situation for petroleum products likely to be in New England over the next several years and what can be done to meet this demand?

The Secretary of Interior, in accordance with a Presidential Proclamation of 1965,[4] has authority over the movement of foreign oil into foreign trade zones; authority has been granted to import oil for use in a petrochemical complex in Puerto Rico, but has been denied for zones in Michigan and Louisiana, and is the key issue with respect to the proposed zone at Machiasport, Maine. Under what conditions should allocations be granted to either refineries or petrochemical operations in foreign trade zones and how should the allocations be related to the total import control program?

Attachments:

1. Highlights of the oil import control program.

2. A statement of the Background of the Mandatory Oil Import Program outlining the history leading to the imposition of controls in 1959.

3. A statement on petrochemicals detailing the problems of raw materials for that industry and the potential impact of various solutions on the oil import program and our balance of payments.

4. An economic argument against oil import controls submitted by Professor F. Fisher, MIT, to the Senate Finance Committee in October 1967.

5. A statement of the position of the U.S. petrochemical industry submitted to the Senate Finance Committee by Union Carbide Corporation.

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[4] See *Foreign Relations,* 1964–1968, volume XXXI, South and Central America; Mexico, Document 530.

5. Editorial Note

The first meeting of the Cabinet Level Task Force on Oil Import Controls took place on April 8, 1969, and served as its organizing meeting, introducing Philip Areeda as the Executive Director. (Minutes of meeting, April 8; National Archives, RG 174, Records of Secretary of Labor George P. Shultz, 1969–1970, Subject Files, Box 62, Cabinet Committee on Oil Imports, 1969 Cabinet Committee on Oil Imports, January–April) In order to collect information on the workings of the oil import system to date, the Task Force submitted a lengthy questionnaire to all interested parties in both governmental and private sectors through the *Federal Register*. (34 *Fed. Reg*. 8055, May 22, 1969) The bulk of the responses are in the National Archives, RG 174, Records of Secretary of Labor George P. Shultz, 1969–1970, Subject Files, Box 62, Cabinet Committee on Oil Imports, 1969 Cabinet Committee on Oil Imports, January–April. Such varied governmental bodies as the Anti-Trust Division of the Justice Department, the Department of State's Bureaus of Legal Affairs and Economic Affairs, the Department of Defense, the Central Intelligence Agency, the Office of Emergency Preparedness, other Cabinet level posts and agencies designated as Task Force members, and almost every interested private sector oil-related business responded. Absent was any overt input from the National Security Council.

The Task Force weighed the responses from major oil producing states, major oil companies, and the larger independents involved in downstream and upstream operations and produced counter-papers. As the Task Force operations developed, governors, senators, and representatives from oil producing states and oil dependent states submitted responses. Concerned citizens added to the voluminous response to the workings of the Task Force.

Although the Task Force did not meet between July and October 1969, it engaged in the amassing of responses and the clarification of the questions the final report should address. (Memorandum from Shultz to the principals, September 10, 1969; ibid., 1969 Cabinet Committee on Oil Imports, September) By mid-September the Task Force had created the A-Series papers, which were referred to as "fact" papers and served as early versions of projected chapters in a final report. The A-Series papers are ibid., RG 220, Records of the Cabinet Task Force on Oil Import Control, Box 20, Fact Papers "A Draft" Series, September 1969.

6. Research Memorandum Prepared in the Bureau of Intelligence and Research[1]

RNA–26 Washington, June 10, 1969.

SUBJECT

The Middle East: Relations Between Governments and Petroleum Concessionaires—The Participation Issue

One of the latest of the numerous issues that have arisen between Middle Eastern governments and the holders of petroleum concessions in their territories concerns a demand by governments for participation in the exploitation of previously granted exclusive concessions. Governmental participation in the ownership and operation of petroleum concessions is not a new idea. A number of recent concession grants to foreign oil companies have been set up as joint ventures, in which the national oil company of the country concerned is a participant—a partner—in the exploitation of the concession—often a 50 percent partner. Until very recently, however, there had been no publicized suggestions (in the Middle East) that concessions previously granted should have their terms altered to provide for governmental participation. This paper examines the new demand, its implications, and the progress of its application.

Abstract

The principle that governments of oil-producing countries have a right to participate in the ownership of petroleum concessionaire companies, even though the concession agreement makes no provision for such participation, has been publicly sponsored by OPEC (the Organization of Petroleum Exporting Countries). Presumably, therefore, all the members of OPEC[2] endorse this principle and could be expected at some time or other to present to the holders of exclusive petroleum concessions in their territories a demand for an equity share in the producing company. For various reasons, however, it is probable that the first and principal targets for that demand, when and if it is made, will be the "Big Four" concessionaire companies—Aramco in Saudi Arabia, the Kuwait Oil Company in Kuwait, the Iraq Petroleum Company and its affiliates in Iraq, and the Consortium in Iran.

So far, no specific demand has been made. Iran has threatened unilateral enforcement of participation but only if its revenue demands

[1] Source: National Archives, RG 59, Central Files 1967–69, PET 10. Secret; Limdis; No Foreign Dissem. Sent to Rogers as a memorandum from Thomas L. Hughes.

[2] Abu Dhabi, Indonesia, Iran, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, and Venezuela. [Footnote in the original.]

are not met by the Consortium.[3] Public statements on participation have been made in some other OPEC countries, but only in Saudi Arabia has any government official had even an informal discussion with the concessionaire company on the subject. Nowhere have the manner, the timing, and the expected results of participation in existing exclusive concessions been set forth in more than the vaguest of terms. It would appear that none of the OPEC countries, except perhaps Iran, is prepared to make a real issue of participation in the near future—possibly not at all as long as governmental oil revenues continue to grow at somewhere near the rate governments expect. Iran's threat to spur the OPEC countries into concerted action to gain participation if Iranian revenue demands are not met cannot be taken seriously. For more than one reason, there is virtually no prospect of concerted action that would serve to bolster Iran's demands, primarily because those demands could be met only at the expense of other oil-producing countries.

The probable results of the acquisition by governments of even a modest equity participation in such prolific concessions as those of the Big Four would be either (1) an increased per-barrel revenue for the government on oil exports, thus putting a further direct squeeze on oil-company profits, or (2) the provision to governments of sizable amounts of oil at production cost, the sale of which, probably at cut rates, would be likely not only to diminish the companies' own sales but further erode the crude-oil price structure. Since crude oil prices are already gradually falling and measures now in force will insure to governments a rising proportion of oil export profits over the next five or six years even if no further steps in this direction are taken, the concessionaire companies may be expected to dig in their heels on the participation issue. Governments would probably have to resort to extremely drastic measures in any attempt to force participation on their concessionaires—measures that would be likely to leave both sides worse off. We doubt that, with the possible exception of Iran, Middle Eastern governments are prepared or will be prepared in the next few years to take that risk, barring unforeseen developments that would seriously threaten the normal growth of their oil revenues.

Who Are the Targets?

In the welter of petroleum concessions or contract arrangements that govern the production of Middle Eastern oil, certain ones overshadow all the rest—distinguished principally by the amount of oil that is produced under them and their importance in the economic life of the countries concerned. These are the exclusive agreements under

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[3] See Intelligence Note 361, May 9, 1969, and telegram 76751 to Jidda, Beirut, and Dhahran, May 15, 1969, published in *Foreign Relations*, 1969–1976, volume E-4, Documents on Iran and Iraq, 1969–1972, Documents 14 and 15.

which the great Middle Eastern oil consortia operate—the Arabian American Oil Company (Aramco) in Saudi Arabia, the Kuwait Oil Company (KOC) in Kuwait, the Iraq Petroleum Company (IPC and its affiliates) in Iraq, and Iranian Oil Participants, Ltd. (the Consortium) in Iran. Certain others are of at least equal importance to the economies of the countries concerned but the countries are small, and the scale of operations does not compare with that of any one of the Big Four.

In North Africa, among the large producers (Libya and Algeria), the situation in Libya in regard to the size and importance of oil revenues is similar to that in the Middle East, in Algeria less so, although still in the vital category. For reasons to be explained below, this paper will confine its attention primarily to the Persian Gulf area.

It is not surprising under these circumstances that the Big Four are the primary targets of the participation demand. The other exclusive concessions in the Middle Eastern area (and elsewhere) would undoubtedly be affected if participation were agreed to by one or more of the Big Four, but it is unlikely that the demand will be pressed in the case of the smaller concessions until and unless it succeeds against the larger ones.

The Approach of the Major Oil-Producing Countries

The cause of participation has been championed by the Organization of Petroleum Exporting Countries (OPEC) which, at its June 1968 meeting in Vienna, recommended to its members[4] that they adopt, as one of the bases of their petroleum policies, the principle that "where provision for Governmental participation in the ownership of the concession-holding company under any of the present petroleum contracts has not been made, the Government may acquire a reasonable participation on the grounds of the principle of changing circumstances." How do the more important individual oil-producing countries view the subject of participation?

1. Saudi Arabia

It was Saudi Arabia's Petroleum Minister, Ahmad Zaki Yamani, who first publicly proposed the principle of governmental participation in existing exclusive concessions in the Middle East. The occasion was a petroleum seminar at the American University of Beirut in early June 1968 (prior to the above-mentioned OPEC meeting). Yamani probably knew that the principle would be on the OPEC agenda (he may even have put it there himself) and for his own purposes jumped the gun. (Francisco Parra [illegible—who was at?] that time Secretary General of OPEC, has publicly maintained that the resolution which embodied the

[4] Abu Dhabi, Indonesia, Iran, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, and Venezuela. [Footnote in the original.]

participation principle and other petroleum policy recommendations was the work of months of consultations among representatives of the member countries). Whether or not the idea was originally Yamani's is not known to us, but there is reason to believe that Yamani was in search of a lively issue or issues that would maintain his utility and prestige as a petroleum minister and champion of the rights of Arab petroleum-producing countries. Aramco had been under the impression that all major outstanding questions between itself and the Saudi Government were settled and that the company could look forward to a, hopefully, long period of peace and quiet. It seems apparent that such a sterile prospect was not satisfactory to Yamani. Inaction on his part would be likely not only to diminish his prestige but subject him to criticism from both domestic and external sources as derelict in his duty to improve the Saudi Arabian Government's (and indirectly other Arab governments') position relative to that of the concessionaire. The fact that governmental revenues from oil operations were bound to rise as production and exports grew to match increasing world demand for oil would presumably not suffice to excuse him from additional efforts.

The suspicion that the participation demand is, at least at present, more of a ploy than a program is reinforced by the fact that the demand has not yet been either officially or unofficially presented to Aramco nor has it been expressed, either privately or publicly, in other than very general terms. The details of its application have apparently not been formulated. For instance, it is not clear whether, if and when the demand is officially made, it would be only for an equity share in Aramco, which operates solely in Saudi Arabia, or in addition for an equity share in some or all of the downstream activities (transportation, refining, distribution) of Aramco's parent companies. Yamani has said that participation "should" extend to downstream operations. This would require arrangements with one or more of the parents, since Aramco itself has no downstream facilities, nor in fact does it sell oil for export except to its parent companies. Any sales made to "outsiders" are made by the parents. The extent and timing of participation have also been left vague. Yamani has spoken both of an eventual 50 percent "share in Aramco" and a 50–50 "partnership with Aramco" (which are not the same thing), but has indicated that he would not expect to start off with 50 percent. As for timing, Yamani has said that "control over all oil operations is our objective" and that "the major part of our long-term plan will be achieved within ten years from now. However, it may take up to 25 years to attain full control."

In a discussion with an Aramco official, during which the Aramco man brought up the subject of the OPEC resolution, Yamani attempted to downgrade the importance of the resolution and his remarks at the Beirut seminar but did finally admit that he (or the Saudi Government)

considered the participation issue applicable to Aramco. He said, however, that he had no intention of forcing Aramco to agree to participation but thought the company itself would come around to accepting the idea within five years. He served notice that he would be "nagging" the company on the issue at every suitable opportunity. Participation in downstream activities was not mentioned in this discussion.

Another Saudi official, 'Abd al-Hadi Tahir, Governor of the Saudi national oil and mineral company (the General Petroleum and Mineral Organization—Petromin) has also commented publicly on the participation issue in a speech delivered before an international conference of oil technicians. He attempted to justify the concept but gave no details concerning the manner and timing of its implementation.

2. Kuwait

In Kuwait, the subject of participation has not been discussed with the concessionaire, the Kuwait Oil Company (KOC). However, the Kuwaiti Minister of Finance and Oil, 'Abd al-Rahman al-'Atiqi, stated the Kuwaiti Government's views on participation in an interview in early November 1968 with an editor of a Middle Eastern economic publication. More importantly, it was 'Atiqi who apparently sparked a discussion of the issue at the 17th OPEC Conference in Baghdad later in November. The issue was not originally on the agenda of the conference but, after 'Atiqi had brought it up, it was placed upon the agenda by motion of the Iraqi Oil Minister, Rashid al-Rifa'i, a motion seconded by Kuwait. The outcome was a directive to the OPEC Secretariat to prepare studies on the various alternatives open to member countries in regard to participation. The Secretariat studies will provide a basis for further study by a special committee of experts from member countries. Like Yamani, 'Atiqi has given no details of his concept of participation, although he too apparently considers that it should apply to downstream operations as well as those of the producing company.

3. Iraq

The Iraqi Government, as a member of OPEC, has obviously supported the principle of participation. However, because of the number of Iraq's other long-unresolved disputes with its concessionaire, the Iraq Petroleum Company (IPC), which give little promise of ever being resolved except by outright nationalization, it appears unlikely that the participation issue in Iraq will be anything more than the latest and not the most pressing in a long line of demands. The Iraqi Government, in fact, has a better claim than other Persian Gulf states to participation with its concessionaire. It was clearly stated in the British-French petroleum agreement of 1920 that if a private petroleum company were constituted to develop Iraqi (Mesopotamian) oilfields, the "native Government" or other "native" interests should be per-

mitted, if they so desired, to participate to the extent of a maximum of 20 percent in the share capital of such a company. In the later contract which finally granted a concession to a private company (the Turkish Petroleum Company, later renamed IPC), it was agreed only that if the company were to offer shares to the general public (which it never did), Iraqis should be given a preference to the extent of at least 20 percent of the share issue. The OPEC resolution of June 1968 recognized the Iraqi claim to participation by adding to the paragraph quoted above that "If such provision (for participation) has actually been made but avoided by the operators concerned, the rate provided for shall serve as a minimum basis for the participation to be acquired." However, the Iraqis have apparently not brought up the subject with the concessionaire since the June OPEC meeting.

4. Iran

Although Iran, through OPEC, has subscribed to the principle of participation, the Government claims that it has not in fact been much interested in the subject and has blocked Saudi Arabian moves toward united OPEC action to enforce it. However, on several occasions when Iran and its concessionaire, the Consortium, have locked horns over Iranian oil revenue demands, which the Consortium says it is far from being able to satisfy, the Government has threatened to enact legislation that would give it participation in the concessionary company. It has also recently threatened to induce other OPEC members to join with Iran in enforcing participation throughout the Middle East if Iranian revenue demands are not met. This last threat is extremely hollow. In the first place, there is no evidence of any Saudi Arabian move toward immediate enforcement or in fact any "enforcement" of participation—quite the contrary, if Yamani's words are to be taken at face value. Secondly, the Arab countries are most unlikely to take concerted action to enforce or threaten the enforcement of participation at Iran's behest. They suspect that Iran's revenue goals could be achieved only at their expense. Also, the Arabs have probably not forgotten that efforts to get Iran to join with them in oil embargos at the time of the Arab-Israeli war in 1967 were none too politely rejected and that Iran thereby profited substantially. Last but presumably not least, Iran's supply of oil to Israel is hardly a secret.

Final confrontation between Iran and the Consortium was avoided for the Iranian year 1348 (approximately 1969) by a compromise, but the level of revenues from the Consortium upon which Iran has based its Fourth Development Plan (roughly 1968–72) virtually ensures that the problem will come up again (and the threats also). Each year, compromise becomes less and less possible.

Iran has also introduced a variation on the participation issue by suggesting that members of the Consortium who were not willing to

increase their offtake to the extent desired by the Iranians should sell part or all of their equity interest to another company or companies that would like to have more oil. In fact, the Iranians have themselves been scouting around for potential new members for the Consortium. Presumably, if the present members should refuse to sell, Iran might attempt to expropriate, in some manner, a part of their interests in order to turn this part over (or sell it) to a newcomer.

5. Libya

In contrast to the situation in the Middle East where long-established single concessionaires almost completely dominate the oil scene, Libyan oil is being produced (and searched for) by a wide variety of concessionaires. Libya has, of course, like its fellow members of OPEC, endorsed the principle of participation. Whether the large number of concessionaires would make it harder or easier to obtain participation is difficult to say. Certainly the number would tremendously complicate the administration of participation if it were obtained. In any case, the Libyan Government presently has other oil matters engaging its attention, including participation ventures with new concessionaires, or with the old concessionaires on new acreage, and in all probability will not get around to serious consideration of participation in established concessions for a number of years to come.

6. Algeria

Algeria is not a member of OPEC, although it has sent observers to OPEC meetings and in April 1969 applied for membership. Consequently, it has not been associated with other states in a demand for participation in established concessions. Of the Middle Eastern and North African states, however, Algeria is the only one that has already succeeded in obtaining such participation. For the most part, its success can be ascribed to the special relationship which exists or has existed between the Algerian Government and the French Government and to the special relationship which exists between the French Government and French corporate entities, whether public or private. Other than that, however, in one instance an American company was persuaded by governmental harassment and a threat of complete expropriation to surrender to the Algerian national oil company 51 percent of its share of an established producing concession. The share was rather small, but the principle, in the Algerian viewpoint, has been established. Nevertheless, since Algerian relations with oil concessionaires are largely conducted on a government-to-government basis, the Algerian situation is sufficiently different from the Middle Eastern so that Algerian experience in regard to participation is only peripherally relevant to the argument of this paper.

7. General (Middle Eastern)

As it now stands, the demand for participation in the Big Four countries, Saudi Arabia, Kuwait, Iraq and Iran does not appear to be urgent. Saudi Arabia, Kuwait, and Iraq have not presented such a demand to their concessionaires, and Kuwait and Iraq have not even discussed it with them. In Iran, the demand was presented only as a possible alternative to something more greatly desired, and, for the present, has been dropped. The OPEC decision at Baghdad to institute studies on the subject by the Secretariat and a "committee of experts" may have added a new dimension to the demand, in that the mere existence of such studies could be a spur to action. However, the studies are likely to require a substantial amount of time for completion, and the "experts" can presumably only present various alternatives among which the decision makers must still choose. They must also choose whether to act in concert or separately. If separately, each may want to wait until someone else tries it first. If in concert, they must agree on a course of action, including how far they are prepared to go if their demands are refused. Whether or not there are studies, a number of problems will remain. With the possible exception of the Iranian case, a real confrontation on the participation issue (i.e., an attempt to enforce it) would seem to be some distance in the future. However, if the Iranian Consortium should give in under pressure and permit participation by the Iranian national oil company, every other exclusive concession holder in the Middle East (and elsewhere) would be wide open to immediate demands for equal treatment.

What Does Participation Mean?

It would seem that none of its advocates has a very clear idea of the implications of participation. At any rate, none of them has yet been willing to explain in any detail how the principle will be applied and what the results will be, particularly as regards downstream operations. The general principle of participation in oil *production* (leaving downstream activities aside for the moment) at first glance seems simple enough. The government or one of its agencies, presumably in most cases the government-owned national oil company, would acquire an equity interest in the private company which produces oil from the concession area in question. (Participation could also be arrived at by forming a new company in which the private concessionaire and the governmental company would be partners. At present, this does not seem to be contemplated.) From there on, however, the questions multiply, and so far few of them have been answered.

The first question—how much of an equity interest—has been partially answered, in that Saudi Arabia has indicated its eventual aim would be a 50 percent interest. Its initial aim has not been clearly expressed but the figure of 10 percent has been mentioned. Iran has also

talked about a 50 percent interest. Question two—what the government expects from participation—has been answered in part but in vague terms. Saudi Arabia's Petroleum Minister seems to want control over or at least a larger voice in the management decisions of the company. Iran quite simply wants more revenue, and Kuwait also seems primarily interested in revenue.

As for management control, it does not appear that a 10 percent interest would give a government any more control over the company than it now has. Even a 50 percent interest could do no more than produce a stalemate in decision-making unless backed by governmental action to enforce its desires, a recourse governments already have. Furthermore, the most important decisions affecting the producing companies' operations—amount of investment and of offtake—are in fact made by the parent companies, not by the producing company.

As for revenue, it is not clear in what way governments would wish to use their equity interests to acquire more revenue. Ostensibly, it could be done in two main ways—with innumerable variations in detail. First, the governmental partner could take a share—corresponding to its equity—of the oil produced by the company. This oil could be disposed of by the government as it saw fit, presumably by sale abroad, or an arrangement could be made for the producing company or its parents to sell all or some part of the oil for the government's account (or "buy the oil back" from the government). Secondly, the government could permit the company to take or sell all the oil as usual on its own account and then claim an equity share of the company's profits in addition to the taxes and royalties it would normally receive.

No Middle Eastern government now has nor does it seem likely to acquire for many years, the markets it would need to dispose of any appreciable percentage of a major concessionaire's output of oil. Even 10 percent of, for instance, the Iranian Consortium's output is a far cry from 50 percent of the output of the small joint ventures in the Persian Gulf. In fact, it is reported that the National Iranian Oil Company (NIOC), which is the 50 percent governmental partner in most of the above-mentioned joint ventures, is unable to sell its full share of the oil produced, and the excess is taken by its partners. Since the foreign partners in these ventures are virtually all "oil-hungry," they are willing to buy NIOC's oil, even at current market prices, since they are buying elsewhere at those prices. In the case of the major concessionaires, there would seem to be no economic reason for them to buy the government's share of oil, since if they want more oil they can increase their own production, in one area or another, and get additional oil at tax-paid cost or, at most, at an "overlifting" price which is lower than the current market price. If the company merely sells the government's oil for it, it is obvious that the company could have sold its own oil to those purchasers and has consequently sacrificed part of its own market.

As for receiving dividends, this too presents some problems. Most of the large oil concessionaire companies do not pay "dividends," in the usual sense. However, the actual practices of the producing (or trading) companies are admittedly not an insuperable barrier to paying some sort of "dividend" to the government. An assumed "profit" can be computed, as it is now computed to provide a basis for paying royalties and income taxes. If a company had agreed to participation and the payment of a dividend, it would presumably not want to pay it on the basis of a "profit" derived from the fictitious posted prices that are used to compute royalties and taxes. Nevertheless, the logic or equity of a particular method of computation of any payment to a government is not, in the end, relevant. If the government insists, the company must, as usual, decide whether it will accede to the government's demands or accept the risks inherent in refusal.

However complex the situation might be in regard to paying dividends or buying back the oil, a way could be found to produce the desired effect. There appears to be little doubt that whatever other benefits participation might be expected to confer on a government (the appearance, at least, of influence over management decisions or merely the prestige and political advantages of part ownership), a participating government would also, and probably primarily, expect an addition to its revenue. This would mean that participation must provide for something additional to, not merely a substitute for, the concessionaire's own payments. Consequently, the dividend or buy-back arrangements would seem to be preferable from the government's point of view and, for that matter, from the concessionaire's point of view, since governmental sales of oil could have unwelcome repercussions on the concessionaire's markets and on the crude oil price structure. If governmental sales merely replace the concessionaire's sales, the concessionaire's offtake will decrease, and the overall result might in fact be a decrease in the government's revenue.

Participation in Downstream Activities

When Middle Eastern government officials speak of participation in downstream activities, one may assume they are referring to activities outside their own countries. Most Middle Eastern concessionaires have at least one kind of "downstream activity" within the concessionary country (i.e., a refinery) and participation in the producing company would presumably include the refinery, thus perhaps providing the government with refined products to sell abroad. IPC is the only known producing company that has downstream activities in its own name and corporate structure in another country; that is, its pipelines through Syria and Lebanon and its refinery in Lebanon. Presumably, an equity interest for the Iraqi Government in IPC would include these.

If the expectations of Middle Eastern governments from participation in the producing companies are unclear, their expectations in regard

to downstream activities are even more so. The OPEC participation resolution appeared to be directed solely toward producing companies; that is, the actual concessionaires, not their parent companies. Middle Eastern government officials who have commented on the participation issue have added a demand for participation in downstream operations, which would require some sort of arrangement with the parent companies. Equity participation in the parent companies is, of course, not difficult to arrange. The shares of the major companies are quoted on various stock exchanges and are available to anyone. Presumably this is not what the Middle Eastern officials have in mind. Do they want an equity and a management share in all of the worldwide downstream activities of each of the parent companies? Perhaps what they have in mind is no more than that Esso, for example, should take in the government as a partner the next time it builds a refinery somewhere. The next question is: which government? If each of the OPEC countries where Esso has producing interests wants a piece of the action, what's left for Esso? And whose oil will the refinery use? Will each country want a share in each new project undertaken by each of the parents of its concessionaire? It is no wonder that OPEC did not go into the question of participation in downstream activities and that subsequent pronouncements by Middle Eastern officials have been anything but specific.

In regard to participation in either production of oil or downstream operations, the question of payment has been evaded by governments or not mentioned. An equity interest in one of the Big Four consortia would be expensive. It is probable that, if OPEC or the producing country governments have given any thought to the matter of payment, they have in mind valuing the concession at the depreciated book value of actual investment, ignoring the future income that might be expected over the remaining life of the concession, and would furthermore expect to pay for their share of this modest value over a number of years out of their equity profits. This, in effect, means virtually no payment, unless the government is able to find extensive new markets for oil which the concessionary company (or its parents) could not have found.

Can Participation Be Enforced?

It is obviously impossible for a government to participate in (i.e., share) the oil or the profits from an oil concession without the consent and cooperation of the concessionaire. The consent may be unwilling—the concessionaire may give it only to avoid a more drastic action on the part of the government—but if it is not given, the government has only the options of taking over the concession completely or of dropping its participation demand. The concessionaire's profits are out of reach; payments for sales, insofar as there are sales and not merely book transfers to parent companies, are made outside the producing country. The oil itself and the producing, refining, and export facilities installed in the producing country are the only things subject to unilateral action

by the government of that country. Neither the oil nor the facilities can be *shared* without the at least tacit consent of the concessionaire. It is not inconceivable that a tacit consent not involving direct cooperation might be given; i.e., if the government took over one or more of the concessionaire's producing fields, the concessionaire could decide to continue to produce from the remaining ones. This type of consent has been given, at least temporarily, by IPC and its affiliates in Iraq, where the government took over most of their concession areas. The circumstances differ in that no producing fields were taken by the Iraqi Government, although one proven field, not yet producing, was included. The problem becomes more complex if producing fields are taken, since they are hooked in to the gathering and terminal systems of the whole producing area. Some fields may not even have entirely independent production facilities. They may share certain ones, such as a gas-separator facility, with other fields. In the case of the takeover of a producing field, tacit consent without cooperation would not work unless the government were prepared to install an entirely separate production, internal transportation, terminal and loading system. Sharing the installations already in place would require the active cooperation of the concessionaire.

The only real weapon at the disposal of governments to obtain the consent of concessionaires to participation is, as it has been in other disputes, the threat of complete abrogation of the concession. The final utilization of this weapon by any one country, however, is likely to be disastrous for the country and only moderately harmful to the concessionaire. Most of the shareholders in Middle Eastern concessions could, with only temporary difficulty, obtain their requirements of oil, in case of loss of production in one country, by expanding production elsewhere. However, if all or a sufficient number of the governments of countries which are large producers were to act in concert—prepared to go so far as to shut down production simultaneously for a considerable period of time in order to gain their ends—it would be a different story. Replacement of any large percentage of Middle Eastern oil at the present time at reasonable cost is not possible and probably will not be possible for many years to come. Western Europe and Japan are dependent upon Middle Eastern oil for a high percentage of their energy requirements, and if the oil companies are to assist in supplying these requirements, they must have access to Middle Eastern oil.

We do not, however, believe in the likelihood of such concerted action in the foreseeable future to back up demands for participation. In spite of the OPEC recommendations, the approach to participation by the individual member countries has been at best lackadaisical or, in the case of Iran, a threat designed to obtain other benefits. While Iran may repeat the threat in the future and might attempt to carry it out if its demands are not met, we cannot see its efforts being reinforced by the Arab oil producing countries.

Most oil companies operating in the Middle East—certainly at least the international majors—are determined not to provide governments with cost oil, either by way of an equity interest or merely by turning over supplies of oil to them at cost. Since governments would not be subject to royalties and taxes (or would be paying them to themselves), they could afford to cut prices in order to find markets, and the greater the amount of oil at their disposal, the greater the temptation to do so. It would be less disadvantageous to the companies to "pay dividends" to governments or buy back their equity share of oil, but either of these measures would mean one more increase in per-barrel revenue to the government and a corresponding decrease in company profits. Governmental exactions have already reached such a high level and realized prices have declined to such an extent that company resistance to further encroachment on profits may be expected to be very stiff. Although it is true that smaller companies, some of them quite new to overseas production operations, have entered into joint ventures with governments on very generous terms, it would seem that some of these companies have had or will have cause to regret it. Oil exploration is a gamble, and oil companies are gamblers. When they are bidding for concessions, they have visions of a tremendous strike—like that of the Occidental Petroleum Corporation in Libya. Under those circumstances, even if the unit profit is small, high volume will insure a generous return on the investment.

There are indications that some of the joint-venture companies that have found oil in only moderate quantities (to say nothing of those that found none) may not be so well pleased with their bargains. Atlantic-Richfield for instance, a 12½ percent partner in the Lavan Petroleum Company (LAPCO), has had, along with its other American partners, considerable difficulty with NIOC, its Iranian Government partner, over the posted prices of the oil they have found. Exaggeratedly high posted prices for the computation of taxes and royalties are one of the principal means by which a government can enhance its own revenues at the expense of a foreign concessionaire. It may be significant that when Atlantic-Richfield took over the Sinclair Oil Corporation, Sinclair reportedly pulled out of a joint venture in Saudi Arabia with the Natomas Company and the Saudi Government's Petromin. The international majors have been wary enough to stay away from joint ventures in the Middle East, given the stringent financial terms that governments are demanding and considering the general downward trend of crude oil prices. If Middle Eastern governments are in fact serious about participation in the major concessions, it appears that they will have to be prepared to resort to very drastic measures and even then success in terms of appreciably higher revenues or significant influence on management is doubtful.

7. Draft Paper Prepared in the Department of State[1]

Washington, undated.

Oil Imports Review—Part One—Summary and Conclusions

1. The State Department has one overriding foreign policy objective in any oil imports program: the United States must be able to cover its energy needs from its own sources or from secure foreign sources during limited emergencies; i.e. limited war, foreign revolution, disruption of foreign supplies or politically inspired boycotts. This carries one important corollary: Western Hemisphere sources of crude oil may be considered for most purposes to be as secure as United States domestic oil and must be given special consideration.

2. We would not recommend basing any petroleum imports policy on assumptions of a nuclear war. In this case domestic petroleum at the well-heads would be relatively invulnerable and crude petroleum supplies would be the least of our problems. We also do not believe it would be necessary to plan for a repetition of World War II; i.e. American cities essentially intact but with tankers from the Gulf of Mexico or the Caribbean to the US East Coast under submarine attack.

3. For the purposes of this paper, we assume that the petroleum discoveries in Alaska will be great enough to supply a significant portion of our additional needs in petroleum for the next decade and that this petroleum will be no more expensive, delivered in the United States, than is domestic oil at the present time.

4. When we know the size and producibility of the reserves in Alaska and the cost of production and of transportation, our oil imports policy may again have to be reviewed.

5. If the oil import program were abolished today with no restrictions on imports we foresee the following developments:

a. prices would drop in the United States to the equivalent of foreign prices plus transportation differentials.

b. prices abroad would rise somewhat, but probably not significantly, as a result of new American markets (it is probable that foreign crude prices will rise in any case because of higher government taxes or royalties or new fees levied on oil producers).

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[1] Source: National Archives, RG 220, Records of the Cabinet Task Force on Oil Import Control, Entry 10, Box 3, Classified Documents, State Department Draft on Foreign Implications of Oil, 7/22/69. Confidential with unclassified sections. Transmitted to Areeda under a covering July 22 memorandum from Akins. (Ibid.)

c. within ten years, according to industry sources which we are in no position to dispute, US domestic production would drop, and the US would become dependent on foreign sources of oil for fifty percent of its petroleum requirements. (This could be radically improved if Alaskan oil proves to be as inexpensive to produce as its more ardent protagonists maintain.)

d. importers would shift to the cheapest sources of oil, i.e. the Middle East.

e. while oil companies have shown some signs of trying to diversify their sources of supply, the Arab countries are still supplying almost the same proportion of oil in world trade as they did ten years ago (two-thirds); were the United States to take a significant portion of its oil from them (at present only 10 percent of our imports come from the Arab countries) the US would be vulnerable to political pressure from that quarter. However, it should also be noted that the major Arab producing states (Saudi Arabia, Kuwait and Libya) have strong ties to the United States.

f. Venezuelan oil and Canadian oil would be displaced in our markets, the cost of production in both countries being higher than in the Eastern Hemisphere. The reaction against the United States in Latin America would be hostile as Venezuela would undergo considerable financial hardship. The reaction in Canada would also be sharp and could adversely affect our other economic and military interests there.

6. We believe the relative degrees of security for sources of petroleum are as follows:

a. Domestic sources—most secure.

b. North American oil (mainly Canadian)—almost as secure as domestic oil.

c. Western Hemisphere oil (mainly Venezuelan)—next most secure. Although we must recognize the possibility of political upheaval in Venezuela, it has been a secure source of oil in all crises in the last thirty years. We must assume that it will continue to be secure, as any assumption to the contrary would tend to be self-fulfilling; i.e., were we to decide, for the purpose of the oil imports program, Venezuela is not secure and then were to follow this by moves which would result in decreased Venezuelan oil exports, we would cause economic hardship in that country; this would provoke a reaction against the United States and quite probably a political upheaval in that country.

Several other Latin American countries, i.e., Bolivia, Colombia, Ecuador and Trinidad may be in a position to export increasing quantities of petroleum in coming years. Although the relative security of these countries as a source of supply has not yet been tested, from a geographical standpoint at least, they would rank with Venezuela as a secure source, and should be treated accordingly.

d. Eastern Hemisphere oil must be considered relatively insecure. While it is difficult to assess relative degrees of security, we would say that of the major producers,

1) Indonesia and Iran are more secure than
2) Nigeria, the Arab states and Portuguese Africa.

7. The security of the United States is tied to the security of our allies and the well-being of many oil producers in the non-Communist world. Fortunately, the oil producing countries in the Eastern Hemisphere can continue to find their markets in that hemisphere and we will probably not need to make special provisions for them in our import policies.

Indonesia might be a special case. It is the most important country in Southeast Asia; it has a strong government which reversed the pro-Communist trend of Sukarno and is heavily dependent on US economic assistance. While we could not propose specific favorable treatment for Indonesia, any provision, such as the elimination of Hawaii from the imports program or a guaranteed percentage of the market for overseas oil, which would provide continuing access of Indonesian crude to our markets, would be in the long-range interest of the United States.

8. Special treatment given any one country in the Eastern Hemisphere would cause immediate demands for similar treatment from others; this would lead to a country-quota system for oil, with each country demanding a higher share and each country trying to get maximum prices from the United States.

9. In case of a limited emergency such as disruption in deliveries by traditional suppliers, the United States would need to do what it could to cover the requirements of its allies. However, spare capacity for this purpose should not be part of our petroleum planning. The American consumer has paid more for his oil than has the European; this has been done to give the United States a healthy domestic industry capable of supplying our needs in emergencies. Our allies, who now enjoy lower cost petroleum, cannot and do not expect the American consumer to continue to pay for shut-in or reserve capacity to take care of their needs in limited emergencies.

We should remain prepared to discuss with our allies at any time the construction of secure supplies for them in the Western Hemisphere provided they were willing to pay the major part of the cost of this security. So far, they have not been interested.

The security of our allies can probably best be met under existing circumstances by maintaining storage at the levels recommended by the OECD and by encouraging the maximum diversification of production.

10. The present system of oil import controls has met our security needs during the two major oil crises we have faced since the

inception of the program: the Vietnam war and the Middle East crisis of 1967. We produce 75 percent of our own needs and import most of the remainder from secure Western Hemisphere sources.

11. We believe that the program, as organized at present, would not give us the same degree of security in the future. The freight advantage which Venezuela now enjoys will be lost to the giant tankers, and oil companies will soon find it cheaper to import Eastern Hemisphere (largely Arab) oil, to the detriment of Venezuela. While we probably could still meet our basic needs from domestic sources or other non-Middle East oil, it would be more difficult to do so than it was in the 1967 crisis.

12. Other proposals have been made which might give us the same security protection at a lower cost. These include government construction and then shutting-in of oil production capacity, shutting-in of private capacity in return for permits to import oil, storage for six months or storage of a year's petroleum product needs. Such systems however would result in increased imports from the Eastern Hemisphere and would harm Venezuela and Canada which would not be in our long term security interests.

Conclusions

A complete and simple lifting of import controls would result in a short time in the United States becoming dependent on Eastern Hemisphere oil—most of which would come from the Arab states. This would not be tolerable.

Alternate schemes of shut-in capacity or storage might or might not be more costly than the present system but would result in rapidly increased imports from the Middle East. In these cases, narrow US domestic security requirements might be met but wider security considerations, which include the health and stability of other Western Hemisphere suppliers, would not be.

A country-quota system might satisfy some countries but it would cause far more problems than it would solve.

We believe that a system of import controls which would give sufficient preference to Western Hemisphere producers to enable them at least to maintain their present share of the market, but which would still allow some growth in imports from the Eastern Hemisphere, would best meet the security objectives of the United States—probably at the least cost to the US taxpayer and to the US consumer of petroleum products.

This system of preference for Western Hemisphere suppliers could be nothing more than a relaxation of the present system with the proviso that an important share of increased imports would come from the Western Hemisphere; or it could be a complete restoration of the overland exemption for Canada with some special consideration also given to other Western Hemisphere producers; or it could go as far as a complete Western Hemisphere common market in energy, with free

exchange of petroleum across the borders and a common tariff against Eastern Hemisphere oil. (This of course could not be placed so high as to exclude Eastern Hemisphere oil.) The first alternative could probably be enacted immediately on executive order. The last would probably have to be phased in over several years, would probably require GATT waivers, and would require congressional approval and the approval of the governments of the other countries involved. It might also arouse hostility on the part of Eastern Hemisphere producers because of apparent discrimination against them.

[Omitted here is Part 2, related to the Task Force Questionnaire.]

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8. Memorandum Prepared in the Central Intelligence Agency[1]

Washington, August 28, 1969.

[Omitted here are a cover sheet and a table of contents.]

SUBJECT

Prospects for US Access to World Oil Over the Next 15 Years or So

Assumptions[2]

(1) Existing US volume controls on imports of petroleum are abolished.

(2) The US continues to have access to petroleum produced in Alaska and Canada.

(3) Imports will provide about one-quarter of US consumption by 1975 and about one-half in the early 1980s.

(4) Canada and Venezuela will provide the bulk of the US imports during most of the 1970s, with sources outside the Western Hemisphere becoming major suppliers thereafter.

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[1] Source: National Archives, Nixon Presidential Materials, White House Central Files, Staff Member and Office Files, Council of Economic Advisers, Hendrik Houthakker, Box 38, Oil Import Control TF—CIA Report. Secret. This memorandum was produced solely by the CIA's Office of National Estimates and was coordinated with the Office of Current Intelligence, the Office of Economic Research, the Office of Strategic Research, and the Clandestine Services. A September 2 supplement focused on the coup in Libya. (Ibid.) The Cabinet Task Force briefly summarized the CIA memorandum on September 2. (Ibid., RG 220, Records of the Cabinet Task Force on Oil Import Control, Box 23, Task Force Meetings, NSC on Foreign Policy Alternatives)

[2] Supplied by the Cabinet Task Force on Oil Import Control, which requested this assessment. [Footnote in the original.]

I. Trends in the World Oil Industry

1. World oil production and consumption have grown dramatically since World War II. In the last decade alone, world production has doubled, to over 38 million barrels per day (bpd) in 1968. The booming market for petroleum has spurred extensive exploration; as a result, the number of oil exporting countries[3] has risen steadily. At the time of the Suez crisis in 1956, there were only four principal exporters; in 1967 there were eight; in the next few years there will be a dozen or more. The continuing intensive search for yet more oil deposits seems certain to have results. Moreover, newly discovered large natural gas deposits have further diversified the energy sources for the major oil and gas consuming nations. And, of course, nuclear power and other technological developments, for example in utilization of oil shales, will add other alternative sources of energy.

2. Seven companies[4] still dominate the international oil trade, but their share of that trade has dropped from about 90 percent in 1952 to some 75 percent in 1968. Some of the most substantial recent discoveries have been made by smaller US and European firms; moreover, the producing countries have demanded and received partial ownership in many recently formed exploitation companies. In the past several years, the producing countries also have begun to move into refining, marketing, and transportation of oil on a small but steadily increasing scale. Thus, the ownership of oil and the control over international marketing of it are becoming less and less centralized; this trend seems certain to continue.

3. The growing number of owners and producing nations, however, does not mean that the regional distribution of proved foreign reserves has shifted significantly in recent years. Only Africa has enjoyed important discoveries in entirely new areas. Of the world's proved oil reserves, the Middle East still accounts for over half; an additional 10 percent is in North and West Africa. In general, the costs of production in the Middle East and Africa are well below those prevailing in South America or in such countries as Indonesia and Australia. This is likely to remain true, although the host governments in the Middle East and Africa will continue pressing for increased revenue per barrel.

4. Such factors as chemical composition and transportation costs are likely to be of diminishing importance as determinants of marketability. Growing concern with air pollution has led to increased de-

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[3] The US and the USSR are the world's two largest oil producers, but neither is a principal exporter. [Footnote in the original.]

[4] Standard Oil of New Jersey, Shell, Gulf, Texaco, Standard Oil of California, Mobil, and British Petroleum. [Footnote in the original.]

mand for low sulfur oil; in turn, research into cheaper ways of desulfurization has increased and probably will result in significant technological breakthroughs within the next several years. And as more and bigger supertankers enter service, distance between the well and the market will be of less economic significance. Nevertheless, some producers with exceptionally fortunate combinations of location and crude oil low in pollutants, e.g., Libya, will continue to enjoy favored positions for the foreseeable future.

5. Obviously, the greater the diversity of petroleum sources, the harder it becomes for any single producing country or combination of producers to prevent importing nations from obtaining oil. The major oil exporting states, joined in the Organization of Petroleum Exporting Countries (OPEC), have cooperated to improve their own share in oil income, but they have shown little ability to agree on more controversial subjects. With the continuing expansion of OPEC membership, the organization will become even less likely to agree on anything so against self-interest as an embargo of a major oil market, especially since all the major exporting states are heavily dependent on oil revenues both to finance their budgets and to finance future economic growth. We do not believe that this dependence will decline substantially in the next 15 years or so.

6. The dominant position of US companies in the world petroleum industry is an important buffer against any concerted threat to US access to imported oil. More than half the oil moving in world trade is foreign oil produced and sold by US firms; this petroleum comes from widely dispersed areas of the world. At present, the US firm participating in a concession typically controls its share of the crude oil as soon as it is removed from the ground; the host government usually has little say in the final destination of oil produced by a foreign-owned company. In any crisis situation, we assume that US companies would do their best to insure that US requirements were met. It would probably be extremely difficult for any country or group of countries to make an embargo effective, especially in view of the complexities of the international oil trade.

7. It should be noted, however, that the role of US companies in the international oil trade is changing. The governments of host countries are taking a more active part in all aspects of the oil business; concession terms are becoming more onerous from the companies' point of view. National oil companies from the principal importing nations are competing for concessions and are offering long term purchase contracts as inducements to the exporting states. Nevertheless, the US will almost certainly remain the world's largest single source of oil expertise and of investment funds available to high risk endeavors. Moreover, the abandonment of US import controls will increase the volume of foreign oil brought into the US, thus enhancing the commercial

leverage of US companies. With world production rising steadily, the quantity of oil controlled by US companies should continue to go up at a healthy rate, though the percentage of world production owned by US interests will probably decrease.

8. On the narrow question of an embargo directed solely against the US, only access to Venezuelan oil is significant in the short run. However, either a broader embargo—directed against Western Europe as well as the US—or some other serious disruption of world oil supplies could also interfere indirectly with US access to imported oil. In the Eastern Hemisphere, a combination of Arab producers is the only conceivable source of trouble serious enough to create a shortage of oil on international markets and thus to induce severe rationing of oil in Western Europe and Japan, perhaps bringing those markets into competition with the US for Canadian and Venezuelan oil. Moreover, access to Arab oil is expected to assume increasing importance for the US after 10 or 15 years. The following discussion, therefore, concentrates on likely developments in Venezuela and in the Arab world.

II. Prospects for Access to Venezuelan Oil

9. In our view, it is highly unlikely that during the next few years Venezuela would deny its petroleum to the US for reasons either of internal Venezuelan politics or of strained relations between the two countries. We believe this will be true even if anti-US sentiments continue to flourish and grow in Latin America during this period. We believe, too, that civil strife destructive enough to disrupt Venezuela's ability to produce and export oil is not in the offing for the foreseeable future.

10. The policy of the present Christian Democratic (COPEI) government, like that of Democratic Action party governments before it, has been to increase Venezuela's share of the US oil market. As oil constitutes over 90 percent of the value of Venezuela's exports, governments since 1958 have counted on it to "seed" the country's economic and social development. Venezuelan administrations have for years been seeking the sort of preferred access to the US market that Canada and Mexico enjoy. Realizing that the US has been reviewing its oil policies, President Caldera has publicly expressed his concern about Venezuela's decreasing percentage of the US market over the last 10 years and has stressed the importance of an enlarged share if his country is to progress.

11. The Caldera government is weaker than its predecessors, and the political atmosphere is more restive than in the recent past. Although COPEI won the December 1968 presidential election, it received a mere 29 percent of the vote, and it lacks even a plurality in Congress. On important issues such as petroleum, Caldera must not only form coalitions with other parties but must also reconcile factions within his own party. Yet a strong consensus now prevails among all political

groups, not only on the oil question (no group of any consequence advocates nationalization), but also on preserving representative civilian government. Having lived under a predatory military regime in 1958 and been threatened by insurgency during the early 1960s, most politicians are wary of taking actions that risk a return to such conditions.

12. We believe that Venezuela, under almost any foreseeable government, will be anxious to expand its sales to the US market as rapidly as possible. The new Minister of Mines has already announced his desire to have service contracts for exploration in southern Lake Maracaibo signed by the end of the year.[5] The oil now produced is relatively high cost and generally has a high sulfur content; access to an enlarged US market would spur exploration and exploitation of undeveloped and perhaps more competitive deposits. So long as the Venezuelans can produce oil and market it in the US, we see no reason to believe that they would choose to cut off production or to divert oil to remote and less profitable markets such as Japan and Western Europe.

13. Economic benefits from greatly expanded sales to the US would probably tend to strengthen moderate civilian rule, like that of Caldera. If domestic squabbling over oil policies produced political instability, or if a concerted drive by politicians produced policies that were both anti-US and costly to the Venezuelan oil industry, the generally conservative military establishment would be likely to apply pressure in the interests of maintaining order and profits and might intervene directly. Leftist insurgents now constitute only a minor political problem, and there is little chance that they will revive sufficiently during the next several years to pose a serious challenge to the government. In short, though Venezuela may suffer from increased political instability over the next several years, the most likely replacement for the present moderate civilian government, in the event of a prolonged political crisis, would be a conservative military regime disposed to do business with the US.

III. Longer Run Prospects in the Eastern Hemisphere

14. It is more difficult to see beyond the next few years with any confidence and to make specific predictions about conditions in those countries that might become important suppliers to the US in the 1980s. Almost all the major oil exporting states are candidates for domestic instability in varying degrees. Given the large number of countries involved and the long time period (10 to 15 years) concerned, assorted succession crises, civil wars, and insurgency movements are possible

[5] Present oil concessions are due to begin expiring in 1983 and the companies are anxious to conclude new agreements well in advance of that date. The Caldera government and its predecessors have indicated that present concessions would be replaced by service contracts after their expiration. [Footnote in the original.]

in all and probable in at least some. Under some circumstances, individual exporting nations might blame the US for their troubles and seek to deny petroleum to the US. Some of the oil producing countries have shown themselves capable of taking action for political and even emotional motives, without regard to economic consequences. Experience has shown, however, that in the longer run there is a tendency—though it cannot be absolutely relied on—for economic interests to reassert themselves. In any case, it seems unlikely that enough exporting countries would simultaneously be in a state of internal violence or political crisis to affect the world's oil production substantially for any extended period of time.

The Arab States

15. The most likely source of a serious disruption of world oil supplies that would affect US access to oil is the Arab world, where the prospect is for increasing radicalism and growing hostility to the US. This possibility would be much greater in the event of another Arab-Israeli war. An Arab-Israeli war itself seems a likely prospect, although no one can be sure when or how it might occur. If a war breaks out, it seems probable that the Arab states (which produce half the oil moving in world trade) would attempt to deny oil to the US and perhaps to some Western European countries. Any such move also might be accompanied by punitive measures against US oil companies. While the force of emotional and irrational factors on Arab behavior makes any judgment uncertain, we doubt that they could successfully maintain an embargo for more than a brief period. As in the aftermath of the 1967 Arab-Israeli war, any effort to sustain such an embargo would be weakened by the differing degrees of determination to damage US interests among the Arab states and by the temptation for some countries to cash in on the self-denying abstinence of others. In 1967, the Arabs argued the matter heatedly and reached the conclusion that they could not pursue either their internal or external policies without oil income.

16. We believe that the reasons for this decision will remain compelling. Most of the major producing countries have strong financial reasons for continuing to sell oil to the US and other hard currency customers; they, rather than the radical states, are the arbiters of oil export policies. Over and above economic considerations, Saudi Arabia, Libya, and Kuwait do not want to weaken or sever ties to the West lest they become much more vulnerable to Nasser and other radicals. If the conservative regimes fall, US access to Arab oil will probably be on less favorable terms—as witness the case of Iraq—and less firmly assured. We believe, however, that even the most radical states would continue to want to sell oil.

17. The Palestinian commandos are much less concerned with financial considerations than are the Arab governments. But while the

commandos might seek to destroy oil facilities, their successes are likely to be limited, and the damage they could inflict probably would be fairly easy to repair. Moreover, we anticipate that oil companies will maintain sufficient excess capacity in various areas of the world to permit them to compensate for temporary disturbances in specific countries.

18. The importance of oil revenues to Arab economic and military strength does, however, raise another possibility—an Israeli attack on such major oil installations in the Arab world as pipelines, pumping stations, refineries, and ports. The Israeli intention would be to greatly decrease oil revenues, particularly those of Kuwait, Saudi Arabia and Libya. Since those countries subsidize the UAR and Jordan, the Israelis might hope that a sudden drop in income might force the latter states to give in. Israel would be reluctant to attempt this operation because of hostile reaction in the US and Western Europe. We do not consider such a move likely, but we cannot rule it out, especially if the Israelis became involved in a major, protracted war with the Arabs.

19. All the major Arab oil exporting states are susceptible to domestic strife; in all, coups, uprisings, and even civil war are conceivable; and any of these contingencies might affect oil production. The succession issue probably is most acute in Libya, where an aging king rules a country in which provincial rivalries are not dead and the crown prince appears exceptionally inept. In a turbulent situation, Libyan oil facilities might be attacked; they would be extremely vulnerable. Libya is so dependent on oil revenues that we see little reason to anticipate any internal political developments likely to lead the Libyans to attempt to deny oil to the US.

20. Saudi Arabia is another potential scene of political turmoil. Any number of contingencies could lead to sabotage of the pipeline through which some Saudi oil normally flows to the Mediterranean. That line, however, carries only a small and declining percentage of Saudi output, and in any case its throughput is not used to supply US markets. Political upheaval in Saudi Arabia, perhaps during a succession crisis, might entail attempts to sabotage oil facilities in the Eastern Province. Nonetheless, barring a lengthy civil war in the Eastern Province itself, we believe that Saudi oil would continue to be produced and exported. Internal political considerations are not likely to become so compelling that any Saudi regime—even a revolutionary one—would be willing to risk oil revenues in an attempt to embargo the US.

21. Kuwait and Abu Dhabi are creations of the international oil business; we cannot conceive of an eventuality that would lead either of them to voluntarily suspend oil exports for more than a short period. It is possible that Iraq might at some time attempt to take over Kuwait; the motive, however, would be to seize Kuwait's oil and sell it for Iraqi benefit, not to hold it off the market. Iraq, for its part,

probably is the least dependable major oil source in the world. The Kurds, who are in chronic revolt against the Baghdad government, might at some time seize and heavily damage the oil facilities in northern Iraq. The Kurds, the Syrians, or the Israelis could sabotage the pipeline from the northern fields to the Mediterranean, and the southern Iraqi fields are vulnerable to sabotage either from local dissidents or from Iran. For all Iraq's record of unreliability, however, the successive radical regimes in Baghdad have shown continuing interest in selling oil to the West.

22. Algeria may or may not discover sufficient new reserves to permit it to remain an important producer. Oil revenues are Algeria's only real hope for prosperity in the years ahead; if they continue to grow, Algeria would have some reluctance to risk them by taking drastic actions which might undermine this source of income. In any event, France rather than the US probably would be the major sufferer from any interruption of Algerian oil exports.

Iran

23. Iran, like any other country ruled by one strong individual, could be in for turmoil if the Shah died or lost control. A political struggle, however, would probably be centered in Teheran, many hundreds of miles from the oil producing areas. If so, it probably would have little or no impact on oil production. Nor do we anticipate that a successor government would be anxious to forego the oil revenues that have become vital to the Iranian economy.

24. There is some possibility over the longer term that the Arab population of Iran's oil producing area might attempt an uprising, probably with some assistance from Iraq. This could become a particularly acute threat in the event of another Arab-Israeli war leading to Arab attempts to deny oil to the West. Such action might seriously hamper Iranian oil production, perhaps for an extended period of time. On balance, however, we would expect the Iranian army and security forces to be able to provide reasonable security for the oil producing installations.

25. The only issues we can now foresee that could cause serious differences between the Shah and the Western companies concern the amount of revenue from oil production. The Shah sincerely feels that his record of cooperation with the West entitles Iran to increased production and revenues that outstrip those accorded to other oil exporting nations. This leads to acrimonious negotiations every year between the Iranians and the oil companies. If major new markets in the US are opened to imported oil, and he does not receive what he considers a fair share of the consequent increase in worldwide production, he will be sorely tempted to take punitive action against Western concessionaires. His objective, however, would be to increase his sales in West-

ern markets, not to deny oil to the West. While there are other potential irritants in government-to-government relations between the US and Iran, the Shah or a successor would probably not let them interfere with continued oil production or with exports to the US.

Nigeria

26. Nigeria is likely to be unstable for years to come. But we doubt that output, which will be spread widely throughout much of the southern half of the country as new areas come into production, would be totally disrupted for long periods. Xenophobia is on the rise in Nigeria, and whatever government structure evolves in the area is likely to assert increasing control over the activities of the oil companies. However, deliberate denial of oil to the US for political reasons seems unlikely over the next two decades.

Indonesia

27. A return to political instability in Indonesia could easily hamper oil production and export; in any event it would discourage new investment. The most likely source of trouble for the petroleum industry would be a resurgence of ultranationalism on the Sukarno pattern. This would probably lead to Indonesian demands for renegotiation of oil contracts, to harassment of foreign firms, or even to further nationalization of the oil industry. We believe, however, that such moves would fall short of attempts to oust major foreign producers. We doubt that any regime in Djakarta would wish to jeopardize the oil exports upon which it will largely depend for its hard-currency earnings from Japan, Australia, and the US. It is possible that prolonged civil strife or communist insurgency might bring disruptions in oil production and shipment. However, in such a case, regional military commanders would probably take charge and make their own arrangements with the oil companies.

IV. The Soviet Role

28. We cannot foresee circumstances under which the USSR could become a substantial supplier of oil to the US. The USSR may have available from its own resources as much as 1.3 million bpd of oil for export outside Eastern Europe by the mid-1970s and somewhat more by 1980. In the unlikely event that the Soviet Union were to abandon the other oil markets in the industrialized West that it has been cultivating since the mid-1950s, the total quantity available for export to the US would represent only about eight percent of the US demand forecast for 1980. The Soviets probably would see more advantage in selling any surplus to Western Europe than to the US.

29. An attempt by the USSR to capture world oil supplies and deny them to the US could take several forms: communist takeover, under Soviet leadership, of major oil exporting countries; a Soviet

effort to replace the US as concessionaire and major distributor for foreign oil; or Soviet-inspired anti-US actions by oil exporting states with governments sympathetic to the Soviet Union. Given the weakness of the communist movement in most of the oil states, any sweeping conversion to communism seems unlikely. Even if communists took over in a major exporting country they would not necessarily refuse to sell oil to the US. If the Soviets tried to replace Western firms in oil exploration and exploitation, they would have to be prepared to risk their own capital. They do not appear to be willing to engage in such ventures on a scale sufficient to affect seriously US sources of supply. And even if the Soviets should gain a major role in distribution, we believe that they would choose to sell the oil for hard currency rather than hold it off the market in hopes of creating supply difficulties for the US. Preemptive buying would be prohibitively expensive, since very large quantities of oil would have to be withheld over an extended period. It seems highly unlikely that the Soviets could induce the oil exporting states to mount a large scale embargo and even less likely that such an embargo would be effective.

V. Conclusions

30. In sum, we consider it highly unlikely that the US would encounter serious difficulties in obtaining its foreign oil requirements over the next 10 to 20 years, given the assumed termination of import restrictions. There are several major reasons for this judgment. Even 10 years from now, US import requirements would amount to only about 15 percent of the total amount of oil which, it is estimated, would then be moving in world trade. Given the great and growing diversification of major sources of crude oil, supply is becoming increasingly invulnerable to disruption—voluntary or involuntary—by individual countries. Hence, although we would expect political upheavals to occur sporadically in various producing countries in the years to come, often with the chance of disrupting oil production for a time, such instances are unlikely seriously to curtail American access to world oil. Moreover, the oil producing states are heavily dependent on petroleum revenues. Even another Arab-Israeli war would probably not unite the Arab oil producers enough to let them long maintain an anti-US embargo. All things considered, the US, with the cooperation of US oil companies, would find it relatively easy to overcome the effects of any selective embargos that might occur from time to time.

31. In stating these conclusions we note, however, the distinction between control and access. Many trends—including the growing role of exporter governments and the increased competition from the oil companies of major consuming nations—are converging to reduce the virtually complete control over the international oil trade that a few Western companies once enjoyed. Such reduced control may lead to

less favorable commercial terms, but it is not likely to impede US access to foreign oil.

For the Board of National Estimates:

Abbot Smith
Chairman

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9. Memorandum From the Deputy Assistant Secretary of State for International Resources and Food Policy (Katz) to the Assistant Secretary of State for Economic Affairs (Trezise)[1]

Washington, September 26, 1969.

SUBJECT

Comments on Task Force Paper on Possible Foreign Oil Supply Interruptions[2]

The Task Force concluded in its paper that substantial dependence on foreign oil supplies is unlikely to be prejudicial to the interest of the United States in any war or emergency in which the United States might be drawn. Before drawing such a conclusion we believe that closer attention should be given to the problem of US dependence on oil from Arab countries. These problems are:

1. Arab countries might all cease oil exports to the US at the same time.

The Task Force paper recognizes that Arab-Israeli tensions in the Middle East could result in disruption of oil from *all* Arab countries for up to a year. Arab countries in 1967 acted in concert to deny oil to the United States and other countries, and the possibility that they would do so again in time of crisis cannot be discounted, even though on the surface to do so would appear to be against their own interests. The recent Libyan coup[3] has replaced a conservative regime with Arab

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[1] Source: National Archives, RG 220, Records of the Cabinet Task Force on Oil Import Control, Box 21, Agency Comments to Staff, Department of State Comments on Fact Papers. Limited Official Use. Drafted by Clark and cleared in E/FSE. The appendices are attached but not printed.

[2] A reference to Task Force Paper No. A–8, "Possible Foreign Oil Supply Interruptions." (Ibid., Box 20, Fact Papers "A Draft Series", September 1969)

[3] Documentation on the September 2 coup in Libya and its implications for U.S. oil policy is in *Foreign Relations,* 1969–1976, volume E–5, Part 2, Documents on North Africa, 1969–1972, Chapter 3.

nationalists who are much more likely to maintain solidarity with other Arab states against the West, particularly the United States, on issues such as Palestine.

2. Arab countries have the financial reserves to limit oil exports and still remain viable for a sustained period of time.

The combined financial reserves of the three principal Arab oil exporting countries, Libya, Kuwait, and Saudi Arabia, are about $3.1 billion. Their combined annual rate of imports plus the annual subsidies to Jordan and Egypt, are only $2.1 billion. (See Appendix A.) Imports would be less should oil activity slow down or stop. It is therefore evident that these countries have the capability of restricting oil exports while maintaining necessary imports for a sustained period of time.

3. Arab countries will continue to dominate the oil export market in the foreseeable future.

Although oil supplies are becoming more diverse, projections for availability in 1975 (see Appendix B) show that Arab countries will still have well over twice the export capacity of non-Arab countries in the Eastern Hemisphere. Oil reserves in Arab countries are about 315 billion barrels, while reserves in the rest of the non-Communist Eastern Hemisphere are only about 73 billion barrels, of which 54 billion are in Iran. Arab oil costs less to produce than any other oil in the world, and if US imports were liberalized, most new imports would come from Arab countries. Of all Eastern Hemisphere countries with large known reserves in place which could be made available for export at a relatively rapid rate only one is non-Arab—Iran.

4. Imports of large amounts of Arab oil could not be entirely replaced from non-Arab sources in the Eastern Hemisphere.

In 1975 there will still be only three main non-Arab supplies of oil in the Eastern Hemisphere—Iran, Nigeria, and Indonesia. Based on 20 percent shut-in capacity in these countries (companies usually prefer to operate at 85 or 90 percent of capacity) these three countries in 1975 will have only about two million b/d spare capacity. Non-Arab countries in the Eastern Hemisphere now have less than one million b/d spare capacity (see Appendix C). In the event of an emergency which denied us Arab oil, the United States would therefore expect to increase imports from non-Arab sources by this amount at most; if the Arabs were also to deny oil to Europe, the Europeans would compete with us for the remaining available oil.

If all oil import restrictions were lifted, the Interior Department estimated in its submission to the Task Force that we would import between 5 and 7.78 million b/d in 1975. Of these imports 3 to 6 million b/d would be likely to come from low cost Arab countries. Such a quantity clearly could not be made up by non-Arab sources in the Eastern Hemisphere.

10. Paper Prepared in the Department of Defense[1]

Washington, undated.

DEPARTMENT OF DEFENSE
GENERAL SUMMARY

The part that oil plays in the defense posture of the United States is vitally important. It is a strategic material and one of the few items that is absolutely essential and foremost in the minds of military commanders. Along with weapons and ammunition, the needs of petroleum get the most attention. Petroleum cannot be stockpiled like hardware—the quantities required are too great, nor can our military forces operate very long without back-up support from refinery and production sources. Military petroleum capability is actually measured in terms of refining capacities, throughput of our pipelines, capacities of our storage terminals, as well as the producibility and deliverability of crude oil in the ground. Therefore, the vital role of oil in any defense effort is crystal clear. Information available today indicates that, with few exceptions, military equipment will continue to derive energy from liquid petroleum and its products for some time to come.

In 1949, military petroleum requirements were about 330 m/bbls/day and by 1967 they exceeded one million barrels/day—a three-fold increase and the curve continues upward.

The Department of Defense oil bill for FY 1969 will be over 1.7 billion dollars for approximately 444 million barrels of product. We are still the world's largest single oil purchaser. The very chance of success or failure in any conflict hinges on oil. As a matter of fact, the most striking point of commonality between the major weapon systems of the military departments is the thirst for oil. Subsonic tactical aircraft are being replaced by supersonic fighters which burn two to three times as much fuel per hour as the jet fighter used in the Korean conflict. The continuing mechanization of Army equipment and greater mobility of its troops assure a steady increase in its fuel requirements. While some Navy ships are now propelled by nuclear power, it will be many years before there is any appreciable decrease in the Navy's petroleum requirements.

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[1] Source: National Archives, RG 220, Records of the Cabinet Task Force on Oil Import Control, Box 48, General George A. Lincoln's Files, Subject Files, Miscellaneous OEP Responses. No classification marking. According to an attached routing slip, the paper, which had been submitted to the Task Force, was sent to General Lincoln's office on October 10.

In Southeast Asia today, about 50% of the military tonnage consists of petroleum products. While only about 10% of the petroleum required to support the war effort is supplied from the U.S. (with about 65% from the Arabian Gulf and 25% from the Caribbean and local sources), we must maintain a capability in the U.S. to supply our war needs in case foreign sources are denied, as they were for a short time (7–10 days) during the 1967 Middle East crisis.

In fact, the Middle East crisis posed the most severe test of the DoD petroleum system in recent years. It didn't last long enough to have any real impact, but we can draw some object lessons from it.

For example, it showed that:

—Our system is delicately balanced.
—Prolonged interruptions cannot be tolerated.
—U.S. domestic petroleum capability must be available to meet military need in case normal foreign sources are denied. These denials can take many forms. For example, a denial of a supply source in a normally friendly country, which may not at the time be in sympathy with our cause, can be just as final as the destruction of those sources by enemy action.

Our National Defense planning also requires a healthy oil situation in friendly foreign countries. Petroleum is found in many countries with which the United States has entered into treaty relationships. The purpose of these treaties is collective security. Hence, the national security of the United States cannot be separated from that of its treaty allies. In fact, for many years, the Department of Defense has promoted Western Hemisphere oil solidarity since its mobilization studies have shown that any type of extended emergency involving the United States and its allies could not be adequately fueled by the United States alone, and therefore, reliance must also be placed upon other free-world resources such as Canada and the Caribbean area.

In carrying out our treaty commitments, we, as a nation, face a variety of threats on many fronts. Despite the enormous and costly effort of our nation's intelligence organizations and resources, it is impossible to predict the place, time, scope, and contestants in any future emergency; hence, our logistics planners face a continuing challenge. It, therefore, follows that our national security extends far beyond the shores of the United States. The Department of Defense reaffirms that it is in the best interests of the United States and, in fact, our national security dictates that we have in existence dependable, capable, and willing overseas sources to satisfy our petroleum needs on a global basis.

In summary, the DoD is primarily concerned with an assured adequate source of supply in close proximity to the area of need and at the lowest possible cost to the taxpayer. One fact is clear and that is the U.S. alone cannot realistically plan to fuel any Free World type of an emer-

gency, therefore, we believe that no drastic action should be taken which would jeopardize our other Free World sources of supply. The interest of the DoD in expanding oil development by areas in order of priority is *first* the Continental U.S., *secondly* the Western Hemisphere and, *thirdly* other Free World areas. This order of priority includes, but is not limited to, the maintenance of a domestic production and refining capability to meet military and essential civilian requirements.

[Omitted here is material related to the Task Force Questionnaire.]

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11. Editorial Note

During October 1969, both Prince Fahd, Second Deputy Prime Minister of Saudi Arabia, and Mohammed Reza Pahlevi, the Shah of Iran, visited Washington to press their individual cases for greater access to the U.S. oil market. In his October 13 meeting with Secretary of State William Rogers, Prince Fahd asked whether the United States would purchase Saudi Arabia's share of current oil production as a means of improving Saudi revenue. The Saudi Government was in the process of developing broad changes to its military forces and faced budgetary considerations. Fahd also met with President Nixon on October 14 and made similar points. For records of these meetings, see *Foreign Relations,* 1969–1976, volume XXIV, Middle East Region and Arabian Peninsula, 1969–1972; Jordan, September 1970, Documents 131 and 132.

President Nixon met with the Shah privately on October 21. They were joined later by Peter Flanigan, the President's Assistant for International Economic Affairs. The Shah wanted to impress upon Nixon Iran's desire for increased oil shipments to the United States in return for an Iranian guarantee to spend the proceeds on U.S. military and civilian equipment. (Telegram 4185 from Tehran, October 3; National Archives, Nixon Presidential Materials, NSC Files, Box 1236, Saunders Files, Iran) According to Flanigan, during the meeting, Nixon indicated his desire to work out an increase in the sale of Iranian oil to the United States as consonant with U.S. policy in the Persian Gulf. (Memorandum to the Files, November 18; ibid., White House Special Files, Subject Files, Confidential Files, Box 63, [CF] TA 4/Oil) Flanigan later wrote that Nixon had asked him, in the presence of the Shah, to make every effort to assist in closing the gap between the Iranian Government's requirements for the sale of oil to finance its Development Program and the current 1970 projections of such sales. (See Document 37.) On an October 22 memorandum from Kissinger to Nixon concerning the back-

ground of the Shah's proposals, Nixon wrote: "get this done by the *companies* if possible—not by a change of quota." (National Archives, Nixon Presidential Materials, NSC Files, Box 1241, Saunders Files, Middle East Oil) For documentation on the Shah's visit, see *Foreign Relations*, 1969–1976, volume E–4, Documents on Iran and Iraq, 1969–1972.

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12. Memorandum From the Director of the White House Energy Policy Staff (Freeman) to the Executive Director of the Cabinet Task Force on Oil Import Control (Areeda)[1]

Washington, October 21, 1969.

This is in response to your request at the October 13 meeting[2] for suggestions as to possible policy alternatives. My thinking is, of course, tentative and subject to change as we all give these matters further thought.

The Essence of the Problem

Thus far we have not given sufficient attention to what seems to me the essence of our problem—a concrete definition of national security. Just what is it an oil import policy is supposed to guard against, what damage to the United States is likely to occur if oil imports are interrupted, and how likely is it to happen?

The oil import control program can be usefully compared to an insurance policy. We have devoted considerable attention to determining the annual premium for the present policy which we know is quite large. What is still vague is the amount of the face value of the policy and how often is it likely to pay off.

The submissions suggest that in the absence of any oil export control program we will still be able to provide our military establishment with sufficient petroleum in any conceivable emergency. The military needs are such a small fraction of the U.S. market that it is inconceivable that petroleum supplies for the Armed Forces could be put in jeopardy by the absence of an import control program. In fact, the military considers widely dispersed sources throughout the world to be an asset.

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[1] Source: National Archives, RG 220, Records of the Cabinet Task Force on Oil Import Control, Box 22, Meetings Files, OST (Freeman) October 21, 1969, Policy Alternatives. For Official Use Only.

[2] Summarized in Document 15.

We are thus speaking of security of oil supply for civilian uses—motor vehicles, space heating, and the like. The task force staff has provided an estimate of the potential shortage in an emergency. An emergency involving the interruption of Arab oil is the contingency which gives us serious concern.[3] Under free trade, by 1980 we would be importing some 3.5 million bbl/day of Arab oil—some 20 percent of our supply. Task force staff estimates show that various U.S. reserves, inventories and emergency increases in production could come within 0.5 million bbl/day of filling the gap. Emergency increases from non-Arab countries might also be available.

An oil shortage for the civilian economy of even 1 million bbl/day or 10 percent of supply that might occur once in a decade would be costly to the economy. But it could be accommodated by mild rationing (or stockpiling in advance). One measure of the cost would be the value of the crude—some ¾ of a billion dollars (at 2.00/bbl)—a small fraction of the annual cost of the import control program. Perhaps the measure should be higher. Prices would go up in such an emergency and the indirect losses to the economy and inconvenience to the public are additional costs difficult to measure.

It should also be kept in mind that a continuation of a control program based on quotas could itself result in a shortage of oil for consumers. Energy demands are growing so rapidly in the U.S. that greater oil imports will undoubtedly be needed with or without a control program. Oil will continue for many years to be plentiful in the world market. A future program should weigh the benefits of making available needed supplies from abroad year in and year out against the danger that some day imports may be interrupted.

To return to our insurance analogy, we are then faced with evaluating an insurance policy which is designed to assure oil supplies for our civilian economy. The potential shortage of oil without an import control program cannot be expected to cause monetary losses as great as the annual cost to the consumer of the present program, but there would be indirect damage to the nation from an oil shortage and the inconvenience it would cause.

If we accept the premise that the sole purpose of the import control program is to assure security of oil supplies to the U.S. market and agree that only civilian consumers are in any danger of curtailment,

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[3] The really serious problems would be faced by Western Europe. However, it does not appear that any conceivable U.S. import control system would enable us to fill the gap of a prolonged unavailability of Arab oil to Western Europe. I therefore assume that such a contingency would be covered by NATO war plans. [Footnote in the original. A handwritten notation reads: "No—NATO area does not include Middle East & does not provide for aggressive actions."]

then we might ask whether the American consumer wants the government to intervene in the market so as to increase his collective petroleum bill by some $5 billion annually ($8 billion by 1980) in order to avoid perhaps a once in a decade shortage.

It is, however, clear from the study that the present program—despite its stated purpose—involves more than just an insurance policy for oil consumers. There are foreign policy considerations including the assurance of a U.S. market for Venezuelan and Canadian oil, balance of payments considerations, and the impact on the domestic oil industry and the economy of the producing states of any sharp departure from present supply patterns.

We should also be concerned with shaping new policy so as to eliminate the government induced inefficiencies in the oil industry. These inefficiencies are a direct result of the present import control program and other federal and state policies that provide a solid wall of protection for the domestic oil industry from lower cost foreign sources, and supports production from inefficient, marginal sources and the operation of small inefficient refineries. The result is materially to increase the unit cost of domestic production thus inhibiting its ability to compete with foreign sources.

The objectives of a new import policy should therefore be to:

(1) Guard against any real possibility of interruption of oil supplies at a minimum cost to consumers.
(2) Encourage greater efficiency in the U.S. industry.
(3) Satisfy essential foreign policy considerations.
(4) Avoid sharp increases in U.S. balance of payments deficit.
(5) Avoid sharp dislocations in U.S. industry and the economy of producing states.

An Option for Consideration

If one looks at the basic considerations that should shape our policy, a powerful argument emerges in support of opening our domestic petroleum market freely to Western Hemisphere sources.

The free trade arrangements, of course, would be confined to Western Hemisphere production and appropriate arrangements will need to be worked out, especially with Venezuela and Canada, to assure that we do not indirectly increase our reliance on Eastern Hemisphere sources. Beyond that it would be desirable to develop a mechanism to assure that Western Hemisphere production can be expanded in an emergency and that it will, in fact, be made available to the U.S. market.

The submissions do not seriously question the security of supply of Western Hemisphere sources. The major sources (Canada and Venezuela) have proven their reliability in past crises. The sea lanes are as secure as shipments from the Gulf Coast to the Eastern Seaboard

and perhaps more secure than from Alaska. While the governments of some South American countries appear unstable, continuation of their exports of oil is important to their economy and they do not constitute a significant source for the U.S. in the foreseeable future.

Foreign relations considerations would appear to favor such an approach. I should think the President would welcome the opportunity to provide such a tangible demonstration of his response to the aspirations of Latin American countries for greater trade with the U.S. The same can be said for our relations with Canada. Balance of payments problems apparently would be minimal because hemisphere imports generate a greater return trade and because of the special financial arrangements with Canada.

A Western Hemisphere approach would not cause severe domestic dislocations, especially if there were a transition of a couple of years because the additional supplies would by no stretch of the imagination swamp the market (barring an Arctic "Middle-East").

The problem with the Western Hemisphere approach alone, however, is that it would do little to reduce the cost of the control program to the U.S. consumer. Without the competitive pressure of Middle Eastern oil on the U.S. market, U.S. consumers are likely to pay close to existing prices.[4] In any event, some imports from outside the Western Hemisphere are necessary because we would not want to shut off the U.S. market to such friendly oil producing nations as Indonesia, Iran, Nigeria and others now and in the future.

It would, therefore, seem desirable to utilize the availability of low-priced Middle Eastern oil to provide some degree of competition for Western Hemisphere sources. One option is complete free trade. However, complete free trade does raise a problem of supply interruptions, poses a threat to Venezuelan sales in the U.S., and apparently would adversely affect balance of payments. If for these or other reasons a control program is desirable, then a tariff at some level on non-Western Hemisphere sources should achieve these policy objectives with a minimum cost. The tariff should be at a level that would enable Western Hemisphere sources to compete with Middle Eastern oil in the absence of market demand prorationing and yet low enough to minimize the cost of the control program to consumers. The appropriate level of the tariff would appear to range from $0.25 to $1.00/bbl.

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[4] If Alaska and the Canadian Arctic prove to be another "Middle East" the situation would, of course, be different, but in that event there would be no justification for any control program because such prolific Western Hemisphere sources could meet world market competition. [Footnote in the original.]

The tariff approach provides a number of rather crucial advantages over a quota system, although there are, of course, some drawbacks, too.

(1) It would, in effect, impose a ceiling price for domestic production that would provide major savings to consumers over a quota system.
(2) It would assure the availability of oil in adequate quantities to meet growing U.S. needs.
(3) It would provide the U.S. Treasury with a source of new revenue.
(4) It would eliminate incentives to operate inefficient small refineries.

The drawbacks to the tariff system seem to be the need to justify something new to our trading partners and the difficulty of fixing the appropriate level. As the first, it would seem that a finding that Western Hemisphere oil is secure and Eastern Hemisphere oil is not can be supported. Consuming nations of Western Europe would have no real interest in objecting. As to producing nations, such a policy would appear to present a greater opportunity than present policy. The problem of the appropriate level is one that deserves serious thought but it need not be fixed for all time and could be adjusted upward if Arab oil penetrates the U.S. market excessively. At any rate, the possible disadvantages of a tariff should be weighed against the rather compelling advantages over the quota system which provides no competitive leverage and strictly limits oil supply.

Transition

There probably is not sufficient time to implement any major new policy on January 1, 1970 and any sharp change should probably be avoided in any event. It would also undoubtedly require many months to explore the details of any new policy with other nations. However, in considering this particular option, some notion of "how you get there from here" would perhaps be helpful even if it is only a first sketchy attempt.

One simple change that could be made for next year that would move us down the road to a Western Hemisphere policy would be to eliminate the change made in 1963 and place Canadian imports *outside* the quota as they originally were. This act would, in effect, increase overseas imports in 1970 by the amount of the Canadian imports, not an insignificant number. It may then be feasible to move into the Western Hemisphere free trade plus a tariff on other imports by January 1, 1971, with everyone having a year to plan for the change. The tariff on Eastern Hemisphere sources could be initiated at say $1.00/bbl and reduced in stages over several years. Small refineries and others dependent on the value of import tickets may present special problems.

The existing quotas could be frozen and reduced in stages over a period of years to coincide with reductions in the level of the tariff. In any event, those who are receiving special benefits are bound to be adversely affected by any measures to bring equity and reform to the program.

S. David Freeman[5]

[5] Freeman signed "Dave" above his typed signature.

13. Memorandum From Victor A. Mack of the Department of the Treasury to the Executive Director of the Cabinet Task Force on Oil Import Control (Areeda)[1]

Washington, October 31, 1969.

SUBJECT

Treasury Comments on Task Force Staff Paper X–1, "Oil Import Issues"[2]

Attached are Treasury comments on certain of the 49 items in Task Force staff paper X–1.

We have prepared a separate statement on item 29, dealing with various aspects of the balance-of-payments impact of additional oil imports.[3]

In summary:

1. We feel the staff analysis tends to understate the security problem, takes too sanguine a view of available emergency oil sources, brushes too lightly over the rationing problem, stresses only the unfavorable aspects of the present system or a substitute control system, tends to argue much more strongly for an unrestricted imports policy than prudence would suggest, and has not accorded proper importance to the extremely adverse impact on our trade and balance-of-payments accounts of an unrestricted imports policy.

[1] Source: National Archives, RG 220, Records of the Cabinet Task Force on Oil Import Control, Box 32, Agency Comments on Draft Report, Treasury Department Comments on X–1, Item No. 29. Limited Official Use.

[2] See Document 15.

[3] Printed below. None of the other attachments is printed.

2. The severe adverse trade and balance-of payments impacts involved in a policy of unrestricted oil imports cannot be ignored by the Task Force.

3. Treasury would not consider the Task Force has recommended to the President a policy in the national interest, if such policy requires us to be so dependent on foreign sources for our crude oil supplies as to require us to import two-thirds of these supplies by the mid-eighties.

4. As the staff correctly points out (item 10b), it does not seem sensible for us to furnish a secure oil source to our allies, while alone bearing the full cost of assuring such security. Therefore, we would want to recommend to the President that it should be a cornerstone of U.S. policy to have all countries who wish to share our oil in an emergency share also the year-to-year expense of assuring a secure supply.

5. To the extent we must rely on imports for our oil supply, we see convincing security arguments for maximizing the amounts coming from Canada and Latin America. While we realize some premium may have to be paid for some of this oil, we wish to hold this to the minimum necessary to obtain a guaranteed supply from these sources.

6. We are opposed to an unrestricted oil imports policy, but we would not be opposed to a drastic revision of the present policy so long as the basic national interest would be well served. We feel that the national interest might best be served by some form of combined tariff and quota arrangement. Briefly, we feel such a system would enable us to obtain the oil we need from the foreign sources we prefer at prices which would involve no or minimum premium payments above the world market price, which would insure some savings for U.S. consumers and, at the same time, would not be so disruptive of our domestic oil industry as to inhibit domestic exploration and drilling for crude oil and would not put an unacceptable burden on our trade and balance-of-payments accounts.

Attachment

STATEMENT BY THE TREASURY TO THE CABINET TASK FORCE ON OIL IMPORT CONTROL

(Comments on "Oil Import Issues" Item No. 29)

The Treasury disagrees with the staff argument that the Task Force is required, under the rules of the game, to ignore the extremely adverse impact on the U.S. balance of payments of adopting a policy of unrestricted oil imports. Even if the indicated impact were less substantial, we feel that the high priority assigned balance-of-payments

consideration in official policy decisions would make such consideration essential. And we feel that a $3 billion adverse annual impact by 1980 growing to over $5 billion by 1985—representing an *incremental adverse impact* over the situations that are estimated to prevail if an import-restricting system similar in effect to the present were to be in effect—of $1.8 billion in 1980 and $3.4 billion in 1985—cannot be brushed aside as "secondary" or non-basic.

The balance-of-payments analysis in the *Oil Import Issues* paper is unacceptably vague. We do not accept certain aspects of the methodology used in Task Force paper A–18, in particular allowing an extended time period beyond 12 months for the eventual re-expenditure in the U.S. of dollars paid out by the U.S. for additional crude oil imports. Attached is our revised review of Task Force paper A–18 and a table showing our estimates of the various trade and payments impacts involved.[4]

As this attached table shows, for every million barrels of additional oil imports per day, our import bill would rise by $730 million per year (at $2 per barrel, delivered cost). Since we will be importing over 6 million barrels more per day in 1980 than in 1970, this will bring our incremental import bill up by at least $4.5 billion; by 1985, it is expected to rise by $7.7 billion above the 1970 level. Netting out repatriated income and reasonable additional U.S. earnings generated by these increased expenditures, and taking account of the import rise which would occur even with the present controls, *the overall net additional adverse balance-of-payments impact would be almost $2 billion in 1980 and almost $3½ billion in 1985. These are important magnitudes.* They cannot be diminished by saying that if Canada holds our dollars, it's all right. Or that if we borrow the money back from other countries, we can lower the adverse impact.

The balance-of-payments impact cannot be ignored. Unrestricted imports would place a heavy burden on our trade and payments accounts.

Not only is it true that "it is after 1975 that we would see the larger impact of abandoning import controls today." We should also look beyond 1980, when, with an unrestricted oil imports policy, we would be, according to the Task Force staff (and many respondents), 50 percent dependent upon foreign oil (compared with about 20 percent today). How long before we are 66 percent dependent upon foreign oil? Available figures would indicate that we would reach this degree of dependency, with an unrestricted oil imports policy, shortly after 1985.

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[4] Not printed.

The Treasury does not believe the Task Force should feel itself bound to determine our oil import policy solely on national security grounds. We feel the Task Force is now charged with coming up with an oil import policy designed to be in the national interest. *We must insist that, over and above any security arguments, there are other vital economic interests of the United States which must be served by any new policy the Task Force sees fit to recommend.* Because of the very large import and adverse overall balance-of-payments impacts involved, we are seeking solutions which go beyond security interests to protect our international economic interests. We would not be satisfied with a more secure system which involved a similar adverse impact on our trade and payments accounts as would be involved in an unrestricted oil imports policy.

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14. Draft Paper Prepared by the National Security Council Staff[1]

Washington, undated.

Purpose

This paper discusses the national security issues raised in the Task Force's summary paper.[2]

Problem

Oil import quotas are justified on national security grounds. The Task Force estimates that the cost to the U.S. consumer of this national security policy was $5 billion in the year 1969 and will be $8.8 billion in the year 1980.[3]

For these oil import restrictions to be justified on national security grounds it must be the case that:

—they preclude impairment, resulting from inadequate supplies of oil, of U.S. or U.S. and critical allied war-fighting capability in the event of plausible war contingencies; or

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[1] Source: National Archives, RG 220, Records of the Cabinet Task Force on Oil Import Control, Entry 10, Box 4, Classified Documents, NSC Document, National Security Issues Raised in the Task Force's Summary Paper. Secret. No final version of this paper was found and no other NSC paper was found as having been submitted to the Task Force.

[2] A reference to Paper X–1. See Document 15.

[3] This cost results from the $3.30 per barrel domestic oil price which compares with the non-restriction price of $2.00 per barrel. [Footnote in the original.]

—they are required for reasons of foreign policy in order to prevent political blackmail which could endanger U.S. interests abroad, for example in the Middle East; or

—they are necessary to prevent a deterioration in the U.S. balance of payments so severe as to jeopardize the strength of the U.S. economy.

The Approach

This paper will examine the war contingency justification for oil import restrictions. This justification will be studied in two oil import cases: (a) under existing oil import restrictions and (b) after the removal of existing oil import restrictions.

Current U.S. Production Consumption, and Imports

In 1968 the U.S. consumed 13.1 million barrels of oil per day. U.S. production was 10.6 m bl/day leaving 2.5 m bl/day or 19% of total demand to be met from imports.

U.S. imports were allocated as follows:

U.S. Imports

	Source		Percent
I	Western Hemisphere		79%
	—Venezuela and Caribbean	47%	
	—Canada	19%	
	—Other Western Hemisphere	13%	
II	Middle East (Arab and Iran)		12%
III	Indonesia		3%
IV	Other		6%

War Demand

Possible war needs for oil fall in the following categories:

—supply adequacy: Is the total supply sufficient to meet war needs?

—security of supply: Will the sources of supply be available in wartime?

—transportation: Can available supplies be transported to meet wartime needs?

Present military consumption of oil is 8% of total U.S. demand. DOD estimates that a prolonged conventional war would increase this requirement by 6%. Such an increase could come from current non-war consumption or a production/import increase of 6%. This increase is strikingly different from the World War II experience which saw military demand increase from 1% of total consumption in 1940 to 33% of

total consumption in 1945.[4] This difference arises from the severalfold increase in oil production since the war (oil production has doubled in the last ten years).

In the aggregate, therefore, expected war demands for oil would be less burdensome than in World War II.

It still must be asked, however, whether the sources of current supply are secure in the event of war. This question will be addressed in the war contingency section below.

It must also be asked whether secure shipping capabilities are adequate to meet wartime needs. The World War II experience indicates the shipping, rather than adequate and secure supply sources is the most likely bottleneck. The only way the import restriction alternatives under consideration might impinge on the security or adequacy of transport is to the extent one or the other would require a greater reliance on wartime insecure means and routes of transport.

War Contingencies

Unlimited Nuclear War—Unlimited nuclear war, involving massive nuclear attacks on the United States, would so devastate the economy that consumption requirements would decline markedly. If such an attack were followed by prolonged warfare, domestic and military requirements for oil would be impossible to predict. There is no reason to expect production to decline more than consumption, and imports would probably be affected less than in proportion to consumption. Extensive port damage might make port capacity a critical bottleneck. To the extent this is true, and if the immediate post-strike recuperative ability of our defense forces is critical to a successful outcome in such a war, then stockpiling beyond the current 75 days of supplies (minus destroyed supplies) may be required.

However, except for port capacity, shipping requirements and supply requirements would likely be significantly less than in the case of prolonged conventional war, discussed below. Port capacity, it should be pointed out, is probably not significantly affected by oil import restrictions.

Limited Nuclear War—It would be expected that military installations or key cities would be the primary targets in a limited nuclear war.

Such a war, by definition, would not involve an attack on the gross military or civilian capacity of the U.S. Rather it would involve strikes

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[4] Only in the latter half of World War II was rationing required to allocate petroleum products. However, throughout the war crude oil was available in surplus from Venezuela and West Texas. Persian reserves were not exploited although a refinery was set up in Saudi Arabia to supply navy fuel to the Far East. [Footnote in the original.]

on targets selected for their punitive, political, or strategic (e.g. command and control centers) value. To the extent such a war escalated it would become similar to unlimited nuclear war as discussed above. To the extent it merged into a long-term struggle involving conventional and limited nuclear forces it would resemble the prolonged war contingency discussed below. However, because a limited nuclear war might be judged more likely than an unlimited nuclear war, it should be pointed out that in such a war a high premium would be placed on the recuperative ability of U.S. defense forces. As above, this would suggest port capacity would be the likely first bottleneck in the oil production-(import)-consumption sequence. As just noted, this issue would not favor oil import restrictions as a national security policy.

Prolonged Conventional War[5]—The U.S. currently bases its general purpose force defense planning on the assumption that it may have to conduct major and long-term ground operations against the Chinese in Asia or the Soviet Union in Europe. It would seem appropriate to consider the implications of such warfare for the two oil import cases under consideration, i.e. current restrictions or no restrictions.

Prolonged conventional warfare would generate a demand for 6% more oil than currently required by the U.S. and, among all war contingencies would place the greatest strain on the supply system. Import sources could be denied the U.S. for reasons of alliance with the enemy; U.S. production capacity could be damaged or destroyed; and oil shipped by sea from some or all sources could be cut off. In the absence of any estimate of war damage to U.S. production capacity, we move to the security of supply question.

The Arab world is the most likely candidate for wartime alliance with either the Soviet Union or China. Whether the Soviet Union in cooperation with China and with the acquiescence of possibly war-neutral consumers of Arab oil, such as Japan or Germany (in the case of a war with China), could sustain the Arab economies needs to be analyzed. However, since it is unlikely that a definitive answer can be arrived at, it may be more useful to assume that Russia could occupy the Middle East oil fields in war-time or destroy them. Thus, we arrive at the same conclusion—that these supplies could be denied the U.S.

In addition, prolonged conventional warfare could involve threats to the sea transport of oil to the U.S. Here, what is needed is a DOD estimate of the oil shipping capacity over particular routes that could be protected in wartime. Is it reasonable to assume that supplies from the Western Hemisphere can be protected? Would supplies be transportable from the Eastern Hemisphere? Iran? North Africa? Without

[5] Includes warfare with tactical nuclear weapons. [Footnote in the original.]

this analysis it would seem reasonable, as a minimum, that in a prolonged conventional war, the U.S. could not count on the availability of oil from the Middle East.

Limited or Regional Wars—On oil supply grounds alone, the most damaging limited war case would be a lengthy war in the Middle East. Insurgency (e.g. Vietnam) or civil wars (e.g. Nigeria) are unlikely to give rise to greatly increased oil requirements. Nor, because both arise from factors that are not of widespread significance, are they likely to threaten our multiple sources of supply. Thus, we return to the Middle East war contingency.

Two limited war outcomes could threaten Western access to Middle East oil: (a) the Arab countries could attempt to embargo oil shipments to the U.S., or (b) the oil producing and exporting capacity of the Middle East might be destroyed by Israel.

The CIA doubts that the Arabs could maintain an embargo for more than a brief period, primarily because there is too much dissention in the Arab world and because Saudi Arabia, Libya, and Kuwait want to maintain their Western ties. For example, in June 1967 they could not agree on such a policy.

However, since Kuwait, Saudi Arabia, and Libya subsidize the UAR and Jordan, Israel might consider that a strike against their supplies would indirectly reduce the threat to Israel. The CIA does not consider such a move likely but "cannot rule it out, especially if the Israelis become involved in a major, protracted war with the Arabs."

Conclusion

It would seem appropriate for the U.S. to plan on the assumption that as a result of either a regional war in the Middle East or a prolonged conventional war with China or the Soviet Union, we would not have access to Middle East supplies of oil. To what extent Western Europe would have access to these supplies is uncertain, although most likely their access would be severely curtailed.

If this conclusion is plausible, then the Task Force's calculations based on the assumption of a three-year denial of Arab oil seem appropriate if adjusted to reflect denial of access to Middle East oil. The results from these calculations, assuming import restrictions are removed, indicate that with mild rationing in the Western Hemisphere and severe rationing elsewhere, oil supplies would be adequate in wartime to meet free world requirements.

The major unanswered questions would seem to be:

—can the U.S. protect the supply of Western Hemisphere oil in wartime?

—is there a requirement to maintain surplus U.S. oil capacity in anticipation of direct conventional war damage to U.S. capacity?

If the answers to these questions are respectively yes and no, then the issue for decision is whether it is worth the annual $5–$8 billion cost for us to maintain quotas, given our ability to supply our own needs in any case and to meet free world needs with U.S. mild rationing and European severe rationing.

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15. Editorial Note

On October 13, 1969, the Cabinet Level Task Force on Oil Import Control held its first meeting of principal members since July to discuss the "B-series" fact papers. The B-series reflected changes to the A-series papers, based on continuing input from concerned agencies and bureaus. Executive Director Philip Areeda announced he would write a paper tying all of the fact papers together. Secretary of Labor George Shultz emphasized that there should be no leaks from the Task Force. Following this, Shultz and Secretary of Commerce Maurice Stans disagreed on how to arrive at appropriate figures to determine the balance-of-payments implications of the import program. General George Lincoln, Director of the Office of Emergency Preparedness, pointed out that the import program was originally established to protect the oil industry with a specific view to protecting the national security. Discussion followed on whether this assumption needed to be reevaluated. (Notes of meeting, October 13; National Archives, RG 220, Records of the Cabinet Task Force on Oil Import Control, Box 23, Task Force Meetings, Meetings)

The paper Areeda promised at this meeting was designated "X–1: Oil Import Issues, Pre-Policy Summary I," October 23, and conveyed "the essence" of the fact papers, reflecting corrections or objections communicated by agency staffs and highlighting where disagreement remained. It did "not consider administrative issues, foreign relations, or possible policy variations except insofar as hypothetical policies illuminate the meaning or possible significance of a fact." Indeed, "other papers will address those matters." The paper focused on Present Task, Cost of Import Restrictions, Risks to Security (generally, particular interruptions, war contingencies, and hypothetical test cases), Prospective Oil Market in 1975 and 1980, Coping with a Supply Interruption, and Test Cases and the Planning Horizon, and included statistical tables to support the overall argument. (Ibid., RG 174, Records of Secretary of Labor George P. Shultz, 1969–1970, Subject Files, Box 178, Task Force on Oil Import Control)

A lengthy discussion followed the distribution of X–1 at the October 25 Task Force meeting. It was determined that each agency would

submit revisions or additions to those portions of X–1 in which it had a particular interest. Agencies were also to submit policy alternatives at the next scheduled meeting. (Notes of Cabinet meeting, October 25; ibid., RG 220, Records of the Cabinet Task Force on Oil Import Control, Box 23, Task Force Meetings, Cabinet Meeting October 25, 1969)

The follow-up paper, "X–2: Oil Import Issues: Pre-Policy Summary I, November 4 Revision," incorporated some of the textual revisions to X–1 suggested by the Task Force and its member agencies. It then identified additional questions and contingencies, and demarcated those textual revisions of substance. X–2 was submitted to Task Force members on November 5. The policy and administrative papers requested at the previous Cabinet meeting were not ready for submission. (Memorandum from Areeda to the Task Force, November 5; ibid., Nixon Presidential Materials, NSC Files, Box 267, Agency Files, OEP, Vol. I)

The Task Force discussed X–2 at its November 8 meeting. Secretary Shultz began with a review of the policy issues: "(1) the level or intensity of import restrictions, if any, desired for 1975 and 1980; (2) the type of system for restricting imports; (3) the degree to which some or any countries should be preferred; (4) the means of effecting a smooth transition to any revised system; and (5) the kind of management system that would supervise the transition and general operations of the program and would maintain continuous surveillance of relevant data and developments under a revised program." Participants agreed that a tariff would be preferred over a quota if the transition problems could be surmounted and those dependent on the existing program were not seriously damaged, that national security considerations dictated a preference for Western Hemisphere sources, that the full implementation of preferences should be undertaken unilaterally, and that Iran presented a special problem.

Finally, Task Force members also discussed production restrictions, strategic reserve issues, balance-of-payments problems resulting from increased imports, and oil to allies for civilian needs. Assistant Secretary of Defense for Installations and Logistics Barry Shillito noted that the United States had to share oil with its allies in the event of an oil emergency, lest they go to war with supplying countries. C. Fred Bergsten of the National Security Council staff thought it more likely that the United States would face political denial of oil than would Europe or Japan. Assistant Secretary of State for Economic Affairs Philip Trezise added that "there is no practical way to meet the European needs in a severe emergency unless they put some of their own resources into it." Secretary Shultz concluded from this discussion that "we should formulate our own policy in the light of our own needs and express our willingness to respond to allies' needs to the extent that they wish to cooperate in helping themselves. They may now simply assume that we will provide for them in an emergency. It is important to disabuse

them of that notion. The State Department and other relevant agencies should consider raising this matter in consultations with Europeans in NATO or OECD."

Shultz also stated his "strong conviction," with which there was no disagreement, that a revised version of X–2 would become the basis for the final Task Force report. (Notes of Cabinet meeting, November 8; ibid., RG 220, Records of the Cabinet Task Force on Oil Import Control, Box 23, Task Force Meetings, Cabinet Meeting November 8, 1969)

The Task Force prepared a summary of X–2, entitled "Progress Report," and a one-page précis, both of which were submitted to the President on November 14. The summary listed the tentative conclusions of the Task Force: reducing the domestic price to $2.50 per barrel over a 2 to 3 year period would allow for the transition from the quota system to a tariff system; development of a management system was in order; and preferences should be as follows: Canada, then Latin America, and eventually Iran and other Eastern Hemisphere countries. The summary concluded that the lower price would benefit the public and oil consumers but harm areas of heavy domestic production such as Texas, Louisiana, and Oklahoma. (Ibid., Nixon Presidential Materials, White House Special Files, Subject Files, Confidential Files, Box 25, [CF] FG 221–22 Oil Import Controls)

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16. Memorandum From C. Fred Bergsten of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, November 10, 1969.

SUBJECT

Oil Import Policy—Progress of Cabinet Task Force

The Cabinet Task Force on Oil Import Control is now in the final stages of preparing its report to the President, which should be submitted by the end of November. Its recommendations should provide

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970. No classification marking. Sent for information. A stamped notation on the memorandum reads: "HAK has seen. November 17, 1969." A handwritten note by Kissinger reads: "President leans to 3. Let's consider meeting."

the basis for the 1970 oil import program, although I have doubts about the feasibility of moving so quickly on a program of such domestic political sensitivity.

At present, the United States limits oil imports to about 20% of U.S. consumption. This control is justified on national security grounds: freer trade would allegedly lead to excessive U.S. dependence on foreign oil, due to its much lower price, which might not be available in a crisis or might be denied us for political reasons. The main argument for liberalizing the program is its high cost to U.S. consumers.

The administration of the program has caused major domestic political problems and also a number of foreign policy headaches, most notably with Canada, Venezuela and Iran. (Canada and Mexico receive de facto preferential treatment, but they both want more.) Virtually all observers, except some oil companies, agree that the present program should be scrapped, but there is very little agreement on what should replace it.

The Task Force has been holding all-Saturday meetings for the past two weeks and will continue them (or the equivalent) until the report is ready. Last Saturday Secretary Shultz, who is Chairman of the Task Force, summarized the direction of its thinking as follows:[2]

1. Reducing oil prices in the U.S. from the present $3.30 per barrel to about $2.50 per barrel through increased imports. (This would raise imports to about 40% of domestic consumption by 1980. The Task Force staff estimates show that with such a program we could stand a one-year interruption of non-Canadian supplies without running short of oil. We would have to ration if the interruption lasted much more than a year. And our allies, who would have problems under any interruption of more than a few months, would not then be able to get as much substitute oil from us because our production would have declined in the interim.)

2. Shifting from quotas to tariffs as the import control mechanism, perhaps with quotas still in reserve if imports soared beyond our intentions.

3. Preferential treatment for Canada, then for Latin America, and probably some preference for our friends (e.g. Iran and Indonesia) among the rest. This preference would also be justified on our security grounds. Important foreign policy problems will arise whatever scheme we adopt regarding foreign suppliers.

4. An increased strategic reserve, preferably through shut-in production capacity rather than storage.

5. An improved management system for the program.

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[2] Minutes of the November 8 meeting are summarized in Document 15.

6. A transitional period to phase in the new program.

I am highly doubtful that the Task Force will reach unanimity on any of these issues. Secretaries Shultz and Kennedy strongly favor a significant liberalization of imports. Secretaries Hickel and Stans are resisting any significant changes at all. Neither State, Defense, nor OEP[3] has yet expressed a position.

The President will therefore probably get a paper with at least two or three options. It is for this reason, and in view of the desirability of getting a decision by January 1, that I have suggested the possibility of an NSC meeting on the subject in mid-December.[4]

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[3] In a November 7 memorandum to Lincoln, John Seigle, an officer in OEP, wrote that the Task Force was "slanted—if not stacked" in favor of the removal of import quotas. He cited procedural problems (the prepared papers arrived Thursday for Saturday meetings), the fact that neither X–1 nor X–2 had a "clear concept of national security to use as a test in determining the effect upon such security of various levels of oil importation," and that the papers subsumed all oil interruptions into a Middle East interruption. Seigle thought interruption of supply from Alaska might pose "a much more serious threat." (National Archives, Nixon Presidential Materials, NSC Files, Box 267, Agency Files, OEP, Vol. I)

[4] Kissinger decided against an NSC meeting. On an attached draft memorandum to Nixon, prepared by Bergsten for Kissinger's signature but not sent, Kissinger initialed the disapprove line and wrote: "Let me have discussions."

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17. Memorandum From the Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs (Rockwell) to the Assistant Secretary of State for Near Eastern and South Asian Affairs (Sisco)[1]

Washington, November 14, 1969.

SUBJECT

Mr. Samuels' Oil Meeting

At Mr. Samuels' oil meeting today, Phil Trezise reported on the meeting last Saturday of the Shultz Committee.[2]

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[1] Source: National Archives, RG 59, Bureau of Near Eastern and South Asian Affairs, Office of Arabian Peninsula Affairs, Lot 72D30, Records Relating to Saudi Arabia, Box 4, Saudi Arabia Pet, Petroleum General 1969. Confidential. A copy was sent to Davies, Van Hollen, and all NEA Country Directors.

[2] November 8; see Documents 15 and 16.

He said that a consensus has developed in the Shultz group in favor of a tariff approach to the problem. Although the situation is still highly tentative, the general idea is that within a couple of years we would change over to a tariff system preferential to the Western Hemisphere—i.e. Canada, Venezuela and the rest of Latin America. The objective would be to establish tariff levels which would bring about a price in the United States per barrel of oil of $2.50, as against the present world price of $2.00 and the present price in the United States of $3.30. This would be achieved by setting a low tariff for Canada and Venezuela, say 10¢ per barrel, and a much higher tariff for imports from elsewhere.

Phil said that this procedure presented many difficult problems such as that represented by the important U.S. interests which depend on the present quota system. The Department will have to negotiate with Canada, Venezuela and others some kind of arrangement about assurances and commitments. Some of these difficulties and pressures may be so great that the President will not wish to confront them and perhaps the outcome of all of this will be a decision to keep the present system with some modification.

Phil made clear that the basis for the trend in the Shultz group toward a tariff system discriminating in favor of the Western Hemisphere was national security. There was a feeling in the Shultz group that if we open the gates to Middle Eastern oil a situation could develop where 50% of our oil supplies would be coming from Kuwait and Libya. There was a strong feeling that we should not become dependent upon Middle Eastern suppliers because of the inherent instability in the area and the likelihood of interruption of supply. Accordingly, said Phil, there was "zero" chance of acceptance by the Shultz group of the position that access to the U.S. market should be open to all suppliers, without discrimination.

Phil commented that under a tariff system Middle Eastern suppliers would be in a better position than they are under the existing quota arrangement although he foresaw that most of the oil coming into the U.S. under the new arrangement would be Venezuelan or Canadian. However, Middle Eastern suppliers could move into the European market now being supplied by Venezuela. Phil could see no particular way that Iran could obtain preferred access to U.S. markets except by getting under the tariff price. There was the possibility of company-to-company arrangements but this might involve legal difficulties for the U.S. Government.

Under the new arrangement the President would be given wide discretionary powers to adjust tariffs up or down. Thus, if experience showed that the tariff on non-Western Hemisphere oil was too high to permit achieving a desired price in the U.S., it could be lowered. There

might also be a provision for a review of the structure every 4 years or so.

The new tariffs could be established by the President without new legislative authority on grounds of the interest of national security. In effect, Phil said, the U.S. consumer would be asked to pay for U.S. security.

Phil said that the oil industry has already got wind of this trend in the Shultz Committee and is very opposed to it. The matter is obviously a very delicate one and should not be discussed outside the Department. We may be asked to take a formal position before too long on a paper coming from the Shultz group.[3]

[3] A handwritten notation reads: "Nothing re gradual phase-out of tariff."

18. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to President Nixon[1]

Washington, November 19, 1969.

SUBJECT

Meeting with Members of the Cabinet Task Force on Oil Import Control
Thursday, November 20, 1969 4:30 P.M. (one hour)

I. *Purpose*

The purpose of the meeting is to provide Presidential direction to the Task Force in arriving at recommendations to be incorporated in its report.

II. *Background*

A. Attending the meeting will be Secretary Shultz, Chairman of the Cabinet Task Force on Oil Import Control; Philip Areeda, Executive Director of the Task Force; Peter Flanigan.

[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Subject Files, Confidential Files, Box 25, [CF] FG 221–22 Oil Import Controls 1969–70. Administratively Confidential.

B. The Task Force has the announced purpose of submitting its report to the President in early December and Areeda's personal commitments mean that he will have to substantially complete the work by the end of the year.

C. The background information on the meeting is set forth in the memorandum to the President of November 14, attached hereto as Tab I.[2] The attachments to that memorandum give, in varying degree of detail, additional information.

III. *Points of Discussion*

Secretary Shultz and Areeda lean toward a Task Force recommendation of major revisions of the oil import quota program. (At the time the Task Force was formed Areeda made it clear that he believed the study should not be undertaken unless the Administration was willing to make such revisions.)

Discussions with George Bush, Bryce Harlow, and briefly with John Mitchell confirm my belief that the political impact of major revisions would be severe in the oil producing States. While Secretary Shultz and Areeda are aware of these political implications, this does not alter their judgment.

Recommendation: I recommend, as set forth in the memorandum attached at Tab I, that the President request the Task Force consider the mechanisms for a change in our oil import program. Specifically, a tariff-quota system should be developed. He should further recommend that no action be taken which substantially reduces the current domestic price of oil of $3.30 per barrel. It might be suggested that any reduction be limited to the $.20 per barrel increase put into effect in February of this year.

IV. *Other Points You May Wish To Raise*

There is no unanimity of feeling on the Task Force at this time. Secretary Stans and Secretary Hickel are the members least enthusiastic about any major changes. Secretary Stans feels a cleaning up of the current mechanisms is all the change that is warranted now, in that the full effect of discoveries on the North Slopes of Alaska and Canada has not yet been determined. Final determination of these discoveries will be controlling as to domestic oil production in the United States.

In addition to Secretary Shultz and Areeda, Secretary Kennedy and Henry Houthakker, for the CEA, are most in favor of major revisions in the program. Houthakker feels that oil import quotas are economically indefensible, while Kennedy feels that the benefits arising from

[2] Not attached and not printed. The memorandum transmitted the November 14 Progress Report and its one-page summary; see Document 15.

quota tickets should accrue to the Treasury rather than the ticket holders. However, Secretary Kennedy recognizes the broad political and economic implications of any revisions.

Peter M. Flanigan[3]

[3] Peter M. Flanigan initialed "PMF" above his typed signature.

19. Notes on a Meeting of the Cabinet Task Force on Oil Import Control With President Nixon[1]

Washington, November 20, 1969.

1. *Avoiding decision.* Not possible to do nothing. Failing to act is to maintain the present exaction upon consumers and on the economy.

2. *Present restriction indefensible.* Everyone concedes the need for reform in present administrative arrangements. Beyond this, our analysis demonstrates the difficulty of making an intellectually defensible case for maintaining the present degree of restriction—least of all by a tariff which confers effective price determining power on Texas.

3. *Difficult public posture in maintaining present restriction.* The President himself set the forces in motion for a fundamental reexamination, created an outside professional staff and a high-level cabinet committee to examine the merits; and we are committed to issuing a public report. That report will permit the President legally to maintain the present program, but it will not be an easy posture to defend.

4. *"Surrender to powerful special interests."* Public concern on this score is, unfortunately and unjustly, a particular cross for Republicans to bear. But such surrender will be perceived by many—given the absence of a strong justification for this program.

5. *A "festering sore"—bound to get worse.* With the issue opened by the administration, with reports of private meetings with a major oil

[1] Source: National Archives, RG 220, Records of the Cabinet Task Force on Oil Import Control, Box 22, Meetings Files, Philip Areeda's Notes from Meeting with the President, 11/20/69. No classification marking. According to the President's Daily Diary, Nixon met with Flanigan, Shultz, and Areeda from 4:37 to 5 p.m. and again from 5:32 to 6:50 p.m. (Ibid., Nixon Presidential Materials, White House Central Files)

executive, with restriction coming to bite increasingly hard, and with the public record already developed on this issue—intense concern and sniping will grow rather than diminish. President may be forced to action at a less opportune time.

6. *President's prestige.* Having opened an issue whose resolution will encounter severe flak no matter what he does, the President's status will be most enhanced by a decision on the merits. The strength of standing on the merits even when it does not stand him in good stead with powerful private interests will enrich the President's prestige. Over one or two administrations, nothing so raises a President's standing as the widespread realization that he does the right thing. The President's standing in circles not otherwise friendly to him was immeasurably improved by his decision on the welfare program. The same can happen here. In the long run, this is a President's strength.

7. *Inflation control.* The Administration has said that it will not "jawbone" but "will act." This is the opportunity to act—especially with word of price increases in heating oil and coal.

8. *Upstage Kennedy & Proxmire and other critics.* Controversy created by them will keep the benefit to consumers alive. President Nixon acted in a straightforward, highly dispassionate, and analytical way as compared with (1) failure of two Democratic presidents to act notwithstanding increasingly severe restraint, (2) Kennedy–Muskie[2] (etc.) half-baked proposal for "special deals" for particular oil companies, and (3) failure of consumer critics even to try to analyze the national security issue. Furthermore, their talk of abandoning all import restrictions obscures the issue: no sensible person would remove restrictions precipitously; the only sensible step is the one we're now [hopefully] taking.

9. *Discrediting "national security."* In a time of widespread doubt about the meaning of national security and distrust about what many regard as the national security cloak for various industrial interests, the national government would lose trust and credibility if it invoked "national security" to confer on a powerful industry a special benefit not compellingly justified on the merits.

10. *Consumerism is a coming issue.*

11. *Market and free enterprise system* v. subsidies, unjustified government intervention, and special deals from government to a favored few.

12. *Greater home for Venezuelan oil.* (Although it should be noted that anything less than unlimited access for Venezuela to our market at the $3.30 price will not be applauded there.)

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[2] Senator Edward Kennedy (D–Massachusetts), Senator William Proxmire (D–Wisconsin), Senator Edmund Muskie (D–Maine).

20. Notes on a Meeting of the Cabinet Task Force on Oil Import Control With President Nixon[1]

Washington, November 20, 1969, 4:40–5:10 p.m. and 5:30–6:45 p.m.

Basic conclusions on the merits were stated and accepted.

There was ready acceptance of the tariff approach and the need for a management system centered in the Executive Office and surrounded by some Cabinet Committee mechanism. All agreed that the program should be "cleaned up."

The industry should be on notice that further relaxation will come. A public recommendation for the $2.50 price would therefore be appropriate. The report should be straight forward. It might be preferable to speak in terms of various levels of restriction rather than price levels.

There was some willingness to take a modest first step, perhaps to $3.10 [although "rolling back" prices to the February level approximates "price control"].

The need for continued "working with congress" was stressed together with the implications of a substantial price change for 1970 elections in several producing states.

Other factors mentioned included those noted on the attachment.[2]

We were to submit our report in December; it can then be polished and printed before the President's decision expected in late January or early February.

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[1] Source: National Archives, RG 220, Records of the Cabinet Task Force on Oil Import Control, Box 23, Task Force Meetings, Meeting with President, November 20, 1969. Brackets are in the original. These notes are an unattributed itemization of the basic conclusions reached at the November 20 meeting; see Document 19.

[2] Presumably a reference to Document 19.

21. Memorandum From C. Fred Bergsten and Harold H. Saunders of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, November 25, 1969.

SUBJECT

Request for Presidential Appointment with Oil Executives

The memorandum at Tab I[2] recommends that the President not honor the requests of the Chairmen of the Standard Oil Companies of Indiana and New Jersey to see him, but that you and Secretary Rogers see them instead. The requests were transmitted via Secretary Kennedy,[3] who makes no recommendation on them.

The oil men are concerned:

—that high Administration officials, including you, will not see them;

—that sufficient weight is not being given to their insights on Middle Eastern policy;

—that the Task Force on Oil Import Control may not consider their interests sufficiently;

—that Israeli oil drilling in the Gulf of Suez will bring another crisis.

On this last point, the State Department has been unable to make any impression on the American sponsor of the Israeli project, John King. After a conversation with the President, King—who is a large Republican contributor—has implied that the President is not opposed to the project. This has tied State's hands. It may require a word from the President—or a Treasury threat to invoke Foreign Assets Controls—to stop King. (Saunders will handle that in a separate memo.) A Pres-

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[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Subject Files, Confidential Files, Box 63, [CF] TA 4/Oil, 1–20–69 to 2–28–70) No classification marking. Sent for action. A handwritten notation reads: "OBE—Return to Harold Saunders."

[2] Attached but not printed is an undated draft memorandum.

[3] Kennedy had met with 17 oil executives at the home of Representative George H.W. Bush (R–Texas) on November 10. Kennedy reported on the meeting in a November 17 memorandum to Nixon. (National Archives, Nixon Presidential Materials, White House Special Files, Subject Files, Confidential Files, Box 63, [CF] TA 4/Oil 1–20–69 to 2–28–70) In his November 12 note to Kennedy, Bush stated he was "appreciative of your telling them how I bled and died for the oil industry. That might kill me off in the *Washington Post* but it darn sure helps in Houston." (Ibid., NSC Files, Box 1241, Saunders Files, Middle East Negotiations Files, Middle East Oil)

idential meeting with John Swearingen and Ken Jamieson would not help do so.

We suspect that the oil men mainly want to see the President because they fear the outcome of the study on oil imports.[4] The President has generally avoided receiving pleaders on this issue, and I think he should continue to do so. Peter Flanigan, who is the chief White House liaison with the Task Force, concurs.[5]

However, their insights on overall Middle Eastern policy could be helpful and they should not continue to be avoided by all of the leading Administration officials.

Recommendation

That you sign the memorandum at Tab I, recommending that the President not see the oil men but that you and the Secretary of State do so instead.[6]

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[4] Kennedy wrote in his November 17 memorandum that the companies were "very much concerned about any change in oil import quotas. They are working on this through the Governors of various states, as well as with direct appointments with members of your Cabinet Committee." He also noted that the Standard-New Jersey and Standard-Indiana Chairmen wanted an appointment with Nixon to discuss Middle East developments. (Ibid., Nixon Presidential Materials, White House Special Files, Subject Files, Confidential Files, Box 63, [CF] TA 4/Oil 1–20–69 to 2–28–70)

[5] Flanigan felt such a meeting would be "inappropriate" as Nixon had declined to meet with governors of either the producing or consuming states to discuss the oil import issue. (Memorandum from Flanigan to Staff Secretary, November 20; ibid.)

[6] Kissinger did not sign the memorandum. He sent a short note to Nixon stating that he had already informed the executives that Nixon's schedule made a meeting difficult, but added, "on second thought, however, I believe that while there is no strong substantive reason for you to do so, an appointment would be desirable in view of their importance." Nixon checked the disapprove line, but Haldeman wrote a note indicating that they should join an already scheduled meeting with Robert Anderson and John McCloy on the Middle East. (Ibid., Box 5, [CF] CO 1–7 Middle—Near East 1969–1970) The meeting took place on December 9 at 11:37 a.m. Rockefeller, Jamieson, Warner, Anderson, and McCloy were present. (Memorandum from Dwight Chapin to Kissinger, December 2; ibid.) The talking points for this meeting are Document 24.

22. Memorandum From President Nixon to His Assistant for Domestic Affairs (Ehrlichman)[1]

Washington, December 1, 1969.

In considering what we do with regard to the obsolete programs, Agriculture and Oil Imports, I think we must weigh all of the decisions insofar as they may affect key Senate races in 1970. I do not want the judgment of the politicians to be conclusive, but we must have in mind our choice doing what we conclude is the right thing this year and not being able to do anything after the elections next year, or postponing a decision until after the elections so that we can do something positive next year, and the year afterwards. Consequently, I want you to discuss all of these decisions with Harlow so that I can get a properly balanced picture before moving one way or the other.

[1] Source: National Archives, Nixon Presidential Materials, White House Central Files, Subject Files, Box 25, EXTA 4/CM Tariff Imports, Oil October–December 1969. No classification marking.

23. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, December 4, 1969.

RE

National Security Aspects of the Oil Import Quota Problem

I. *General Arguments*

A. The Task Force Staff study indicates that the National Security would be protected at $2.50 per barrel price for crude oil versus the current $3.30 price. To the extent that this position is generally known and accepted, any maintaining of a price above $2.50 per barrel based

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970. No classification marking. Kissinger wrote on the memorandum: "Put in Oil folder for next meeting with Flanigan." Another copy of this memorandum bears the handwritten notation: "Per P. Flanigan this memo is to receive no distribution." (Ibid.)

on the National Security argument (the only statutory argument for maintaining a price above the world price) undermines the strength of the National Security argument in future cases. There is a growing skepticism regarding the National Security argument which could make more difficult its effectiveness in the future even when the National Security is really endangered.

B. The President to date has projected a position of willingness to take the hard path where it is right. This position would be seriously undermined if in this instance it appeared he was avoiding the hard path for political gain. To that extent, it would diminish his ability to lead his country during the future down the hard path.

C. The oil industry is a major national industry. For 10 years it has made investments and developed resources on the basis of a national program to limit imports. To the extent that imports are increased and domestic prices decreased, these assets lose value. At $2.50 per barrel the loss of value is substantial and the effect on the domestic oil industry, particularly in producing states such as Texas, California, New Mexico, Wyoming and Kansas, severe.

II. It is generally agreed that the National Security interest demands an assured supply of petroleum. This in turn demands a decision as to which sources are assured—the lower 48, North America, the Western Hemisphere, or Eastern Hemisphere. The Task Force's conclusions are conservative in that they assume no more than assurance of production in North America. Less severe and conservative assumptions (availability of some Latin American production, or no long-term denial of oil from all Eastern Hemisphere countries simultaneously) would lead to a less restrictive policy and even adoption of a free trade ($2.00) position.

III. The program being worked out gives preference to imports from Canada over imports from Venezuela, to imports from Venezuela over Iran, to imports from Iran over the balance of the Middle East. The National Security interest is affected by the international ramification of such governmental preferences.[2]

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[2] In a December 2 briefing memorandum to Kissinger, requested by Haig, Bergsten itemized the various options the Task Force would recommend. He noted that the "rationale for controlling oil imports is national security and it is true that completely free trade in oil might expose us to blackmail by the Middle Eastern suppliers. However, the present level of control and all of the options under consideration by the Task Force do not raise serious security problems and are essentially protective devices for the domestic oil industry. Tremendous pressure is now being brought to bear on the President and all key officials involved in the study to minimize or avoid changes in the program." Bergsten thought Flanigan supported the majority view within the Task Force for some liberalization of the program. (Ibid.)

24. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon[1]

Washington, December 8, 1969.

SUBJECT

Your Meeting with the David Rockefeller Group

Messrs. Rockefeller, Jamieson, McCloy, Anderson and Warner & Swearingen have asked to discuss the Mid-East with you.[2]

What they will say. All of these gentlemen for their own separate reasons are very much concerned about the trend of events in the Middle East.[3] The oil industry, of course, is the most affected with investments that contribute about $1.7 billion annually to the black side of the U.S. balance of payments ledger.

Mr. Rockefeller's principal concern is that the Arab leaders at the summit beginning December 20 will adopt resolutions which would:

—break relations with the U.S.;
—lead to restrictions on oil company concessions, if not actual nationalization.

I understand that he will urge you to send an emissary to Cairo and perhaps other capitals within the next week with a new proposal on an Arab-Israeli settlement in order to head off any such possible action at the summit. He may also state that it would help our position in the area if the United States would state clearly its position toward an Arab-Israeli settlement (for example, in a speech such as that proposed by Secretary Rogers).[4]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1241, Saunders Files, Middle East Oil. Secret; Nodis. Sent for information.

[2] Prior to the scheduled meeting, Saunders recommended to Kissinger that Nixon not meet with the oil industry executives "since it might leave him vulnerable to criticism that he was listening to special pleading at a time when oil import policy was under review." But as the meeting was to discuss the Middle East and not the Oil Task Force, Saunders recommended that John Swearingen be included. Kissinger concurred. (Memoranda from Saunders to Kissinger, December 2, and Kissinger to Nixon, December 2; both ibid.) Swearingen's name was added by hand.

[3] Jamieson and Warner expressed their concerns in a November 26 letter to Nixon, stating that, "Our long experience and extensive contacts in the Arab world indicate that America's political, strategic and economic interests throughout the area are in jeopardy." Should the United States be forced out of the Middle East, its "vast oil reserves will come under the control of radical Arabs and in some measure the Soviet Union, who would thereby gain a powerful political weapon. Such a development would undermine the defense posture of Western Europe and Asia." (Ibid.)

[4] A reference to Rogers' December 9 speech entitled "A Lasting Peace in the Middle East: An American View," delivered at the 1969 Galaxy Conference on Adult Education in Washington. Rogers stated that the administration wanted to play a direct role

Assistant Secretary Sisco does not believe the Arabs are likely to go as far as Mr. Rockefeller fears, although there is no question that the Arabs are in an ugly mood. Sisco feels strongly that we should not be in a position of pleading with the Arabs not to close the door on a political settlement. To do so would be to act as if a settlement is more in our interest than in theirs.

The main problem with this proposal is that it could involve making new concessions in our position on peace terms, which has already gone farther than the Israelis are now ready to accept. Nasser knows our present position, so all we could do with it is to send someone to explain its good intentions. Nasser might well exploit such a mission.

The one move that could be significant would be an offer to mediate in the Israel-Jordan negotiations. This is one of the tactical moves that could follow from decisions to be considered in the NSC on Wednesday. It might be quite important in strengthening the defenses of the moderates against the radicals if King Hussein could quietly report such a U.S. move.

Talking points.

1. We understand the problem. Lack of progress is due to the intractability of the problem and not to lack of understanding.

2. We are making a genuine effort to do something about it. Outsiders cannot make the peace. The belligerents must have the will to reach a settlement and the political strength to follow through on it. Outsiders can try to develop a diplomatic alternative to war, and that is what we are trying to do.[5]

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in solving the Arab-Israeli crisis. He reiterated the need for a balanced U.S. policy, for good diplomatic relations with all nations in the region, and for U.S. commitment to a just and lasting peace. (Department of State *Bulletin,* January 5, 1970, pp. 7–11) See also *Foreign Relations,* 1969–1976, volume XXIV, Middle East Region and Arabian Peninsula, 1969–1972; Jordan, September 1970, Document 15.

[5] According to the President's Daily Diary, Nixon met with Rockefeller, Jamieson, Warner, Anderson, McCloy, Swearingen, and Kissinger, December 9, from 11:37 a.m. to 1 p.m. (National Archives, Nixon Presidential Materials, White House Central Files) No memorandum of conversation has been found, but in his memoirs, David Rockefeller provides an account of the meeting. Rockefeller noted that the oil men expressed alarm about the pressure the radical regimes in Libya, Algeria, and Iraq were putting on the oil companies and possible Soviet gains. Rockefeller passed on information from Faisal on his concerns about anti-Americanism in the Middle East. (*Memoirs,* pp. 276–278)

25. Transcript of a Telephone Conversation Between the President's Assistant for National Security Affairs (Kissinger) and Secretary of Defense Laird[1]

Washington, December 9, 1969, 3:20 p.m.

K said he has a problem on the oil import business. L said so do I. K said this thing has been merrily cooking along and nobody has been paying any attention to the political implications. L said he just went over this with Shillito this morning. K said he went over it with Shultz. K said the President hadn't focused on it before, but now he wants a delay. K wondered if L and the Joint Chiefs could delay it until the P has focused on it. L said sure. K said can you do that? L said sure. K said he had breakfast with Rowland Evans[2] and he suggested that L is the most outstanding man in government. K said he fought with him like hell on that issue.

L said on the tariff on the Middle East oil—the Arabs will think we picked them out this time to put a $1.25 tariff on. L said they will raise hell. And L said our domestic producers are all against it. K said there are two issues: tariff against quota and lowering the price of oil. L said we shouldn't put the commission on it; it should be in the White House in OEP. K said what we've got to do is get the thing screwed up enough that the P gets some breathing space.

K said he would be seeing L on Thursday; he has a number of things on the NSC to discuss with L. K said he thinks L and Bill should talk 5 or 10 minutes about NATO at NSC. L said make it short, it's not that significant. K said you and I are getting together Thursday morning; there are a number of things on NSC K wanted to talk about.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 3, Chronological Files. No classification marking.

[2] Rowland Evans was a journalist and TV commentator.

26. Transcript of a Telephone Conversation Between the President's Assistant for National Security Affairs (Kissinger) and Secretary of Labor Shultz[1]

Washington, December 15, 1969, 10:41 a.m.

S said he was calling to see if there had been any word on the oil problem. K said he doesn't see how he can make a national security objection, and that is the only thing I am competent to make. S said okay thank you very much. K said right; you have your own problem with Defense and the JCS which I understand you are dealing with. S said yes; Defense is on board; they talk like they're not, but they are. S said is it okay for me to say you have no objection on a national security basis? K said yes, with Presidential perspective. S said okay thank you.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 3, Chronological Files. No classification marking.

27. Letter From the Deputy Secretary of Defense (Packard) to the Director of the Office of Emergency Preparedness (Lincoln)[1]

Washington, December 15, 1969.

Dear Abe:

I am enclosing a draft of a Defense Department position on the oil import matter.[2] This draft will have some further editing before it is forwarded. I have a few personal observations I would like to make on this matter.

The present problems with the oil situation, to the extent there are problems, are not a result of quotas, but rather a result of the way the quotas are administered.

[1] Source: National Archives, RG 220, Records of the Cabinet Task Force on Oil Import Control, Entry 24, Box 1, Classified Documents, Confidential Letter from Packard to Lincoln. No classification marking.

[2] Attached but not printed is a Defense Department response to ongoing revisions of numbered paragraphs of X–2.

I see no serious objection in going to a tariff system instead of a quota system. I think, however, in making this decision we must determine whether this new arrangement will be administered to meet domestic price objectives or national security objectives.

In the Defense Department we have to take the position that national security objectives must be over-riding. Beyond that the Administration should think a long time before it adopts a system that is, in effect, a Federal price control system.

I believe the administration of whatever system is adopted is the key to the matter, and therefore believe that a Federal Commission should be established; that it should be chaired by the OEP; that it should have a strong representation from Defense, and that the commission should be charged with administering the system, either tariff or quota, with the following objectives in mind:

A. Exploration should continue at close to the present rate so as not to allow an undue drop in domestic reserves.

B. In the present environment it is crucial to avoid discrimination, or the appearance of discrimination, against the Arab countries of the Middle-East. This is crucial to the Defense position in the world because of the critical reliance by our NATO allies on Middle-East oil. Action, particularly at the present time, which might contribute to a further deterioration of the situation in the Mediterranean is more critical to Defense interests than the level of domestic reserves.

It should be recognized that this is a complex industry and any change from an established system to a new system will be upsetting, and therefore transition, if it is undertaken, should be very gradual.

While it is true that the level of the domestic prices will affect the reserve position, and while we can accept some reduction in the level of reserves, let me again emphasize, I do not believe it is wise to announce a specific price objective at this time.

Sincerely,

David Packard[3]

[3] Packard signed "Dave" above his typed signature.

28. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to the President's Assistant for Congressional Relations (Harlow), the President's Assistant for Domestic Affairs (Ehrlichman), and the President's Assistant (Haldeman)[1]

Washington, December 15, 1969.

Considerable thought has been given to finding a mechanism for moving the decision on oil import quotas from the White House to the Hill. In order to make such a move a solution, or even a partial solution, to our dilemma, it must avoid the necessity of a White House recommendation. Such a recommendation would carry with it all the opprobrium of an adverse decision without bringing with it the credit that accrues with strong leadership.

The current draft of the Report runs to approximately 400 pages excluding appendices. It, in turn, is based on some 100,000 pages of data submitted for the record. Based on this data, much of it conflicting, the Report reaches certain conclusions as to the current facts and, based on those conclusions, makes projections as to what the facts will be in the future. These readings of current and future facts are then used as a basis for the program which is proposed. Reasonable men can differ as to the current status of the industry, projections as to the future status of the industry, and the degree to which the national security is affected by that future status.

The President could send a message to the Congress pointing out that his Task Force, on the basis of careful research and study, had reached certain conclusions on which a new program to restrict oil imports had been based. He could further state that this program would not only affect the national security, but also a great industry whose major investment decisions for ten years had been predicated on a different program. He could go on and say that because of the importance of the matter, he felt it was essential that both the Legislative and Executive branches of the government agree as to the bases on which the proposed oil import program rested. Therefore, he was requesting that a select committee of both houses of the Congress hold hearings to satisfy themselves as to the basic information and as to the judgments reached by the Task Force. The committee would be expected to review the submissions, to consider such additional information as they wished, and to probe the judgments made as to future conditions. The committee would be asked to submit its report to the President after six months, upon the receipt of

[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member and Office Files, Egil Krogh 1969–73, Box 71, Oil Import, Policy, Depletion. Confidential.

which report the President could then determine the appropriate action to be taken with regard to a new import program.

The merits of the above proposal are that it forces the Congress to reach judgments regarding the national security aspects of the oil import program. If they conclude that it cannot be defended on the national security ground, it makes it clear to them that they must take action to provide other grounds. The program carefully avoids the necessity of an Administration recommendation for action until after Congress has acted.

The demerit of this proposal is that it is not one of strong leadership. It is an obvious avoidance of making a hard decision and to that extent is not helpful to the President.

I would appreciate your comments as to the above proposal, any suggestions you might wish to make to alter or improve it, and your position on whether or not it should be recommended to the President.[2]

[2] In his response, Ehrlichman wrote that he agreed with Flanigan for the most part but disagreed with the suggestion that a select committee send a report after six months "since we are trying to get this decision off the President's desk. This is just an invitation to return the hot potato to him six months from now." Ehrlichman preferred that the President send the report to Congress "with the statement that he finds this to be a matter beyond the exclusive purview of the Executive and that the ball is now in the court of the Congress for action." He continued that the President might request an "interim adjustment" for one or two years with the admonition that no further temporary steps beyond that date would be taken and that Congress had "better get going and arrive at a permanent solution to the problem before the temporary measures expire." (Memorandum from Ehrlichman to Flanigan, December 31; ibid.) No response from Harlow or Haldeman was found.

29. Memorandum From Alexander M. Haig of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, December 16, 1969.

SUBJECT

Oil Report

Peter Flanigan stopped down to register his concern on the oil report. He states that while Laird has done a good job in fuzzing up the

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970. Top Secret; Sensitive. A handwritten notation by Kissinger at the top of the page reads: "I am staying out of this."

issue, Shillito indicated that he would support two statements in the report which are too definitive and which could be a source of the most serious difficulty. He asked that you call Laird and ask him to insure that Shillito accepts the $3.00 price *with* the caveat that this price is acceptable *if* U.S. reserves are not affected by this action (this conditional phrase will permit a more subjective control of the reduced price since, in effect, any lowered price will affect our reserve status).

There is another statement proposed for the report which has two alternate caveats—one which says that the U.S. will consider going below the $3.00 price restriction if the Northern slopes explorations pan out. The second caveat would say we would do so *when* they pan out. Flanigan prefers the *if* conditional since it also provides more flexibility. He has asked that you call Laird and ask him to tell Shillito to:

1. Insist on the caveat on the $3.00 price which accepts this price "if reserves are not affected."
2. To press for the "if the northern slopes" clause.

Flanigan came by later and stated he also needs formal JCS statement on whether or not the JCS support the $3.00 price.

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30. Memorandum From Vice President Agnew to President Nixon[1]

Washington, December 16, 1969.

SUBJECT

Oil Import Quota Changes

While I am well aware that you are conversant with the strong opinions being voiced by so many of our supporters in oil producing states, the weight and the persistency of contacts require me to write this memorandum.

We are not just receiving the usual predictions of political retaliation, but flat statements that successful House and Senate campaigns

[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member and Office Files, Egil Krogh 1969–73, Box 71, Oil Import Policy, Depletion. Confidential; Eyes Only. Printed from an unsigned copy. A copy was sent to Ehrlichman and Haldeman.

will be impossible in major states should these changes receive even an implication of your favor.

My judgment is that deferral of the recommendations will not be sufficient to quiet the troops. Some reliable sign of your future course is imperative to allay the fearful speculation now rampant in Texas, Louisiana, Alaska, California and other such states.

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31. Memorandum From the Assistant Secretary of State for Economic Affairs (Trezise) to the Executive Director of the Cabinet Task Force on Oil Import Control (Areeda)[1]

Washington, December 17, 1969.

I am enclosing a statement which Secretary Rogers wishes to have incorporated in the Task Force Report. I leave to your discretion where the statement should be placed, but it seems to me that it might be handled as a footnote after the first sentence in paragraph 424–A.

Philip H. Trezise

Attachment

Statement by Secretary of State William Rogers

The Department of State considers that changes in the oil import system are required and that the proposed new system represents a move in a desirable direction. It wishes, however, to emphasize that basic changes in an oil import program of long standing might provoke serious adverse reactions which could have an important bearing on national security. Before final decisions are made therefore this consideration should be taken into account. Consultations with other governments with respect to the proposed changes can take place only after this report has been submitted to the President. The Department therefore joins in the Task Force report subject to the reservation that

[1] Source: National Archives, RG 220, Records of the Cabinet Task Force on Oil Import Control, Entry 10, Box 4, Classified Documents, Confidential Comment on Draft Task Force Report, 12/12/1969. No classification marking. This memorandum represented the final State Department contribution to revisions of X–2.

full consultations with other governments will be necessary to enable it fully to assess the national security and foreign policy ramifications of the proposed changes and the Department may submit to the President further suggestions for and amendments to the program in the light of those security considerations.

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32. Editorial Note

Following the November 8, 1969, meeting of the Cabinet Level Task Force on Oil Import Control to discuss X–2 (see Document 15), changes and revisions to the Task Force's report were done by changes to specific numbered paragraphs. Therefore, there are no drafts beyond X–2 until an "eyes only" copy of the report, as sent to the printer, was distributed to the Task Force members on December 29. Further changes were anticipated after the printed proofs returned in mid-January.

The final report, entitled "The Oil Import Question: A Report on the Relationship of Oil Imports to the National Security," January 1970, was organized as follows: Part I, Purpose of the Review and Description of the President's Oil Import Program; Part II, The Relationship of Oil Imports to the National Security (which contained sections entitled Introduction, Cost of Import Restrictions, Risks to Security, Prospective Oil Market in 1975 and 1980, Coping With a Supply Interruption, Test Cases, and the Planning Horizon); Part III, Control Mechanisms; and Part IV, Summary, Conclusions, and Recommendations. These were followed by 21 tables, 12 appendices, and dissenting views. (Memoranda from Shultz to Task Force Principals, December 29, and Shultz to Nixon, January 1; National Archives, RG 174, Records of Secretary of Labor George P. Shultz, 1969–1970, Subject Files, Box 63, Cabinet Committee on Oil Imports) The published report was released to the public on February 20, 1970. See Document 43.

An analytical summary of the Task Force's conclusions is Document 33. The dissenting views are printed as Document 34. No executive summary was prepared. The final report reflected the conclusions noted in Document 15.

33. Memorandum From the Chairman of the Council of Economic Advisers (McCracken) to President Nixon[1]

Washington, December 31, 1969.

SUBJECT

Oil Import Controls

The Cabinet Task Force on Oil Import Controls has completed its report, which should reach you shortly.[2] This memorandum is intended to outline the background, to highlight the main issues, and to summarize the options before you.

Background

Mandatory oil import quotas were instituted in 1959 under the authority of the National Security Clause of the Trade Agreements Act. For most of the country, imports are limited to 12.2 percent of domestic production, but for the West Coast they are equal to the estimated difference between demand and domestic supply. During the last 10 years numerous departures from these basic rules have been permitted to take care of special interests, and many other claims for exceptions are pending.

Since domestic production has not been keeping pace with demand, it is expected that either imports will have to be increased or prices will rise. Imports, including those exempt from quotas, now account for about 20 percent of total supply. Domestic production is insufficient in part because the principal producing States (Texas and Louisiana) engage in prorationing with a view to keeping prices high. Unless Alaskan discoveries are even larger than anticipated, they will not make up for the slow growth of output in the "lower 48."

Because the domestic price of crude oil is about 65 percent higher than the world price, the import quotas represent a considerable burden on consumers, estimated at roughly $5 billion per year. Not all of this accrues to domestic crude producers, since they forego a considerable amount of output as a result of prorationing. Some of the benefits go to importers, who can buy at the low world price and sell at

[1] Source: National Archives, Nixon Presidential Materials, White House Central Files, Staff Member and Office Files, Council of Economic Advisers, Hendrik Houthakker, Box 38, Oil Import Control TF—CEA Memoranda. No classification marking. A copy was sent to all members of the Task Force. Penned markings indicate Nixon read the memorandum.

[2] See Document 32.

the high domestic price. Still another part of the $5 billion is a sheer waste that benefits nobody. The quota system is popular in Texas and adjoining States, where it is considered Lyndon B. Johnson's greatest political achievement, but unpopular in most other areas, especially on the East Coast and in Hawaii.

During the first nine years since quotas were introduced the domestic crude price stayed constant, but in February 1969 the major producers, led by Texaco, raised it by 5 percent. Further price rises are likely unless appropriate action is taken. Another development during the quota period has been the replacement of the Middle East by Canada as the second largest source of imports, which has made our supplies more secure. Venezuela continues to account for about half of all imports.

The Issues

Since no one is suggesting that the domestic market be thrown entirely open to imports, there are six issues in the decision about any change in our policy.

1. *The mechanism of control.* The choice here is between quotas and tariffs; the following considerations are relevant:

a. A quota system is already in existence, but it has not worked well. Many exceptions and other special deals have been made, and many additional ones could be made with equal or greater justification. Enforcement, especially in the case of Canadian oil appears to be lax. If a quota system were to be retained, it would have to be completely overhauled (see Option III). A tariff system of the preferential type suggested in Option IV would not be easy to manage either, but it would represent a clean break with the past.

b. Under quotas as now administered those allowed to import receive a windfall, which under a tariff would go to the Treasury. It is possible, however, that a part of the windfall is currently passed on to consumers. Moreover the windfalls under a quota system could be appropriated by auctioning the import licenses.

c. A quota system (even if modified by an auction) enables the producing States to keep prices high by prorationing. Since imports are proportional to domestic production (except on the West Coast), control over domestic production is tantamount to control over total supply, and hence over price. Prorationing is estimated to reduce domestic output by about 20 percent, about as much as total imports; we could therefore be roughly self-supporting at current prices if prorationing were prohibited under the antitrust laws. Under a tariff system prorationing would be ineffective; the domestic price could not be higher than the price of imports plus the tariff.

d. Under the present quota system it is necessary to determine who can import (at present mostly the refiners). Under tariffs, and under quotas combined with an auction, everybody could import. However even in the latter two cases it would be technically feasible to exercise some discrimination among importers if this were considered desirable on grounds of equity.

e. A quota system in conjunction with prorationing causes more rigidity in both prices and quantities than a tariff. Or to put it in another way, a tariff interferes less with a free market.

2. *The domestic price level*

At present the price level, as already mentioned, is fixed by producers through the prorationing device. The principal constraint on their ability to raise prices appears to be the relatively open market on the West Coast. As long as we have quotas and permit prorationing there is little the Government can do about the price.

Under the alternative favored by the Task Force majority the price level would in principle be the sum of the world price and the tariff, and the tariff would have to be set accordingly. In the short run a reduction in prices would benefit consumers and reduce the industry's profits, but in the longer run there is not necessarily a conflict. Consumers would not want to be entirely at the mercy of foreign producers, which might be the result of a zero or very low tariff. A very low domestic price might also bring exploration to a virtual halt and seriously reduce State revenues from oil production. It would also have adverse effects on the supply of natural gas, which is often found as a byproduct of the search for petroleum. On the other hand a modest reduction in prices might satisfy consumer pressures without doing appreciable harm to the industry. In fact there is a strong case for undoing the price increase of February 1969, which was considered to be an outright challenge to the new Administration. Moreover consumers should certainly reap some benefit from the large increase in low-cost oil supplies resulting from new discoveries in Alaska, Canada and elsewhere.

It has to be recognized, however, that the world price is not absolutely fixed, so that the tariff level may have to be revised in the light of experience.

3. *National security*

The calculations in the Task Force report suggest that national security is not an important factor in the choice between the principal options (III and IV). Even at the domestic price of $2.50 per barrel favored by Secretary Shultz, the U.S. would not become unduly dependent on Eastern Hemisphere supplies, provided that preference is given to Western Hemisphere oil. The present quota system, according to the report, does not give adequate protection to national security.

4. *Balance of payments*

The report also indicates that the balance of payments is not a major consideration in the choice between the main options. Since so much domestic output is now lost by prorationing, a transition to a tariff with a somewhat lower domestic price would not significantly increase imports for some years. If a quota system were continued, imports would proba-

bly have to increase more than under a tariff (unless prorationing were outlawed), but the additional imports would come mostly from Canada and Venezuela (who would spend a large part of the proceeds here).

5. *Foreign policy*

Any decision you make, whether in favor of a quota or a tariff, would have a major impact on our relations with Canada, Venezuela, Iran and the Arab countries, and a lesser impact on Europe. The present system favors Canada but does not otherwise discriminate between the Western and the Eastern Hemisphere. Some such discrimination would be desirable under a tariff. It may also be necessary to give special treatment to Iran. You will no doubt be advised on these foreign policy aspects by the State Department and the NSC staff.

6. *Program management*

There is unanimous agreement in the Task Force that, no matter which direction you choose, the oil import program needs to be managed more carefully. In the past many important decisions appear to have been made ad hoc and without proper administrative safeguards. This is one of the reasons why the quota program has degenerated into a crazy quilt of special deals. The Task Force favors the establishment of a cabinet-level committee of management with responsibility for reviewing market developments and drafting of regulations, but not for day-to-day operations.

The Options

I. *Continuation of the quota system in its present form.*

Pro: 1. The industry is familiar with the program and generally can live with it.

Con: 1. Continuing the program in its present form would mean rejecting all pending applications for special treatment, many of which have merit.

2. Unless more imports are allowed, domestic prices would probably rise further.

3. Consumers would be disappointed.

4. This Administration would commit itself to the present program and a unique opportunity to overhaul the program would be lost.

Comment:

No one on the Task Force recommends this option.

II. *Abolition of the present system without replacement* (i.e., a completely free market).

Pro: 1. Large benefits would be provided to consumers and prices would be significantly lowered.

2. All management problems for the government would be avoided.

3. A completely free market would be popular in most exporting countries (except for Canada, which would lose its favored position).

Con: 1. Serious injury would be caused to the domestic industry and to the oil-producing states.

2. We would become so dependent on imports from insecure sources as to impair the national security.

3. Considerable uncertainty would be created.

Comment: There is no support for this option in the Task Force.

III. *A modified quota program;* some of the possible modifications would be:

a. Increasing the import percentage gradually.
b. Making further special provisions for petrochemical producers.
c. Extending the present exemption of residual oil (used as boiler fuel in factories and institutions) from the East Coast to all parts of the country.
d. Making special provisions for home heating oil (a politically sensitive item in the Northeast).
e. Creating foreign trade zones where imported crude can be refined for export.
f. Phasing out historical quotas.
g. Creating a special preference for Venezuelan crude.

All of these modifications have been suggested by Secretary Stans or Secretary Hickel, or both. Other possible modifications would be

h. Relating the import quota to demand rather than to domestic production (as is now done on the West Coast).
i. Auctioning import licenses.

While much could be said about each of these modifications the following general points are more or less relevant to all:

Pro: 1. Since the quota system would be preserved, the oil industry would prefer this approach to Option IV.

2. Some of the major defects of the present programs would be rectified.

3. Consumers might get some benefit from the proposed relaxations.

4. If an auction system were adopted, the Treasury would gain considerable revenue.

Con: 1. Some of the relaxations would further complicate the existing program and make it harder to administer.

2. As long as prorationing is permitted, any increase in imports will be wholly or partly offset by a reduction in domestic output. To that extent the benefits to consumers will be annulled and the balance of payments worsened unnecessarily.

3. Granting further special favors will increase the pressure for still more.

Comment: This option, in one form or another, is favored by Secretaries Hickel and Stans.

IV. *Transition to a preferential tariff-quota system.*

This system would be designed in such a way as to:

a. Let in Canadian oil free of duty, on the grounds that it is equivalent from a national security point of view to U.S. oil.

b. Give preference to Western Hemisphere oil (other than Canadian) over Eastern Hemisphere oil, again because of the greater security of supplies.

c. Put a quantitative limit on Eastern Hemisphere oil in order to safeguard against an underestimate of imports from this insecure source.

d. Levy a slightly higher tariff on refinery products (such as gasoline and fuel oil) than on crude, so as to protect U.S. refineries; residual oil, however, would come in free (*Note:* this aspect has not been fully analyzed by the Task Force and may need reconsideration; the exemption of residual oil is open to question).

e. Phase out the present quota system over a period of 3–5 years by reducing the tariff-free allocations gradually while at the same time making imports available to everybody on payment of the tariff. The tariff level would initially be set at $1.45 per barrel for crude (including the present tariff of 10 cents per barrel), but may be lowered subsequently in the light of market developments, including future discoveries in Alaska and elsewhere. This level would give an estimated wellhead price at the Gulf of $2.98 per barrel of crude, about 10 percent below the current level, and 5 percent below the level of a year ago. Various adjustments would be necessary to restore the West Coast to equal treatment with the rest of the country. (Secretary Shultz would reduce the tariff ultimately to $1.00 per barrel.)

Pro: 1. This system would be a decisive step towards more effective competition in the petroleum market by giving equal access to imports. Yet it does not expose the domestic industry to serious harm.

2. It would put an end to prorationing by breaking the locked relationship between imports permitted and domestic production. Thereby the domestic industry would be made more efficient, and this would tend to limit imports.

3. It would yield considerable revenues to the Treasury. The exact amount would depend on the treatment of products, but it would probably exceed $500 million per year after the transition is completed.

4. It would lower domestic prices significantly, thus benefiting consumers and contributing to the fight against inflation.

5. While not without operational problems it would probably be easier to administer than a quota system.

6. The preferential feature would enable us to obtain imports from the sources we prefer on national security and other grounds.

7. By providing a transition schedule it would give the industry time to adjust.

Con: 1. It would be opposed by most segments of the domestic industry, who would fear a loss of profits and investment values.

2. Domestic exploration would be adversely affected, though probably not to a great extent if the Gulf price stays at $3.00. If necessary some of the tariff revenues could be used to subsidize exploration.

3. A 10 percent reduction in the domestic price is less than some consumers expect. Here again, however, much depends on the tariff treatment of products.

4. Under a tariff there would be greater uncertainty about prices and import volumes than under quotas combined with prorationing.

5. There might be trouble with Venezuela, which claims equal treatment with Canada; Iran might also claim preference over the Arab countries.

Comment: This option is recommended in some cases with minor reservations, by five members of the Task Force (Secretaries Shultz, Rogers, Kennedy and Laird, and General Lincoln). It is also favored by all the observers, including the Council of Economic Advisers, except for the Chairman of the Federal Power Commission.

Paul W. McCracken

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34. Minority Report[1]

Washington, January 9, 1970.

Separate Report on the Oil Import Question
by the Secretary of the Interior, the Secretary of Commerce and the Chairman of the Federal Power Commission

We do not agree generally with the analyses and conclusions in the "Task Force Report"[2] and specifically oppose the program which it recommends.

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[1] Source: National Archives, RG 174, Records of Secretary of Labor George P. Shultz, 1969–1970, Subject Files, Box 179, Separate Reports on the Oil Import Question, Separate Reports by Hickel, Stans, Nassikas. No classification marking. All attachments are attached but not printed. The Minority Report is also referred to as the Stans-Hickel report.

[2] See Documents 32 and 33.

Our broad reasons, elaborated in this separate report, are these:

1. The program would substitute a tariff for the present quota system. A tariff is highly undesirable in many respects and would lead to domestic and international problems of great significance.

2. The program would result in price fixing. Stripped of its foliage, the recommendation of a tariff of $1.45 is designed to produce a domestic price of $3.00 a barrel for oil. The control of imports based upon any predetermined price for domestic oil is not only impractical, but would be a further retreat from a free market.

3. The program would risk the national security in fundamental respects. It would make us dependent on insecure foreign supplies by discouraging the exploration and development necessary to build our own reserves of oil and gas. Because of its adverse impact on the natural gas industry the proposed program would disrupt energy resource utilization and consumer demand for 75% of our current energy base.

4. The program would involve substantial economic loss to the industry, to its 1.2 million employees and to the 31 oil- and gas-producing states, so as to weaken our internal economy and impair the national security within the meaning of the statute.

These objections to the majority program are multiplied by the intimation that the recommended tariff of $1.45 a barrel is to be followed by further liberalization. The analyses in the majority report are directed toward a proposition that the price of domestic oil should be forced down toward $2.50 a barrel. Whether or not such further actions do occur, the uncertainty that they present to the industry must necessarily involve a significant reduction in oil and gas exploration and development. The record shows that at a price of $2.50 a barrel the United States would be at the mercy of distant supplying countries within ten years.

It is neither desirable nor timely to consider a major change in the quota approach of the oil import program. We do not have adequate data at this time on the reserves in Alaska and the Canadian Arctic, or on the costs of developing and marketing the production from such reserves. Under these circumstances, we should await efforts of the next three or four years in order to have the basic information on which to formulate a long-range program. The present Mandatory Oil Import Program, based upon import quotas, has in fact worked effectively over the past ten years. Such criticism of it as is appropriate relates not to the program, but to the unevenness of policy guidance and administration. There is no need for a fundamental change in the structure of this program at this time.

Nevertheless, some increase in oil imports is appropriate, since the probability is that we will need to bring more oil into the United States over the long term. Better policy guidance for the present Mandatory

Oil Import Program can be supplied by an improved administrative structure. Accordingly, we propose that two steps be taken now:

1. Improve the administration and policy guidance for the Mandatory Oil Import Program and eliminate some of its undesirable working features.

2. Provide for an annual increase in the percentage of oil imported for each of the next five years, moving it up gradually from the present level. This would result in increased imports into the area east of the Rockies ranging from 100,000 barrels per day in 1970 to almost 600,000 barrels per day in 1974.

Our alternative program will serve the national interest best. It will effectively protect national security by stimulating further development of our own resources and reduce reliance on historically uncertain distant sources of supply. It will protect the consumer and provide opportunity for a gradual reduction in price of oil products. It will avoid major shock to the oil producing and refining industries, to their stockholders and landholders, and to the states dependent upon them for tax revenues.

Walter J. Hickel
Secretary of the Interior

Maurice H. Stans
Secretary of Commerce

John N. Nassikas
Chairman, Federal Power Commission

Attachments:

I. Effectiveness of the Present Oil Import Program
II. Reasons Why a Tariff System is Not Workable
III. Other Fundamental Disagreements with the "Task Force Report"
IV. Alternative Plan for Revision of the Present Mandatory Oil Import Program

Appendix:

Supplementary Views of the Chairman, Federal Power Commission: Impact on the Natural Gas and Electric Utility Industries

35. Memorandum From C. Fred Bergsten of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, January 9, 1970.

SUBJECT

Oil Import Policy—Report of the Cabinet Task Force

This memorandum will outline for you (a) the procedural aspects of Presidential handling of the report, (b) the timing thereof, and (c) the substance of its recommendations. Peter Flanigan wants to meet on Monday with you, Haldeman and Ehrlichman to talk about all three.[2] Pete Vaky is preparing a separate memorandum on the Venezuelan problem.[3] The Task Force report was over 400 pages, so I do not attach it; I do attach (Tab A)[4] a summary by the CEA, if you want more detail than given below.

Procedural Timing

The report has now been completed and signed by Secretary Shultz. He will formally present it to the President on January 30. Flanigan now thinks that the President should make his decision on the issue within a month or so thereafter, having abandoned his earlier notion that the President should try to avoid this politically impossible decision altogether by turning it over to Congress.[5] The new program might not go into effect, however, until January 1971. Flanigan envisages a two-year direction for the new program, to carry it past November 1972.

Flanigan sees no need for an NSC meeting on the subject, even for cosmetic reasons. Since the rationale for the continuation of controls will be national security, however, Flanigan feels that the President will want to say that you concur personally in his decision.

If the President will in fact want to refer to concurrence by his national security advisers, you might want to protect yourself by suggesting an NSC meeting to Flanigan. (Such a meeting would have to take place in late February or early March to fit Flanigan's timetable.)

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970. Confidential. Sent for information. Concurred in by Vaky and Saunders. A stamped notation on the memorandum reads: "HAK has seen. Jan 14, 1970."

[2] See Document 38.

[3] Document 36.

[4] Printed as Document 33.

[5] See Document 28.

All other statutory members of the NSC were members of the Shultz Task Force, so their views are already recorded—all of them essentially support the majority view. I took no substantive position during the Task Force deliberations and made sure that my name was not even listed among the "observers" who met with it. Our position is thus completely unprejudiced cosmetically.

After checking continuously with Larry Lynn and the regional operators, I did indicate to Shultz and the Task Force staff that we concurred with the national security and foreign policy sections of the report. This is relatively unimportant, however, since any contrary views on the security aspect at this point would represent a challenge to the known positions of the Secretaries of State and Defense.

Substance

As I have reported to you earlier, the majority (Shultz, Rogers, Laird, Kennedy, Lincoln) recommends that we henceforth regulate imports by setting tariffs at a level designed to permit the desired volume of imports instead of by setting quantitative limits (quotas), as has been done since 1959. This would produce more effective competition, benefitting consumers by perhaps $5 billion annually and helping to fight inflation; and would permit dismantling of the present elaborate administrative machinery, reducing the scope for pressure from vested domestic interests; and it would provide additional income to the Treasury. (Hickel and Stans prefer to keep the quota system, with some modifications.)[6]

The majority would set the tariff initially at a level designed to reduce domestic oil prices (now $3.30 a barrel) by about 10 percent and then in late 1971 reconsider further reductions. Secretary Shultz would prefer to make this a first step toward an eventual 25 percent reduction in the price, but all other majority signers want to leave open the decision on any further moves.

The program would eventually let in Canadian oil completely free of duty—a tremendous preference, since the duty would be about $1.45 per barrel out of a total price of $3—for national security reasons. (This exception would also apply to Mexico, but is much less important in oil terms because Mexico would remain a small supplier anyway.)

Other Western Hemisphere oil—primarily Venezuelan—would get a 20 cent preference over Eastern Hemisphere (Middle East, Iran, Indonesia, Nigeria) oil also on national security grounds. Most people think this is sufficient preference to ensure a large and growing share of our market for Venezuelan oil, but a few people (mainly ARA) ques-

[6] See Document 34.

tion this, especially for the distant future, and it is clear that the Venezuelans will regard anything less than equal treatment with Canada—which this would clearly not represent—as unacceptable. (See Vaky memo.)

Finally, there would be a quantitative ceiling on Eastern Hemisphere oil to safeguard against the development of excessive reliance on these less secure areas. Such a limit could cause us problems with Iran and perhaps Indonesia.

From our standpoint, I think the following conclusions emerge:

1. The overall program adequately protects the national security.

2. An even more liberal program, as proposed by Shultz, would probably do so too; it would be difficult for you to argue that liberalization could go *no further* than recommended by the majority without threatening our national security.

3. Our relations with Canada will benefit tremendously; they will get free access to our oil market, just what they want.

4. There will be problems with Venezuela. Substantively, they will benefit greatly. Latin American sales to us, mainly Venezuelan, are estimated to rise from 1.5 million barrels daily now to 2.2 million in 1975, and they may be able to get *higher* prices because of their preferential tariff treatment. Cosmetically, they will be bitter about inequality of treatment with Canada. It would be impossible to give them duty-free entry, however, without either permitting a much higher level of total imports (politically unacceptable) or shutting out virtually all Eastern Hemisphere supply. If we had to provide equality, which would be hard to justify on security or domestic political grounds, it would be easier to cut back on the Canadian preference and raise problems in our relations with them.

5. Eastern Hemisphere countries will not like the continuation of quotas against them and the tariff preferences for Canada and Venezuela, although they will be able to expand their sales to us to some extent. Iran and possibly Indonesia and Saudi Arabia may claim special treatment, which could be done—at some cost to the overall program and to our relations with others—by giving them favorable country quotas or preferential tariff treatment.

36. Memorandum From Viron P. Vaky of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, January 9, 1970.

SUBJECT

U.S. Oil Import Policy and Venezuelan Concern—Your Meeting with Flanigan

An issue which has very serious foreign policy implications is Venezuela's deep concern over U.S. oil import policy and its desire to protect its own interests.

Venezuela considers the Cabinet Task Force review of U.S. oil import policy to be the most important single matter affecting U.S.-Venezuelan relations. Petroleum accounts for over 90% of Venezuela's foreign exchange income and for almost two-thirds of its total revenue. In recent years Venezuela's share in the U.S. market has been declining and its goal is to increase its annual oil sales to the U.S. as a means of achieving economic growth. The President's decision on U.S. oil import program will, then, vitally affect Venezuela's interests.

Problems with Venezuela will arise from two of its primary concerns: (1) that the new U.S. policy give it equal treatment with all other oil suppliers, especially Canada (presently our policy accords Canada a privileged position in the U.S. market and gives Venezuela only limited benefits); and (2) that the Venezuelan Government be consulted before the President makes a final decision on oil import policy. The GOV feels we are committed to such consultations; in a letter to President Caldera on November 14, 1969,[2] President Nixon in fact reaffirmed the commitment of previous Administrations to consult with the GOV beforehand on changes in the oil import program which would affect Venezuela. The general commitment contained in the President's October 31 speech[3] to consult on trade matters is also relevant in this case.[4]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970. Confidential. Sent for action. Concurred in by Johnston for Bergsten.

[2] Not printed. (Ibid., White House Central Files, Subject Files, Confidential Files, Box 25, EXTA 4/CM Tariff Imports Oil, October–December 1969)

[3] For the full text of Nixon's speech at the Annual Meeting of the Inter American Press Association, October 31, 1969, see *Public Papers: Nixon, 1969,* pp. 893–901.

[4] A handwritten notation by Kissinger in the margin next to this paragraph reads: "Pete: Make sure this happens."

The Venezuelans have clearly indicated that they see the eventual treatment of oil imports and the maintenance of our commitment to consult as a test of President Nixon's Latin American policy. Their sensitivity and the political storms that this question occasions internally in Venezuela were illustrated by the recent unfavorable reaction to our announcement of quotas under the oil import program for the first six months of 1970. (Since the Task Force Report was not ready, it was necessary to extend the existing program into 1970. The announcement was made by Interior on December 21. Venezuela was not consulted or notified before the announcement.)[5] The Venezuelans reacted sharply, in both press and public official reaction, to what they considered to be maintenance of discriminatory restrictions on their exports as compared to Canada. They also stated that the extension of the quota system was surprising following the President's statement that he intended to encourage a policy of stimulating trade with Latin America. They reacted most sharply of all to the lack of consultation or notification.

The December announcement in effect accentuated Venezuelan fears that their interests may not be recognized in the final U.S. policy, and a period of uncertainty before a definitive U.S. oil import policy is established may result in the spread of unfavorable, emotional and defensive reactions.

Another element in the picture is that U.S. oil concessions are due to expire in 1983, as well as various service contracts. If Venezuelan aspirations are not met in the new import policy, oil concessions and service contracts will be particularly vulnerable should Venezuela focus on steps which they can take against U.S. interests as leverage or reaction.

The Cabinet Task Force on Oil Import Control has concluded its meetings and will submit its report to the President on January 30. Fred Bergsten has submitted a separate memo to you covering the situation.[6] The report will not recommend that Venezuela be accorded parity of treatment with Canada, in which case it can be expected to be received with strong disappointment in Venezuela where the issue of equal treatment is a very sensitive one. It is therefore more important than ever that we be responsive on the point of consultation, which is of great concern to the GOV, before enunciating our final policy.

The Task Force report is being handled, as you know, by Peter Flanigan. Flanigan had earlier asked the State Department not to

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[5] In telegram 6087 from Caracas, December 29, 1969, the Embassy reported the degree to which Venezuela was caught off guard by the U.S. announcement. (National Archives, RG 59, Central Files 1967–69, PET 2 VEN)

[6] Document 35.

consult with other countries before the final decision is made. However, Flanigan has made an exception for Venezuela, after he was told that consultations were in progress with Canada, and State is inviting the Venezuelans for consultations in Washington next week.

In a conversation with our Chargé on January 8,[7] the Venezuelan Minister of Mines stated flatly that he would not head a delegation to the U.S. for oil talks unless he had the opportunity to meet with President Nixon, if only briefly. He believed it preferable to send a technical commission up to consult on the Shultz report, after which the Minister would propose a meeting with President Nixon to present GOV views. The Minister said that after his failure during two prior visits to Washington to see the President, President Caldera feared that for the Minister not to see the President would create an intense political reaction in Venezuela. I attach Embassy Caracas' account of this conversation for your information, because it is so illustrative of the intensity of the Venezuelans' feelings about this general subject. I stress the fact that the Venezuelans are concerned not only with consultations, but also interpret consultations to include—at the proper moment—personal presentation of their views to President Nixon.

In sum:

—Whatever the impact of the Venezuelan situation on the total considerations going into our oil policy, our oil policy has an overwhelming impact on Venezuela. Thus, our decision on this matter is crucial in terms of our policy toward Venezuela and, by derivation, on trade policy toward Latin America generally.

—A reasonable treatment of Venezuela is important, even if we cannot meet all of its aspirations.

—Consulting with them will compensate greatly for our inability to give them parity with Canada. Consultation is important. We should understand that Venezuela is going to make an issue out of consultation including personal presentation of views to the President.

—The handling of the report—publication, etc.—is also important; it would be inadvisable to publish the report during the IA–ECOSOC conference, which is being held in Caracas.

—Because of the importance of the foreign policy aspect of this problem (the Middle East aspect must be equally important), I believe the matter deserves NSC consideration. It is such a difficult problem that I think the President would be served by having his decision buttressed and clothed in NSC consideration.

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[7] As reported in telegram 90 from Caracas, January 8. (National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970)

Recommendation

That in your conversation with Flanigan you suggest the Report be considered in the NSC.[8]

That you stress to Flanigan:

—the sensitivity of the Venezuelans and the consequent importance of this question to the success of the President's Latin American policy and to his image in the hemisphere;

—the relationship of how the report and its consideration is handled—publication, et al—to our foreign policy, and particularly Venezuela;

—the Venezuelan insistence on consultation.

[8] Kissinger crossed out the recommendation and initialed the disapprove line on January 14. Kissinger's handwritten notation below the disapprove line is illegible.

37. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, January 10, 1970.

You will recall that the President asked me,[2] in the presence of the Shah of Iran, to make every effort to assist in closing the gap between the Iranian Government's requirements for the sale of oil to finance its Development Program and the current 1970 projections of such sales. Set forth below are three possible actions to achieve the desired result, and a status report on each:

1. *Consortium*

The bulk of the oil lifted from Iran is taken by a consortium made up of 40% British Petroleum, 14% English Shell, 7% each for Texaco, Standard of California, Standard of N.J., Mobil and Gulf, 5% a group of U.S. Independents, and 6% CFP. With Deputy Under Secretary Samuels I have personally met with Messers. Jamieson and Collado of

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970. Secret. A copy was sent to Samuels.

[2] See Document 11.

Jersey, Miller of California, Tavoulareas and Moses of Mobil and Brockett of Gulf, and I have telephoned Rambin of Texaco. To each of these people I have indicated the President's desire, on the basis of the national security interest, that the consortium go a long way toward meeting the $155 million gap between its projected Iranian oil take in 1970 and the projected governmental requirements. No specific program was urged on the companies. It was recognized that the U.S. interests would not be served by an action detrimental to Saudia Arabia, and it was further recognized that Iran had fared well in recent years compared with the other Persian Gulf countries. While the oil companies insisted that the Shah's demands were "insatiable," they recognized that both national security interests and social justice support doing just as much as possible for Iran.

The English oil companies have been more enthusiastic about larger oil liftings from Iran than have the American companies. BP has attempted to bring the German oil company into the consortium. The members of the consortium will meet in New York during the week of January 12. The American companies have agreed to discuss the possibility of increasing Iranian liftings during this meeting. The English companies have a large position in the rapidly growing oil production from the Trucial States. It was generally agreed that increases in oil liftings from these areas might well be limited in order to take further oil from Iran. I indicated to the U.S. oil companies that if they felt it necessary, for the purpose of these discussions, to receive Justice Department approval to talk about the problem, I would approach the Justice Department on their behalf. A report should be forthcoming by January 19th as to the results of the meeting of the consortium in New York.

The dominant member of the consortium is British Petroleum which has 40% of the consortium and a 50% economic interest in the oil currently being lifted. A large stockholder in BP is the British government. It may be that BP will need urging to help find a satisfactory solution for Iran. Since part of the problem of Iran arises from the British withdrawal from the Persian Gulf, such governmental urgings might be an appropriate subject for discussion between the President and Prime Minister Wilson during the latter's visit at the end of January. This can better be determined after the report of the New York meeting.

2. *Iranian Governmental Sales*

The Government of Iran has incorporated the National Iranian Oil Company (NIOC) to sell in the international oil market additional Iranian oil production. Dr. Fallah, the Vice Chairman of NIOC and its managing director, met with me and Harold Saunders of the NSC on January 8. Mr. Brownell participated in these meetings. We discussed the

status of the Planet Oil proposals.[3] I informed Mr. Brownell that no action would be forthcoming in the near future on these proposals.

I told Mr. Fallah with regard to the 1970 budget of Iran, no help could be expected as a result of the Cabinet Committee on Oil Imports. I did tell him, however, that we were attempting to find ways to ease his problem but that *no assurance* of any satisfactory results could be given.

After Brownell and the others had left, Fallah informed me that in the past Norwegians have been transporting 5 to 8 million tons (100,000 barrels per day) of oil from the Soviet Union to Cuba. Apparently some portion of this is used in Cuba and the balance is sold throughout the Caribbean. This is part of the barter deal between Cuba and Russia for Cuban sugar. Russia is apparently short of oil and has directed the Norwegians to buy oil in the Middle East to meet this commitment. The Norwegians have approached the Iranians, making it clear that if the Iranians refuse to make this sale they will buy the oil from Iraq's excess production. Fallah asked what the position of the U.S. Government would be on such a sale, indicating that he would abide by any direction given by the U.S. Government. He did point out, however, that should Iran make the sale the proceeds would be spent by it in the United States, while if Iraq made the sale the proceeds would be spent in Russia. The sale would be made by Iran to Norway, with no explicit information from the Norwegian purchaser as to the destination of the oil. I told Fallah that I would tell him whether this government would resist such a sale by Iran to Norway or would take no position with regard to it.

3. The Defense Department meets its requirements for petroleum products through purchases from ARAMCO. ARAMCO is owned entirely by 4 American oil companies, with the oil being produced in Saudi Arabia. It is possible that the Defense Department could be directed to purchase a portion of its requirements from Iran. This, however, would have two negative factors.

1. A substantial portion of the profits from these purchases would go to non-American companies if Iranian oil were sought.
2. If the consortium were asked to make sales to the Defense Department, it would simply reallocate its distribution pattern without increasing the oil liftings from the various areas. I would suggest this be the last consideration on the list after exhausting the possibilities with the consortium and the sale to the Norwegians.

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[3] In a November 18, 1969, memorandum to the files, Flanigan summed up the background to Brownell's plan for importing Iranian oil through Planet Oil, either for sale or for storage, the proceeds to be used for the purchase by Iran of U.S. military or capital goods. (National Archives, Nixon Presidential Materials, White House Special Files, Subject Files, Confidential Files, Box 63, [CF] TA 4/Oil 1–20–69 to 2–28–70)

I will keep you fully apprised of the situation with the consortium. Would you please tell me at your earliest convenience a reply that should be given to Dr. Fallah regarding the sale of oil to the Norwegians. If you reach different conclusions with regard to the offshore purchases by DOD, I would appreciate your letting me have them.

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38. Memorandum From David R. Young of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, January 14, 1970.

SUBJECT

Oil Import Policy Meeting with Flanigan and Harlow—January 12, 1970

The question discussed was how to handle the Report prepared by the Cabinet Task Force chaired by Secretary Shultz. All three participants agreed that the Report was well done.

Flanigan—Politically our main problem is that we said that the Report would be made public and five of the seven signatories to it say that the present system is indefensible.

Flanigan then suggested that the Report did not go far enough in at least two respects:

1) What happens after 1985, i.e., the Report projections go only to 1980. This means that the U.S. will have to depend on the Middle East after 1985.

2) What happens to our domestic economy if the recommendations of the Report are implemented? (The main problem here is that the new program would diminish domestic exploration.)

Flanigan added that the Secretary of Commerce's report[2] is opposed to the Report made by Secretary Shultz.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970. Secret; Eyes Only.

[2] An apparent reference to either the Minority Report (Document 34) or to one of two earlier December 1969 critiques of the Task Force report. In a lengthy, undated memorandum to the President, Stans noted his strong opposition to the analyses and conclusions of the Task Force and his desire that Nixon reject it outright. (National Archives, RG 174, Records of Secretary of Labor George P. Shultz, 1969–1970, Subject Files, Box 63, Cabinet Committee on Oil Imports) In a December 5, 1969, memorandum to Shultz, Stans explained why the introduction of a tariff to control the flow of oil was an undesirable course of action. (Ibid., Box 179, Separate Reports on the Oil Import Question, Stans Comments)

Harlow—The Report has very serious implications with regard to the security of the NATO countries. 80% of the oil reserves of the world are in the Middle East and that if these are cut off, the impact on NATO would be devastating.

Kissinger—It looks like there are two possibilities:

1) A short war, in which Middle East oil would be lost for a period which would be short enough to be covered by storage facilities, and

2) A sustained cut-off by Russian interdiction in which case we would be cut off indefinitely.

Kissinger—Asked whether Shultz would push the Report.

Flanigan—Answered that Shultz said that he had hoped to have a unanimous Report but that he was pleased to have the Report in. Flanigan did not think Shultz would meddle or become an advocate of the Report.

Kissinger—Is there any great need to act on the Report this year? Could it not be deferred until next year?

Two possible means for deferring action were then discussed:

1) Throw to Congress. Let them have hearings, etc., on the Report. (Harlow pointed out that we would not be able to control the selection of the committee. Flanigan thought that Ford and Mansfield would name producers and McCormack and Scott would name consumers.)

2) Have the President accept the Report as a good Report but state that we would like to have it considered from the point of view of our security and the security of the NATO countries and Japan.

Kissinger—Option 2 would have the benefit of putting the President in the position of not being against the Report while, at the same time, allowing him time and room to maneuver.

(Kissinger thought that Laird would support this position along the lines that, in the interests of national security, consultations and/or studies with NATO and Japan should be pursued before any final decision on the Report is made. He felt that Laird would agree that our position vis-à-vis Middle East oil was of critical importance to the security of the NATO countries.)

All three parties seemed to agree that the second option was preferable.

Harlow again emphasized the vulnerability of NATO to the cut-off of oil in the Middle East and that it would be very bad (and Kissinger agreed) to put the President in the position of appearing as if he were not concerned about NATO's vulnerability in this area. On the question of storage brought up by Harlow, Kissinger said that the NATO nations should be allowed to make their own decision on storage.

Conclusion: The tentative conclusion seemed to be that the President should act on the Report as a good statement, but that he shouldn't go beyond this until the foreign policy implications are studied further, particularly with regard to the NATO countries and Japan. This would allow the President to make the Report public without endorsing its recommendations or being put in the position of being against it.

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39. Memorandum From C. Fred Bergsten of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, January 21, 1970.

SUBJECT

Flanigan Proposals on Handling of Oil Import Study

Flanigan Proposals

Peter Flanigan at Tab B[2] recommends a scenario to deal with the report of the Cabinet Task Force on Oil Imports, when it is delivered to the President on February 2:

1. Immediate publication of the report.

2. Simultaneous announcement that State and Defense will discuss its implications with our allies, including NATO and Japan as well as supplying countries.

3. Creation of an office in the White House to receive comments from interested parties on the report's recommendations.

4. "Clean up" of the present program, as proposed by Secretaries Stans and Hickel,[3] while the other steps proceed.

The objectives of this strategy appear to be two-fold: to delay *any* decision, and to reform the present program sufficiently to obviate altogether the need for more fundamental change.

General Considerations

I fully understand the political desirability of deferring, and perhaps avoiding forever, a decision on this issue. I also fully understand

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970. Confidential. Sent for action. Concurred in by Vaky and Saunders.

[2] Attached but not printed is Tab B, January 13.

[3] A reference to the Minority Report, Document 34.

your desire to try to avoid playing a leading role in it. Nevertheless, you should be aware of the following considerations:

1. The proposed scenario will *intensify* the public debate on the issue, particularly as the Congressional elections draw near, *increasing* the political pressure from all sides.

2. Failure to make a decision will generate charges that the President is indecisive. It is, of course, true that the facts and the analysis are in dispute—but they always are on hard decisions.

3. It is an undesirable principle—especially from our standpoint—to justify delaying or avoiding a decision on national security and foreign policy grounds when the real reason is domestic politics. Since all interested domestic parties have already had a full chance to present their views, the main rationale for delay would be in our area. The Administration came under some criticism for justifying its political decision in the Trans Pacific air case on foreign policy grounds, and this one would be much more obvious.

4. Failure to adopt the Task Force recommendations, and even a delay in making a decision on them, will cause serious foreign policy problems. All of the major oil suppliers—especially Canada and Venezuela—anticipate major benefits from a new U.S. program. (See latest Caracas cable at Tab C.)[4] They will be bitterly disappointed by continuation of the status quo, which is the *best* that the Stans-Hickel approach will mean to them. (Stans and Hickel do make a vague reference to new preferences for Venezuela, but implemented via new gimmicks in the allocation of quota tickets—hardly a "clean up" of the program. Their whole report is extremely vague on precisely those parts which could cause foreign policy problems, however, so we cannot tell precisely what would happen.)

5. The Stans-Hickel recommendations would have several *negative* foreign policy effects:

(a) A phase out of the "Puerto Rican preferences" would hurt Venezuela.[5]

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[4] Not attached and not further identified.

[5] A handwritten notation by Kissinger reads: "Tell me again what this is." As Bergsten explained it to Kissinger in a January 27 memorandum, after 1965 the Department of the Interior negotiated "special deals" with several companies, allowing them to import into Puerto Rico greater amounts of crude (than allowed under the current system) for processing into product exports to the mainland, provided the crude came from Venezuela. The companies were then obliged to increase employment and foster economic development through increased investment. Hickel in particular wanted to prohibit further special deals, which Bergsten explained would lead to the extinction of the present Venezuelan preference in Puerto Rico. (National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970)

(b) Mexico would lose its present exemption from import control.

(c) We would have to slap controls on oil imports from Canada, which will cause a major row with them—particularly when they are anticipating totally free access and highly favorable discrimination as proposed by the Task Force!

(d) It would make it more difficult to do favors for our friends outside the Western Hemisphere, such as Iran, Saudi Arabia, or Indonesia.

6. I don't think you can avoid getting heavily into this, though I share your desire to do so and have made every effort in that direction myself. The control program has to be justified on national security grounds. It has major foreign policy implications. Flanigan told me that the President would want to say that you concurred personally in any new program, and it will be extremely hard to defend the Stans-Hickel approach on security grounds. If this is so, I believe you should move now—before the situation becomes even worse.

Venezuelan Problem

Pete Vaky recommends[6] that we consult meaningfully with Venezuela on our deliberations on the Task Force study as we proceed, inform them of any final decision as far ahead of its publication as possible, and inform them of any changes in the present program—such as the Stans-Hickel "clean up"—which would affect them. I believe that we should do the same with Canada. A memorandum asking Flanigan to direct the agencies to take these steps is at Tab A.[7]

Recommendations:

1. That you explore with Flanigan the "General Considerations" concerning his scenario cited above, before deciding whether to approve it.

2. That you sign the memorandum to Flanigan at Tab A, conveying to him the three points made by Vaky on consultation with Venezuela and indicating that the Canadians must also be kept fully informed.

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[6] See Document 36.

[7] Not attached. The memorandum is printed as Document 40.

40. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to the President's Assistant for International Economic Affairs (Flanigan)[1]

Washington, January 24, 1970.

SUBJECT

Consultations with Venezuela and Canada on U.S. Oil Import Program

We have a special responsibility to consult fully with Venezuela on our oil import policy. We should also consult with Canada. I would therefore appreciate your keeping the following in mind, and advising the relevant agencies as necessary:

1. We should consult with—not just inform—the Venezuelans and Canadians on our thinking on the Task Force study as it proceeds.

2. When a final decision is made by the President, we should inform the Venezuelans as far in advance of its being made public as is practicable, and receive their comments.

3. In the meantime, if, while deliberation on the Task Force study goes on, the Executive Branch makes any significant change in current policy, e.g. "cleaning up" the present quota program, which affects Venezuela or Canada, their governments should be informed in advance and the problems explained and discussed with them. Since these kinds of change are most likely to be Executive acts, in most cases by the Interior Department, Interior and other departments and agencies should be informed of our commitment to consult with Venezuela on such changes. The Puerto Rican preference is a particular case in point; if changes are to be decreed there, failure to consult with Venezuela would expose us to a charge of bad faith and a betrayal of the President's explicit and firm commitment. Similar preparatory work should be done with Canada.[2]

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[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Subject Files, Confidential Files, Box 63, [CF] TA 4/Oil 1–20–69 to 2–28–70. Confidential.

[2] Flanigan sent a January 27 memorandum to Hickel noting "we have gone to the limit with Venezuela with regard to the upcoming submission of the Cabinet Task Force report." (Ibid.)

41. Memorandum From C. Fred Bergsten of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, February 5, 1970.

SUBJECT

Presidential Statement on Oil Imports

You have decided to approve Secretary Stans' proposal for a Presidential statement on oil import policy, provided that Venezuela is informed in advance (Tab B).[2]

The memorandum to Flanigan at Tab A[3] would inform him of your position. It extends the advance information requirement to Canada as well as Venezuela and insists that the advance information be more than a perfunctory twenty-four hour notice.

Our consultations with both countries have left them with the impression that we will confer meaningfully with them before we make our final decisions on oil import policy, which this statement would announce. Consultation will be particularly crucial when it becomes apparent to them that they can expect very little gain from our oil import policy in the near future.

We have a particularly delicate situation with Venezuela in this regard. Our technical consultations have dealt with the substance of the Shultz report, and not the minority position of Stans and Hickel. The Venezuelans have been led to believe that a very serious study of the Shultz report will be made, leading to relatively prompt decisions on it. (And this is also the belief of most of the bureaucracy.) They are sending a delegation back to Washington shortly to give us their views on the Shultz report.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970. Confidential. Sent for action. Vaky concurred.

[2] Not attached. In his January 20 memorandum to Kissinger, Stans proposed a draft public statement for Nixon on the Task Force Report in which Nixon would state that due to both domestic and international uncertainties, it was "premature and inadvisable" to make any major change in the present import system. Instead the President would establish a Cabinet Committee on Oil Imports to provide policy guidance, direct the committee to increase imports of home heating oil into the Northeast, prepare a plan to increase the accessibility of the domestic petrochemical industry to imported oil, and evaluate the desirability of further gradual increases to oil imports. (Ibid.) Bergsten informed Kissinger in a January 27 memorandum that the Stans proposal mirrored that suggested by Flanigan, "the major objective of which is to defer, hopefully forever, any basic change in our oil import program." Bergsten thought Stans' approach was a mistake. (Ibid.)

[3] Not attached.

If the question of tariffs is to be shelved and we are merely going to continue and adjust the current import quota system, we ought in all honesty to let the Venezuelans know this. Very short notice of a statement by Secretary Stans will lead the Venezuelans to believe that we have been hoodwinking them all this time. It is therefore important to apprise the Venezuelans of this change of direction in our general approach to the question of oil imports.

Recommendation

That you sign the memorandum at Tab A, informing Flanigan of your approval of the Presidential statement proposed by Stans and requiring advance notification of the new program to Venezuela and Canada.[4]

[4] In his February 12 memorandum to Flanigan, Kissinger noted that he had "no foreign policy objection to a statement along the lines suggested" by Stans, but that "both Venezuela and Canada must receive advance information of the announcement in sufficient time to allow for a response from them." (National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970)

42. Memorandum From the Counselor to the President (Harlow) to the President's Assistant for Domestic Affairs (Ehrlichman) and the President's Assistant for International Economic Affairs (Flanigan)[1]

Washington, February 13, 1970.

On February 10 I asked the President his desires on the publicity program for the oil import report.

He says that he doesn't want a "public flap." He believes that Flanigan and Kissinger should give a backgrounder, and that other Administration people should not comment when the report is released. He takes this position because it is a split report, and he doesn't want various Cabinet officers giving divergent views.

In regard to the concern of Secretary Shultz that no one will speak up for the report, the President takes the position that "all the liberal press will support it," and, therefore, the Secretary should not be too

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970. No classification marking. A copy was sent to Kissinger.

concerned. Moreover, the Congress is scheduling early hearings, and there will be ample opportunity in these hearings to advance the report.

I am informing Secretary Shultz, as Flanigan requested, of the above views.

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43. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to President Nixon[1]

Washington, February 19, 1970.

The Presidential statement at Tab A[2] was drafted by Peter Flanigan and reviewed and approved by Dr. Kissinger, Mr. Harlow and Mr. Keogh.

Briefly, the statement:

—compliments the Task Force for the depth and breadth of their work and the oil industry for its cooperation.

—notes the divergence of views among the Task Force regarding several recommendations.

—directs the Director of the Office of Emergency Preparedness to chair an interdepartmental Oil Policy Committee to provide direction, coordination and surveillance for the oil import program.

—directs the Department of State to initiate negotiations with Canada and Mexico for free energy exchange arrangements.

—directs the Secretaries of State and Defense to review the findings and recommendations of the report with numerous governments.

—directs the Oil Policy Committee to carefully review the information from upcoming Congressional hearings,[3] and to consider immediately both interim and long-term adjustments to the oil import program.

Recommendation

That you approve the Presidential statement (Tab A) to accompany the Cabinet Task Force Report on the Oil Import Program.[4]

Peter M. Flanigan[5]

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[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Subject Files, Confidential Files, Box 25, [CF] FG 221–22 Oil Import Controls. Sent for action. A handwritten notation at the bottom of the page reads: "Mr. President: Request your approval of this proposed Presidential statement tonight—so that it can be run off and distributed to the Congress by 11 a.m. tomorrow. A."

[2] Attached but not printed. The final statement, which the President made when the Task Force Report was released to the public, February 20, is printed in *Public Papers: Nixon, 1970,* pp. 193–195.

[3] Flanigan replaced the word "studies" with "information."

[4] Nixon initialed the approve option.

[5] Flanigan crossed out Ehrlichman's typed name and signed the memorandum.

March 10, 1970–April 2, 1971

44. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon[1]

Washington, March 10, 1970.

SUBJECT

Application of Economic Pressure on Canada

You asked for ways in which you could apply slight pressure on Canada in some economic area where Prime Minister Trudeau's personal prestige is involved.[2] There are two such possibilities, oil and wheat.

Oil

Crude imports from Canada are now controlled "voluntarily" by the Canadians themselves. Present Canadian exports to the Eastern U.S. are running at about 570,000 barrels per day, however, compared with the agreed level of about 330,000 barrels.

Negotiations have been underway to reduce Canadian shipments. The negotiators agreed in early February,[3] on an ad referendum basis, to a level of 400,000 barrels per day. Our starting figure in the negotiations was 360,000 barrels. However, the Canadian Cabinet, with the Prime Minister in the Chair, decided that Canada would not control exports below 440,000 barrels. (They would have gone lower had we promised free entry for their oil in 1971.) Our willingness to discuss a common energy policy has not been sufficient to persuade them to take

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970. Secret. Sent for action. The date is handwritten. A notation on the memorandum indicates Kissinger saw it.

[2] As related in a February 9 memorandum from Haig to Sonnenfeldt and Bergsten. (Ibid., Box 670, Country Files, Europe, Canada, Vol. I)

[3] During the meetings on February 10 and 11, the United States and Canadian officials discussed the "short term problem of limiting flow of oil and the long term goal of achieving a free exchange of energy across the board." The Canadians also discussed the domestic, economic, and political issues they faced in their export and import policies, the Task Force Report, coal, electricity, and uranium. They stated that the Cabinet had to make any decisions on the export levels of Canadian oil into the United States. (Memorandum of conversation; ibid., RG 59, Central Files 1970–73, PET 1 CAN–US)

the distinctly unpopular step of restricting exports to an acceptable level.[4]

Peter Flanigan is now proposing,[5] with my concurrence, that you approve a unanimous recommendation by General Lincoln, the State Department, and other members of the interagency Oil Policy Committee that the U.S. restrain imports of Canadian oil at a level lower than what we agreed in the most recent negotiations—as a penalty for their refusal to control their own exports. The level of restraint would be 395,000 barrels per day—and thus represents a slap at the Canadians for their uncooperative attitude.

Oil has become an important political issue in Canada, partially because of the discussions about a change in U.S. oil policy and partially because of Canadian tenderness on questions of sovereignty in transporting oil from the north slope discovery. The proposed new restraint action would affect Trudeau personally, since he participated in the decision not to agree to restraint levels we could tolerate. The fact that our quota level will be lower than what we previously were willing to accept will amount to an exhibition of our economic power. The Canadians will see this as an indication of our impatience.

By going this far—but no further—in our oil relations with Canada, we can make a gesture of disapproval without upsetting, here or abroad, the generally delicate oil situation.

[Omitted here is material unrelated to oil.]

Recommendation

That you sign the proposed proclamation to restrict Canadian oil,[6] at a level lower than we had originally agreed to negotiate, to exercise the desired economic pressure on Trudeau.[7]

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[4] Rogers wrote Canadian Secretary of External Affairs Sharp on February 27 that although Canada found it "impracticable" to limit its oil exports into the United States, he believed that "our longer-term interests lie in understandings about the freest possible exchange of energy materials between the United States and Canada." (Ibid., PET 17–2 CAN–US)

[5] As related in a March 4 memorandum from Bergsten to Kissinger. (Ibid., Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1970) On March 9, Flanigan wrote to Nixon that he should sign a proclamation to establish a "temporary, formal limitation" on the imports of crude and unfinished oil from Canada, due to the "breakdown of voluntary controls" which had impaired the management of the Oil Import Program. Pointing to Trudeau's role in the Canadian decision not to limit its exports to the United States, Flanigan referred to the Canadian attitude as "uncooperative." (Ibid., White House Special Files, Subject Files, Confidential Files, Box 63, [CF] TA 4/Oil 3–1–70 to 11–12–70)

[6] Attached but not printed. The Proclamation limited Canadian crude imports into the United States to 395,000 bpd from March 20 to December 31, 1970.

[7] Nixon initialed the approve line on March 10.

45. Information Memorandum Prepared in the Bureau of African Affairs[1]

Washington, May 13, 1970.

SUBJECT

Possible Libyan Oil Crisis

After months of inconclusive negotiations between the US oil companies and the Libyan Government, the Libyan oil situation appears to be reaching a serious stage. In the current negotiations the Libyan Government has stunned US oil companies by demanding a radical escalation in the posted price of Libyan crude.[2] This has led our Embassy to speculate that the Libyan Government objective may be to create conditions with which the companies will be unable to comply in order to impose some form of national control over the oil industry. The LARG has reportedly broken off negotiations with Occidental Oil Company, whose representative in Libya believes Government seizure of the company is likely within the next few days. Meanwhile ESSO believes that the LARG may impose production rationing which could be tantamount to partial expropriation.

Although the LARG agreed to honor international obligations, including oil company concessions, when it seized power in September, it has recently threatened to take unspecified unilateral action in order to enforce its demand for higher posted prices.

The presence of a Soviet oil delegation in Libya and recent nationalization of US companies in Somalia, Sudan and Uganda are other disquieting developments in terms of the influence they may have on the thinking of the Libyan regime.

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 6 LIBYA. Secret. Transmitted to Kissinger under cover of a memorandum from Executive Secretary of the Department of State Theodore Eliot.

[2] On October 6, 1969, the Libyan Government denounced Libyan crude oil postings as "unilaterally determined" by oil companies and indicated it would exert every effort to achieve an increase in posted price. (Telegram 2934 from Tripoli, October 8; ibid., Central Files 1967–69, PET 1 LIBYA) According to a May 12 CIA memorandum on the Libyan oil negotiations, the Libyan demands during negotiations culminated on May 11 in a demand for an increase in posted price from $2.21 to $2.65 retroactive to 1961. The memorandum stated that Egypt and Algeria "have independently advised Libya to squeeze all it can out of the oil companies without actually nationalizing them because they recognize that Arab countries needed Western oil expertise." It concluded that "there is no evidence of real outside pressure on Libya," although the Soviets were interested in oil and weapons deals. (Central Intelligence Agency, Executive Registry Files, Job 80–B01086A, Box 2)

Libya appears to have significant important economic cards in the present situation. Western Europe obtains 25 per cent of its crude oil imports from Libya and would be unable to dispense with Libyan oil without rationing; hence, we believe Libya would be able to find a market for its oil exports even if it nationalized all or part of the industry. Libya probably could also obtain technical assistance from the Bloc or from other Arab states to operate the industry, should the American companies be forced out.

Our traditional policy has been to avoid involvement in Libyan-oil company dealings except in special situations where we could usefully carry information between the parties in the interest of facilitating a settlement of an outstanding problem. We have asked the Embassy whether this tactic would again be useful given the total context of our relations with the LARG. Several weeks ago, for example, we suggested to several companies, in response to their request for our estimate of the situation, that they should weigh carefully the possible consequences of refusing to consider any increase whatsoever in posted prices.

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46. Telegram From the Mission to the Organization for Economic Cooperation and Development to the Department of State[1]

Paris, May 28, 1970, 2113Z.

6923. Subj: High Level Group Meeting, OECD Oil Committee.

Summary: Meeting High Level Group OECD Special Oil Committee was dominated by apprehension Western Europe and Japanese dels over possible interruption of flow of crude oil from Near East and Libya with potentially devastating impact on economic life Europe and Japan. USDel stated that (A) U.S. ready participate immediately in any necessary tanker allocation exercise (B) North America would have some capacity assist Europe and Japan with crude oil in any emergency in immediate future but that this capacity probably would decline at least until Alaska oil available (C) in any event, U.S. obviously could not be indifferent to plight West Europe and Japan in oil emergency (D) that increased European and Japanese capacity is indispensable insurance policy and that costs such policy not nearly as large as those U.S. ac-

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OECD. Limited Official Use; Priority.

cepts for its own oil security program. Response U.S. statement was good and HLG promptly agreed recommend setting up special small group to review and advise on stockpile policies and objectives and Oil Committee readily accepted recommendation. *End Summary.*

1. This two-day meeting highlighted by European anxieties about petroleum supplies North Africa and Near East. Arab-Israeli confrontation, coupled with current Libyan uncertainties, has again brought to fore virtually total dependence West Europe's economic life on continuing flow oil from Near East and North Africa. All recognized that any interruption Libyan supply, even for fairly brief period, could disrupt European economy in most serious way.

2. All members HLG asked for clarification U.S. position (both as to reserves and policy). Evident that Europeans and Japan look to U.S. assistance in any crisis and gravely concerned regarding U.S. capabilities. Also evident was the underlying European resentment and apprehension at being dependent upon U.S.–U.K. oil companies for most of their oil.

3. U.S. Delegate (Trezise) intervention covered main elements U.S. Task Force report, culminating in President's decision to establish Oil Policy Committee.[2] He pointed out that current U.S. capacity to assist Europe in an emergency is about same as in 1967, but of course this capacity will diminish in the next few years, at least until Alaskan oil enters market. He noted that in contradistinction to 1967, U.S. would be ready today to participate from start in OECD international industry advisory body which would have responsibility for assuring efficient allocation tanker-tonnage in world. He said further that U.S. has far reaching commitments to the common defense of Europe and Japan and that it not conceivable that U.S. would fail cooperate fully in OECD action on petroleum. He emphasized, however, that beyond any emergency assistance which could be expected from North America or from reallocation tankers, European and Japanese security of supply depends on their stockpiling policies.

4. Other members expressed relief and reassurance on hearing U.S. statement and proceeded take action review European members' stockpiling commitments. Recommendation made to Special Committee for Oil that small working group begin review stockpiling objectives and report at early date. This will be purely European body, as it should be.

5. Both Japan and FRG Dels stated intention their governments to examine possibility increase in oil stock levels.

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[2] See Document 43.

6. *Comment:* Atmosphere in HLG one of very general concern if not yet alarm over oil supply prospects. Our position of course has its own real delicacies: on one hand, Europeans and Japanese always tempted take line that U.S. policies are at bottom of problem and that dominant position of U.S. companies exposes European and Japanese economies willy-nilly to disruption and even catastrophe; as we saw first in 1967, there is clear danger that European response to emergency could be to act against U.S. international companies if deliveries fell off substantially. On other, it plain we could not realistically propose make up from North America any major shortfall in Near East or North African shipments. We believe line we took past two days fell reasonably well between promising too much and appearing to be indifferent to European-Japanese worries (which indeed have all too much substance for anybody's comfort). Mildly encouraging is fact that stockpiling question has been brought up more or less to front burner, but of course increase in Euro-Japanese storage capacity is hardly short-term matter.

7. U.S. Del's statement about our ability participate promptly in tanker allocating advisory body, if necessary, was especially well received. As we understand it, our ability to do so rests on authority in Defense Production Act,[3] which must be renewed by June 30. We understand further that both OFP and Justice favor renewal but we take occasion to express trust that there is no hazard that this legislative action could fall between stools.

Greenwald

[3] The Defense Production Act, which originated in 1950 at the outbreak of the Korean war, gave the President wartime powers to mobilize nonmilitary materials and facilities. It remained the primary legislation for ensuring the domestic availability of industrial resources and critical technology essential for national defense. (Department of Energy, Executive Secretariat, Historian's Office, Energy History Series, Vol. 1, No. 2, "The Office of Oil and Natural Gas Supply Development," November 1978, p. 4)

47. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, May 30, 1970.

At a meeting of the Oil Policy Committee, it was agreed that every effort would be made to meet the political requirements for Caldera's visit in terms of imports of oil from Venezuela. It was further agreed that the appropriate language that should be used in discussions with Caldera is as follows:

"The United States contemplates an interim adjustment of the overall import quota for the remainder of 1970. There has been some increase in Canadian imports counted against the quota. But, there will be no reduction in the last half of 1970, as compared to the first half, in total crude imports from overseas, and hence no reduction in purchases from Venezuela if that country continues to hold its recent proportion of the U.S. market (which has provided about 40% of such imports in the last year). Some measures under consideration, if taken, should result in some increase in imports from Venezuela over the next year."

You will note that the above language does not relate directly to a specific number of barrels. It is important that the President stick to this language.

The Venezuelans have made every effort, in conversations between Caldera and Stans in Caracas and between the Minister of Mines and me here in Washington, to defend the principle of equal treatment by the United States for Venezuela and Canada.[2] We must be entirely forthright at this time regarding this matter and say that the equality of treatment cannot be maintained. We must make clear to the Venezuelans that from a security point of view, North American wells, whether located in the United States, the lower 48, in Canada or Alaska, tied in with U.S. refineries by pipelines, are preferable to Venezuelan wells. We can and should say that Venezuelan sources of supply are preferable to Eastern hemisphere sources of supply. But we must *not* allow the Venezuelans to believe that they can expect from us equal treatment with Canada. I took this position with the Minister of Mines and

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[1] Source: National Archives, Nixon Presidential Materials, White House Central Files, Subject Files, Box 26, EXTA 4/CM Tariff Imports, Oil, May–August 1970. No classification marking. A copy was sent to Vaky.

[2] In telegram 31882 to Caracas, March 4, the Department detailed the various meetings held by the Venezuelan delegation in the United States on February 26 and 27. (Ibid., RG 59, Central Files 1970–73, PET 17–2 US)

while he resisted it, he did accept the logic of the argument. Once we have established that Venezuela cannot expect equal treatment with Canada, then I think we can afford to be generous in terms of granting them preference over Eastern hemisphere sources.

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48. Transcript of a Telephone Conversation Between the President's Assistant for National Security Affairs (Kissinger) and the President's Assistant for International Economic Affairs (Flanigan)[1]

Washington, June 3, 1970, 8:05 p.m.

K: You are avoiding me like the plague. I called you yesterday and today.

F: I didn't get it yesterday.

K: I have words for you from the President and I quote: "Screw the Canadians and be good to the Venezuelans." I said Flanigan will not like that and he said Flanigan probably has financial interests there.

F: I have your name on half of it.

K: Keep me in mind when I'm run out of academia.

F: And you can't get a job.

K: I hold the view that the first banker who gets a good political analyst will be way ahead of the others.

F: But who?

K: I wouldn't do anything self-serving.

F: We are going to give 12,000 barrels a day crude and [omission in the original] a day _____.

K: Vaky said it should be 60 or 50.

F: We can't do that. It's way above Canada.

K: He wants to do more for Venezuela, Iran and a 3rd country.

F: Indonesia. The security aspects.

K: You have that already.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 5, Chronological Files. No classification marking. Blank underscores are in the original. In a June 4 memorandum, Vaky informed Kissinger that Nixon wanted him to call Flanigan with the message of an increase in the quota for Venezuela. (Ibid., NSC Files, Box 796, Country Files, Latin America, Venezuela, Vol. I)

F: We can connect Canada with our pipelines and no one can disturb them but for 10 bucks the Venezuelans can sell their oil somewhere else.

K: Can he tell the Venezuelans tomorrow that we are giving them an increase?

F: Does he have to say it tomorrow?

K: He wants to.

F: We will be giving them 35 thousand barrels of heating oil. It's more valuable to them than 35 thousand barrels of crude. Tell Caldera that he has talked to his people and we will come up with increases but that it should not be mentioned. It will get out anyway.

K: What, 35,000?

F: The net increase—we are increasing total imports. 12,000 of crude would come from Venezuela.

K: Anyway.

F: But that won't get _____. Of the 135 [omission in the original] will come from Venezuela a larger portion. None of this is residual.

K: Will you type up something first thing tomorrow that he can say? I think you are dragging your feet. Or is that unfair?

F: I'm not. I'm doing this for the NSC advisor and his leader.

K: Now, will you screw Canada like you have been told?

F: We did and he asked me why. There were no restrictions on imports from Canada until a few months ago. That's the most pusillanimous way, when they cry for their oil.

K: What does that mean?

F: It's a sniveling approach.

K: What would you recommend?

F: I would do the same.

K: Did you go to the dinner last night?

F: No, but I talked to Caldera afterwards.

K: Type something positive or he will go to State who are dragging their feet. I will deal with your wife in the future, if you don't. I'd rather anyway.

F: She's my business partner.

49. Memorandum of Meeting[1]

Washington, June 4, 1970, 10 a.m.

PARTICIPANTS

The President
President Rafael Caldera Rodriguez of Venezuela
Aristides Calvani Silva, Minister of Foreign Affairs of Venezuela
Pedro Rafael Tinoco, Jr., Minister of Finance of Venezuela
Hugo Perez La Salvia, Minister of Mines and Hydrocarbons of Venezuela
Haydee Castillo de Lopez Acosta, Minister of Development of Venezuela
Mr. Charles A. Meyer, Assistant Secretary of State for Inter-American Affairs
Ambassador Robert McClintock, Ambassador-designate to Venezuela
Ambassador Emil Mosbacher, Chief of Protocol
Mr. Viron P. Vaky, NSC
Dr. Henry A. Kissinger, Advisor

Petroleum

The President said that he wanted to assure President Caldera that with reference to the 1970 second-half petroleum quota, Venezuela would receive an increase. He was not in a position to give specific figures, since there were still some technical considerations to be worked out. However, he felt it would be a significant increase and that President Caldera would not have to apologize to anyone.

The President noted that the US would announce the second-half quotas about June 10. He said that when we had specific ranges pinned down we would inform the Venezuelan Government prior to public release.[2]

He asked Dr. Kissinger to elaborate a little more on the proposed increases. Dr. Kissinger explained that what we had in mind was a combi-

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 943, VIP Visits, Venezuela, Visit of President Caldera, 2–4 Jun 1970. Confidential; Exdis. This meeting took place in the President's Office at the White House. No drafting information appears on the memorandum. According to the President's Daily Diary, the participants met from 10:09 to 10:50 a.m. (Ibid., White House Central Files) The complete memorandum of meeting is published in *Foreign Relations,* 1969–1976, volume E–10, Documents on American Republics, 1969–1972, Document 666. Nixon met briefly with Perez February 27. (National Archives, White House Central Files, President's Daily Diary) A full explanation of Venezuela's position on imports is contained in notes that Perez prepared for his meeting with Nixon. (Ibid., Subject Files, Confidential Files, Box 26, EXTA 4/CM Tariff Imports, Oil April 1970)

[2] According to telegram 90413 to Caracas, June 11, the Oil Policy Committee agreed on June 11 to increase the overall import quota for crude by 100,000 bpd and by 40,000 bpd for No. 2 fuel oil refined from Western Hemisphere crude. The result was an increase of approximately 55,000 bpd from Venezuela for both crude and fuel oil. (Ibid., NSC Files, Box 796, Country Files, Latin America, Venezuela, Vol. I) The public announcement was made on June 17.

nation of measures, involving imports of crude and No. 2 fuel oil, which would result in an overall increase in Venezuela's share. He said that as soon as we had specifics we would be in touch with Ambassador Sosa.

The Minister of Mines asked, by way of clarification, if the increase would cover both crude and fuel oil. He was told it would. Asked by the President which was the more important, he said crude exports were of the greater importance to Venezuela.

The President observed that he knew Venezuela wanted parity treatment with Canada. He did not think this was possible at this point, but he wished to emphasize that the increases pushed Venezuela closer to Canada's position. He said, in fact, that he was brought a figure this morning and that he had ordered it increased. Thus the measures we would take would be clearly in the direction of bringing Venezuela closer to Canada's position.

President Caldera said that he did not want to hurt Canada, but he noted that his countrymen are infuriated when publicity and public statements indicate that Canada received preference and that Venezuela is a "second-class friend." He noted that US officials had publicly stated that Venezuela would be helped, but of course it could not receive the same treatment as Canada. This infuriates Venezuelans. Consequently he hoped that in public statements no invidious comparisons with Canada are made. The President said that was a very important point, and he asked Dr. Kissinger to be very careful in public statements that no invidious comparisons are drawn.

[Omitted here is material unrelated to oil.]

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50. Telegram From the Department of State to the Embassy in Libya[1]

Washington, July 17, 1970, 1620Z.

114592. Ref: Tripoli 1641.[2] Subject: Posted Price Negotiations.

1. Dept has consistently take position vis-à-vis all oil companies involved in Libyan problem that decisions regarding offers in posted

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 14 LIBYA. Secret; Limdis. Drafted on September 16 by Clark (E/ORF/FSE) and Blake (AF/N); cleared in E/ORF/FSE; and approved by Blake.

[2] In telegram 1641 from Tripoli, July 14, the Embassy provided information concerning the ongoing negotiations between Libya and Marathon. (Ibid., PET 15–2 LIBYA)

price negotiations was matter for each company to decide for itself in terms its own best interests, taking into account its particular position in Libya and its interests elsewhere. Position of independent oil companies such as Occidental for example is very different in Libya and world-wide than that of major integrated international company such as Esso. If asked by any oil company we plan to maintain this position and we assume Embassy will also.

2. We note that argument for accepting forced posted price increase in Libya under protest as means of avoiding pressure to increase posted price in Persian Gulf of course only applies to majors (Esso, Amoseas Group, and Mobil). A substantial de facto posted price increase in Libya would no doubt be followed by pressure to increase posted price in Persian Gulf in any event. Independents such as Oasis Group members might have more to gain by flexibility now since a negotiated posted price, whatever it might be, could be less or with less onerous conditions attached than a price established by fiat. To suggest independents not be forthcoming now in negotiations would appear less in their interest and more in the interest of the majors, and independents might later blame USG if events turn out badly.

3. We are concerned by what appears to be emerging "Iraq mentality" on the part of majors (Tripoli 1557, para 7),[3] namely to give in on issues only when forced, to disinvest, to keep others out of their concession areas as long as possible, and to maximize profits soonest. Such an attitude may not appeal to independents without production outside Libya such as Marathon, who have a greater incentive to remain in Libya for as long as possible.

End

Rogers

[3] Dated July 2. (Ibid., PET 6 LIBYA)

51. Action Memorandum From the Deputy Assistant Secretary of State for International Resources and Food Policy (Katz) to the Assistant Secretary of State for Economic Affairs (Trezise)[1]

Washington, July 28, 1970.

SUBJECT

Oil Problems in Libya and the Middle East

Attached Annex A spells out current and potential problems caused by production cutbacks in Libya and the closure of Tapline. The resulting tanker shortage has caused shortages in the US of residual fuel oil and asphalt, threatened to curtail air pollution regulations, and could severely hurt the profitability of small inland refiners. If the situation continues to deteriorate it could lead to rapid changes in existing patterns of US oil ownership in the Eastern Hemisphere and severe political strains between us and our European allies (and to a lesser extent with Japan).

Annex B spells out in some detail existing problems between oil companies and the Libyan government. Annex C reviews the Tapline problem. Annex D reviews the tanker situation.[2]

Action Recommended

1. That you call in representatives of US oil companies in Libya—at least Esso and Occidental—express our concern over the seriousness of the situation there, ask for their assessment of the situation, and urge they seek every means available to deal imaginatively with the problem of seeking to accommodate themselves with the foreseeable evolution of events in Libya, consonant with their own long-term best interests; that you say specifically that we fear that failure to move on the posted price issue will result in Libyan action against the companies.[3]

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 6 LIBYA. Secret. Drafted by Clark; and cleared in AF/N, NEA/ARP, NEA/ARN, and E/FSE.

[2] Attached but not printed at Annex B is the paper entitled "Outstanding Issues Regarding Petroleum in Libya." Annexes C and D were not found, but the topics are summarized in Annex A.

[3] Akins and Trezise met with Esso officials on August 4. Executive Vice President Emilio Collado stated that Esso would not pay unilaterally imposed posted price increases, even though this would bring the company into "immediate conflict" with Libya. Collado gave several reasons: high prices could not be passed on to consumers, the company could not operate at a loss, and Esso feared that similar demands would develop in the Persian Gulf setting off a "never ending process." Trezise and Akins stated "we do not take seriously" the Esso assertion that nationalization was preferable to an increase in posted prices. They commented that higher costs of oil from either the Persian Gulf or Libya would be passed on to the European consumer. (Memorandum of conversation, August 4; National Archives, RG 59, Central Files 1970–73, PET 14 LIBYA) During a subsequent meeting that day, Esso executives discussed the European supply picture, tankers, pipelines, and increased Western Hemisphere production. (Ibid., PET 18 NEAR E)

2. That you speak to Aramco representatives, express our concern with the wide-spread effects the temporary closure of Tapline is having, the more serious effects should Tapline remain closed for the rest of this year or longer, ask for their assessment of the situation, and urge they make every effort to work something out with Syria and other transit countries consonant with Aramco's best interests.

If you approve in principle to this approach, we will send you separate memoranda on the talking points.

Annex A

Effects of Current Oil Problems in the Arab World

Summary

The closure of Tapline and cutbacks in oil production in Libya have caused a tanker shortage and increased crude oil and petroleum product prices in Europe. The chances for reopening Tapline soon are only fair. The probability of increasing production in Libya in the foreseeable future is not promising; the real problem in Libya is to avoid further cutbacks.

The effect in the US has been a shortage of residual fuel oil and asphalt, and a reduction in oil imports. There is the immediate threat that air pollution regulations will have to be suspended, and the possibility if the tanker crisis continues that some small US refiners may be forced out of business because they will have no markets for their import tickets.

Our NATO allies are thinking of making direct deals with governments of oil producing countries if oil deliveries are further curtailed. If Arab oil is partially or wholly denied US companies because of arms shipments to Israel or other reasons, the USG will be in an awkward position between the interests of our companies and the requirements of our friends in Europe. A crisis could be reached if Mediterranean oil production were reduced another 400,000 to 900,000 barrels per day. *End Summary*

I. The Tanker Shortage

The world supply and price of crude oil and petroleum products have been severely affected by the very rapid recent increases in tanker rates to very high levels caused by the shutdown of Tapline, production cutbacks ordered in Libya, and expectations of further shortages. Spot tanker rates have more than doubled, radically shifting trade patterns. It is now more economical for Europeans to import the marginal barrel from Venezuela rather than the Persian Gulf, and it is more economical to consume the whole barrel of Middle East and African crude in Europe than to export residual oil and other products to the United

States. The cost advantage of Middle East or African oil delivered to the East Coast over crude produced in the US used to be about $1.40 per barrel. This advantage has now almost disappeared and may be negative in some cases. US oil imports from Venezuela and the Eastern Hemisphere have correspondingly dropped.

The high tanker rates initially affect only the small amount of world trade on the spot or short term tanker market (about 20 percent of tankers in operation) but rates for one year charters have also risen. The cost of operating long term charters (12 years) or tankers owned by oil companies (which together makes up about 70 percent of the world tanker fleets) are affected only indirectly. However, any oil company seeking new tanker capacity to fulfill its contracts, such as Occidental which needs to replace production in Libya with crude located further from its markets, will have to pay the going high prices.

Major oil companies with their own fleets and established markets to supply will also experience cost increases because of the need to conserve scarce tanker capacity by using it on the shortest possible routes, even if this means using high cost Venezuelan oil in some cases instead of cheaper Persian Gulf oil.

II. Duration of Current Tanker Shortage

Construction of tankers at current rates is barely enough to keep up with growing demand in Europe and Japan. World shipyards are full and booked up for the next two or three years. If the Tapline and Libyan situation remain as they are now the current high tanker rates can be expected to last for at least another two or three years until world shipyard capacity can be increased.

1. *Chances of Reopening Tapline*

The Syrians claim their only interest in Tapline is to increase transit payments. They want a $50 million payment to allow the line to be reopened and to start negotiations for a new agreement. Tapline has offered a $5 million "advance" payment plus forgiveness of a $7 million debt. Both sides at present seem far from agreement.

King Faisal is understood to be unenthusiastic about reopening Tapline. He believes it leaves a significant part of Saudi Arabian export capacity potentially exposed to the whims of Arab guerillas, Israel, and Syria, any of whom could cut the line at any time. If Aramco did not use Tapline in its planning for Saudi exports, Faisal reasons, it could in time arrange for tankers to export an equivalent amount from Ras Tanura, and Saudi Arabia's export earnings would then be largely unaffected by further disruptions in Tapline. He has not, however, forbidden "discussions" between Aramco and Syria but has insisted that "negotiations" take place only after Syria allows Tapline to be reopened, and that talks should then be with all transit countries.

We understand some Aramco members themselves may not be anxious to reopen Tapline. Companies with large tanker fleets may be relatively better off during a period of high tanker rates than companies who are tanker short. Companies without enough tankers of their own would of course be anxious to reopen the line.

The chances of reopening Tapline soon must therefore be judged fair at best.

2. *Chances of Increasing Production in Libya*

Since Libya has cut back production in the name of conservation, it might be expected that such cut backs will be more or less permanent. In their zest for conservation the Libyans may be partially motivated by the desire for more detailed oil field data. It has been a longstanding Libyan goal to get such data from the companies, as is done in the United States, so that authorities can accurately judge whether in fact a field is being produced too fast or not. It is possible that if the companies present the Libyans with enough data in defense of the higher production rates, some production increase might eventually be allowed.

The immediate threat in Libya is the possibility of further reductions which could take place in the name of conservation, higher posted prices for Libyan oil, Arab-Israeli politics, or a combination of these factors.

The Libyan Government is understood to be thinking of imposing higher posted prices on the oil companies by decree. Such a move would not necessarily affect the rate of production in Libya.

III. Effect on US

1. *Residual fuel oil and asphalt*

Almost all residual fuel oil used in the US for generating electricity and other industrial purposes is imported from the Caribbean and Europe. With decreased imports, supplies of resid are so short that a shortage has also developed of asphalt, which can be made instead of resid in the refinery process. Asphalt supplies are now being rationed to customers by suppliers.

2. *Pollution regulations*

Existing anti-pollution regulations in many US cities, especially in the Northeast, require the use of low sulphur resid. Much of this has been imported as a "left over" from refineries in Western Europe using low sulphur Libyan oil. The continued tanker shortage and reduced US imports of resid from Western Europe will necessitate the use of resid with higher sulphur content from the Caribbean. This could mean the suspensions of some existing anti-pollution regulations as well as delay of more stringent regulations.

3. *Small inland refiners*

Many small inland refiners in the US depend on the value of their import tickets for a substantial part of their operating revenue. In some cases net profits are less than the value of the import tickets. The value of these tickets is now nearly zero, although the effect on most refiners has not yet been felt because most inland refiners exchanged their year's supplies of tickets with importers last January when the tickets were worth $1.25 to $1.45 per barrel. Should high tanker rates remain into next year, however, the inland refiners will be badly hurt.

IV. Effect on our allies

Western European countries are concerned over the security of their oil supplies. The West German cabinet has reportedly instructed the newly formed state oil supply company, Deminex, to seek arrangements for crude supply directly with government-owned oil companies in oil producing countries. This is an ominous step, since most state oil companies existing in the Arab world at present have little or no crude oil of their own to market. There is the clear suggestion in the FRG's instructions to Deminex that it seek an immediate accommodation with major oil producing states in the Middle East in the event of an emergency such as nationalization in order to assure West Germany's security of supply. We do not doubt that other European countries would do the same in similar circumstances. Such a move would of course primarily affect US and British oil companies which supply most of Western Europe's oil requirements.

Any such development would put the USG in a most awkward position between our oil companies and our NATO allies. The oil companies can be expected to insist the USG protect their rights in oil producing countries and might ask for our political support in seeing that oil "tainted" by expropriation is kept out of their European markets. However, European governments would certainly override any attempt by US oil companies to boycott oil shipments (with or without USG support) if there appeared any chance their industries might suffer any shortage of oil.

V. Crisis Point

Under present very tight tanker supply conditions, industry representatives have told us that Mediterranean oil production (Libya, Algeria and the IPC pipeline) can only be reduced another 400,000 to 900,000 barrels per day before Europe would actually be forced by the shortage of available tankers to begin to draw down stocks.

Reductions in the availability of Mediterranean oil so far have been justified on the basis of demands for increased transit payments in the case of Tapline, and oil field conservation in the case of cut backs in Libya. Further small cut backs may be made in Libya for conservation

reasons, but any major cut backs by Iraq, Algeria, or Libya of up to one million barrels per day would probably be made for political reasons or to apply pressure to increase posted prices in Libya. Any new major cut back in production would be susceptible to a "political" solution between European consuming countries and Arab producing countries over the heads of US oil companies.

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52. Telegram From the Department of State to the Embassy in Iran[1]

Washington, July 30, 1970, 2157Z.

122913. Ref: State's 120689.[2]

1. Department officer today called senior vice-presidents of all U.S. oil firms (except Occidental) whose production has been cut back in Libya and urged that companies make up these losses in Iran. Department officer emphasized 1) advantages to companies themselves in strong stable Iran, particularly at present, 2) Iranian use of revenues in constructive manner and 3) interest at highest level of U.S. Government in being as helpful to Iran as possible.

2. Continental and Marathon replied they would be pleased to take oil from Iran if they had tankers to haul it. But they cannot go into spot charter market. Transport costs from Persian Gulf to Europe now about $3.00 per barrel, thus raising price of Persian Gulf oil, on spot chartered tankers, to double levels called for by their sales contracts. Both companies are depending on force majeure clauses in contracts to cut back deliveries and are prorating available supplies to customers.

3. Texaco and Standard Oil of California said King Faisal had ordered Aramco to make up losses of Tapline through increased liftings from Ras Tanura. They are unable to do this. Only way companies

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 15–1 LIBYA. Confidential. Drafted by Akins (E/ORF/FSE); cleared in NEA/IRN and NEA/ARP; and approved by Katz (E/ORF). Repeated to Jidda, Dhahran, and Kuwait.

[2] Telegram 120689 to Tehran, July 28, informed the Embassy that Trezise was instructed to try and persuade those companies with production cutbacks in Libya to make compensating increases in their production from Iran. This instruction followed a visit by Iranian Ambassador Afshar on July 24, who presented a request from the Shah of Iran that the United States do "all we can" to increase Iranian production. (Ibid.)

could lift more from Iran at present would be to shift tankers there from Saudi Arabia and this could never be explained to Saudi Arabia.

4. All four company executives said they understood U.S. interest in matter and all said they would do what they could. None thought this would be very much. SoCal pointed out that its liftings from Iran this year were 20 percent over that of last year.

Rogers

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53. Editorial Note

On July 30, 1970, President Richard Nixon wrote Mohammed Reza Pahlavi, the Shah of Iran, that the United States had given the matter of a special oil import quota for Iran "very careful thought." Nixon continued, "I greatly regret that under the current program, we are unable to do anything in this regard in the foreseeable future." He also wrote that the United States had urged several American firms to explore the practicality of purchasing Iranian oil to offset recent production decreases ordered in Libya. (National Archives, RG 59, Central Files 1970–73, DEF 1 NEAR E) Nixon's letter is published in *Foreign Relations,* 1969–1976, volume E–4, Documents on Iran and Iraq, 1969–1972, Document 80. The discussions with the oil companies to which Nixon referred took place June 29 and 30. See Document 52. Telegram 105171 to Tehran, July 1, contains a fuller account of the meetings. (National Archives, Nixon Presidential Materials, NSC Files, Box 601, Country Files, Middle East, Iran, Vol. II)

54. Letter From the Director of the Office of Emergency Preparedness (Lincoln) to President Nixon[1]

Washington, August 13, 1970.

Dear Mr. President:

Approximately six months ago you established a new management system for the Oil Import Program.[2] That system has been proceeding, in accordance with your instructions, with interim actions directed to improving the program. Actions have included proclamation changes by you on my recommendation and regulatory changes by the Secretary of the Interior with my concurrence. These actions have been taken with the advice of the Oil Policy Committee.

The greater part of historical allocations stemming from the voluntary program which ended in 1959 will be eliminated at the end of the year. The anomaly of shipment of Mexican oil imports out of, and then back into, the United States will also be eliminated.[3] A formal regulatory system has been instituted for Canadian imports at a considerably expanded level of imports over 1969.

With the advice of the Oil Policy Committee that the action will not adversely affect national security, the level of foreign imports of crude oil has been raised for 1970. A program of importation of No. 2 heating oil has been instituted for the East Coast. The Oil Import Appeals Board has been given authority to allow increased importation of residual fuel oil for the mid-continent area to alleviate hardship and reduce pollution, and to permit increased importation of asphalt for the East Coast.

Arrangements have been made for the Oil Import Appeals Board to provide relief for hardship cases, by authorizing imports of crude oil from Canada above the level of the Canadian quota but within the overall quota. Also, a recent action will permit those refineries which

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[1] Source: National Archives, RG 56, Records Relating to the Tenure of Secretary of the Treasury David M. Kennedy 1969–71, Office of the Assistant Secretary for Public Affairs, Accession 56–73–7, Box 9, Oil Import Committee. No classification marking. In an August 7 letter, Lincoln provided Kennedy with a more detailed version of his concerns on the oil import question. (Ibid.)

[2] See Document 43.

[3] The so-called "Brownsville Turnaround," was a mechanism for avoiding import quotas. In Brownsville, Texas, oil was offloaded from the tankers onto trucks, which then crossed into Mexico, made a U-turn, and proceeded back to Texas. Oil handled in this fashion thus became "imported" from Mexico, which had a higher quota due to its geographic location.

receive Canadian allocations and which prove a hardship situation to use their offshore quota allocations for imports from Canada.[4]

The Oil Policy Committee has concurred in my recommending to you that exchange of quota allocations be permitted through sale of quota tickets or of imported oil. The need for this reform, which strengthens the free market aspect of the program, has been emphasized by the current disruption in the international oil and tanker markets.

The type of international disruption mentioned above raises a potential management problem of major proportions. Other problems have become more evident since last February when you established the new management system for the oil import program. These include the increasingly apparent effect of the environmental programs and the effect of the coal and gas supply situation on the requirements for oil and on the composition of these requirements. Undoubtedly, these factors will be considered in the study of the national energy situation which you have recently directed the Domestic Council to undertake.

Six months ago, I joined with other members of the Cabinet Task Force in recommending that we should proceed at the beginning of the next year to a transition to a tariff system.[5] I did not consider that this change would necessarily result in any significant decrease in costs to the consumer. I hoped the system, while continuing to provide the needed support to national security, could provide a freer market for oil, and be made simpler and more easily understood.

Recent developments have increased misgivings about moving to a tariff system at this time and about a tariff system as a feasible method of controlling oil imports.

The recent interruption in the flow of oil to Europe, while comparatively small in quantity, has caused significant disruption of the international oil situation.

Two other considerations are at least as important to me. First, it appears that our country will be in a transitional situation for some time with regard to oil, if only because of the uncertainty as to the date Alaskan oil will be available and the effects of the environmental programs. Secondly, new estimates indicate we have a more severe problem than we estimated six months ago in preventing an unwise dependence on relatively insecure sources of supply by even as early as 1975.

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[4] See Document 44.

[5] A reference to the Task Force Report; see Documents 32 and 33.

The individual members of the Oil Policy Committee are impressed in varying ways by each of the three considerations mentioned above. All of us recognize that the method of control is a means to the national security end, which includes limiting U.S. dependence.

Because of these factors, the Oil Policy Committee concurs with my judgment that we discontinue consideration of moving to a tariff system of control, but rather continue with our efforts to improve the current program. I provide this advice to you now since planning for the next oil allocation year must soon get under way.

I would be remiss if I did not express to you my concern about the long run and even mid-term outlook for assuring the achievement of the national security objectives on which the oil import program is based. From a management viewpoint the program faces the danger of being gravely weakened by special actions and exceptions urged by both critics and supporters of the current system. More importantly, we also face the growing danger of not having adequate supplies from reasonably secure sources—a vast problem which cannot be separated from our overall energy policy. National security must be a central consideration in working out that overall policy.

We look to the further definition of policy, which you are now seeking, in the overall energy area to give a more reliable base for our national security oil import program.[6]

Respectfully,

G. A. Lincoln[7]

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[6] Lincoln's letter was leaked before Venezuelan officials could be notified, necessitating instructions to McClintock as to how to reassure the Venezuelan Government that the United States "officially recognized dangers of becoming dependent on insecure sources for its oil and will move toward reducing this dependence." (Telegram 133220 to Caracas, August 17; National Archives, RG 59, Central Files 1970–73, PET 17–2 US)

[7] Printed from a copy that bears Lincoln's typed signature with an indication he signed the original.

55. Telegram From the Embassy in Libya to the Department of State[1]

Tripoli, September 23, 1970, 2148Z.

2299. Subj: Oil Negotiations. Ref: State 156345.[2]

1. Libyans are not bluffing. They have already assured, through deals with Oxy and three American partners Oasis,[3] production of approximately 1.5 mbd. As we have repeatedly pointed out, LARG has sufficient foreign exchange reserves to cover three years non-oil imports at 1968 level. In addition, LARG not impressed by majors' argument that Libyan increase will set precedent; on contrary, they expect their action to be followed by other Arab producers and see such moves (in Libyan context at least) as "necessary rectifications."

2. It is true that Jallud told Shell 22 September that, since company refused retroactivity part of package, its share of Oasis production would be "stopped." We understand from other Oasis owners however that only action LARG has taken is to block shipments of crude for which Shell is consignor, i.e. ban exports of Shell "owned" crude. Yet total Oasis production has not been cut below earlier imposed limit. Other owners, therefore, are able to lift Shell's one-sixth entitlement of Oasis crude as if it were their own, and crude consigned by them to Shell subsidiaries is moving. Oasis owners, and particularly Shell, are relieved at mildness of LARG's reprisal but anticipate harsher measures if current action does not cause Shell to yield.

3. It seems to us almost certain that, in confrontation with majors acting in concert, LARG would promptly force shut-in of their production—probably halting all operations which they control. This would mean a loss of about 1.5 mbd. Dept's—and our—deep concern, therefore, that stonewall position by majors could lead to drastic cutbacks is soundly based. Effects on European energy supplies, prices

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 14 LIBYA. Secret; Flash; Limdis. Repeated to London and The Hague.

[2] Dated September 23, telegram 156345 informed the Embassy that on September 24 BP and Shell executives would meet with those from Esso, Mobil, Socal, and Texaco to develop joint positions on negotiations. The companies were expected to take a hard line with Libya and not give in to posted price or tax increases, on the assumption that the Libyans were bluffing. The telegram indicated that the Department was concerned about the impact of either Libyan production cutbacks or nationalization if the major oil companies refused to compromise, and thought a confrontation was "highly probable." (Ibid.)

[3] In telegram 2171 from Tripoli, September 9, the Embassy relayed information concerning the specifics agreed to between the Libyan Government and Occidental Petroleum. Palmer commented that this agreement, plus continued limitations on Libya's oil output, "seems to have set in motion events which will lock European market prices into level above $2.00/b." (Ibid.)

and economies and probable repercussions on US and Alliance far outweigh debatable effects on majors' profits elsewhere, as emphasized Tripoli 2294.[4]

4. We agree with Dept's estimate possible LARG scenario, with following comments: it highly likely that word of companies intent to stand fast will get back to LARG before Jallud actually calls majors in. And it conceivable in these circumstances that Libyans would hold off on presenting demands—but only until they had taken all possible precautions and had activated some alternatives to majors. In this connection, we believe Japanese and/or East Europeans may already have given LARG some assurance of help in event of impasse. Thus LARG can keep its cake and eat it too. Therefore, any respite resulting from firm stand by majors is likely to be of very short duration.

5. From what we understand of Esso's strategy, it is prepared to lead resistance in hope that: (A) LARG will pause and finally shrink from all out confrontation, (B) cutting off half of Libya's production will create enough internal uncertainty and confusion for rumors of dissidence in Cyrenaica to become political reality—leading to change of course or change of government, (C) even if game is lost in Libya, new price pattern can be prevented from spreading to ME. We think any such assessment is woefully wrong on all three counts. And we strongly recommend that Dept make clear to majors their proposed tactic risks not only their own assets, but our broader interests here and in Europe as well.

Palmer

[4] Not found.

56. Telegram From the Department of State to Certain Diplomatic Posts[1]

Washington, September 26, 1970, 1714Z.

159012. Subj: Libyan Oil Negotiations. Following is Noforn and FYI only.

1. Ambassador Johnson met September 25 with Chief Executive officers of the seven major international oil companies to discuss effects of Libyan oil negotiations on world oil supplies, prices, our political relations with oil producing and consuming countries, and the future of the international oil industry.

2. Ambassador Johnson stressed he was not trying to tell them what they should do, but wanted to discuss with them consequences of either line of action they might take, i.e. accepting or standing firm against Libyan demands.

3. Companies responded that rejection Libyan demands would almost certainly result in closed down production, which in turn would result in fuel shortages in Europe this winter, higher prices, and that effect would be felt in US as well. Companies said we may be on the verge of a crisis worse than the Iranian oil crisis in the early 1950s. Companies stressed problems of short term fuel shortages should be weighed against consequences of giving in to Libyan demands which would undermine principle of sanctity of contracts and the spreading of higher oil prices to the Persian Gulf, Venezuela and other producing areas. Companies asked whether USG would support their stand diplomatically in Europe in case of production cutbacks in Libya. Ambassador Johnson said he could not give such assurances emphasizing we had little economic or political leverage in situation.

4. Companies are obviously distressed at "Hobson's choice" they face and no consensus has yet developed.

5. Details follow by septel.[2]

End.

Rogers

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 6 LIBYA. Secret; Limdis. Drafted by Clark; cleared in draft by U. Alexis Johnson and Newsom; and approved by Katz. Sent to London, The Hague, Tripoli, Bonn, Paris, Rome, Brussels, USNATO, Tehran, Dhahran, Jidda, Kuwait, Beirut, USOECD Paris, USEC Brussels, and Algiers.

[2] A full account of the meeting is in telegram 159023 to the same posts, September 26; ibid.

57. Memorandum for the Files by the President's Assistant for International Economic Affairs (Flanigan)[1]

Washington, September 29, 1970.

RE

Libyan Oil

On Thursday, September 24th Mr. Trezise called to alert me to the potential crisis which could develop from the cutting off of Libyan oil produced by major U.S. companies. On the evening of the 25th, Julius Katz reported to me the substance of conversation between John McCloy, representative of the International Oil Company, and Under Secretary Johnson.[2] On the evening of the 26th Abe Lincoln reported the substance of a conversation he had had between Marion Epley of Texaco and Mr. Miller of Standard of California.[3]

As a result of these conversations it appeared that the various oil companies negotiating with the Libyans were inhibited from talking together and that they had a communications problem. In addition, no government position had been taken with regard to the crisis but rather that the general thrust of both Lincoln and Johnson's comments have been that a settlement was desirable.

On the morning of the 26th I cleared with Johnson that U.S. Embassy communications in Libya would be made available for use by the oil companies. I also cleared with Mitchell that should the oil companies wish to discuss a proposal made by Libya they could do so if they were to sit down together with a member of the Justice Department. This information was given to John McCloy who also spoke to Mitchell. He very much appreciated the cooperation that these activities indicated.

With regard to whether or not the oil companies should hold out, I suggested to McCloy that it would seem to me that the penalties of a break with Libya, in terms of emphasizing the degree to which

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[1] Source: National Archives, Nixon Presidential Materials, White House Central Files, Subject Files, Confidential Files, Box 26, EXTA 4/CM Tariff Imports, Oil Sep 28–Nov 1970. No classification marking. Printed from a copy that does not bear Flanigan's initials.

[2] See Document 56.

[3] Telegram 159013 to several posts, September 26, reported on the meeting. The Department was in general agreement with Esso that the elimination of tanker cross-hauls and increased U.S. production would allow Europe to withstand the winter with only a modest use of stocks. However, if further production limits occurred, European net loss and stock drawdowns would increase. The Department concluded that Europeans would make arrangements with Libya and Iraq before they would permit a decline of their stocks. (National Archives, RG 59, Central Files 1970–73, PET 6 LIBYA)

Russian-controlled Arab states hold Europe and Japan in pawn for energy requirements and also as a result of the exacerbation of the existent tanker shortage, were much greater than the negatives which would result from a settlement with Libya. If a settlement were made, the result would obviously be that all producing countries would demand the same deal. The increased cost would be passed on to consumers in Europe and Japan and, to the extent the U.S. imports oil of and from Canada to U.S. consumers. Since this increase would affect 100% of European and Japanese petroleum supplies and only a small per cent of U.S. petroleum supplies, the result would be a competitive benefit to the United States. This conclusion was concurred in by Johnson and Lincoln.

I told McCloy that regardless of the above comments we would expect the oil companies to follow the course that they and he thought best.

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58. Memorandum of Conversation[1]

London, October 3, 1970, 11:45 a.m.

SUBJECT

Talks between Secretary of State Rogers and British Foreign Secretary Sir Alec Douglas-Home—Libya—Part VII of VIII

PARTICIPANTS

United Kingdom
Sir Alec Douglas-Home, Secretary of State for Foreign and Commonwealth Affairs
Sir Denis Greenhill, Permanent Under Secretary
John A. N. Graham, Private Secretary
W. Robin Haydon, Head of News Department
Philip Adam, Foreign and Commonwealth Office
David Bendall, Foreign and Commonwealth Office
Ambassador Freeman (to US)
Charles Wiggins, American Department
Lord Carrington, Secretary of State for Defence
Sir Burke Trend, Secretary of the Cabinet

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[1] Source: National Archives, RG 59, Central Files 1970–73, POL UK–US. Secret; Exdis. It is Part VII of VIII; Parts I–VI and VIII are ibid. No drafting information appears on the memorandum. The memorandum was approved in S on October 7. The meeting took place at Chequers.

Donald J. D. Maitland, Chief Press Secretary
Sir James Dunnett, Ministry of Defence
Robert T. Armstrong, Private Secretary
Peter J. S. Moon, Private Secretary
Henry L. James, Press Secretary

United States
The Secretary
Ambassador Annenberg
Dr. Moynihan, Counselor to the President
Dr. Kissinger, Assistant to the President for National Security Affairs
Mr. Ronald Ziegler, Press Secretary
Mr. Martin J. Hillenbrand, Assistant Secretary for European Affairs
Mr. Helmut Sonnenfeldt, National Security Staff
Mr. William J. Galloway, Counselor of Embassy for Political Affairs

Turning to Libya, the Secretary asked whether the oil companies should be encouraged to make the best deal they can with the Libyan Government. Sir Alec responded that the British Government had told British companies they should be guided by their commercial judgement and that the Government would stand behind them as best they could.[2] Ambassador Annenberg pointed out that the situation was made particularly difficult because Occidental had made an agreement on terms which the other companies regarded as unfavorable. He commented that Esso was prepared to settle with the 30 cent per barrel increase in price but had taken a position against retroactive payments. Sir Alec noted that if the Libyan Government were to succeed in forcing the oil companies to agree to its terms, there was a strong probability that other oil producing countries would follow the same policy. Ambassador Annenberg added that Nigeria had given notice that it would expect to be given similar terms.

[2] According to telegram 159031 to London, September 26, British Ambassador Freeman informed Johnson on September 25 that Douglas-Home "has reached the conclusion that the companies are right to stand firm and they should not concede to Libyan demands." He believed "the companies should maintain a united front in negotiations with the Libyans, and that not to do so would lead to a worldwide increase in posted prices." Douglas-Home wanted the Department of State to encourage U.S. majors to "maintain a firm stand along with BP and Shell." Johnson told Freeman that "the Libyans are aware we have very little leverage over them. Each company will of course have to make its own decision in light of its estimates of probable Libyan actions." (Ibid., PET 6 LIBYA)

59. Telegram From the Department of State to the Embassy in the United Kingdom[1]

Washington, October 14, 1970, 2230Z.

169579. Subj: Middle East Oil. Ref: State 159023.[2]

1. Eric Drake, Chairman of British Petroleum, called on Assistant Secretary Trezise October 13 to discuss effect of Libyan oil settlements on upcoming negotiations with major Middle East oil producing countries.[3]

2. Drake said with ill-concealed hostility that it was really the fault of the US Government that oil companies had felt forced to give in to Libyans. He said Europeans would have gone along with a hard line by the oil companies with Libya, even at the cost of a shutdown in Libyan production and draw down of European stocks to low levels, if only the US Government had been willing to explain to the Europeans that all this was really in their best interests. He said Lord Home understood these matters and had been willing to back the oil companies with the Europeans. Making such explanations to the Europeans was of course the job of the USG and HMG.

3. Drake said oil companies will now be forced to increase tax and royalty payments in the Persian Gulf, which will make North African oil even more valuable to Europe in comparison with Persian Gulf oil, and this will set off another round of Libyan demands for more taxes. The spiral could be endless he said.

4. Drake said to minimize problems in the future we should make arrangements to discuss oil developments with HMG.

5. Trezise responded he strongly disagreed with Drake's analysis of the Libyan negotiations; that Libyans had been holding all the cards; and that we could have had little influence over Europeans had they decided to put pressure on oil companies or to act directly with oil producing countries to safeguard security of their own vital oil supplies. However, Trezise said we would be glad to meet with British to discuss matters further.

6. No date for such a meeting was mentioned.

End.

Rogers

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 6 LIBYA. Secret; Limdis. Drafted by Clark; cleared in E/FSE; and approved by Trezise. Repeated to Dhahran, Kuwait, Jidda, Tehran, Tripoli, The Hague, Paris, Bonn, Rome, USEC Brussels, USOECD Paris, and Algiers.

[2] See footnote 2, Document 56.

[3] An October 13 memorandum of conversation of the meeting is in the National Archives, RG 59, Central Files 1970–73, PET 6 LIBYA.

60. Telegram From the Embassy in the Netherlands to the Department of State[1]

The Hague, October 20, 1970, 1415Z.

4000. Subj: Potential European Energy Problem. Ref: Hague 3724.[2] From Ambassador Middendorf.

1. During Oct 18–19 visit to Reforger II exercises I had opportunity for extensive discussion on energy problem with NATO SecGen Brosio, German DefMin Schmidt, General Goodpaster, and Neths Chrm. of Joint Chiefs, Admiral Van Den Wall Bake. I had traveled with latter and, following our discussion on plane, he suggested meeting with others which he set up after dinner Oct 18. During dinner, Schmidt told me that he had not been aware previously of possible energy crisis and would ask EconMin Schiller to make complete study of FRG's needs and sources in this field.

2. In subsequent meeting I pointed out extent of Europe's dependence on oil from ME and North Africa, areas which were becoming increasingly hostile to Western interests under Soviet encouragement. Estimated 79 percent of Europe's oil came in 1969 from that area while another 7 percent came from EE. This dependence on these uncertain areas of supply would be greater by 1980; by that time other potential suppliers like Venezuela, Nigeria, and Alaska will be committed to other purchasers, principally US and Japan. Indigenous sources (North Sea oil, natural gas, and nuclear power) would not come near satisfying Europe's demand. Tanker shortage for next two years means Europe will be operating on narrow margin, even if weather is mild and there is no interruption of supply for political reasons. Soviet activity in area is ominous; they have increased their sphere of influence in areas fronting on Mediterranean which have easy access to Europe. Likely their next efforts would be against oil rich countries of Persian Gulf—including Iran, Saudi Arabia, and Kuwait—which have estimated 60 percent of world's known reserves, value of which exceeds annual GNP of Europe.

3. Brosio said he not certain whose problem it was: oil companies? US? NATO's? I replied all had interest and some responsibility but seemed to me it mainly Europe's problem. Heating of their homes and running their factories and military machines depended on getting oil. If hostile power controlled, or even influenced distribution, of this oil

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 697, Country Files, Europe, The Netherlands, Vol. I. Secret; Exdis.

[2] Not found.

would there not be insidious danger that Europe could be blackmailed into neutrality? Van Den Wall Bake commented that if choice were between closing down factories or leaving NATO, he would fear for NATO.

4. When pressed by Brosio for recommendation, I said I [was] not authorized speak for USG in this matter. On personal basis I suggested that first thing Europeans might do is agree they had problem. Brosio and Goodpaster agreed, but stressed need to hold this in confidence for fear that any official sign of European concern would only stimulate hostile forces to up the ante. Perhaps, I added, there would be opportunity here for large development program for ME and North Africa, based on both public and private funds. Europe might make friends in area which it has somewhat neglected since 1957. There could be several levels on which problem was approached, extending from foreign aid through technicians to covert activities.

5. Brosio said he could see there was potential problem of great magnitude. It had never been discussed in quite this way in NATO. He promised raise it at next discussion on Mediterranean, but it was problem that went beyond NATO. Occurred to him might best be handled by small group of countries such as US, UK, Germany, Netherlands and perhaps Italy. In any case he would discuss matter with Ambassador Ellsworth and would see me when he was in The Hague for North Atlantic Assembly meeting next month.

6. *Comment:* If we do not have one, might be useful to produce new NIE on subject of European vulnerability in energy field.

7. Dept please pass USMission NATO and AmEmbassy Bonn.[3]

Bovey

[3] A note indicates the telegram was not passed to USNATO or Bonn.

61. National Intelligence Estimate[1]

NIE 20/30–70 Washington, November 14, 1970.

[Omitted here are a cover sheet, the table of contents, and a map. See Appendix A.]

SECURITY OF OIL SUPPLY TO NATO AND JAPAN

Scope Note

This Estimate discusses oil supply to Western Europe and Japan through 1975, and as far beyond that as possible. It also discusses the tanker situation, the role of the USSR and Eastern Europe in Middle Eastern oil matters, and prospective changes in the control of production and distribution of oil. It examines the conditions, short of general war, under which the flow of Middle Eastern[2] oil to NATO and Japan might be interrupted and assesses the impact of an interruption of oil flow from certain producing countries.

Conclusions

A. The European NATO countries and Japan consume imported oil in enormous quantities—over 10 million and 3.8 billion barrels per day (bpd) respectively. Europe's reserve stocks are limited and unevenly distributed; and low sulfur (low pollution) industrial fuel oil is in short supply. The Syrian shutdown of TAPLINE (which brought Saudi oil to the Mediterranean) and production cuts in Libya have caused a strain on the world's tanker fleet, which has had to haul more oil from the distant Persian Gulf, without benefit of the Suez Canal.

B. The antagonism between Egypt and Israel appears to preclude the Canal's opening in the foreseeable future.[3] Even so, we estimate that there will be enough tanker capacity to move oil from the producing countries to consumers during the next year, provided that there is no substantial decrease in the available of short-haul Mediterranean oil. The present tight tanker market, should ease substantially by mid-

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[1] Source: Central Intelligence Agency, National Intelligence Council Files, Job 79–R01012A, Box 385. Secret; Controlled Dissem. The Central Intelligence Agency and the intelligence organizations of the Departments of State and Defense, and NSA participated in the preparation of this estimate. The Director of CIA submitted this estimate with the concurrence of all members of the USIB with the exception of the representatives of the AEC and FBI who abstained on the grounds that it was outside their jurisdiction.

[2] In this paper, the term Middle East is used to include all the Arab states, including North African ones, and Iran. [Footnote in the original.]

[3] The issues surrounding a reopened Suez Canal were analyzed in the October 23 INR Research Study RNAS–14, "Implications of Reopening the Suez Canal." (National Archives, RG 59, Central Files 1970–73, IT 11–16 UAR)

1971, because of new deliveries, and the increase in combined carriers expected to be available by the end of that year would provide a comfortable spare capacity.

C. The expansion of Soviet political influence in the Middle East has not been accompanied by any significant Soviet role in oil matters. There are compelling practical considerations that will continue to limit such Soviet participation; these include nationalistic attitudes in the oil producing states and the shortcomings of the Soviet oil industry. While the USSR will be able to produce enough oil to cover its domestic demand up to 1980, it would probably have to import about 1.5 million bpd from the Middle East if it is to provide most of the oil required by Eastern Europe and to export to other markets at present levels. The Soviets are unlikely to try to deny Middle Eastern oil to NATO or Japan, since the political and economic costs to the USSR of any such efforts would be prohibitive. It is possible, however, that the Soviets will gain an increasingly significant position in the oil industry in the Arab states over the long run.

D. There will be growing pressures over the next five to 10 years by the oil producing states to gain control over their oil production. By the end of the 1970s a substantial portion of production is likely to be under the control of the host governments. The traditional role of the international oil companies will probably be diminished and direct dealings between consuming and producing countries are likely to account for an increasing amount of the oil moving between them.

E. Although several past interruptions of Middle East oil flow have arisen in the Arab-Israeli context, others have been caused by political antagonisms between Arab states themselves. All in all, the oil producing countries, irrespective of their political ideology, have been motivated primarily by a desire for more income. They are heavily dependent on oil revenues to run their economies and hence are not likely to use denial of their oil as a political weapon against Western Europe or Japan.

F. Nevertheless, one or another major oil producing state could decide to risk its oil revenue for political ends. Seizure of all US (and/or UK) oil operations in a major producing country would seriously disturb oil shipments for some months. NATO countries affected by such a move would act quickly to insure effectiveness of alternative arrangements for getting oil from producing countries. Syrian antagonism toward Iraq is likely to interrupt the flow of Iraqi oil at some time during the next five years.

G. In the event of a resumption of Arab-Israeli hostilities, some interruption of oil shipments seems almost certain. In such circumstances, moreover, one or more of the Arab oil producing countries might move directly against US oil companies, and US financial interests could be hurt badly. Sabotage attempts by Palestinian guerrillas are likely to occur in the foreseeable future. Although their effects could be serious they are not likely to cause a long lasting interruption of oil flow.

H. Certain specific contingencies involving interruptions in oil shipments to Western Europe and Japan are discussed at Annex.[4]

Discussion

I. The Present Situation

1. Although oil is the principal source of energy for the non-Communist world, two of the major consuming areas, Europe and Japan, have virtually no domestic oil supplies. At present, half of Western Europe's oil comes from east of Suez, another 30 percent from North Africa, and the rest from West Africa, the USSR and the Caribbean. Japan gets 90 percent of its oil from the Persian Gulf—roughly half from Iran and half from Arab states there. Uninterrupted access to adequate oil supplies is a vital matter for the Europeans and the Japanese.[5] This situation of dependence will prevail for the foreseeable future. Even though oil has been discovered in the North Sea in commercial quantities, the known reserves are not large enough to supply more than a minor share of the European market during the period of this Estimate. Japan has no oil reserves, although there are indications that oil in commercial quantities may be available in the China Sea. New discoveries in Indonesia may contribute significant supplies nearer at hand than the Persian Gulf.

2. The quantities of oil consumed in the European NATO countries and in Japan are formidable and have been growing at spectacular rates. The former consumed over 10 million barrels of oil a day in 1970; the latter 3.8 million barrels per day (bpd). The growth of oil consumption for European NATO countries averaged about 11 percent a year in the past five years, while that of Japan has averaged 13½ percent over the same period. This growth has presented and will continue to present problems to the oil industry. The quantities of oil involved are so large that a single percentage point in the European figures alone amounts to 100,000 bpd; to transport this quantity of oil from the Persian Gulf around Africa to Northern Europe requires about 70 T–2s.[6]

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[4] Attached but not printed.

[5] The US, by contrast, now produces about three-fourths of the oil it uses. Most of the rest comes from nearby countries, only three percent of US consumption comes from the Middle East and Africa. The USSR is wholly self-sufficient in oil. [Footnote in the original.]

[6] The T–2 tanker is a 16,765 deadweight tons (DWT) vessel with a speed of 14.5 knots. Tanker availability and employment is commonly expressed in T–2 equivalents (expressed as T–2s), and this terminology is employed in this Estimate. A T–2 tanker would carry about 125,000 barrels of oil (there are about 7.5 barrels to the ton). DWT is defined as the gross weight of a vessel less the weight of hull and machinery; it approximates the vessel's cargo carrying capacity. [Footnote in the original.]

3. Over the past several months oil supplies in Europe have tightened markedly; Western Europe has already experienced shortages and rises in prices of some oil products, as European consumption has grown in the 1965–1970 period more than had been foreseen by the oil companies. For one thing, the shift from coal, Europe's traditional source of energy, to oil occurred at a much faster rate than economic planners had anticipated. In addition, pollution restrictions designed to cut down emissions of sulfur put a premium on low-sulfur oils. Those crude oils which are low in sulfur, principally from North and West Africa, yield less fuel oil than the average Middle Eastern crude with higher sulfur content. The oil industry after June 1967 had adjusted to the closing of the Suez Canal by turning to ever larger and more efficient tankers for the long haul around Africa. These have not proved adequate, however, in the face of reduced availability of short-haul oil in recent months and the world's tanker fleet is now under considerable strain.

4. TAPLINE had been carrying about 500,000 bpd to the Mediterranean from Saudi Arabia. It was shut down in May 1970 after what appears to have been an accidental break, and the Syrian Government has not agreed to terms for repairing and reopening it. Early in the summer, the Libyan regime imposed successive cuts in production on several oil companies. Together, these two developments cut the availability of oil at terminals on the Mediterranean coast by over a million bpd, at their maximum impact. To transport oil from the Persian Gulf to Europe, as long as the Suez Canal is closed, requires five to six times the tanker capacity that is needed to move an equivalent amount of oil from the Mediterranean. The Libyan cutbacks and TAPLINE's closing virtually exhausted unused capacity in the world's existing tanker fleet, causing sharp rises in new charter fees.[7]

5. The West European countries, aware of their vulnerability to disruption of supplies, have for many years been concerned with maintaining adequate reserve stocks of oil. These countries have as a goal the achievement of a 90 day oil reserve for Western Europe as a whole, but few have achieved it. Statistics on stocks are incomplete and unreliable; reporting varies in quality, coverage, and definitions, and different reporters employ different data bases. An Organization for Economic Cooperation and Development (OECD) report of 1 July 1970 estimates a 75 day stockpile for Western Europe. Other sources consider 45 days a more realistic figure. A more precise figure of European

[7] The Israeli pipeline between the Gulf of Aqaba and the Mediterranean has a capacity of 400,000 bpd, but its current throughput is estimated at only around 250,000 bpd. Most oil producing companies which have interests in Arab states are unwilling to use the pipeline because of Arab regulations. [Footnote in the original.]

oil stocks is not presently available. European oil stocks fluctuate seasonally, going down about 15 days in the winter months and being replenished during the summer. The TAPLINE and Libyan developments have slowed restoration of reserves during the past summer to some extent, although probably not by more than a few days consumption. Moreover, oil stocks are not evenly distributed throughout the countries of Western Europe and already there have been shortages of certain products in some countries. Japan in the past has not kept oil stocks up to a 60 day supply; in mid-1970 its stocks may have been around 45 days.

6. Spare production of nearly 3 million bpd of oil is still available in the Middle East, but most of it is in the Persian Gulf. This spare capacity represents a much smaller fraction of world consumption than was the case in the crises which closed the Suez Canal in 1956 and in 1967. In addition, the position of the US as a relatively close alternative source of oil for Western Europe has about vanished. Whereas in 1960 the US had stand by production equal to about 60 percent of European consumption, today it has little stand by production which could be made available quickly to Europe.

7. Demand for oil in the non-Communist world has risen at about 7.7 percent annually in the past 10 years. Demand will continue to grow, but probably at a somewhat lower rate. Growth rates of oil consumption have already begun to decline in Western Europe. The rate of conversion from coal to oil is slowing, and natural gas continues to do better than hold its own as an energy source. Oil industry sources talk of a 6 percent average annual growth rate through 1975. The oil industry, however, has usually been on the low side in forecasting long-term growth. We think that average annual growth for 1971–1975 is more likely to be around 7 percent world-wide. This implies a growth of almost 8 percent in Western Europe, 4 percent in the US, and about 14 percent in Japan. Table I shows the quantities of oil that will be in demand at these two rates and also at 8 percent, although total world demand is unlikely to go that high.[8]

II. The Tanker Situation

A. Prospects for Reopening the Suez Canal

8. A basic reason for the tight tanker situation is that the Suez Canal remains closed. While many of the large tankers now in use or under construction are too big to pass through the Canal (before the June war, tankers of about 65,000 DWT could transit loaded and ones of about 150,000 DWT in ballast), its opening would provide additional flexibility in tanker movements. Shortening the route from Europe to

[8] The tables are not printed.

the Persian Gulf would increase tanker transport capacity by the equivalent of about 800 T–2s, adding 8–9 percent to the world tanker fleet. How likely is it that the Suez Canal will be opened by 1975?

9. The physical task of opening the Suez Canal to shipping is not overwhelming. There are some 15 vessels of varying size sunk in the Canal. In addition to removing these vessels, some dredging would be required, although without the wash of moving ships, sedimentation probably has amounted to only half a foot or so on the average. In the absence of a thorough physical survey since the June 1967 war, estimates of the time and cost needed to put the Canal back in operation range from 4–6 months at a cost of $12–$15 million to over a year at $30–$35 million.

10. Of the parties directly concerned with the Canal, Israel has little economic interest in having it open and has a very heavy political stake in ensuring that the Canal does not open unless its flag vessels can use the waterway. Tel Aviv regards its military position along the east bank as important for holding its position in Sinai, and holding Sinai as a prime means of exerting pressure on Egypt to come to terms on an overall settlement. As long as Israel's forces hold the east bank, it can prevent the Canal from being used. Israel would forcibly resist any effort to open the Canal without its consent.

11. Egypt's interest is more complex. In the last full year (1966) of the Suez Canal's operation, Egypt earned about $220 million in foreign exchange from tolls. This sum has been more than compensated for by subsidies, agreed to at the 1967 Khartoum Arab Summit Conference, from Saudi Arabia, Kuwait and Libya. Egypt suffers certain economic disadvantages from a closed Canal; e.g., most of its oil production is on the wrong (southern) end of the waterway. Even if the Khartoum subsidies largely or totally disappeared, we believe that Egypt would choose to forego income from the Canal (which, at least in the near term, would be significantly less than it was before June 1967) rather than make money by opening it while Israel continued to occupy its eastern bank. Egypt wants to regain control of Sinai. Egypt might agree to open the Canal on terms short of a comprehensive settlement, e.g., if Israeli forces withdrew from the eastern bank, but even this is unlikely.

12. The USSR has experienced some political, strategic, and economic inconvenience from the Canal's closure. Its military and economic aid to South Asia and to Vietnam have had either to make the long journey around Africa or go overland. Its naval vessels similarly must make long voyages to show the flag in the Indian Ocean, and the USSR is unable to augment its Indian Ocean squadron in reaction to short-term crises in the Red Sea and the Persian Gulf. An open Canal would ease these strains on Soviet maritime activity, adding the equivalent of five percent (in DWT) to the USSR's merchant fleet. Yet, the Soviet interest

in an open Canal is not so great as to induce the USSR to endanger its position in Egypt. The Soviets almost certainly hope for a settlement which would allow the Canal to be opened, but in our judgment, Moscow would not put heavy pressure on Cairo to modify significantly its terms for a settlement primarily to get the Canal back in operation. Nor do we think that the USSR would assess the benefits of an open Canal as worth the risk of trying to open it by force.

13. Other former users of the Canal have been hurt, but perforce have adjusted to its being closed. While most countries would welcome the Canal's reopening, none of the users regards an open Canal as vital to their interests, nor does any of them have much leverage to exert if it wanted to get the Canal open. For all the above reasons, we expect the Canal to remain closed until some sort of Egyptian-Israeli settlement is reached. Such a settlement appears remote, but if it ever does come about, it will be achieved for reasons which have relatively little to do with the Canal as a route for ship passage. The discussion of future oil tanker requirements below assumes that the Canal remains closed.

[Omitted here is Section B on World Tanker Capacity to 1975.]

III. The USSR and Middle East Oil

A. The Growth in Soviet Political Influence

18. The Soviet Union has firmly established itself as a major power in the Middle East. Although this area is not one where its most vital national interests are involved—Eastern and Central Europe and Communist China are more important—Moscow views its expanded preserve in the Arab world as a partial fulfillment of a long-sought goal to replace Western influence in contiguous countries and in the Mediterranean. The Arab-Israeli conflict, accompanied by increasing radicalism in the Arab states, has furthered Soviet leverage, and the USSR has had considerable success in exploiting other opportunities in the area.

19. The Soviets are probably optimistic about their ability to maintain and expand their influence in the Middle East over the long term. Radicalism is likely to grow in the Arab states whether there be an accommodation between the Arabs and Israelis or another round of war—and radicalism has tended to favor the Soviets at the expense of traditional Western interests. Middle Eastern radicalism typically blends strident anti-Western sentiment, nationalism, and pressure for social and economic reform into importunities for change in the status quo. It is likely in the years ahead to offer Moscow additional opportunities for expanding the Soviet role in various aspects of Middle Eastern life. The USSR, whose policy is aimed at increasing its influence in Algeria, Egypt, Syria, and Iraq, has established closer relationships with and has supplied arms to the new regimes in the Sudan and Southern Yemen, and more recently to Libya. Soviet prestige is also growing to

some extent in such moderate countries as Lebanon, Jordan, Tunisia, and Kuwait, largely as a by-product of Soviet support for the Arabs against Israel and the US.

B. The Soviet Role in Oil

20. The continued expansion of Soviet influence in the Middle East has not been accompanied by an equivalent expansion of the limited role which the Soviets now play in the Middle Eastern oil matters. Moscow would almost certainly like to have a greater role for both economic and political reasons, but there are compelling practical considerations in the way. These include the essentially nationalistic attitudes of most Middle Eastern countries toward their mineral wealth, the difficulty of marketing vast quantities of oil, inadequacies in Soviet technology and equipment, and especially small tanker capacity. We indicate below certain constraints on Soviet activities over the next five years, along with developments which we consider fairly likely and which could affect the Soviet role.

21. The USSR is self-sufficient in oil and will remain so at least through 1975 and probably through 1980. Moreover, it will continue to export increasing quantities of oil from its own resources to Eastern Europe and will remain the major source of oil for this area. The level of Soviet exports both to Eastern Europe and to non-Communist countries will depend to a growing degree, however, on Soviet ability to procure supplemental supplies of oil from the Middle East for reexport. This will be especially true after 1975.

22. At present the USSR supplies the Communist countries of Eastern Europe with approximately 800,000 bpd, about 85 percent of the oil required by these countries—exclusive of Romania which is itself a net exporter of petroleum products. The USSR also exports another 800,000 bpd to other countries, nearly 700,000 of this to Western Europe. For many years Soviet exports of oil have helped to tie the economies of Eastern Europe to the USSR and exports to Western Europe have provided the Soviet Union with its most important source of convertible currency.

23. The USSR's rapidly growing domestic and export requirements for oil are becoming more costly and technically more difficult to satisfy. Soviet oil fields are being depleted more rapidly than expected, in part because poor extractive practices have made large quantities of reserves impossible to recover. More and more Soviet oil is coming from recently discovered deposits in Central Asia and Western Siberia, far from centers of consumption in the western part of the USSR. Extremes of climate, difficult terrain, reluctance of skilled specialists to work under such conditions, and shortage of suitable technology and equipment make exploitation of these reserves difficult and

costly, and the rate of increase in total production of oil is slowing down.[9]

24. The USSR plans to produce about 9 million bpd in 1975 and will probably achieve this goal. This amount would be adequate to provide for all domestic needs, to satisfy most East European demand for oil, and to permit export of substantial quantities of oil to other Communist countries and elsewhere in the world. To facilitate deliveries to Eastern Europe, the Friendship Crude Oil Pipeline System from the Urals-Volga to Eastern Europe is being paralleled and when completed in the mid-1970s should be capable of transporting some 1 million bpd. If the USSR wishes to maintain exports to other areas at about present levels, modest quantities of oil, perhaps 200,000 bpd, may have to be procured from external sources. The USSR has already entered into agreements with several Middle Eastern countries—Iraq, Syria, Egypt, and Algeria—that could provide approximately this quantity of oil in 1975 in return for Soviet assistance in developing petroleum resources. Moreover, the USSR has also encouraged East European countries to seek supplemental supplies elsewhere in exchange for technical equipment and manufactured goods. By 1975 Eastern Europe probably will be importing small quantities of oil, perhaps 300,000 bpd, in addition to that from Russia. About one-third of this oil will be imported by Romania.

25. In 1980, Soviet production of oil probably will amount to about 10 million bpd as against a planned target of 11–12 million bpd. Although the USSR is capable of achieving the lower end of this target, we do not believe it will make the costly investment in technology, equipment, and oil exploration needed to do so. Its probable output of 10 million bpd would be more than adequate to cover domestic demand, but the amount available for export would be sharply reduced. By 1980, if the USSR wishes to provide most of the oil required by Eastern Europe and to maintain exports to other Communist countries and to the rest of its markets at or near present levels, it would have to procure sizable amounts of oil, about 1.5 million bpd, from other sources, probably from Middle East nations. Combined Soviet and East European procurement of oil from the Middle East and North Africa by 1980 could total about 2.2 million bpd. Although this is a significant amount of oil, it would represent only a small share of Middle East and North African production.

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[9] Drilling has become a significant obstacle to oil and gas development in the USSR. Soviet drilling equipment is ill-suited to the requirements of the Siberian fields, and the USSR is not doing sufficient drilling annually to sustain an adequate ratio of proved reserves to production. [Footnote in the original.]

26. It is by no means certain that the USSR could in fact procure this amount of oil from the Middle East. The oil producing countries have traditionally wanted hard currency for their oil. Some of them might find it necessary to provide oil to the USSR in exchange for civilian goods or to pay for military equipment. Such arrangements would improve Soviet export capabilities, but it is hard to visualize the bulk of 2 million bpd being subject to barter arrangements. The major oil producing countries are not so tied to the USSR—precisely because they have not needed Soviet equipment on credit—as to feel compelled to participate in such deals. The Soviets could act as brokers for sales of Middle East oil. This arrangement would be profitable, but their hard currency earnings would be much less than from exporting their own oil, and the Arabs probably would see but slight economic advantage in having Soviet middlemen in place of Americans or Europeans.

27. Nonetheless, the USSR will be increasingly interested over the next decade in participating, through assistance to the national oil companies, in the development of petroleum in the Middle East. Such participation could provide the USSR with a market for goods and services not otherwise readily exportable. However, oil plays too vital a role in the Soviet economy and military establishment for the Kremlin to contemplate extensive dependence on external sources. Oil acquired from the Near East will remain negligible for Soviet domestic requirements through 1975, although, on the most liberal assumptions, it could amount to about 60 percent of export availability in 1980.

28. We would not expect the Soviets to initiate any moves to deny Middle Eastern oil to NATO or Japan even were they in a position to do so. Denial on a small scale would serve as little more than an annoyance to the NATO allies, would not disrupt essential industry, and would moreover be costly to Moscow in terms of international good will. All NATO countries would view even limited denial efforts as an act of economic warfare and the price to the Soviets would be high in many respects. Such economic belligerency would be viewed with dismay by all raw material producing states in the underdeveloped world as a potential source of extreme disruption of the markets for their commodities. Finally, Soviet commercial interests probably coincide with those of the Arabs and of the oil consumers in dictating stability in international oil markets. Soviet as well as Arab exporters benefit from open markets and high prices.

29. Denial on a large scale seems even more remote. Even in the unlikely event that the Soviets acquired a major role as a broker for Middle Eastern oil, Moscow would be forced to sell it for hard currency rather than hold it off the market. The amounts involved are so huge, both in terms of the USSR's gold and convertible currency

reserves and its ability to provide wanted goods to the oil producers, that the Soviet Union would not be able to purchase a major portion of Near East oil for its own account.[10] Likewise, the Soviet Union would be hard put to persuade most of Europe's Middle East suppliers to withhold their oil for any length of time since oil revenues are so important to their economies and national goals. Middle Eastern oil becomes valuable only when it is processed, transported, and marketed.

30. It has not been Moscow's practice, so far as we can ascertain, to urge any of the Middle Eastern oil producing states to nationalize foreign-owned oil concessions or to cut off exports. What the Soviets have made clear is their willingness to assist state-owned oil companies. For example, Moscow has drilling contracts with the Egyptian, Syrian, Algerian, and Iraqi national oil companies, although it has become only peripherally involved in production or marketing. Should one or another of the producing states seize foreign-owned oil properties in the future, there is little doubt that, if asked, Moscow would provide some aid. But for many years the heavy Soviet commitment to the development of its domestic oil resources probably would limit the scope of such aid.

31. The actual Soviet role in the Middle Eastern oil industry over the next five years may take several forms. The USSR will probably continue to be involved in exploration for oil and in production, as it is, e.g., in Iraq at present. Moscow could become involved as well in the construction of pipelines—the Soviets are building part of the Iranian-Soviet natural gas line and may build an oil pipeline in Syria. Thus, it is possible in the long run for the Soviets to gain an increasingly significant position in the oil industry in the Arab states.

[Omitted here is Part IV, Changing Patterns of Ownership and Production.]

V. Circumstances in Which the Flow of Middle East Oil Might Be Interrupted

A. General Considerations

38. For the most part, oil has flowed freely from the Middle East to markets abroad since 1945. There was one instance of complete long-term shutdown of a major oil producer. In 1951–1953, the Anglo-Iranian concessionary company boycotted the nationalized Iranian oil industry so successfully that no Middle Eastern host country has tried

[10] Soviet gold holdings are estimated at $1.6 billion, palpably insufficient to carry out a preclusive action. Their holdings of convertible currency are negligible. Payments by foreign oil companies to Middle Eastern governments in 1969 totalled nearly $5 billion. [Footnote in the original.]

outright nationalization of an oil concession since. There have been other interruptions, however. During the 1956 war between Egypt and Britain, France, and Israel, the former blocked the Suez Canal and the Syrians blew up the Iraq Petroleum Company (IPC) pipeline which extends from Iraq to the Mediterranean. Both were out of use for about six months. Syria closed the IPC line for three months in late 1966 and early 1967. The 1967 Arab-Israeli war caused the closure of the Canal, and certain producing countries imposed a temporary selective embargo of oil shipments. TAPLINE has been cut twice—once by sabotage and once by accident—in the past two years. Libya imposed production cutbacks in 1970.

39. Of these interruptions, several took place in the context of the Arab-Israeli dispute. But even in 1956 and 1967, the Egyptians blocked the Suez Canal not so much to interrupt oil flow as to prevent the forces invading their country from using it. So also the Syrians closed the pipeline in 1956 with a view to harming Iraq as well as to hurting UK oil interests. Several other interruptions of oil by Arabs were not connected with the Israeli issue, e.g., Syria's closing of pipelines in 1967 and 1970 and the Libyan production cutbacks.

40. The record suggests that the host countries, irrespective of their political ideology, have been motivated primarily by a desire for increased revenue and, hence, increased oil production. Of the radical regimes which have appeared in the Arab world since 1950, none has chosen to risk the loss of major oil revenue by using oil for political purposes in disputes with Western countries. Qasim's seizure of the non-producing portions of the concession area of the IPC in 1960 may have been an exception. This action did not interrupt production or revenue, but it effectively retarded the growth of Iraqi oil exports and revenues for several years. By and large, the record shows clearly that it is circumstances of rapid change and high emotion—for example, the 1956 and 1967 Arab-Israeli wars—which are likely to produce impetuous action by host countries against Western oil interests.

41. Oil producing countries have been willing to collaborate, for example in the Organization of Petroleum Exporting Countries (OPEC), in bringing pressures to raise per barrel oil revenues generally. Consistently, however, individual countries have been willing, in fact anxious, to take advantage of one another's difficulty in order to gain more total revenue by expanding output. (Kuwaiti and Saudi Arabian production grew rapidly while Iranian production was shut down in 1951–1953. Iran and other Gulf states have been eager to make up Libyan cutbacks in 1970.) Among the Arab states, the rhetoric of Arab solidarity masks the same low level of real cooperation in the oil sphere as it does in military or political matters. Finally, the record shows that the quest for revenues has often led the host countries and the

producing companies to the verge of a total rupture in relations over financial negotiations; in the end, however, mutual dependence and financial self-interest have consistently prevented a complete break.

42. Many of these trends continue; the need for revenue and profits is the principal one. Each producing country has been aware that each of the large oil companies could replace its oil by expanding production elsewhere. This acts as a constraint on even radical regimes. States with conservative political regimes and with close political ties to Europe or the US—e.g., Iran and Saudi Arabia—are even more reluctant to interrupt oil supplies than are the radical states.

43. The Middle Eastern countries could hold Europe hostage if they could agree to suspend all oil shipments until their demands were met. In theory they could get enormously increased prices for their oil by so doing, but in practice they simply do not trust each other sufficiently to be able to form such a solid front. Indeed, we see little likelihood that cooperation among the various oil producing countries would ever get to the point where even two or three major oil producing countries collaborated in this fashion, although more limited cooperation seems likely to continue.

B. Special Cases

44. It is possible, however, that a major oil producing state could come to be ruled by a regime which was willing to cutoff oil production in order to gain its own ends. The case of Libya has illustrated this point during 1970. Libya's strongly nationalistic leadership forced the oil companies operating in the country to agree to a sharp increase in posted prices and tax rates, and hence in payments to the government. This was brought about by unilateral cuts in the companies' production of crude oil and threats to seize their concessions unless the government's demands were met. With a strong foreign exchange reserve position adequate to last for a lengthy period, even if Libyan oil revenues were restricted or stopped, the Libyans were in a very favorable position to carry out this pressure tactic, since Libyan oil is close to European consumers and is highly desirable because of its low sulfur content. These factors, combined with a tight tanker situation, gave the companies little choice other than to agree to Libyan terms.

45. The Libyan situation could be repeated elsewhere, although it would seem that few oil producing states, radical or conservative, could find themselves in such a fortuitous combination of circumstances as the Libyans in 1970—being located close to the market, possessing a premium type of oil, having very large foreign exchange reserves, and being able to curtail or suspend production at a time when transportation problems put the international oil industry in a delicate situation. Similar action in the distant Persian Gulf area, for instance,

probably would have less impact. But a combination of circumstances might bring another such act by some other highly nationalistic regime—possibly even by the Libyans again or by the Algerians.

C. The Arab-Israeli Issue

46. Three years of violent peace since Israel defeated its Arab neighbors in 1967 have left their market on the oil situation in the Arab countries. The close association of the US with Israel, the existence of numerous armed guerrilla organizations, and the steadily increasing dependence of Europe on Middle Eastern oil have provided greater incentive to the Arabs to interrupt oil supply for political motives. We discuss in the next few paragraphs the types of developments in the Arab-Israeli situation which, in the light of these changes, could impede the flow of oil to NATO countries and/or Japan.

47. As long as Israel and its Arab neighbors remain at military loggerheads, there is considerable potential for interruption of oil flow by Arab actions. The likelihood of interruption would increase sharply in the event of a sudden deterioration in the situation, e.g., a new outbreak of major fighting. The magnitude and duration of any interruption would be influenced by the scale and nature of the fighting and by the degree of involvement (real or imagined) of the US and of particular NATO countries. The US and the UK are the most likely targets.

48. Some of the moves which Arab oil producing countries are likely to make in such circumstances would be more symbolic than real. Few Arab regimes would be willing, or indeed able, to go to the lengths of a total embargo of oil. Most of them need oil revenues to run the day-to-day operations of their governments. Saudi Arabia, for example, has already budgeted virtually all its anticipated annual oil income. The Algerians badly need large quantities of money to finance an ambitious development plan; oil revenues would not even cover three-fourths of their needs. Other Arab governments have similar desires. Of all, Libya, whose special case is discussed above, can most easily afford to let political considerations rule over economic ones.

49. Arab oil producing countries would probably try to prevent their oil from reaching certain Western countries. But a selective embargo of oil is hard to enforce and would be ineffective. Once oil leaves the terminal in a producing country, the country has virtually no control over it. It can go to a distribution point and thence reach an embargoed country. An embargo on shipments to the US would be easier to enforce. Since most Arab oil reaching the US is shipped directly to East Coast ports, non-compliance with an embargo would be harder to conceal. Because the US now gets only 2.5 percent of its oil supplies from Arab states, an embargo in these circumstances would impose few strains on US domestic consumption. However, liftings of oil for US military forces could be affected and, although the quantities

involved are relatively small, replacing them would involve some logistic complications.

50. Circumstances could develop, moreover, in which one or more Arab oil producing countries might move against US-owned oil producing companies. Participation of US military units with Israel in fighting with the Arabs, for example, would probably occasion seizure of most producing companies. Such devices as partial or complete nationalization, or a prohibition against repatriation of profits could hurt the US badly. (US oil operations in the Middle East brought some $2 billion net inflow to the US balance of payments in 1969.) Similar moves are possible against British companies (whose contributions to the UK's balance of payments is considerably greater than in the case of the US) and are conceivable against other European countries; but most of the latter are unlikely targets in the context of Arab-Israeli hostilities.

51. Should one or more Arab states seize all US (and/or UK) oil operations, there would be serious disruptions in oil shipments, which could last for months. However, consumers must have the oil and—except for Libya—the producing countries must sell it fairly promptly in order to finance their economies. We believe that, in the event a country seized a company or companies which produced substantial quantities of oil not replaceable from other sources, affected NATO countries would find themselves compelled fairly speedily to make other arrangements to obtain the oil they need. We believe that, in most cases of disruption, a near normal flow of oil would be restored before many months had passed.

52. The Arab-Israeli situation has potential for yet another means of interrupting oil flow, i.e., sabotage by the Palestinian guerrillas. There have been a few minor instances of this sort already, and US and UK oil companies are likely to be targets of sabotage in the years ahead. Oil fields, storage tanks, loading facilities, tankers, and the like are vulnerable in varying degrees. It is relatively simple to blow up a pipeline or a wellhead, but these are also relatively easy to repair. Although repeated acts could be costly to the company involved, this type of sabotage is not likely to interfere more than marginally with oil shipments. A major shutdown of a company's operations would require sophisticated demolition of key units, e.g, destroying a large part of a tank farm, rendering a loading pier unusable for an extended period, or knocking out an electric power plant. The oil companies and the host countries would, of course, guard against such actions, but they would be unable to protect against all contingencies.

53. In the sabotage operations they have tried so far within Israel and Israeli-occupied territory, the Palestinian guerrillas have struck at targets of opportunity rather than at targets of importance. We believe that, generally speaking, they would do the same if they turned more

of their attentions to oil installations, especially as oil companies and local governments are taking steps to guard critical installations. To inflict damage heavy enough to interrupt a significant portion of oil flow would require a high level of competence in sabotage operations. We cannot judge the actual competence the fedayeen have or are likely to acquire. It should be noted, however, that many Palestinians work in Middle East oil companies, and they are a potential source of technical information for the fedayeen and of access to oil installations. Finally, while we judge it unlikely that any Arab country would destroy its own oil industry or sabotage another's, the fedayeen do not have this inhibition.

D. Interstate Political Rivalry

54. The desire to put pressure on Iraq for political reasons has figured in Syria's two closures of the IPC pipeline in 1956 and 1966–1967. This desire could cause Syria to close this line again. The two countries are ruled today by mutually antagonistic Baath Parties, and antipathy between Baghdad and Damascus has continued under a variety of regimes. Should the Syrians come to believe that, for example, Iraq was trying to overthrow their government, Damascus would probably retaliate. Since strong Syrian-Iraqi antagonism is likely to endure, we rate closing of the IPC line—for at least a period of months—as likely sometime in the next five years.

E. In Sum

55. We believe that, on the whole, oil producing countries will continue to put their own financial needs ahead of ideology and politics and that they will not attempt to deny, for more than a short period, significant quantities of oil to Europe or Japan on political grounds. There are other forces in the area, however, not under the constraints that affect the oil producing countries. The possibilities of interruption are so many, the political emotions so prominent, and the resentment against US policies—already strong and deep in many Arab states—so likely to grow over the years ahead, that partial interruptions of oil flow to NATO and to the US will probably occur during the next five years. Short of major Arab-Israeli fighting, such interruptions are likely to be temporary and to involve relatively small fractions of European supply; they might be varied in cause, as well as effect. Among the possibilities are a Syrian closure of the IPC pipeline and fedayeen sabotage of oil facilities. In the event of major Arab-Israeli fighting, some interruption of oil shipments seems almost certain, and we would not rule out seizure of US oil interests.

[Omitted here are the Annex, entitled Consequences of Certain Interruptions in Oil Flow, and tables.]

62. Telegram From the Department of State to the Embassy in the Netherlands[1]

Washington, November 19, 1970, 0043Z.

189262. Subject: Potential European Energy Problem. Ref: Hague 4000 (State 174710 to NATO, Bonn, OECDParis).[2] For Ambassador Middendorf.

1. The Department shares your concern that Europe has not faced up to the long range problem of seeking adequate energy supplies to meet rapidly rising demands, and believes that it is essentially a matter in which the Europeans must take the initiative.

2. In the matter of oil supplies, the Netherlands and the UK have companies which possess resources which have been adequate for their needs in the past. Other European countries such as Germany and Italy have been willing to depend largely on US firms to meet their needs. France has been the leader in obtaining its own concessions and controlling imports in order to diversify its sources of petroleum. There has been a gradual realization over the past two years that 1) Europe was heavily dependent on the Arab world for oil, and that this posed a potential problem, but Europe continued to control sufficient oil to supply Europe's needs, and 2) the US could increase production by 2 million barrels per day to provide oil for Europe in an emergency. The Libyan oil crisis, described in CA–5324,[3] demonstrated overdependence on one country in the Arab World, and how that dependence was compounded by the strains on tanker supplies caused in the process of substituting Persian Gulf oil for Libyan oil. In two presentations to the OECD Special Committee for Oil this year (January and May)[4] US representatives cautioned that the spare productive capacity of wells in the US was declining markedly from earlier estimates, and was probably 500,000 b/d or less, yet a paper distributed prior to the NATO Petroleum Planning Committee meeting October 5–6[5] still contained the figure of 2 million b/d for US spare capacity.

3. There are three main courses of action open to Europe to provide the needed energy commodities: 1) to obtain oil concessions on a

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 12–3 EUR. Secret. Drafted on November 17 by Archie M. Bolster (E/ORF/FSE); cleared in EUR, EUR/FBX, EUR/RPE, EUR/RPM, PM/ISP, E, and E/ORF/FSE; and approved by Trezise. Repeated to USNATO Brussels, Bonn, and USOECD Paris.

[2] Document 60.

[3] Airgram CA–5324 to Beirut, October 16. (National Archives, RG 59, Central Files 1970–73, PET 6 LIBYA)

[4] Information concerning the January OECD meeting was transmitted in airgram A–13, January 16. (Ibid., PET 3 OECD) Regarding the May meeting, see Document 46.

[5] Not found.

national basis to diversify supplies, 2) to store larger amounts of oil in order to survive short term supply interruptions, and 3) to develop gas reserves, atomic energy, and other sources of energy to decrease the dependence on oil.

4. There is some movement on all of these fronts. Deminex, the German state-financed oil company, has been more active in its second year of existence, and is bargaining for concessions off Nigeria, Trinidad, Indonesia and elsewhere, for example. Other countries can be expected to follow the lead of France and Germany.

5. Several European countries are considering increasing their oil stocks, although only West Germany appears to have made a firm decision to increase its stocks to 90 days of consumption. The average level for European oil stocks is just over 70 days, but at least 20 days supply must be discounted as unavailable because it is in tank bottoms, lines, and local storage. Rapid increase in demand requires increased storage simply to keep stocks at existing levels. The further burden of new storage facilities to increase stocks to the 90 day level would be heavy, over $1 billion for the European members of OECD according to a recent report. Some countries such as Italy are reluctant to consider increasing stocks, believing that even 120 days of stocks would not permit Europe to outlast foreseeable producing country denials. Even 6 months of stocks might not be enough to outlast a major denial of supplies, but the more storage Europe has the better its bargaining position is.

6. The Netherlands is the major supplier of gas to the European continent, and competitive forces should insure the rapid development of the entire North Sea oil and gas potential. Atomic energy, on the other hand, is lagging in development while arguments over the best method of enrichment continue. Europe continues to phase out coal production and will be increasingly dependent on foreign coal. Imports of coal from the US are now higher than 1967 levels after a low point in 1969. New methods of energy generation such as magnetohydrodynamics are no more advanced in Europe than they are in the US, despite Europe's far greater dependence on imports of energy materials. Thus Europe will have to give much more attention to the mix of energy sources available to it if it is to be more self-sufficient.

7. There have been jurisdictional problems in organizing to study energy problems. The OECD has had priority in considering peacetime movements of oil with NATO's role limited to wartime. This division of labor has been challenged by those who feel NATO must face the strategic consequences of potential oil shortages in situations short of war. The European Community has been content to participate in OECD meetings through observer delegations, but is now considering the establishment of stockpile goals and perhaps other activities to increase energy supplies available in Europe. Study of the peacetime oil

supply situation is handled more expeditiously in OECD than elsewhere because the membership is more representative of major consumers (Japan is included) and because its Secretariat has more information at its command, but even the High Level Group of the OECD Special Committee for Oil is unwieldy for the purposes suggested in your message. In order to give OECD a greater sense of urgency in planning for the long run, a small group of countries could meet together as you have suggested, either inside or outside OECD, but for now the most effective way of considering the problem is to stress the importance of the OECD oil meetings of November 30–December 2. Assistant Secretary Trezise will represent the US at these meetings, as he did last May.

8. In the short run, extreme concern in Europe about oil supplies could have the undesirable effect of convincing European nations that they should place restrictions on US firms operating there. They might even decide to take over US firms. We believe it is more to the point that Europe should face up to the long range problem now so that measures to alleviate it can be taken up immediately with due allowance for the lead times involved.

9. In your discussion of these matters with Dutch officials the Department suggests that you emphasize the role of OECD in the energy field and encourage them to express their concerns through that organization.

10. Material on the world's energy demand and the US place therein is being gathered together and will be sent by pouch.[6]

End

Rogers

[6] Not found.

63. Letter From the Director of the Office of Emergency Preparedness (Lincoln) to President Nixon[1]

Washington, November 27, 1970.

Dear Mr. President:

Proclamation 3279[2] under which we manage the oil import program requires that I maintain a continual surveillance of the program.

Recently several oil companies announced increases in quick succession in prices of crude oil and also practically simultaneously, in most cases, of gasoline. At the outset of this action, I concluded that under my surveillance responsibility, as defined in the Proclamation, it was necessary to undertake a determination as to whether such increases are necessary to accomplish the national security objectives of the basic Act and of the Proclamation. Twenty three companies, according to our records, raised prices between November 11 and November 25.

In order to acquire the needed information on which to seek a determination, and also in fairness to members of the industry who should have the opportunity to present their reasons for the increase, I have placed a notice in the *Federal Register* on November 17 asking for comments by December 1. The needed analysis may be lengthy.

I have, however, made a preliminary analysis of the oil price situation in relationship to the overall supply situation. It is well known that we have a tight worldwide oil supply situation stemming from the tanker shortage which in turn stems in part from the Middle Eastern situation. Spot tanker prices are high (which causes charters to rise) and the price of overseas oil delivered to the East Coast with spot charter tankers is the same or higher than our Gulf Coast oil, particularly for Eastern Hemisphere oil. Overseas imports into the U.S. of crude oil are below those permitted by the import quota system. But U.S. excess capacity has provided significant increased production (currently over 700,000 barrels per day above a year ago), principally from Texas and Louisiana. Canadian oil is currently flowing at a rate considerably above the rate of last year. The increase in demand for residual oil, particularly on our East Coast, is being meet by increased production

[1] Source: National Archives, Nixon Presidential Materials, White House Central Files, Subject Files, Confidential Files, Box 26, EXTA 4/CM Tariff Imports, Oil, Sep 28–Nov 1970. No classification marking.

[2] See footnote 3, Document 4.

in the U.S. and by increased imports, principally from the Caribbean. Residual oil imports into the East Coast are not limited by the oil import program. The general supply situation is in my judgment at least adequate for crude oil and products, even though there may be some local distribution problems.

There have been previous efforts in the past two years to raise gasoline prices. Those efforts failed. I am not at all certain that the current rise in gasoline prices will be sustained by the market conditions. The last increase in the price of crude was 20¢ a barrel in February 1969. The current increases are .7¢ a gallon for gasoline and generally 25¢ a barrel for crude oil.

The central facts to me from this preliminary analysis are that inventories of crude oil (except on the West Coast) are now higher than on the corresponding date of the last two years (gasoline inventories are about the same as the previous two years), and that there still remains a significant amount of production capacity shut in by state regulations on Federal offshore lands in the Gulf, particularly off the State of Louisiana. If any question about adequacy of supply remains, the relaxation of state controls of production on Federal offshore lands and increased imports from Canada substituting for any shortfall in authorized imports from overseas, will more than insure adequate supply in current circumstances. For instance, the currently shut-in capacity on Gulf Federal offshore lands can provide on the order of an additional 300,000 barrels per day within 90 days (according to the Department of the Interior)—or an amount greater than the current shortfall in authorized imports.

I conclude, on the basis of facts now available to me, that Federal acquiescence in restriction by states on oil production from Federal offshore lands does introduce an unnecessary artificial restraint into our total national oil program at the present time. Furthermore, any systematic analysis of the price/supply situation evaluating the justification, if any, of increased prices, using the national security criterion, is certain to be complicated perhaps to the point of frustration by the existence of this control factor. It is, moreover, a control factor beyond the cognizance of the Federal Government, withholding a significant increment of supply from the market. An increasing proportion of domestic oil production may be from Federal lands in the future.

I do not believe the current, or any, price increases can be determined as necessary to the national security objectives of the program until the situation as to Federal offshore lands has been changed.

I recognize that it can be argued, although not universally accepted, that the price of crude oil and also of products will, over the longer run, move in a relationship with the trend of other prices. For instance, I note an upward movement in well head prices of foreign

oil. The upward movement in general price levels over the last several years is a fact.

As required by Proclamation 3279, I have consulted the Secretaries, or representatives speaking for them, of State, Defense, Treasury, the Interior, Commerce, and Labor on the foregoing analysis and my preliminary conclusions. I have also consulted with the Department of Justice and the Council of Economic Advisers. They are in accord with the analysis in this letter and with the proposed courses of action.

In light of my determination above, I believe it is my responsibility to outline to you the courses of action reasonably available with comments thereon:

Offshore Lands. Production from Federal leases off the Texas and Louisiana coasts has been subject to state prorationing limitations. Under the Outer Continental Shelf Act the Federal Government has exclusive jurisdiction over these lands and full authority to control the conservation and production of oil and gas from these leases. The application of state prorationing over these lands has been solely a matter of tolerance and cooperation from the Federal Government. Particularly in the case of Louisiana, these Federal offshore lands represent an immediate source of significant additional production if state prorationing limitations are removed. Unless the additional production from these lands is available to the market, it is more difficult, if not impossible, to determine whether the existing supply/demand situation warrants a crude oil price increase as necessary for the national security objectives. This situation is directly related to the national security objective. Logically, production from these Federal lands should be under Federal regulation and thus immediately available to meet an interruption in overseas supply. *I recommend that the Federal Government promptly assume full authority over production from the Federal offshore lands.*

Increase in Canadian imports. The pipeline capacity from Canada is not currently being fully used. Overseas allocations are not being fully used. By technical changes in the management of the oil import program it is quite practical, in the current situation, to protect the interests of refiners dependent on the Canadian pipeline while providing for substantially full use of that pipeline through allowing substitution of Canadian for overseas oil allocations. *I recommend that these technical changes be made immediately.*

Connally Hot Oil Act. This Act, 15 U.S.C. 715(b), in effect gives the needed Federal support to state regulation of oil production. 15 U.S.C. 715(c) provides that the President may by Proclamation suspend Section 715(b) when he finds that the effect on petroleum and petroleum products moving in interstate commerce is a cause, in whole or in part, for a lack of parity between supply and demand resulting in an undue burden on interstate commerce.

The inventory situation, as noted above, does not indicate a shortage of supply. There are other actions (placing of offshore lands under Federal regulation) which can significantly increase supply. My limited analysis indicates that a sudden suspension of Section 715(b) might cause production dislocation and may interfere with desirable conservation measures in certain states. State controlled production capacity subject to this Act (as distinct from the offshore Federal lands, which are a much clearer case for positive action recommended above) is stated by the Department of the Interior to be producing at or near maximum for most states (there may be some controversy about this point for one or two states). *Hence, I conclude you should not take this action at this time.*

Suspending the oil import program. Under present worldwide conditions, suspension of the program will give little or no assurance of additional imports. The import level has recently been well below the allowable imports of crude oil under the oil import program. While difficult to forecast, the tanker situation and other factors contributing to the current tight oil situation in the world seem likely to continue for some time. Hence, suspension of the program would have insignificant substantive effect on the supply situation if actions outlined above for Canada are taken. Suspension requires a finding by the Director of the Office of Emergency Preparedness, and agreement by you, that the action will not impair national security. The analysis obviously has to extend to reinstatement, when and how. As a further point, suspension of the program would indicate an instability of policy, particularly since the oil industry and other knowledgeable people know that the action would not now contribute significantly to the supply situation. Suspension might thereby further discourage the investment and exploration in Alaska, offshore in the Gulf, and other places, which are necessary to assure adequate secure oil in the future for our country. *For these and other reasons inherent in the oil import program, I recommend against suspension of the oil import program.*

Institution of price controls under the Defense Production Act. Section 202 of the Defense Production Act (PL 91–379) provides that the President is authorized to issue orders and regulations to stabilize prices at levels not less than those prevailing on May 25, 1970. This authority expires on February 28, 1971. I believe the language of the Act permits selective stabilization actions. But, in addition to the stated Administration policy on price control, it is pertinent that there are other instruments, mentioned above, than this Act available to the President. These instruments derive from oil being a special case commodity due to the existence of the oil import program and certain special domestic policies. Also, it can be correctly asserted that prices of many other commodities have risen more in the last few years than the price in-

creases on which I am making a determination under the provisions of the oil import proclamation. *I recommend you not use this authority.*

The mechanics for executing the foregoing options are:

a. *Placing oil production on Federal offshore lands under Federal regulation.* This action can be taken by the Secretary of the Interior or by Presidential action. It will be necessary for the Secretary of the Interior to provide a regulatory program independent of the state programs.

b. *Increase in imports of oil from Canada.* This can best be done, in the current oil situation, by provision of regulations by the Secretary of the Interior, with the concurrence of the Director of the Office of Emergency Preparedness, which make overseas quota tickets eligible for exchange for Canadian oil through 1971. A Presidential proclamation change giving authority to the Secretary of the Interior is needed. The technical situation is such that the outcome will be the use of substantially all pipeline capacity available for Canadian imports.

c. *Suspension of the Connally Hot Oil Act.* This action requires a finding and proclamation by the President.

d. *Suspension of the Oil Import Program.* This action requires a finding by the Director of the Office of Emergency Preparedness, with the advice of the Oil Policy Committee, that the action will not impair national security, and a proclamation change by the President.

e. *Institution of price controls under the Defense Production Act.* This action would require a proclamation or executive order by the President to include delegation of the administration of the action to an executing authority, followed by preparation and publication of a regulatory program.

I recommend that at this time the necessary actions be taken to place production of oil on Federal offshore lands under Federal regulation and that the actions outlined above for increasing imports of Canadian oil be instituted.[3]

Respectfully,

G.A. Lincoln

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[3] According to circular telegram 207316, December 22, the President was scheduled to sign the oil import proclamation for 1971 that day. The telegram identified the details of the new import program as follows: 1,450,000 bpd total imports, of which 450,000 was for Canada, 40,000 for imports of No. 2 fuel oil from the Western Hemisphere, and the remainder for imports from Mexico and all overseas imports. Imports were increased by about 100,000 bpd over 1970 levels, the Brownsville Loop was eliminated, and imports from Canada separated from the remainder of the program so that changes in the import level for Canadian oil would not affect other allocations. The telegram noted that it was difficult to predict the effect on imports from Venezuela due to the format of the proclamation and tanker shortage. (National Archives, RG 59, Central Files 1970–73, PET 17–2 US)

64. Telegram From the Embassy in Libya to the Department of State[1]

Tripoli, December 5, 1970, 0730Z.

2823. Subject: New Rules for the Oil Game: The Case for a Better Understanding of What They Are.

1. *Summary:* Libya's tactics in securing higher prices for oil, and spreading effects of its success, have dramatized extent of dependence by OECD countries on oil imports as source of energy. Now that effectiveness of restricting vital supply to raise price has been demonstrated by Libya, likelihood that major oil producing countries will be able to overcome their divisions to cooperate in controlling production and raising prices is greatly increased. I am concerned that US Government, our allies and oil companies are no better prepared now to deal with enhanced influence of producing countries and prospective demands for additional price increases by OPEC and/or Libya than they were a few months ago. Rationale of those who call for use of Arab oil as weapon in Middle East conflict also has been strengthened in present circumstances. I believe changes in oil supply and price factors should be examined urgently from standpoint of economic and security requirements of OECD countries. This is not an appeal for maintaining status quo but rather for analysis that would indicate what options may be available and would suggest lines of action or policy adaptions. *End summary.*

2. We concluded, as did other observers while Libyan tax-price settlement was taking place three months ago, that new terms for payments to governments would spread rapidly and cause general increase in tax-paid cost of oil throughout Middle East and Africa—a cost to be borne by consumers. This process now is well advanced, but recent events in Libya have had another and even more profound result. Extent of dependence by Western industrial societies upon oil as a source of energy has been exposed, and practicality of controlling supply as means of exerting pressure for raising price of oil has been dramatically demonstrated. Danger in this development is that control over availability and price, which was held by major oil companies through 1950s, will begin to be exercised by governments of producing countries before consuming countries are prepared to deal with consequences of this basic shift.

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 14 LIBYA. Secret; Limdis. Repeated to Algiers, Beirut, Benghazi, Caracas, Dhahran, Jidda, Kuwait, London, Paris, Rome, Tehran, and Vienna.

3. We have foreseen possibility, as have some oil company executives (e.g. Tripoli 2435)[2] that lessons now being learned by oil producing countries may cause them to assert, through OPEC, economic influence which is theirs through control over oil supplies. This has been basic OPEC objective since its formulation in 1960. OPEC has failed, thus far, to realize its potential influence because of diversity of interests among its members and members' doubts about their own strength. However, latter restraint has been undermined by Libya's example. We should remember that many oil policy makers in governments of producing countries did not witness Mossadegh's failure in Iran—as did most senior executives of major oil companies for whom that episode is among their primary professional experiences. Libya's recent success, and its spreading effects, therefore is more likely to guide thinking of producing country governments than is Iran's failure of nearly 20 years ago.

4. Certainly, Libya was able to force its will on the oil companies because of combination of circumstances. High rate of growth in energy requirements of developed countries has been emphasized in accelerating demand for oil as a lower-cost and less contaminating fuel than coal. Loss of one million b/d of short-haul crude in Mediterranean—through closure of Tapline and production rationing in Libya—thus came at time when demand had outstripped all projections and crude oil transport capacity was (and is) strained almost to its limit. This weakness in oil supply system, plus unique factors of a large and disparate group of companies operating in Libya and Libya's cushion of accumulated wealth, made Libyan threat to prohibit exports of companies which refused to meet its payment terms credible and effective. Rapidity with which higher payments have been agreed to by oil companies in other countries has led to conclusion that companies now are sensitive to price demands of any major producing country.

5. Recent Iranian Government statement, accompanying announcement of its settlement with Consortium, that posted price for light crude (not affected by settlement) would be determined through OPEC, suggests OPEC meeting at Caracas next week may see serious effort to utilize strength of petroleum producers oligopoly, since Iran has been one of major producers which has resisted past efforts to control growth of supplies to increase prices. Libya's Under Secretary of Petroleum has confirmed to us that Libya will participate in effort to effect general price increase through OPEC by restricting supply. He maintains consistent LARG position that tax and price increases Libya

[2] Dated October 13, telegram 2435 related BP executive Sutcliffe's views that Kuwait would be first among Persian Gulf producers to achieve a posted price increase, even though Iran was first to stake the claim, and that Libya was likely to set the pace. (Ibid.)

won in September were only rectification of past inequities and that Libya now will promote action to achieve traditional OPEC goal of increasing oil prices. We are confident that conference's Venezuelan hosts, who long have promoted adoption of pro-rationing to maintain and increase oil prices, will continue to press for supply controls, as suggested in Caracas 5399.[3]

6. Whatever the outcome of OPEC conference, dependence of industrial societies upon external sources of energy and consequently their vulnerability, has been exposed. I believe it would be hazardous to assume oil producing countries will be unable to cooperate to take advantage of this situation. I am concerned that USG, our allies, and the oil companies are no better prepared to deal with changed balance of power in petroleum supply situation now than they were few months ago. If we are lucky, we will not be confronted by unified demand from oil producers just yet. However, I am confident that Libya intends to make additional revenue demands, unilaterally if necessary, within next six to nine months. I also fear that when demands are made, European oil supply situation and unity among companies will be little improved over what it has been and that, again, there will be no apparent choice but to yield to pressure whether demands come from OPEC countries in unison or from Libya alone. In short, I believe present oil supply situation urgently needs to be examined from standpoint of economic and security requirements of OECD countries—with commercial interests of oil companies to be considered only after possible conflicts with supplying countries have been studied and our options defined. This recommendation emphatically is not an appeal to search for means for maintaining status quo. Long-standing relationships in international petroleum industry are changing and are causing changes in forms governing them. Rather, I am proposing that changes in producer-consumer relationships be studied and their effects on national U.S. interests be assessed—with assessment to indicate lines of action or policy adaptions.

7. Control over flow of resources has been of strategic concern throughout history. Asserting control over vital source of energy would permit Middle Eastern states to regain power position vis-à-vis West, which this area lost long ago. While my purpose has been to focus attention on economic hazards resulting from changed oil supply situation, there also are political risks generated from conflict in Middle East. Rationale of those who call for use of Arab oil as political weapon has been strengthened in present circumstances and may prove to have

[3] Dated December 1. (Ibid., PET 3 OPEC)

greater appeal than in past—at least in Libya. I, therefore, think it is time that we and our European allies assess consequences of dilution of our control over oil supplies and prepare to head off or make arrangements to blunt their impact.

8. I believe that what is needed is: first, definition of this problem within U.S. foreign affairs community; secondly, USG-wide analysis which would describe options; and thirdly, coordination of course of action with our allies—perhaps through OECD. Analysis I propose may only demonstrate that there is no short-term solution and that consumers must pay whatever producers demand. If this is the only answer, I believe USG should recognize it, so that we may structure our supply arrangements and our international development and trade preference policies accordingly.

Palmer

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65. Telegram From the Department of State to Certain Diplomatic Posts[1]

Washington, January 8, 1971, 2348Z.

3777. Subject: Washington Oil Talks.

1. We met January 7 with UK, Dutch and French reps to discuss developments and strategy on OPEC oil price negotiations.

2. Deptoff (Akins) reviewed current status very tight tanker supply caused by closure of Suez Canal and cut backs in Libya which have now set stage for OPEC demands. Conservative estimate of costs if OPEC demands fully met in Persian Gulf only are dollars 1.3 billion in 1971 and dollars 7.1 billion over next 5 years. This assumes no increase in 55 percent tax rate now generally prevailing in Gulf. Increases elsewhere of only one-third as much would yield total increase in petroleum prices of dollars 9.5 billion over 5 year period through 1975 if all added costs are passed on to consumers. There could also be further increases if OPEC countries attempt to tie oil

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Secret; Exdis. Drafted by Clark; cleared by Trezise and in E/FSE, E/ORF/FSE, EUR/RPE, AF, S/S, and NEA/IRN; and approved by Katz. Sent to USOECD, London, Bonn, Brussels, Paris, Rome, Tokyo, The Hague, Luxembourg, Copenhagen, Stockholm, Oslo, Caracas, Tehran, Tripoli, Beirut, Dhahran, Jidda, Djakarta, Lagos, USEC Brussels, USNATO Brussels, and Algiers.

prices to some price index or value of money.[2] OPEC countries complain that their revenue per barrel is less than in 1958 in current dollars and perhaps 40 percent less in constant dollars. They also point out that consuming governments are getting more in taxes per barrel than do oil producing governments. Akins said all details of OPEC demands are not yet known but situation should be clearer following meeting between oil companies and OPEC reps in Tehran 12 January to negotiate Persian Gulf prices. Akins also said Libyans have demanded meeting with Occidental and Bunker/Hunt in Tripoli January 9 and may present demands which could lead to further escalation oil prices in Persian Gulf and elsewhere.

3. Akins said we find the Libyan demands at this time most serious and disturbing and we have instructed our Embassy in Tripoli to tell Libya we trust they will not take immediate arbitrary action with oil companies.[3] Akins said it is also possible richer oil producing countries could subsidize Iraq if it cuts off oil exports during confrontation over OPEC demands. Akins said we are deeply concerned with developments not only because of the effect on our companies and consuming countries elsewhere but also because of the direct effect on the US which now imports more oil than any other single country in the world except Japan.

4. Trezise asked other delegations whether they believed there was anything we can do collectively and individually.

5. UK rep (Beckett) said he agreed with US analysis but that our estimate costs of OPEC demands most conservative. He said one report was that OPEC resolution calling for increases due to changes in value of money might mean OPEC countries would demand price increases as much as 33 percent. If this indeed applied consequences would be horrible. He noted OPEC now negotiating from position of strength and companies must work together to avoid whipsaw effect of increases in one area followed by increases in another which could continue indefinitely. He added that oil companies which not members of Iranian Consortium but with interests in Middle East should be

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[2] "or value of money" was added in an unknown hand.

[3] In telegram 1810 to Tripoli, January 6, the Department stated that it was "actively engaged" in consultations with oil companies on a possible formula to respond to OPEC demands, wanted to avoid precipitate action by Libya, and was impressed that some major oil companies were taking a more flexible approach to the "new rules of the oil game." The Department added that, "while we cannot become involved in substance of issues between LARG and companies, we favor positive USG role in facilitating communication between both sides and therefore, hopefully, genuine negotiation." Palmer was instructed to approach Libya at the "appropriate high level" to gain time for the companies to respond to Libya's request. (National Archives, RG 59, Central Files 1970–73, PET 14 LIBYA)

brought into negotiations since Consortium companies should not be forced into a position of negotiating on behalf of other companies.

6. French rep (Vaillaud) said he agreed tanker situation would remain very tight even with Tapline open at least until 1973 but he questioned pessimistic forecasts thereafter. He also said companies must act collectively to negotiate both with Libyan and Persian Gulf countries. He added there were good reasons for some price increases and that GOF would not oppose some increases in tax rates but that OPEC demands might surpass any reasonable increases. This he said would call for a solid front of both oil companies and governments.

7. Foreign reps asked whether joint action by companies would run into difficulties with US anti-trust laws. Trezise replied we disposed to support any reasonable request by oil companies to Department of Justice for collective action in order to give companies some room to maneuver.

8. Netherlands rep (Hartogh) described proposal by Shell for collective action by oil companies. Shell plans for negotiations with all oil companies together in attempt to get firm agreement lasting at least 5 years. Plan calls for general increases in posted prices of, say, 15 cents per barrel; a tax rate of 55 percent and some premium in short haul crude of, say, 25 cents per barrel to be open to review every year depending on freight rates. Vaillaud said he found 25 cents short haul premium very high.

9. Akins said we have urged companies not to mention any specific figures for posted price increases or short haul premium since these would immediately be taken by producing countries as minimum offers to be negotiated upward. He said we have suggested the talks rather start off dealing in principles of posted price increases, short haul premiums and perhaps some relation between oil prices and price index in consumer countries and that figures could be arrived at later.[4]

10. Trezise noted that principle of tying oil prices to price index in consuming countries was dangerous since principle could be applied to other commodities as well. However since oil producers may now have effective cartel such an arrangement might be difficult to resist in this case.

11. It was decided by reps that we should keep consuming countries informed of developments in OPEC negotiations without however mentioning any specific possible price increase. It was also decided that

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[4] The Embassy noted in telegram 36 from Tripoli, January 7, that "the situation appears even less promising than when posted price talks opened year ago." Palmer thought Libya was "confident and resolute," whereas the companies were "dispirited and uncertain about their ability to resist." While Libya knows what it wants, he wrote, the companies were most concerned about passing on the costs to the consumer. (Ibid.)

prior to the January 12 meeting in Tehran it would not be advisable to call a meeting of the OECD Oil Committee. However Beckett said he would be in touch with OECD SecGen Van Lennep and that if necessary emergency meeting OECD Oil Committee could be called following Tehran talks.

12. All agreed there was danger should negotiations break down and producing countries seize significant part or all of oil production and then offer negotiate directly for sale of oil with consuming countries, that consuming countries in pursuit of their vital interests would deal directly with the producer.

13. All agreed it desirable for industry-OPEC negotiations to be comprehensive as possible and that the four governments would so advise their oil companies. Trezise also said we would use such influence as we have to see that companies not arrive at settlements individually.

14. It was agreed to inform consuming countries of developments thus far, without, mentioning specific price increases proposed by Shell. US will talk to Japanese, French and Dutch will talk to EC partners, and UK will inform Scandinavians.

15. Reps agreed if circumstances warrant they might all meet again in Europe week of January 18 when Trezise will be in Europe.[5]

End

Irwin

[5] See footnote 8, Document 74.

66. Telegram From the Department of State to Certain Diplomatic Posts[1]

Washington, January 8, 1971, 2236Z.

3565. Subj: Talks with US Oil Companies on OPEC Demands.

1. January 7 Ambassador Johnson met with reps of five US major oil companies (Esso, Mobil, Gulf, Texaco and Socal) and attorney John McCloy to discuss OPEC demands.

2. McCloy said cartel of producing countries now in very strong bargaining position because of combination of circumstances. Companies now seeking ascertain whether there are some leverages USG and consuming countries along with oil companies could use in present circumstances with producing countries. Diplomatic efforts he said might not be successful and at best there will be further price increases but because of threat to vital oil supplies some concerted action might be necessary. McCloy said Europe and Japan have felt oil companies have not been assiduous in protecting interests of consuming countries but oil companies are now trying to show consumers that interests of companies and consumers are the same in present circumstances.

3. Hedlund (Esso) said for years companies have kept down prices to consumers and posted prices today still lower than they were 15 or 20 years ago. Bargaining position of producing countries is now much stronger because of Suez Canal closure; fact that demand has grown faster than industry expected; Tapline closure; Libyan cutbacks; and now Venezuelan legislation increasing tax rate and giving GOV power to set tax reference prices.

4. Ambassador Johnson observed that political situation apparently ran away from Venezuela Government and we have pointed out to them that legislation will not encourage further investment in Venezuela. Companies thanked Ambassador Johnson for the Department's initiatives with Venezuela.

5. Company reps said producing countries now threatening action which contrary to existing concession contracts and clearly without legal basis. Deputy Undersecretary Samuels asked in absence of the threat of unilateral action what would companies be prepared to

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Secret; Exdis. Drafted by Clark (E/ORF/FSE); cleared by Trezise and in E/FSE, E/ORF, S/S, and E; and approved by U. Alexis Johnson. Sent to USOECD Paris, London, Bonn, Brussels, Paris, Rome, Tokyo, The Hague, Luxembourg, Copenhagen, Stockholm, Oslo, Caracas, Tehran, Tripoli, Beirut, Jidda, Djakarta, Lagos, Dhahran, USEC Brussels, USNATO Brussels, and Algiers.

do to modify present agreements in response to OPEC demands. Moses (Mobil) said companies felt no changes in current agreements were justified. However, Martin (Gulf) added companies were prepared to be flexible and forthcoming in present circumstances to OPEC demands.

6. McCloy asked whether Department could be helpful with Department of Justice in obtaining permission under anti-trust laws for companies to coordinate response to OPEC demands. Ambassador Johnson observed that joint action would involve more than just five US major oil companies. Foreign companies and US independent producers would also be involved. He said Department and Justice would need more information on nature of proposed joint action before firm determination could be made under anti-trust laws. He indicated however Department would be willing to consult with Justice on problem which clearly involves our vital interests and our relations with Europe and Japan.

7. Samuels observed that some authorization by Department of Justice would be seen by OPEC as diplomatic intervention by consuming countries. Questions raised of course involve prices and supply which are exactly the problems that concern Justice in regard to anti-trust problems.

8. Parkhurst (Socal) said it was very difficult to get consensus within industry on joint action to be taken but there were clear advantages to dealing with OPEC countries collectively. Johnson said companies should be extremely discreet about joint dealing with OPEC until we have opportunity to consult with consuming countries.

9. Assistant Secretary Trezise reviewed a meeting that morning with reps of UK, France and Netherlands (see septel).[2] Trezise said in particular it was suggested that Iranian Consortium bring into the picture companies outside the Consortium which are directly affected and keep them informed of developments. In particular he said it would be useful for companies to inform the Arabian Oil Company (Japan), ENI (Italy), Petrofina (Belgium), and Deminex (Germany). Trezise said how this should be done could be left up to Consortium members. Company reps indicated this would be possible.

10. Trezise said it had also been decided that it was not desirable at this time to convene OECD High Level Group on Oil to discuss problems; however it could be called on short notice. US, UK, French and Dutch reps will meet again in London week of January 18 to discuss developments if situation warrants.

11. Hedlund expressed fear that OECD or consuming countries collectively might set limits for oil companies on negotiations with

[2] Document 66.

OPEC and that companies could find themselves trapped between competing OPEC and consuming country demands. Trezise said we agree fully and to avoid problem Department needs all the information and candor on developments companies can provide.

12. Company reps discussed danger of meeting between Occidental and Libya January 9[3] which could lead to escalation OPEC demands world-wide. They said they had given thought to some production sharing plan with Occidental and others who might be affected by production cutbacks in Libya. Shell has had discussions with Occidental, but no agreement has been reached. Samuels observed that if such arrangements became known to Libyans it could invite further retaliation by Libya. Companies agreed.

13. Company reps each said their respective companies were prepared in principle to accept Shell plan of collective negotiation with OPEC countries[4] although they not at this time prepared to accept initial figures proposed by Shell for posted price increase and short haul premium. Johnson said we felt strongly no plans for joint action by industry with OPEC countries should be made known until we have opportunity to consult with consuming countries.

14. Company reps said Consortium members in London had proposed telling Iranians they have reached no agreement among themselves and will have to postpone January 12 meeting in Tehran. We said not going to meeting could be dangerous. Companies agreed and indicated some "hostages" would probably have to be sent to Tehran.

15. In separate conversation, senior Continental Oil officials, headed by Dr. John Kircher, head of Continental's Eastern Hemisphere Division, met with AF Assistant Secretary Smith. Conversation focused principally upon prospects for reasonable settlement with LARG which company and Smith agreed did not appear encouraging. Company officials indicated willingness cooperate, assuming antitrust legal problem resolved, with majors to assure companies were not picked off one by one either in Libya or in wider OPEC negotiations. Also expressed belief situation had now reached point in both arenas where governments of consumer countries would have to take stand against seem-

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[3] In telegram 49 from Tripoli, January 11, the Embassy stated that Libya had presented "extreme financial demands" to Occidental and Bunker Hunt on January 9. Libya's strategy replicated that of 1970, which focused on intense confrontation with individual oil companies and the exploitation of divisions among the companies and the gulf between the companies and consumers. The Embassy thought this could be countered, "if at all, only by broadening scope of confrontation beyond Libya and by establishing agreed community of interest among companies and between companies and consumers." (National Archives, RG 59, Central Files 1970–73, PET 6 LIBYA)

[4] See footnote 2, Document 68.

ingly endless escalation energy costs. Finally, Continental officials expressed belief company still has major role to play in development and production petroleum resources abroad, [in] view its flexibility with respect to arrangements it prepared make with host governments and its own vast technical knowhow. Smith assured company representatives Department following situation closely. Noted signs of intergovernmental cooperation to meet problem are now appearing through OECD consultations. He cautioned, however, any agreed intergovernmental program of cooperation likely to be complex and long in preparation and therefore probably not completed in time to be of practical use in current situation companies face. Continental officials gloomily agreed.

16. Company reps promised to keep in close contact with Department on developments.

Irwin

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67. Transcript of a Telephone Conversation Between the President's Assistant for National Security Affairs (Kissinger) and the Under Secretary of State (Irwin)[1]

Washington, January 11, 1971.

[Omitted here is discussion unrelated to oil.]

[I:] Henry, there's one other thing that I—you may well be aware of—that I think is coming more and more to a question—this is the whole oil problem in the Middle East and its effect, now our oil policy but what's happening . . .

K: Aren't you handling that in the Under Secretaries Committee?

[I:] Well, we are handling it but I—it's coming more and more to a—I think to a point where we're planning to send over a message to the President/White House—not a message but a memorandum, explaining what the circumstances are today.[2]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 8, Chronological Files, January 1971. No classification marking. Following this conversation, Irwin forwarded to Kissinger a copy of circular telegram 4436, January 11, which was a comprehensive summary of oil events following the 1967 war. (Ibid., RG 59, Central Files 1970–73, PET 3 OPEC)

[2] See footnote 2, Document 69.

K: Good, I think that would be a good way.

[I:] I think it is coming to—can come to a very serious point.

K: I'm frankly not on top of that.

[I:] Okay.

K: Good.

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68. Memorandum From the Assistant Legal Adviser for Economic Affairs (Carter) to the Legal Adviser (Stevenson) and the Assistant Secretary of State for Economic Affairs (Trezise)[1]

Washington, January 14, 1971.

SUBJECT

OPEC/Oil Company Negotiations

This memorandum is prompted by two concerns:

a) that the joint oil company approach to OPEC will not produce an agreement with the OPEC countries in the immediate future, and

b) the USG has not thought through carefully enough the courses of action it should take in several foreseeable contingencies following the lack of success of this initial effort.

My concern that the joint effort will fail is based upon several apparent facts: The OPEC countries have a very good case, on both economic and equitable grounds; Libya wants to negotiate in Libya while the other OPEC countries are trying to negotiate in Iran; the independents and majors apparently cannot agree on how the independents should be protected in the event of Libyan action against them; the independents will, therefore, probably cave-in to Libya; if the independents don't cave to Libya and if Libya is faced by a coordinated company position our Embassy in Libya seems to think that the Libyan response will be an embargo on all exports of all participating companies rather than a coordinated OPEC response; and, as a political matter, I don't see how the OPEC countries can accept the conclusion of the oil companies, in their message to OPEC, which will be made public, "that we cannot

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Secret. A copy was sent to Deputy Legal Adviser John B. Rhinelander and Katz (E/ORF).

further negotiate the development of claims by member countries of OPEC on any other basis than one which reaches a settlement simultaneously with all producing governments concerned" without appearing to be knuckling under to the power of the oil companies.[2]

My concern that there has been no detailed planning for possible contingencies following an OPEC rejection of the oil company demand is based on the fact no one I have talked to knows of any such planning.

It seems to me our contingency planning should proceed with several hypotheses in mind:

a) OPEC's rejection may well be accompanied by production limitations threatening at least European fuel supplies.

b) OPEC action may be either against all oil companies, or centered on those who sign the communication and possibly those being negotiated with in Libya.

c) the degree of OPEC solidarity in the days and weeks ahead may vary depending upon

—the degree of solidarity facing them—solidarity on the part of the oil companies and on the part of the consuming countries—with solidarity on one side producing offsetting solidarity on the other side.

—the degree to which Libya (and possibly others) try to make the confrontation a "political" issue related to the Middle East situation, as one of the cables from Libya indicates Libya intends to do.

d) Europe and Japan can afford to pay more for oil; and it would be equitable to OPEC to collect more and Europe less of the total tax take from the present trade.

e) the major risks to be avoided by the United States could affect our balance of payments and our political relations with Europe as well as the OPEC countries; we want to avoid:

—OPEC nationalization of United States company owned production facilities, and

—the decision by one or more Western European countries that they should make a deal directly with one or more producing countries and not rely on the United States companies to perform all

[2] The letter was transmitted in telegram 7012 to Tripoli, January 15. It proposed "all embracing" negotiations between one group representing the oil companies and one group representing OPEC members. The companies proposed that the posted price be revised and that the new price levels be subject to a moderate annual adjustment against the yardstick of "world-wide inflation." It also proposed a temporary transportation adjustment for Libyan crude. The letter rejected any further increases in the tax rate percentage, retroactive payments, and obligatory investment. It suggested that the resulting agreement last five years. (Ibid.) According to telegram 1546 to Tripoli, January 6, this package deal had been developed under Shell's leadership. (Ibid., PET 14 LIBYA)

functions—from production to distribution—involved in meeting their petroleum needs.

f) the Europeans will be forced to reach agreement that will allow their petroleum needs to be met.

g) if the majors threaten not to transport or refine petroleum from OPEC countries, the USG will be forced to persuade or order them to perform these tasks.

h) we have little leverage on the OPEC countries.

i) the United States should assure, to the extent possible, that following the current transportation/supply shortage, competitive forces should have an opportunity to have the greatest feasible effect in the international petroleum area.

One other general consideration seems relevant in analyzing how we should approach this problem: most of our information comes from the oil companies; the other agencies around town have to rely upon this information and our assessment of how various foreign governments will react to various situations; and we have not established any reliability checks on the various lines of communication that have been established.

I don't have any bright suggestions for policy decisions; it seems to me that, with some minor exceptions (such as not toning down the offensiveness of the Company message to OPEC), we have done what had to be done. But in these circumstances I think we should begin to approach this problem more systematically and do some hard contingency planning. Otherwise I think we risk hurting some larger long-range interests for the sake of dealing with what probably will be a fairly short-range (1–2 year) problem.

69. Memorandum From C. Fred Bergsten and Harold H. Saunders of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, January 14, 1971.

SUBJECT

The Developing International Oil Crisis

At Tab I is an information memo on the developing international oil crisis conveying a State memo to the President on the subject.[2] Our memo is addressed to the President in case you wish to send it forward, as you should. The situation could blow over, but the odds favor a potentially serious situation developing within the next few days. At Tab III is a more detailed cable on the background which State has sent you.[3]

At this point, we are deeply concerned about the procedural aspects of this issue. The State Department is charging ahead tactically with a task force,[4] without any clear notion of its own basic objectives let alone an agreed U.S. position. The issue is loaded, in terms of our

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–180, National Security Study Memoranda, NSSM 114. No classification marking. Sent for action. Concurred in by Sonnenfeldt. A notation on the memorandum reads: "Changes being made in NSSM by Kennedy." On January 15, Bergsten informed Kennedy that he had discussed this memorandum with Kissinger, who proposed that the issue be discussed at an SRG meeting. (Ibid.)

[2] Not attached. The State Department memorandum was apparently a January 13 memorandum to Nixon in which Rogers detailed Libyan and Iranian demands for increased oil prices, following the December OPEC resolutions. In it, Rogers commented, "We may be faced with a delicate situation if the companies are caught in a squeeze between OPEC demands for price increases and strong resistance to price increases from consuming countries." He added, "the possibility cannot be ruled out that consuming countries might try to make separate deals with the producing countries over the heads of the oil companies in order to maintain their vital oil supplies." (Ibid., RG 59, Central Files 1970–73, PET 3 OPEC) In telegram 6271 to San Clemente, January 14, Rogers also informed Nixon that the situation in Libya "does not look at all good," that cutbacks in Libyan shipments to Western Europe should be expected, that the Shah was prepared to shut off production, and that Irwin had established an interagency Oil Task Force. (Ibid., PET 14 LIBYA)

[3] Not attached. Tab III is circular telegram 4436; see footnote 1, Document 67.

[4] In a January 13 memorandum for the record, Irwin wrote that in accordance with the procedures established by the Under Secretaries Committee, he ordered the formation of an interagency Oil Task Force to coordinate the government's response to the current oil situation. Trezise, the Task Force Director, appointed Akins to head a Working Group, located in the Operations Center, which would meet daily. (National Archives, Nixon Presidential Materials, NSC Files, Box 1271, Saunders Files, Middle East Oil, 1/1/71–2/1/71)

relations with Europe and Japan, the major oil consumers; our relations with the Arab producing countries; our role in the Arab-Israeli dispute.

No one is thinking about the broader and longer range issues involved, while getting the U.S. increasingly deeply committed in the tactics of the confrontation between the companies and the Arabs. However, there is a strong case for non-involvement by the U.S., or at least our playing no more than a clearly secondary role:

—The sharp increase in Middle East oil prices which would result from "Arab victory" would have little direct impact on the U.S. economy, since we import so little oil from them. This is essentially a European/Japanese problem, so why shouldn't they take the lead?

—There is a strong chance that our companies will lose the confrontation, whatever the USG might do. We would therefore use up a great deal of political capital for no reason if we were to intervene significantly, as we have already done in Iran and are about to do in all the producing countries.

—If we involve ourselves heavily on the side of the companies (and therefore the consuming countries), we might ultimately have to ration oil domestically since only such a step would provide meaningful U.S. participation in an all-out effort to beat the Arabs. Since I cannot see us taking such a step politically, it would be a mistake to imply to the Europeans that we might do so.

—It would also be a mistake to lead our companies to think we would support them all the way. Since at least Libya views the oil effort as largely directed to softening our support for Israel, we can envisage our companies putting great political pressure on us to do just that if we lead them along.

—Our adopting a leading pro-company role on the issue would sharply increase our anti-Arab image, increasing the difficulty of our position in the Arab-Israeli dispute.

—Finally, there is a crass but very important commercial consideration: sharp increases in European and Japanese energy prices would significantly help the international competitive position of the United States, and could therefore sharply improve our trade balance and overall balance of payments.

—Our taking a pro-Arab position, such as urging the companies to accede to the Arab demands, would therefore deeply damage our relations with the consuming countries.

There are thus significant arguments against deep U.S. involvement. However, there are also important arguments in favor:

—A prolonged shutdown of Arab oil could reduce Europe's oil stocks drastically, jeopardizing NATO's military capability.

—The earnings of our oil companies provide a significant contribution to our balance of payments, on the order of $1 billion annually.

—We as a government of course have an obligation to defend U.S. companies, though we traditionally do so only if their legal rights are being violated—not simply because they are being extorted by other countries in a strong economic position to do so.

—The UK balance of payments could be forced into crisis, with significant repercussions throughout the international monetary system, if the position of its companies are sufficiently threatened and its oil costs sufficiently increased.

—The short-term disruption, and possible long-term slowdown, of economic growth in Europe and Japan which might be caused by higher oil prices would indirectly affect our own prosperity, by reducing their imports from the U.S. and their attractiveness for U.S. investment.

The point is that there are serious considerations on both sides of the issue which have not been thought through. We have no high-level decision based on a weighing of the advantages and disadvantages. The situation has not yet become critical, because State has not yet gone too far in its initiatives, and there is time to provide direction to the exercise. However the situation is developing very fast and State might be tempted to commit us irrevocably even within the next week, so you will have to move immediately if you are going to do so.

We therefore recommend that the Senior Review Group, augmented to include OEP, Interior, Treasury and CEA, address the issue urgently. The interagency task force chaired by State could provide the staffing, but would have to be forced to address the fundamental issues rather than simply the tactical considerations of each unfolding step in the crisis. Since State has been running with the ball, however, you would undoubtedly want to discuss the matter with Irwin before bringing it into the SRG—especially since Irwin set up the task force as a subcommittee of the Under Secretaries Committee.

Recommendations

1. That you sign the information memo for the President at Tab I, bringing him up to date on what has happened so far and laying out a possible scenario of future developments.[5]

2. That you sign the NSSM at Tab II, calling for a paper by the middle of next week and setting up a SRG meeting on the subject.[6]

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[5] Printed as Document 73.

[6] Attached but not printed. Kissinger approved the NSSM with minor changes; see Document 71.

70. Transcript of a Telephone Conversation Between the President's Assistant for National Security Affairs (Kissinger) and the Under Secretary of State (Irwin)[1]

Washington, January 15, 1971, 4:18 p.m.

K: I have just become aware in greater detail of the oil problem. You remember we talked about it last week.[2] I just wanted you to know, after discussion with the President, I am sending a directive to move it into the NSC system.[3]

I: There have been some other developments. We were just about to come over and I wanted to ask for a few minutes with you afterwards. I am going out tomorrow as the President's emissary to talk . . .[4]

K: I am aware of it—ex post facto.

I: It just happened this noon.

K: I know how it happened. It is an unacceptable procedure, but that is between me and the Secretary.

I: It certainly wasn't my idea to nominate myself to go.

K: You should get out of the line of fire when the firing starts. I just wanted you to know I am sending out a directive on how it is to be handled in the system from now on—which doesn't affect you much. We can talk about it briefly. I didn't want you to get the directive without your being told about it.

I: Depending on when I leave tomorrow morning which depends on when they want me to arrive out there, I don't know whether or not I can attend the 10:00 meeting tomorrow morning. If I don't, Alex will come. In either case, I have heard it's just principals. From our

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 8, Chronological Files. No classification marking.

[2] See Document 67.

[3] Document 71.

[4] According to Rogers, the request for the Irwin mission came from the oil companies in a January 15 meeting. (Memorandum from Rogers to Nixon, January 15; National Archives, RG 59, S/S Files: Lot 74 D 164, President's Evening Reading, January 15, 1971) According to the January 15 Situation Report #2 from the Oil Task Force, the oil executives stressed to Rogers the "urgency and seriousness" of the situation, and that Rogers took "under advisement" their suggestion that the United States send a high-level government representative to Iran, Saudi Arabia, and Kuwait. (Ibid., Nixon Presidential Materials, NSC Files, Box 1271, Saunders Files, Middle East Oil) A January 15 note, prepared for the Presidential Briefing, stated that the Irwin Mission was an attempt to modify the position of Iran, Kuwait, and Saudi Arabia. (Ibid.)

point of view, if we could bring Ron it would be very helpful. Alex hadn't planned to go and it . . .

K: I will call you about it. I will consider that.

I: Thank you.

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71. National Security Study Memorandum 114[1]

Washington, January 15, 1971.

TO

The Secretary of State
The Secretary of Treasury
The Secretary of Defense
The Secretary of Interior
Chairman, Council of Economic Advisers
Chairman, Office of Emergency Preparedness

SUBJECT

World Oil Situation

The President has directed the preparation of a paper on the world oil situation. It should first outline the major considerations involved including such questions as: its implications for NATO; for our role in attempting to settle the Arab-Israeli dispute; for our relations with Europe and Japan; and the domestic and international economic implications, including our own economy and balance of payments, the British balance of payments, the U.S.-European/Japanese competitive position, etc.

The paper should then outline the possible options relating to U.S. involvement vis-à-vis the consuming countries, the oil companies and the producing countries, analyzing the pros and cons of each. It should address such questions as: should we be prepared to ration oil domestically to contribute to an all-out effort to withstand the OPEC demands? Should we use our diplomatic leverage in an effort to support the positions of the companies? Should we seek to get the consuming countries to take the lead in withstanding OPEC?

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–180, National Security Study Memoranda, NSSM 114. Secret; Exdis.

The paper should be prepared by the Inter-Agency Oil Task Force on the subject already in existence under the chairmanship of the Department of State. The paper should be submitted to the Assistant to the President for National Security Affairs by January 19. A Senior Review Group meeting on the subject will be held on January 21.

Henry A. Kissinger

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72. Letter From President Nixon to Mohammad Reza Pahlavi, Shah of Iran[1]

Washington, January 16, 1971.

Your Imperial Majesty:

I have become increasingly concerned about growing indications of an imminent impasse in relations between the oil producing countries and the oil companies. It is apparent that such an impasse could benefit no one.

Oil supply is vital to the free world. Therefore, your interests in oil and ours are bound intimately together. The consuming countries need a secure source of oil available on reasonable terms, and the producing countries have every right to expect a fair income from their most precious resource. The United States Government has taken such legal steps as it can to facilitate expeditious negotiations between the companies and the oil producing countries.

In this spirit I have asked John Irwin, Under Secretary of State, to act as my emissary to deliver this letter to you and to contribute constructively to the efforts of both sides to arrive at an equitable solution to this pressing problem.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–180, National Security Study Memoranda, NSSM 114. Secret. Irwin delivered this letter and identical ones to King Faisal and Shaikh Sabah during his mission to Iran, Saudi Arabia, and Kuwait. (Memorandum from Eliot to Kissinger, January 15; ibid., RG 59, Central Files 1970–73, POL 15–1 IRAN)

I hope you will feel free to discuss these matters frankly with him in the same close cooperative spirit that has always characterized our relations.

Sincerely,

Richard Nixon[2]

[2] Printed from a copy that bears the President's typed signature with an indication that he signed the original.

73. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon[1]

Washington, January 18, 1971.

SUBJECT

International Oil Situation

A confrontation between the major international oil companies, most of them U.S. owned, and the major oil producing countries in the Middle East could soon provoke a world oil crisis (State memo at Tab A).[2] There could be political overtones affecting the Arab-Israeli dispute, particularly if we were drawn into the confrontation in support of the companies.

The Problem

The basic problem stems from a recent series of stiff revenue-raising demands formulated by the major producing countries at a meeting last month of their Organization of Petroleum Exporting Countries (OPEC). Because of limited world supply and shipping capacity, the producing countries are for the first time in recent history in a good position to extract major increases in their tax take from the U.S.-dominated petroleum industry. The result would be sharp price increases

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–180, National Security Study Memoranda, NSSM 114. Secret; Exdis. Sent for information. A stamped notation on the memorandum indicates the President saw it.

[2] Not attached. Tab A is presumably Rogers's January 13 memorandum to Nixon. See footnote 2, Document 69.

in the major consuming countries (Western Europe and Japan), which could range as high as $5 billion in 1971 and much higher later.

Negotiations between the companies and an OPEC committee collapsed on January 12, when the committee refused to deal with low-level officials sent by the companies. Meanwhile, the Shah has privately denounced the oil companies for their delaying tactics and has threatened that Iran, Iraq, and Saudi Arabia will shut down production if the companies do not agree to an acceptable settlement.[3] OPEC will meet in emergency session next Tuesday[4] to work out its next move.

In a related development, Libya has raised the ante by increasing its own demands on the companies operating there even beyond the level decided on by OPEC last month—a total of about 40%. They have demanded immediate acquiescence and threatened to shut off production—and perhaps expropriate the companies' properties—if their demands are not met. The Libyans are concentrating first on the smaller and more vulnerable companies, in hopes of picking them off one-by-one and eventually forcing the major companies to cave. This was essentially the strategy the Libyans followed successfully last year when they gained substantial revenue concessions, serving as a model for the new OPEC demands. If the Libyans succeed again, they could well trigger even higher demands from the other OPEC members.

The problem primarily affects the Europeans and Japan, which are highly dependent on Middle East oil and which would have to bear the main burden of shortages and sharply rising prices. Our interests, however, are also substantial: the profits of the U.S. companies, disruptions to the international economy, and possible impairment of European security caused by shortages of oil available to NATO.

Positions of the Companies

The companies have adopted a common front in their negotiations with OPEC and Libya, receiving the necessary approval from Justice, and plan to inform the Libyans and other OPEC countries that they will not negotiate with them as individuals but will rather negotiate collectively with OPEC. There is a strong possibility, however, that at

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[3] In telegram 182 from Tehran, January 13, the Embassy relayed the information that the Shah had criticized the Consortium for dilatory tactics and refusal to send a team empowered to negotiate despite sufficient advance notice. The Shah added that there would be an OPEC meeting whether or not the companies sent a first team of negotiators; that Iran, Saudi Arabia, and Iraq were in absolute unity on tactics required for settlement; and that if the companies did not agree to an acceptable settlement, the three states would shut down production. (National Archives, RG 59, Central Files 1970–73, PET 3 OPEC)

[4] January 26.

least some of the OPEC members—who control about 85% of the world's oil supply—will stop production if the companies do not give in the negotiations. The Libyans, who have huge foreign exchange reserves and supply about 30% of Europe's oil, are in an especially good position to do this and may cut off the production of two of the smaller companies for a start as early as Saturday if their demands are not met. A substantial cutback in production would immediately drive up European prices, and raise the possibility of severe rationing and a sizable draw down of oil reserve in Europe.

To improve their bargaining position in Libya, the companies are formulating a scheme—which would have to be approved by Justice—for the larger companies to sell oil to the smaller companies so that they may meet their contract obligations if Libya cuts off their production. This would enable the smaller companies, which are extremely vulnerable to Libyan pressure because Libya is their only source of oil, to better resist being picked off one by one. On the other hand, this strategy may ultimately cause Libya to curtail all production and result in a request by the Europeans and the companies for U.S. government intercession with the moderate Middle East regimes to prevent them from doing the same.

Possible Scenario

There are several potential turning points in the crisis, which will probably evolve in the following order:

—Will the companies stick together and hold the line against the Libyan demands? It now looks like they will.

—Will Libya stick to its extreme demands and stop the flow of Libyan oil if they are not met? It looks like they will.

—Will the other Arabs then stick with Libya and shut down their production as well? Iraq probably will. It is uncertain what the other Arabs will do, but it must be remembered that significant European shortages will result from even a Libya/Iraq shutdown, in view of the global tanker shortage. It is at this point that the companies may seek U.S. Government intervention with the moderate Arabs.

—Will the European governments panic at the potential shortages and attempt to strike their own government-to-government deals with Libya, circumventing the companies? This is certainly a possibility, and fits with the long-range interests of some of the European governments in removing the Anglo-Saxon companies as intermediaries in the oil trade.

—Or will the Europeans join forces to staunchly resist the Arabs? They could, for example, block Libyan and other Arab foreign exchange holdings and refuse to send spare parts for the oil wells. (However, there would not be much need for spare parts if the wells weren't producing, and the financial play could cut both ways since the Arabs

might first withdraw their massive sterling balances and thereby bring on a new sterling crisis.)

—And will we then ration oil domestically to help the Europeans withstand the Arabs, and/or bring new pressures on Israel to buy off the Arabs politically?

Governmental Actions

State has been consulting with the Dutch, French and British[5] in order to coordinate our efforts and to ensure full support for the present company position. We have also informed the major importers (Japan, India, Latin America), who may have influence on the OPEC countries, of the developments. We have informed the Libyans that their tactics, which we have learned are based on an attempt to put pressure on the U.S. and the Europeans in order to influence our policies in the Arab-Israeli dispute, will not succeed. We plan to tell Iran this as well, and ask them to influence other OPEC countries to ensure that they do not become a party to these tactics. And State has instructed our Embassies in the Arab world to tell their host governments that we view the joint industry proposal as a basis for a reasonable settlement.

An inter-agency task force, under the chairmanship of Assistant Secretary of State Trezise and including Defense, Interior, and the Office of Emergency Planning, has been formed to design and coordinate our response. My staff is working with the group and will keep me constantly informed on the situation.

However, all of the activity so far is completely tactical and reactive. I have therefore called for a quick study of our basic objectives in the situation, and an analysis of what role we should be playing in trying to help solve it.[6]

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[5] See Document 66.

[6] Document 71.

74. Telegram From the Under Secretary of State (Irwin) to the Department of State[1]

Tehran, January 18, 1971, 1632Z.

277/UNSTO 4. Paris pass Trezise. For the President and the Secretary from Irwin. Subject: Under Secretary's Meeting with Shah.

1. HIM received Amb MacArthur and me alone prepared though to bring in his oil experts if we had brought Mr. Akins into the mtg or if there were need for them. While we talked with HIM, Davies and Akins talked with HIM's oil experts.[2]

2. I delivered the President's letter[3] to HIM, at the same time extending the President's warm regards. I said that the President had sent an emissary not to discuss the details of the oil negotiation but to stress his interest in the vital part oil played in free world security from both an economic and military strategic view and concern of US that the oil negotiations result in a stable system of oil supply and marketing that would be fair to the producing countries, the oil companies, and the consuming countries. Previously the US had not participated in any oil negotiations and it was doing so now to this very limited extent, because it thought these negotiations were critical to the future of the oil industry, arrangements in the Persian Gulf, effect on Europe, Japan, elsewhere and the US, and because threats had issued from Libya that oil would be used as a political weapon against US policy in the Middle East. The US was not representing or taking the part per se of the oil companies but because of the greater interest, including that of Iran, we were asking HIM to use his great prestige and influence to seek an agreement which would result in stability.

3. I outlined briefly aspects of the strategic situation in Europe and the Middle East and HIM took over giving an interesting analysis of the world scene from his viewpoint. (Amb MacArthur will report on this separately as he has had a similar conversation with HIM.)[4]

4. I commented on the effect of cuts by Libya in its production on Europe and Japan and therefore on the US, on the effect of Tapline and

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 602, Country Files, Middle East, Iran, Vol. I. Secret; Immediate; Nodis; Noforn. Repeated to Jidda (Immediate) and to Kuwait, Dhahran, Tripoli, London, The Hague, USOECD, and USEC.

[2] As reported in telegram 279/UNSTO 5 from Tehran, January 18; ibid., RG 59, Central Files 1970–73, PET 3 OPEC.

[3] Document 72.

[4] Not found. Presumably the gist of MacArthur's conversation with the Shah was passed on to the oil executives. See footnote 8 below.

on the even greater problems of all of us if production were halted or even cut in the Persian Gulf:

(A) That part of our concern and that of the oil companies arose from the recent negotiation which resulted in price increases first in Libya, next in the Persian Gulf and then in Venezuela, only to have the cycle begin again in Libya and now in OPEC with its Caracas resolution.[5] The fear was the pattern would be repeated. This would create an intolerable situation for the oil companies and also for Europe, Japan, and the US. The question was would it be just another round of price increases or could it be a responsible negotiation which would bring stability for a specific period of time to the oil industry;

(B) That the US had urged the oil companies approach the negotiation in a cooperative spirit and to negotiate in good faith for an agreement fair to all;

(C) That the US had given the oil companies certain limited assurances regarding the application of anti-trust laws, but had done so only on January 15, 1971.[6] This meant that the oil companies had had no time to exchange information and prepare the joint position needed to enter the negotiations. I hoped HIM would understand this fact and would recognize that although the oil companies had sent two negotiators to begin discussions it would take time for the companies to prepare all the data needed to conclude the negotiations.

5. In discussion we also covered aspect re future oil supply, world and individual country needs, the increasing importance in future of Persian Gulf oil, the advantages that the oil companies brought to the producing countries, e.g., capital needed in the next decade, perhaps $200 billion, access to markets and marketing facilities, that would be most difficult to attain as a practical matter if arrangements were attempted directly between producing and consuming countries.

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[5] At the December 1970 OPEC Caracas meeting, OPEC adopted a resolution calling for a 55 percent minimum tax rate, elimination of posted price disparities, and for the Governments of Iran, Iraq, and Saudi Arabia to form a committee to negotiate with the oil companies on behalf of themselves and the Governments of Abu Dhabi, Qatar, and Kuwait until these objectives were met. Yamani indicated that Middle East countries would follow Venezuela if it went to a 60 percent tax rate. (National Archives, RG 59, Central Files 1970–73, PET 3 OPEC) On December 15, the Venezuelan Congress passed legislation that increased the petroleum tax rate from 51 to 60 percent, retroactive to January 1, and gave the government unilateral authority to set oil prices for tax reference purposes. (December 17 attachment to a memorandum from Trezise to Flanigan, December 11; ibid., Nixon Presidential Materials, White House Central Files, Subject Files, Confidential Files, Box 26, EXTA 4/CM Tariff Imports, Oil December 1970)

[6] The Justice Department Business Review Letter from Assistant Attorney General Richard W. McClaren to McCloy was transmitted in telegram 9702 to Kuwait, January 19. (Ibid., RG 59, Central Files 1970–73, PET 3 OPEC)

6. The Shah said he greatly appreciated explanations I had given him and was grateful to the President for sending me. He could understand that companies did not wish to be whip-sawed by escalation ad seriatim demands by different producers or countries. He felt offer by oil companies represented a good base for negotiation because it accepted the principle of an increase in prices as well as the principle of an index which would protect the producers against inflation in the West.

7. He said he was surprised that the companies had included in their paper a refusal to accept (a) no further increase in tax rate percentage beyond current 55 percent rate; (b) no retroactive payments; and (c) no new obligatory reinvestment because these three points had not been included in the Venezuelan–OPEC resolution. He knew Venezuela, Algeria, and Libya had other ideas but these had been excluded from the resolution. He went on to say that he saw no conflict between the terms of the OPEC resolution and the companies' response.

8. He also agreed that it would be a good thing to stabilize prices for five years. However, this meant a freeze on prices by both producers and companies. He had statistics which showed company price increases already put into effect more than covered increases Iran had in mind. Therefore if companies tried to increase prices as result of agreement reached in forthcoming negotiations, producers would have to benefit accordingly. He also made clear that when agreement was reached it would be retroactive to January 1, 1971 as BP and Shell had just raised their prices at end of December. To summarize, he believed that negotiations could be successfully concluded if, but only if, "there is no discrimination, no favoritism, and no dirty tricks on the part of the company negotiators."

9. Amplifying remark about "no dirty tricks," Shah said that if, however, companies dragged out the negotiations or if they reached an agreement with the Gulf producers headed by Iran but refused to sign such an agreement unless all OPEC members subscribed to it, there would be serious trouble. As the oil companies knew full well, it was not possible for Iran and the Gulf producers to impose their will on Venezuela or radical Arab producers such as Libya, Algeria, and possibly Iraq which asked much more. Therefore any attempt by the companies to say that they would not sign an agreement unless these states, which were already receiving or making demands for more than was in the OPEC resolution, also signed similar agreement, would be taken by Iran and the OPEC as a sign of bad faith and he could assure us that OPEC would take action. It was not possible for the companies to get away with the tactics of trying to play OPEC members off against each other and stringing out negotiations.

10. The Shah said when Saudi Oil Minister visited Tehran yesterday he brought a message from King Faisal that Saudi Arabia would go along with whatever the Shah agreed to. There was a similar indication from Kuwait. While Iraq might be tempted to try to make trouble, he thought

Iraq could be contained by Iran, the Saudis, and other moderate Gulf producers. The Shah reiterated Gulf producers willing to sign a five-year contract on basis of OPEC resolution even if Venezuela and the Mediterranean producers (Iraq, Libya, and Algeria) were unwilling to do so. Obviously, however, if companies agreed to give these countries substantially more in taxes and royalties than Gulf states, there would be political and psychological problems. The Shah indicated he hoped companies would stand firm against those making unreasonable demands. He personally felt that the companies should deal separately with the three major oil producing areas—Venezuela (Caribbean), Mediterranean, and the Gulf within framework of OPEC. He repeated, however, that Iran and other Persian Gulf countries would agree to abide by five-year agreement even if oil companies caved in to higher demands of Libya, Algeria, and Venezuela. It was clear though that such action by oil companies would anger him and make relations difficult.

Comment: Shah received me throughout the two-hour meeting in a friendly manner, listening attentively and expressing appreciation of our viewpoints and problems. Ambassador and I both believe that he has a much clearer understanding of how our own national interests and those of NATO and free world could be affected by the nature of an oil settlement. Subsequently, FonMin Zahedi (who saw Shah immediately after we did) told us that Shah had found our meeting "to be very useful and constructive." I think the talks were successful from our viewpoint and that it will influence him toward moderation, if, but only if, companies are understanding and responsive to the facts of life they will face and the recommendations we are submitting.

The crux, however, of the whole visit was the fact that the President for whom HIM expressed highest regard and admiration had sent an emissary.

Subsequently, we had a meeting with Finance Min Amouzegar who gave us detailed clarification of Shah's views which cast quite a new and helpful light on certain aspects of this problem. I am summarizing Amouzegar's clarifications immediately following telegram together with my recommendations with which Ambassador MacArthur fully agrees and on which I hope action can quickly be taken.[7]

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[7] Amouzegar stated that, to avoid "serious difficulties," the companies had to negotiate seriously in Tehran with the Gulf producers group headed by Iran. This would allow him to request a postponement of the OPEC meeting scheduled for January 23. He added that if the companies did not negotiate seriously, then OPEC would meet as scheduled and the moderates would have a hard time containing the demands of the radical OPEC members. He also warned that once negotiations began they should not be broken off. (Telegram 286 from Tehran, January 19; ibid.) Irwin concluded that he would caution Consortium members that the negotiations should "not get off tracks at outset." (Telegram 282 from Tehran, January 18; ibid.)

We have classified telegrams Noforn so that decision on briefing all oil companies, American and foreign, can be made in Washington. We would think that Trezise should give companies full briefing.[8]

Irwin

[8] According to telegram 301 from Tehran, January 19, the oil companies were briefed by MacArthur as Trezise was in Europe for an OECD meeting. MacArthur also met with the British, French, and Dutch Ambassadors. He told them that Irwin had increased the Shah's comprehension of the complexity of issues involved and that they needed to get a first team of negotiators ready and to be prepared to come to a substantive agreement by the end of January. (Ibid.) According to telegram 1045 from USOECD, January 21, which summarizes the OECD meeting Trezise attended, the consuming countries were in full agreement on the tactic of a common approach to OPEC. (Ibid.) Telegram 301 from Tehran is published in *Foreign Relations,* 1969–1976, volume E–4, Documents on Iran and Iraq, 1969–1972, Document 112.

75. Telegram From the Under Secretary of State (Irwin) to the Department of State[1]

Kuwait, January 19, 1971, 2335Z.

69/UNSTO 14. OECD for Trezise. From Irwin. For President and Secretary.

1. This morning I had three meetings in Riyadh beginning with Minister of State for Foreign Affairs Saqqaf, then Petroleum Minister Yamani and concluding with an hour's discussion with King Faisal. To all three I made essentially the same presentation of our concern about the upcoming Tehran discussions as I had yesterday to the Iranians. My stress was on the President's concern about the free world's economies and strategy and the effect on our countries as well as on friends of both countries. I conveyed our conviction that a solution reasonable to the interests of both producing and consuming countries and oil companies, as well as to the companies could be found.

2. The Saudis were quick to agree with the worldwide importance of these oil negotiations. Following delivery of the President's letter[2] and regards to the King, he welcomed President's concern with this problem and commented at the outset that Saudi Arabia has always worked for

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Secret; Immediate; Nodis. Repeated to London, Jidda, Dhahran, Tehran, Tripoli, and Paris.

[2] See footnote 1, Document 72.

a reasonable solution in company-Saudi discussions. He noted that Saudi Arabia had taken the lead in Venezuela to draw a distinction between Gulf and Mediterranean producers.[3] He stated it was a source of regret to him that oil companies did not sufficiently appreciate the importance of the Saudi initiative, in fact they had opposed it.

3. Re danger of whipsawing to which I had alluded, Yamani said he wished assure USG that this not SAG policy[4] even though this may be that of Libya and Venezuela. He affirmed that countries in Persian Gulf are prepared sign agreement with oil companies and stick to it. Gulf countries consider themselves principal future source oil for free world. He emphasized that during OPEC meeting, Gulf countries managed to get one principle in OPEC resolution—that Gulf is unity by itself and has unique characteristics as far as oil is concerned. He thought this important point which meant a lot to future of free world. If OPEC is treated as one unit, then moderates in Gulf would have to associate themselves with radicals. However, if companies dealt with Gulf separately, there would be stability and assured supplies from the region which has by far the largest oil reserves in world. If Suez opens and tanker rates fall, Gulf states would ask that North Africans no longer be given special advantages due their geographic location or that Gulf states be given equal treatment. He hoped I would advise oil companies that now is time to cooperate with their friends in Gulf and not miss boat again. So often companies decide to act only when it too late or after damage has been done. If agreement not reached on commercial basis, then he warned that something will happen which will hurt producers, consumers and especially oil companies. He believes it was in USG interest to have SAG as strong friend rather than as weak participant in OPEC. Yamani said he had discussed these points during three-hour meeting January 17 at Tehran airport with Amouzegar. Re negotiating with Gulf group I told King and Yamani I thought the Saudi position seemed reasonable, that we had not known before yesterday of their willingness to enter into firm price agreement and that I was uncertain the companies understood it.

4. King said that for many years Saudi Arabia had been accused of neglecting its people's interest and being "too easy" on the companies. He noted that "those with Communist goals" had stimulated this pressure on Saudi Arabia in accusing his regime of being a lackey of

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[3] Reference is to the OPEC meeting in Caracas; see footnote 5, Document 74.

[4] In telegram 71 from Dhahran, January 13, the Consulate described Saudi oil policy as one in which "no radical initiatives are taken but Saudis are careful to avoid being isolated from other—particularly Arab—producers or looking as if they are stooges of oil companies." (National Archives, Nixon Presidential Materials, NSC Files, Box 1271, Saunders Files, Middle East Oil, 1/1/71–2/1/71)

the companies and the Americans. Asserting that this did not bother him, he would nonetheless do all in his power to do the best for his people and his country.

5. The King said he understands that Iraq is determined to join forces with Algeria and Libya in upcoming talks. Yamani on the other hand expressed some confidence that he could keep Iraq in line with the Saudi and Iranian position. The Saudis are convinced that introducing Algeria and Libya into this negotiation will render agreement impossible or at least result in a settlement which will cost the companies much more heavily. Saudis were critical of Libya in trying to press for unrealistically high returns. Yamani described them as young officers ignorant on oil issues who were killing goose that laid the golden eggs. In turn, I pointed out we do not control the oil companies but have asked them to enter these talks with a reasonable attitude. I noted the companies understand that some upward price adjustment is necessary.

6. Yamani emphasized that he felt seriously disadvantaged by the position the companies had presented to him in insisting that oil negotiations be in the OPEC context. He warned that no one should expect the moderates to be able to influence the radicals in an OPEC negotiation. Indeed if negotiations are in the OPEC framework, the moderates would probably have to settle for the radicals' demands. Changing the subject, he thought USG would eventually have to pay a price for "interfering" for first time in oil scene, perhaps not with Saudi Arabia but with Iran. He could foresee US Ambassador in Tehran being called by Shah to discuss price increases and obtain other concessions and having more difficulty claiming that this is oil company matter. This could create antagonism and he thought USG could not hereafter divorce itself from participating in producer government—oil company negotiations. I said USG careful not to interfere in negotiations, that our concern was broader interest because of the importance and context of these negotiations for the future and because of the threat of at least one OPEC member—Libya—to use negotiations for political purposes.

7. Yamani said and the King repeated that the Gulf producers' demands will be moderate. They know that the companies have already increased prices in Europe and anything the Gulf producers now ask should be absorbed by the companies with no further price increases for consumers. He said this increase was all they were seeking. The King himself raised the only specifics on pricing which I heard from the Saudis. Referring to the question of excise taxes in Europe, King said that European governments get as much as $14 in taxes per barrel of refined petroleum whereas producers get no more than one dollar a barrel. He thought that this was an unnatural situation and producers should get a higher return.

8. I reviewed with all three the limited action taken last week by the Attorney General in regard to our anti-trust laws[5] and emphasized that until this relief was given last Friday, companies could not compare data and it would now take some time for the companies to get their facts together. Yamani gave an excellent summary of our anti-trust laws to the King and then commented that while Saudi Arabia could be patient were it acting alone, it could not force others to follow along. They are working under a deadline and the Saudis were being pushed by some of their other partners. Thus the companies must cooperate with the Saudis and Iran to reach a timely agreement. Although I went over this question separately with Yamani he did not accept argument that recentness of anti-trust relief in itself relieved companies of obligation to negotiate expeditiously. The King himself at several points said it was important the companies not exploit what he termed the moderate Saudi-Iranian position and try to pressure these countries by delaying a new agreement.

9. Yamani departed immediately after our meeting with Faisal for Tehran where, given the reported illness of the Iraqi negotiator, he will be holding the next round with Amouzegar alone.

10. Referring to the subsidies paid by the Kingdom to UAR and Jordan, the King said this amounted to a tax the Kingdom was paying to avoid a halt in production. He recalled that Saudi Arabia at Khartoum Summit in 1967 led moderate forces in lifting boycott of oil deliveries to West. Thus he had acted in interest of companies and the West. I assured him that we were grateful for that Saudi position.

11. In closing, the King picked up my earlier point about the broad strategic questions involved in the upcoming discussions. The King stated that he much appreciated the President's having sent me to reaffirm the friendship between Saudi Arabia and the United States. He said he wished to assure the President he had committed Saudi Arabia to friendship with the United States not only for our mutual interests but for the whole world's interests. He hoped other countries could have as strong a friendship with America. He was as concerned as we about anything which might hurt America because this would ultimately hurt the rest of the free world.

12. Comment follows by septel.[6]

Irwin

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[5] See footnote 6, Document 74.

[6] Document 76.

76. Telegram From the Under Secretary of State (Irwin) to the Department of State[1]

Kuwait, January 19, 1971, 0230Z.

71/UNSTO 16. Department Pass: London, Tehran, Dhahran, Jidda, Tripoli, Paris. OECD for Trezise. For President and Secretary.[2] Subject: Oil Situation. Ref: Kuwait 69.[3]

1. My discussions in Riyadh suggest further review of question company wished to negotiate with all OPEC countries as bloc reason given by McCloy, Moses and Hedlund at January 15 meeting[4] was primarily to protect companies from ratchet tactics. Saudis now join Iranians in assurance to effect that Gulf countries would be willing to enter firm 5-year agreement expressly negating any renegotiation based on intervening increases other areas. If ratchet problem is solved in this way, and both Iranians and Saudis, on one hand, and Libyans on other, insisting on separate negotiations, we believe companies should now be urged to negotiate with Persian Gulf group separately unless they have good reasons to the contrary of which we are ignorant.

2. We would be interested if companies have any such reasons. Both Saudis and Iranians believe that companies hope that insistence on OPEC-wide negotiations will cause dissolution of OPEC in disagreement over extremist demands. Saudis join Iranians in stating this will not happen and that OPEC will stay firmly together even to point of cutting off production. Irony is that company insistence on OPEC-wide negotiations seems to be only strong cement uniting Iranians and Saudis with Libya and Algeria. Alternatively, a principal company purpose in treating OPEC as a whole may have been hope that moderate countries would be able to curb extremists, notably Libya, during present confrontation. We think such a hope is futile. Our view is that neither Saudis nor Iranians will be willing or perhaps able to play moderating role in OPEC-wide negotiations and that there is probable truth to their assertions that such negotiations would result in moderates being forced to back extremist demands. At same time, prompt reasonable settlement with Gulf group might act as restraining influence on Libyans who seem now to be hesitating in face of company determination. Would appreciate Department's exploring with McCloy and

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1271, Saunders Files, Middle East Oil, 1/1/71–2/1/71. Secret; Immediate; Nodis.

[2] A note at the end of the telegram indicates that it was passed to the White House but not to London, Tehran, Dhahran, Jidda, Tripoli, or Paris.

[3] Document 75.

[4] See footnote 4, Document 70.

companies their present position on OPEC-wide negotiations in light of above considerations.

3. Assuming reasonable settlement with Gulf group there would remain real possibility of no agreement with Libyans and consequent production cut-off. Assume we are continuing with contingency plans for such an emergency.

4. Received letter in Arabic from King to President just prior departure. Unofficial translation sent septel.[5]

Irwin

[5] The official translation of Faisal's January 19 letter to Nixon was transmitted by Irwin to Nixon on January 25. Faisal thanked Nixon for his concern, adding "it is incumbent on the United States for its part to take steps to convince the oil producing companies in the region to be realistic in their discussions and thereby facilitate reaching a just solution of this vital matter." (National Archives, Nixon Presidential Materials, NSC Files, Box 1277, Saunders Files, Saudi Arabia)

77. Telegram From the Embassy in Libya to the Department of State[1]

Tripoli, January 20, 1971, 1106Z.

123. Subject: Oil Situation.

1. I am deeply concerned re implications for Libyan oil situation of developments presently taking place in Iran. Original united Company strategy, as set forth in industry letter to OPEC members,[2] was for "all embracing negotiation" leading toward simultaneous settlement "with all producing governments concerned." We now seem to be heading toward a situation in which there may be not only separate negotiations with Persian Gulf producers but also, judging by Tehran 301,[3] para 2d, a separate settlement in advance of an agreement with Mediterranean producers. I can see gravest dangers in situation for following reasons:

(A) It will play right into Libya's hands which has been core of our problem from beginning. Separate negotiations are what Libya is

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1271, Saunders Files, Middle East Oil, 1/1/71–2/1/71. Secret; Immediate; Nodis.

[2] See footnote 2, Document 68.

[3] See footnote 8, Document 74.

currently insisting on so that it can continue its whipsaw tactics and press non-OPEC demands.

(B) It is likely to place independent producers here in increasingly vulnerable situation, result in their disillusionment and thereby undermine their resolve when unity of front so important.

(C) It will lessen credibility of USG which clearly identified with original company decisions and strategy.

(D) It would appear leave French high and dry with their Algerian problem.

2. I am sending these abbreviated views at this time because situation is moving so quickly that I am concerned that they may not otherwise receive consideration. At this point, I do not know what solution to this problem is, but I can only urge in strongest terms that if we are to abandon one strategy we be prepared quickly to put together another one that has chance of success and will be responsive to the problems we face with respect to Libyan supplies for Western Europe which, I assume, continue to be as important as USG, companies and European consumers have assumed all along.

3. Libyan independents will have to face LARG again on 24th. Oil industry should have its new strategy agreed by then.

4. Department please pass to Kuwait for Under Secretary.

Palmer

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78. Telegram From the Under Secretary of State (Irwin) to the Department of State[1]

Kuwait, January 20, 1971, 1510Z.

74/UNSTO 18. Dept Pass London, Jidda, Dhahran, Tehran, Tripoli, Paris.[2] OECD for Trezise. From Irwin. For President and Secretary.

1. This morning Ambassador Walsh, Messrs. Davies, Akins, and I met for an hour and a half with Sabah Salim, the Amir of Kuwait, and Abdul Rahman al-Atiqi, Minister of Oil and Finance. I delivered President's letter,[3] conveyed his warm regards and his recollection of the

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 620, Country Files, Middle East, Saudi Arabia, Vol. II. Secret; Nodis.

[2] A note at the end of the telegram indicates that it was not passed to these posts.

[3] See footnote 1, Document 72.

Amir's courtesy in calling on him during his campaign in 1968. I made essentially the same points as I had to the Shah and King Faisal,[4] with particular emphasis on the need for stability in the oil market and the importance of oil to the well-being and security of the free world. Although the United States might not be directly affected by a cutoff in oil supplies, any disruption in deliveries would be felt immediately by Europe and Japan. In such a case, the United States probably would be compelled to come to their assistance even if this meant rationing in the United States.

2. I also explained how the companies had been prevented by our anti-trust legislation from negotiating with OPEC until they were given some relief from it last Friday.[5] Therefore, we hoped that the OPEC countries could be patient with them and not demand immediate results in the negotiations.

3. I said in addition to security of supply, our main concern had been that there might be constant increases in prices, as one section of OPEC would play off the companies against another section. Fortunately, had been very reassured by both the Shah and King Faisal that this would not happen, that any agreement reached in the Gulf would be firm and binding for the length of the agreement and would not be affected by concessions given elsewhere in OPEC. I had not understood this earlier, and I thought companies had not. I also told Amir that we were particularly disturbed by the attempts of one OPEC country, Libya, to use oil for political purposes in the Middle East. The United States Government view is that the agreement should be fair to the producing countries, the consuming countries and the companies.

4. The Amir opened with greetings for President Nixon and inquiries of the health of both President Nixon and President Johnson. He said that Kuwait was a member of the free world and that its well-being was tied closely to that of the United States and other countries. He said he agreed perfectly that politics and oil should be kept separate and negotiations in oil should not be and would not be allowed to disrupt the good relations between our two countries. He said he, too, did not wish to get into details of the negotiations. But it was important as I had said that the companies reach a favorable agreement with the countries of the Gulf which would take into account their legitimate desires. In return the companies could also expect fair treatment. He said that Kuwait's relations with its oil companies had been excellent and that Kuwait hoped that this would continue. In any case, he would turn all negotiations over to his experts, especially Finance

[4] See Documents 74–76.

[5] See footnote 6, Document 74.

Minister Atiqi. At this point, Atiqi added that final decisions on policy would of course have to be made by the Amir himself.

5. Atiqi said Kuwait's income per barrel in current dollars as that of other producing countries, had remained constant and had even declined in the last twelve years while the price of all materials which they must import had constantly gone up. In the case of Kuwait, he said the purchasing power, the real income that Kuwait received per barrel of oil, had declined 60 percent in the last twelve years. Kuwait and all other producing countries had decided that this trend must be reversed. He said he was gratified that the companies now not only had recognized OPEC, but were prepared to deal with it.

6. I told the Ruler and Atiqi that their position re inflation was understandable and that the companies had already agreed to negotiating this point.

7. The Ruler and Atiqi then made the same points as the Iranians and the Saudis had made on the necessity of negotiating non-discriminatory agreement for the Gulf states. They stated explicitly that agreements in Libya and Venezuela would not affect any agreement in the Gulf. It was of course clear that no agreement could last forever but that the companies' proposal for a five year period of stability was sensible and acceptable to them.

8. In separate conversation after we left the Amir's office, Atiqi told Davies and Akins that the Gulf producers did not plan to make outrageous demands. Akins repeated my statement that we could not get into details or any negotiations but we had never said or implied that there should be no increase in taxes. The companies and other consuming nations also understood this. The demands recently made by Libya, however, exceeded reasonable limits and it would be difficult, probably impossible, for the consumers to meet them. Atiqi agreed that this was true. He said that the Gulf producers had no intention of making similar demands. He said "we are not fools. We have our slide rules and we know the cost of transportation and marketing and we know how much the companies have increased prices in Europe." He said that the plan just proposed in Tehran would be to ask only for an increase in taxes which could be absorbed out of company profits and that there would be no need for increase in prices to the consumers.

9. *Comment:* The concept of our mission had been viewed negatively by the GOK. Ambassador Walsh informs me that there was a conscious decision by Atiqi not to provide official entertainment and indeed Atiqi himself had planned not to be at the meeting. They apparently had expected some ultimatum or at least strong pressure on them. In the course of the conversation, the Amir and Atiqi both warmed perceptibly. They said they were most pleased with the message from the President and the position taken by the United States

Government. The Amir in an aside to Atiqi in Arabic, asked why no official reception had been planned for me. Atiqi replied rather lamely that my time was short and my plans indefinite. After my meeting this morning I can only repeat the recommendations made after my visits with the Shah and King Faisal.

Irwin

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79. Telegram From the Under Secretary of State (Irwin) to the Department of State[1]

Kuwait, January 20, 1971, 1625Z.

76/UNSTO 19. Department pass Immediate to AmEmbassy Tehran; also pass Priority to London, EC Brussels, Dhahran, The Hague, Jidda, OECD Paris, AmEmbassy Paris, and Tripoli. Paris OECD for Trezise.[2] Subject: Oil Situation. Ref: A. Tehran 279; B. Kuwait 69; C. Tehran 01; D. Tehran 302.[3]

1. Regarding issue of whether companies negotiate with all OPEC members as a unit, which is companies' position, or with the Gulf states separately, which is OPEC's and the Gulf states' position, I did not comment one way or another on this issue in my talks in Iran, Saudi Arabia, and here in Kuwait. See para. 9 ref. A. Telling of meeting with Amouzegar in which we asked what Iran's attitude would be if companies did not accept Iran's position re negotiation with Gulf states. He said Iran probably would go along reluctantly but that resulting

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Secret; Immediate; Exdis.

[2] A note at the end of the telegram indicates it was not passed to these posts.

[3] For telegram 279 from Tehran, see footnote 2, Document 74. Telegram 69 from Kuwait is Document 75. Telegram 1 from Tehran, January 3, contained a memorandum by Hoveyda calling for an upward increase in the posted price of Persian Gulf oil and for one posted price system that included a transportation component. (National Archives, RG 59, Central Files 1970–73, PET 6 IRAN) Telegram 302 from Tehran, January 19, stated that Iran had asked OPEC to delay its meeting until January 25. Should the companies agree to finalize negotiations by February 3, Iran, Saudi Arabia, and Iraq would suggest the formation of a Mediterranean committee to which they would send representatives. If the companies demanded global negotiations, then OPEC would meet on January 25. MacArthur commented that neither he nor Irwin had told the companies to proceed with Gulf negotiations prior to negotiations with Mediterranean producers. (Ibid., PET 3 OPEC)

agreement would be more unfavorable to companies. It was clear that Shah, King and Amir felt strongly on this issue, but I thought this was issue on which I should not take a position. My own opinion, as our cables have included, is that companies will have easier negotiations and better results if they negotiate separately with Gulf states. Nevertheless, I have carefully avoided commenting on this in my talks with the three countries.

2. Akins' and my understanding before leaving Washington was that a principal reason for companies' decision to negotiate only on an OPEC-wide basis was fear of ratcheting effect if companies negotiated with the separate groups. Once we obtained assurance, first from Shah and Amouzegar (confirmed by Yamani and Atiqi) that Gulf states would give firm agreement irrespective of later actions of Libya, Venezuela or others, this particular fear of companies seemed answered. It was to learn if the companies had other reasons, and, if so, whether these would alter my above-stated opinion that we sent ref. B.

3. It appears from refs. C and D that companies' reasons are related to the agreement among themselves. Obviously, I do not know the extent of the problem this is for the companies but it seems to us that a favorable agreement with the Gulf states might have a moderating and limiting effect on Libya and the other OPEC members, although we recognize they would not be bound by any Gulf states agreement. Request this cable be shown to Mr. McCloy and companies.

4. For Tehran: request this cable be shown by MacArthur to company representatives in Tehran.

Irwin

80. Paper Prepared by the National Security Council Staff[1]

Washington, January 24, 1971.

NSSM 114, WORLD OIL SITUATION JANUARY 24, 1971

I. Introduction: The Problem

A. Overview

Abundant oil supplies at relatively low cost have long been taken for granted in the non-Communist countries. Consumption of energy has increased enormously in recent decades, and oil has increasingly displaced coal in Europe, Japan and the United States.

The present world oil situation involves the *probability* of a significant increase in the payments made by oil companies to the oil producing countries—and consequent increased costs to the consumers and the oil companies—and the *possibility* of interruption or cut-back in supplies imposed by some of the OPEC countries. In the current bargainings with OPEC, the threat of interruption of supplies will clearly affect the willingness of the companies (and consuming countries) to meet some or all of the OPEC demands.

The immediate issue for the USG is the avoidance of serious disruption of, or damage to, the economies of Western Europe, Japan and, possibly, the United States—as a result of an interruption of supply or, conceivably, very large and sudden increases in the cost of oil. Important longer-term issues are the continued availability of oil to consumers on reasonable terms, the potential threat of cut-backs in supplies by the OPEC producers acting in concert, the ever increasing dependence of the US on imported oil, and, conceivably, the use of oil for political purposes by some producers.

Substantially higher payments to OPEC countries will in large part be borne by countries other than the United States. A portion will be borne by the United States, through higher costs of imported oil (especially residual fuel oil) and the reduced profitability of US international oil operations (to the extent higher payments cannot be shifted to consumers) which will adversely affect the US balance-of-payments.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–180, National Security Study Memoranda, NSSM 114. Secret; Exdis. According to a January 25 covering memorandum from Trezise to Kissinger, the Departments of Justice, Commerce, State, Treasury, Defense, and Interior, the Office of Management and Budget, the CIA, the Council of Economic Advisers, and the Office of Emergency Preparedness contributed to the paper. The paper was a response to NSSM 114, Document 71, and was scheduled for discussion at a February 2 SRG meeting. (Memorandum from Davis to SRG members, January 18; ibid.) The meeting never occurred.

We do not have a meaningful analysis of how higher payments would be shared between consumers, through higher prices, and the companies, through reduced profits.

An important point is that there are strong common interests shared by the producing countries, the companies and the principal consumers. These interests assure that an agreement will be reached. The issue now is one of price and whether a settlement can be reached without an interruption of supply. However, the long-term objective of at least several of the producing governments is one of progressively greater control over production and, probably, the eventual nationalization of oil operations in these countries.

The increases in oil revenues demanded by the OPEC meeting at Caracas, December 7–12, 1970,[2] might well *cost* the producing *companies* on the order of $2 billion annually. (Total payments to producers—Persian Gulf, Libya, and Venezuela—reached some $6 billion in 1969 as compared with some $2.3 billion ten years earlier). If these demands are not met, the OPEC countries may impose short or long-term interruption of *supplies.*

The companies involved are primarily US, but also there are UK, Dutch, French, Italian and other corporations involved. The companies are prepared to accept relatively substantial increased payments, particularly if coupled with a multi-year arrangement which assures stability of cost and supply. The attitude of the consuming countries appears to be a similar willingness to accept some higher costs.

A key question is the nature and extent of USG (and other consuming countries) involvement in the negotiations with OPEC. Because of the US antitrust laws, some US involvement in the discussions is inevitable, and the Foreign Petroleum Supply Committee would have to be activated if a shortage of supply develops.

Over the years the US has developed a pattern of consultations with Europe within NATO and the OECD. The European governments (and Japan) are generally conscious that the majority of companies involved are US-owned and controlled. On the other hand, while participating in the coordination of international oil supplies during emergencies, the United States has not in the past taken a substantial role in the negotiations between the companies and producing governments.

[Omitted here are 80 pages of material: the remainder of the Introduction; Section II, Analysis of OPEC Demands; Section III, Legal Aspects; Section IV, U.S. Objectives in the Short Run; Section V, Implications of the Oil Problem for U.S. Interests; Section VI, Leverage on

[2] See Document 74 and footnote 5 thereto.

Producing Governments; Section VII, The Dilemma of Separate Negotiations; and Section VIII, Options.]

IX. Long-Term Implications of the Present Oil Situation

Even before the current problem of OPEC negotiations on oil arose, there was grievous concern in the US and in Europe about the extremely rapid increase in demand for energy in the non-Communist world and the difficulty which countries might experience in obtaining vital supplies. Govenments have studied this problem from the standpoint of all energy sources: oil, gas, coal, nuclear energy, gasification of coal, development of shale oil and tar sands, experimentation with solar energy, etc.

The demand for energy in the non-Communist world is rising at such a rate (more than 8 percent annually) that it will require action with respect to all forms of energy to enable supply to keep up with demand. In the US the concern over this energy gap has centered in the Energy Subcommittee of the Domestic Council: the joint statement of September 29 by Chairman McCracken of the Council of Economic Advisors and General Lincoln of the Office of Emergency Preparedness[3] highlighted that concern.

Of primary importance in the long run is the need to assure the US and its allies of an uninterrupted supply of oil. Although production in other world areas will increase, most of the world's old reserves available for export are located in the Middle East and North Africa. Europe's dependence on those two areas will continue, and in the absence of impressive new discoveries in the US we will also become more dependent on imports from these areas. Atomic power is expected to supply only about 7 percent of our energy demand by 1980. The US has the opportunity to develop shale oil reserves, but such oil would be high in cost.

Middle Eastern and North African oil producing countries clearly plan to take advantage of their control over vital supplies of oil to extract more revenue from the consuming countries—and, possibly to extract political concessions as well. The current problem of negotiations with OPEC must therefore be seen as a trend which will continue. It

[3] In a joint statement issued at a press conference on September 29, McCracken and Lincoln announced that the Nixon administration was adopting measures to avoid potential shortages in the supplies of natural gas, residual fuel oil, and bituminous coal during the winter. Among the steps they announced were the relaxation of quotas to allow doubling of home heating oil imports from Canada, the exemption of natural gas from the Canadian crude oil quota limitation, and the unlimited importation of liquefied petroleum gas from Western Hemisphere sources. (*Wall Street Journal,* September 30, 1970, p. 3)

would be a mistake to expect a return to the situation which existed prior to the Libyan oil settlement of September, 1970. Even if Tapline were to be restored to full operation and the Suez Canal opened, the oil exporting countries would attempt to hold prices at the highest level possible and to increase their control over their principal natural resource.

It is quite possible that by 1980 American and other foreign oil companies will no longer be operating in concession areas on the tax and royalty payment basis which is the framework of the present negotiations but may simply be employed on a contract basis to produce oil for the host government at cost plus a fixed fee. No one can predict just how long US oil firms will continue to have the involvement in production which they now have. As for the transportation and bulk marketing of oil, it is safe to say that US firms will be better able to maintain their control of this sector than they will be able to maintain control of either the production end or the retail marketing end of the business.

Given the uncertainty of the position of US companies in oil exporting countries of the Middle East and North Africa, it is imperative to give advance consideration to steps which can be taken to assure the US of access to vital oil supplies. As a start it may be helpful to arrange a meeting with oil company representatives after the current problem of negotiations with OPEC producers is dealt with to discuss the roles of the companies of the US in this matter of vital national interest.

As a matter of policy it could be the United States will have to consider whether to minimize its dependence on Eastern Hemisphere oil, even from the relatively reliable countries of that hemisphere since Europe would in time of crisis be heavily dependent on them. In any event, contingency plans will be required for the event that one or more key producers might cut fuel oil supplies for economic or political reasons.

A further question concerns US maritime policy. For example, an issue is whether the US Government should assist in the maintenance of a reserve of modern super-tanker capability to provide foreign policy flexibility for coping with world oil and other type emergencies. Possibilities include government outright ownership, i.e., ships could be chartered to operators, with agreement to recall for specific situations; or the provisions of a Construction Differential Subsidy (CDS) to encourage private construction of more super-tankers. For example: Commercial interests are available today to contract US yards for 1 million dead-weight tons (DWT) of super-tankers (120,000 to 230,000 DWT range) for delivery about 3 years from time funds are available. This would cost the government approximately $100 million in additional Construction Differential Subsidy (CDS).

A related matter which might also be the subject of industry-government meetings is a possible program to develop alternative sources of energy at a faster rate. Gasification of coal, development of shale oil, and tar sands are three areas that could well receive priority attention. Although some research efforts are already underway, a massive government-industry program may be necessary.

The lack of security of Eastern Hemisphere oil in an emergency can also be used to argue that oil imports should be *increased,* to preserve existing supplies in the US. This question was studied in the Cabinet Task Force Report, *The Oil Import Question.*[4]

[Omitted here are 11 Appendices.]

[4] See Document 32.

81. Editorial Note

Following the Irwin Mission, James Akins, Director of the Office of Fuels and Energy and head of the Oil Task Force's Working Group, traveled to London in January 1971 in order to meet with oil industry and British representatives to brief them on the mission and to develop tactics. (Telegram 10695 to Tunis, January 21; National Archives, RG 59, Central Files 1970–73, PET 3 OPEC)

From January 23 to 25, 1971, Akins briefed representatives from the major and independent oil companies, as well as British officials, on the Irwin Mission. He informed executives from Esso, Mobil, Texaco, Gulf, Socal, Occidental, Bunker Hunt, and Continental on the morning of January 23 that the assurances Irwin had received from the Shah of Iran, King Faisal of Saudi Arabia, and the Emir of Kuwait constituted a new factor. He also stressed that OPEC-wide negotiations could only result in the most extreme demands, that is, price rises, 60 percent tax, 16⅔ percent royalty, compulsory reinvestment, and retroactivity. Most oil executives accepted Akins' views, except for Henry Moses, Head of Middle East Operations for Mobil Oil Corporation, who reported that the Iranians were already rethinking their assurance. The industry planned to present a proposal separately in Tehran and Tripoli, although there was disagreement over whether this constituted one negotiation in two places or separate negotiations on the same principles. (Telegram 599 from London, January 23; ibid.)

In a second meeting that day, the oil executives told Akins that negotiations could not be completed in Tehran prior to the February 3

scheduled OPEC meeting. They requested that the United States "use all influence possible" in OPEC capitals to persuade the moderates to give them more time. All but George Parkhurst, Vice President of Socal, thought that parallel negotiations in the Gulf and Libya would have to occur, and that a reasonable agreement in the Gulf might facilitate rather than hinder agreement in Libya. However, they were all united on the "vital point" of industry solidarity. (Telegram 605 from London, January 23; ibid.) Consequently, the industry set up two teams in London, composed of majors and independent companies, to draw up proposals. Another group was established in New York. Their goal was to have a single negotiating group, part of which would present proposals in Tehran, and part of which would present the same proposals in Tripoli. Counter-proposals would be negotiated either in Vienna or in separate but connected negotiations carried out in different locations. (Telegram 12135 to Tunis, January 23; ibid.) The specific proposals the companies would present are in telegram 12370 to London, January 24. (Ibid.)

In a meeting with the independent oil companies on January 24, Akins outlined the reasons for parallel or simultaneous, but essentially separate, negotiations in the Persian Gulf and Libya. Most of the independents were "unimpressed" with his argument (and that of the majors) that a reasonable accommodation in the Gulf might make it easier to reach an agreement in Libya. They informed Akins that they had entered into general agreement with the major oil companies in order "to save their skins" and they thought the majors, more dependent on the Gulf producers, might undercut the interests of the independents in Libya. They, too, did not trust Iran to live up to the Shah's assurances. (Telegram 621 from London, January 25; ibid., POL 33 PERSIAN GULF)

According to Ambassador to the United Kingdom Walter Annenberg, Akins reiterated to British officials the main conclusions of the Irwin Mission, which he had also stressed to both majors and independents: production sharing agreements would stand even if full fledged OPEC-wide negotiations did not develop, assurances by Persian Gulf heads of state to Irwin had to be taken seriously "although no USG guarantee can be provided," and Gulf negotiations would not mean loss of a unified front in Libya. (Telegram 654 from London, January 25; ibid.)

82. Telegram From the Department of State to the Embassies in Iran and the United Kingdom[1]

Washington, January 30, 1971, 0302Z.

16444. Subj: Oil Situation (Possible Message to Shah). Ref: Tehran 464; London 856.[2]

1. We strongly concur your view message from President or USG in concert with other consumer countries to Shah designed to stave off final break and adoption of Venezuelan formula would be counterproductive at this time. Indeed most likely result of concurrent approach would be to stiffen Shah's resolve to exact toughest terms possible from oil companies. As noted State 25432 (Notal)[3] we have been in forefront in oil situation and now prefer to await developments before deciding whether further action our part advisable or feasible. We will of course keep this possibility in mind in days ahead.

2. Only course we see open at this moment is for oil companies to make maximum effort to keep negotiations going. In present climate of deadlines and threats we are likely face almost daily crises. Companies and other governments should recognize that frequent representations to Iranians and other OPEC states or heads of state are not likely weaken their resolve to strike a hard bargain.

3. For Ambassador MacArthur. We have heard through McCloy that companies have impression Amouzegar has watered down assurances expressed to UnSec Irwin[4] and to you against whipsaw and is weakening on five-year agreement. Unless you have reasons to contrary suggest you consider in manner you deem appropriate

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Secret; Immediate; Exdis. Drafted by Miklos and Katz on January 29; cleared by Davies and Trezise; and approved by Samuels. Repeated to Tripoli Immediate. Printed from an unsigned copy.

[2] In telegram 464 from Tehran, January 29, MacArthur noted that he and British Ambassador Wright believed that, in the likely result of failed negotiations in Tehran, the Shah would adopt the Venezuelan formula. Wright planned to request that the British send a message to the Shah in parallel with messages from the United States and other consumer countries to stave off a final break. MacArthur noted his reluctance to adopt this action. (Ibid.) As related in telegram 856 from London, January 29, BP had voiced its concerns that the Shah would adopt the Venezuelan formula. (Ibid.)

[3] This reference is in error. The correct reference is telegram 15432 to Tripoli, January 29, which stated: "After having been actively in forefront in oil situation (Under Secretary's trip, consultations with OECD and companies) we believe preferable to await developments during next few days before deciding whether representations on our part would be desirable." Palmer was instructed to inform the British, French, and Dutch about this U.S. "non-participation." (Ibid., PET 6 LIBYA)

[4] See Documents 74 and 79.

querying Amouzegar about companies' impression which we hope erroneous.[5]

4. London for Akins. Request you make foregoing points with oil company reps should they raise question with you of further USG and/or consumer country initiatives.[6]

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[5] In telegram 495 from Tehran, January 30, MacArthur responded that the companies continued to believe that "no assurances that Shah gives on five-year agreement are worth much." This assessment was based on Iranian failure to abide by agreements negotiated in the early 1950s, on the annual confrontation between the Consortium and Iran, and on the Shah's insistence on flexible pricing. MacArthur thought a query of Amouzegar would not elicit anything other than the assurances already given. (Ibid., PET 3 OPEC) The telegram is published in *Foreign Relations,* 1969–1976, volume E–4, Documents on Iran and Iraq, 1969–1972, Document 113.

[6] In telegram 865 from London, January 30, Annenberg stated that in a meeting that day with Akins the oil company executives complained that the assurances given to Irwin "have been watered down," or have become "completely worthless." Akins strongly disagreed with their interpretation, stating that they "have confused assurances of a firm agreement with hope for steady prices for five years; the two are not synonymous." Akins reiterated that the assurance Irwin received was "that any agreement the companies entered into would be firm and would be honored and would not change with settlements elsewhere in OPEC. This was a substantial achievement and they should not discount it." Akins pointed out that the companies, not the United States, were responsible for an agreement they could live with, and to insure against escape clauses or unexpected escalation of prices. (Ibid., POL 33 PERSIAN GULF)

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83. Telegram From the Department of State to the Embassy in the United Kingdom[1]

Washington, January 31, 1971, 0212Z.

16596. Ref: London 866.[2] Subj: Position on Oil Negotiations.

1. USG continues fully support coordinated approach by companies and governments of consuming countries in coming crunch on oil negotiations, and we will promote this end wherever possible, including through OECD.

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Secret; Priority; Limdis. Drafted by Clark on January 30; cleared by Davies; and approved by Trezise. Repeated to Paris.

[2] Dated January 30, telegram 866 noted that Heath had been informed that BP and Shell would stand firm against OPEC demands, because to do otherwise "would mean end of international companies and impossible burden for many consuming nations." BP was also concerned about U.S. support. (Ibid.)

2. We, of course, are in no position to judge whether oil company offers to Persian Gulf countries are or are not reasonable in present circumstances. If companies believe they can make no further offers and must break off negotiations, with all the consequences that may ensue, that is for them to decide.

3. We are equally in no position at this time to say what our position would be in regard to hypothetical marketing arrangements and other commercial matters, should Persian Gulf producers take drastic actions.

4. We will, of course, remain in close communication with companies and governments (we are now informing OECD members of latest developments—see septel)[3] and we will continue to consult with parties concerned as the situation develops.

Rogers

[3] Presumably a reference to telegram 16652 to all OECD capitals, February 1. (Ibid., POL 33 PERSIAN GULF)

84. Memorandum From C. Fred Bergsten of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, February 1, 1971.

SUBJECT

International Oil Situation

The oil companies have now decided to ask for a postponement in their negotiations with the Persian Gulf producing countries, so that "both sides can consider their positions further."[2] The companies will thus be indicating that they are unwilling to make any further concessions at this time, let alone accept the demands of the Gulf states.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1971. Secret. Sent for information. Kissinger and Haig initialed the memorandum. A handwritten notation reads: "update on oil."

[2] INR Intelligence Note, RECN–1, "The Petroleum Negotiations: Initial Positions," February 1, examines the basic stances of all concerned parties. (Ibid., Box 1271, Saunders Files, Middle East Oil, 1/1/71–2/1/71)

The result could be a shutdown of Persian Gulf oil within the next day or two. The most likely date for action is February 3,[3] when all of the producing countries will be meeting in Tehran.

However, any such shutdown will be very unlikely to last more than a week—and would probably last only a few days. A shutdown of such short duration would have no significant impact on consuming countries. The Gulf states recognize as much, and in fact would be taking the action only to dramatize their solidarity and their willingness to oppose the companies relentlessly to "get their just rewards."

The most lasting result of the refusal of the companies to negotiate further is that the Gulf states will now probably legislate their demands unilaterally. This is what Venezuela did in December,[4] with the result that it now probably has the best arrangement of any of the producing countries. Iran has announced that it will take such action if a negotiated agreement is not reached by the morning of February 3, which now seems highly unlikely. In view of this probable outcome, I am personally dubious that the Gulf countries will see any need for a shutdown.

The companies have apparently concluded that the Gulf states are going to get what they want, either through negotiation or unilaterally. The issue thus becomes who gets the blame for the sharp increases in oil prices in Europe and Japan which will result. The companies apparently would rather have the Gulf states legislate and thus get the blame, rather than reach any negotiated settlement, even if it were a few cents per barrel cheaper for the consumers.

This same consideration—who gets the blame for the almost inevitable outcome—makes clear why it is even more important now for the U.S. Government to stand aside from the issue as much as possible, particularly the substance of the negotiations. The producing countries are going to get what they want. The consuming countries are going to be hosed. The companies are going to stay in the middle and try to come out as cleanly as possible.

As a Government we could only lose with at least two sets of the actors, and possibly all three, if we were to take sides or try to moderate a settlement at this late and emotional date. And any U.S. Government involvement at this delicate stage might easily affect our Arab/Israeli efforts adversely, since it would so clearly label us as pro-company and thus conjure up new images of American imperialism.

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[3] The negotiations broke down late in the evening of February 2 as the company negotiators informed OPEC that they could not accept OPEC's formulation of assurances, and because of the omission of Eastern Mediterranean crude from the proposed settlement. (Oil Task Force Situation Report #21, February 3; ibid., 2/1/71–12/31/71)

[4] See footnote 5, Document 74.

Unfortunately, your decision to cancel the Senior Review Group meeting scheduled for February 2[5] on this issue leaves the Government without a framework in which to make tactical decisions as the situation progresses. Fortunately, State is now pulling back from the activist role it was taking earlier—and I am actively encouraging them to do so. They are recalling their oil expert from London, where he has been getting pretty deeply involved in the companies' deliberations and has been under fierce pressure to do so.

I do not preclude the possibility that State will crack under the pressure of the companies to intervene, however, especially if there is a shutdown and the Europeans suddenly panic at the prospects. I will try to avoid their doing so. I may have to call on you for help, however, and it will be difficult to act in view of our failure to seize leadership on the issue up till now.

All of the above pertains to the Persian Gulf negotiations. Libya is a separate issue. It is relatively quiet at the moment, surprisingly so, since Libya is by far the most militant of the producing countries—in its demands, in its efforts to politicize the issue, and in the strength of its bargaining position. However, Libya is probably just waiting to see the outcome of the Persian Gulf before deciding how far to go—they want to base their demands on the Persian Gulf settlement plus a bonus for their proximity to European markets. A Libyan shutdown is also a possibility and will almost certainly occur in sympathy with a Gulf shutdown if one occurs. The end result is likely to be the same, however: unilateral legislation to realize its demands.

[5] The Senior Review Group meeting was to have discussed the January 24 response to NSSM 114, Document 80.

85. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon[1]

Washington, February 2, 1971.

SUBJECT

Under Secretary Irwin's Trip to Iran, Saudi Arabia, and Kuwait

At Tab A is a memorandum from Under Secretary Irwin reporting on his trip to the Middle East and his discussions with the leaders of Iran, Saudi Arabia, and Kuwait on the international oil situation.[2] At Tab B is Irwin's report on the status of the oil negotiations.[3]

Irwin points out that there was some initial suspicion of his trip as an attempt to put pressure on the governments visited but that he was well received. He emphasized the vital role of Persian Gulf oil in the economic and strategic well-being of the Free World, and the critical importance of avoiding a reduction or halt in production. He stressed to leaders he met the importance of reaching an agreement which would be fair to producing countries, consuming countries, and the oil companies; and that while the U.S. did not wish to become involved in the details of the negotiations between producers and companies, we were urging both sides to be cooperative and reasonable.

Irwin feels that the Heads of State of these countries are suspicious of the oil companies: they believe their countries have not been treated fairly over the years, and cite that in real terms they are receiving less for their oil than five years ago while paying more for imports. They stress their readiness to stand up to the oil companies, even to the extent of reducing or halting production. He feels that it is therefore necessary for the companies to convince the producing countries that they

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1971. Secret. Sent for information. According to a January 27 memorandum from Bergsten to Kissinger, forwarding this memorandum to Kissinger, the Irwin report "will be dated by the time it gets to the President." Consequently, the memorandum to the President had been updated to reflect events, without details of "the rapidly developing negotiation situation." (Ibid.)

[2] Attached but not printed at Tab A is Irwin's January 25 memorandum to Nixon. Irwin concluded that the oil producing countries "stress readiness to stand up to the oil companies in the negotiations, even to the extent of reducing or halting production. Consequently, although I believe my trip gained a little time and impressed on the three governments a certain perspective heretofore lacking, I am not at all sanguine as to their final action unless the company negotiators can convince the producing countries that they are negotiating seriously and within the terms of reference and time frame of OPEC's Caracas resolutions."

[3] Attached but not printed at Tab B is Irwin's January 25 report, "Status of Current OPEC Oil Negotiations."

are negotiating seriously, and within the terms of reference and time frame set by the producing countries.

The Under Secretary also reports that the Shah indicated that he hopes you can visit Iran in 1971. In addition, he transmits a letter (Tab C) from King Faisal[4] asking you to take steps to convince the companies to be realistic in their discussions and thereby facilitate reaching a solution.

The oil situation is being studied carefully by the Under Secretaries Committee. The key questions are the degree of U.S. national interest in the present negotiations, and how great a role we as a Government should therefore be playing in them.

[4] Attached but not printed at Tab C is Faisal's January 19 letter. See footnote 5, Document 76.

86. Memorandum From C. Fred Bergsten of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, March 9, 1971.

SUBJECT

World Oil Situation

State's memorandum (Tab A)[2] informs you of the details of an agreement signed on February 14 between the six Persian Gulf members of the Organization of Exporting Countries (OPEC): Abu Dhabi, Iran, Iraq, Kuwait, Qatar, and Saudi Arabia—and representatives of the thirteen oil companies.

The agreement was effective February 15 and continues until the end of 1975. It contains assurances designed to establish security of supply and stability in the financial arrangements between the oil companies and the governments of the Persian Gulf for the five-year period. Payments by the companies to the governments will increase

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1971. Secret. Sent for information.

[2] Attached but not printed. Tab A is a February 23 memorandum from Arthur A. Hartman, Staff Director of the Under Secretaries Committee, to members of the Committee.

about 30¢ per barrel in 1971 (from the current rate in the Gulf of about 95¢ to about $1.25) and about 50¢ per barrel by 1975 to reach a total of about $1.45. Total revenue to the Persian Gulf states will increase by about $1.4 billion in 1971 as a result of the settlement, and by nearly $12 billion over the five-year period.

The agreement applies only to crude oil exported directly from terminals in the Persian Gulf. Terms for crude exported by Persian Gulf countries through pipelines to terminals in the Mediterranean will reflect the outcome of negotiations for new oil prices which are currently being conducted by Libya on behalf of Mediterranean producers. These negotiations, in which Algeria, Iraq and Saudi Arabia are also parties, have demonstrated that Libya is taking a tougher line than did the Iranians, who represented the Persian Gulf producers in the previous negotiations. Libya's demands would increase the payments by the companies to the governments by an amount significantly higher than that demanded at the outset of the Persian Gulf negotiations.

State (Tab B)[3] believes our posture should be the same as it was toward the Gulf talks: we should encourage the companies and the Libyans to keep talking to each other, and avoid identification with any specific set of company offers. (We know from experience how flexible the companies can be when the heat is turned on.) State points out that we should also make it clear through consultations with our Western European allies that we share their interest in seeing the flow of Libyan oil to Western Europe continue without interruption. (There is some grumbling there that the area is hostage not only to the producing countries, but also to the American petroleum companies.) Finally, State feels it is clearly in our interest to avoid politicizing the issues between the companies and Libya.

[3] Attached but not printed at Tab B is a February 23 memorandum from Eliot to Kissinger.

87. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon[1]

Washington, March 27, 1971.

SUBJECT

International Oil Situation—Libyan Phase

Negotiations between the major oil companies and the oil ministers of the Mediterranean oil countries have reached a difficult period.

Libya, which represents the Mediterranean countries, has demanded:

—a substantial increase in the posted price of oil, on which taxes are based;
—that the companies reinvest a portion of their profits in the producing countries;
—and a bonus payment to the Mediterranean countries due to the savings realized by the companies because of the lower transportation costs for oil from Mediterranean, as opposed to Persian Gulf, terminals to Europe.

The oil companies are worried that Iraq and Algeria will support the Libyan price demands by participating in an oil embargo, should the companies reject Libya's proposals. They fear also that Libya and Algeria are determined to force a price settlement in the Mediterranean high enough above that recently reached between the companies and Persian Gulf producers in Tehran to cause the Persian Gulf countries to repudiate the Tehran agreement and ask for further increases in payments from the oil companies. (The Shah has said he would not do this but if the Mediterranean settlement is too high, domestic pressures may force him to do so.)[2] The companies are concerned that if the Mediterranean companies do embargo oil the resulting oil shortage would be so intolerable to governments of consuming countries that they would then force the oil companies to accede to Libyan demands.

The companies are now considering their next moves. They have been told informally that they must meet Libya's demands by midnight on March 18—"or else"). However, Libya has so far avoided a major confrontation and can continue to do so in the present situation if she so wishes.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1971. Secret. Sent for information. A stamped notation on the memorandum indicates the President saw it.

[2] As related in telegram 39026 to Tehran, March 9. (Ibid., Box 602, Country Files, Middle East, Iran, Vol. III)

88. Telegram From the Department of State to Certain Diplomatic Posts[1]

Washington, April 2, 1971, 2311Z.

56087. Subject: Libyan Oil Agreement.

1. Oil Companies April 2 signed agreement with Libyans which will increase payments to Libyan government about 63 cents per barrel for 40 gravity oil, including a permanent increase of about 39 cents, a surcharge per barrel of about 9 cents in lieu of payments retroactive to 1965, and a temporary increase of 15 cents because of current high tanker rates and closure of the Suez Canal. Adjustments in price to reflect tanker rates will be made quarterly. If Canal reopens and tanker rates drop sufficiently, increase in total payments will drop to 48 cents per barrel. Average payments per barrel for all production will now total about 1.90 dollars. Total payments to Libya will go from about 1.3 billion dollars to somewhat over 2 billion dollars annually. Agreement is for five years.

2. New posted price (tax reference price) for 40 gravity oil will be 3.446 dollars up from 2.55 dollars per barrel, to be reduced by 25 cents if tanker rates drop and Canal reopens.

3. Permanent part of posted price will rise automatically on first of January 1973, 1974, and 1975, increasing payments slightly over 10 cents per barrel on each date.

4. Oil companies have made similar offers to Iraq and Saudi Arabia for pipeline oil exported from Mediterranean. Iraqis said initial company offer was unsatisfactory, but some negotiated agreement can probably be worked out.

5. Increased payments to Libya of 63 cents per barrel more than double increase gained by Persian Gulf producers in Tehran agreement. Most, but perhaps not all of difference can be justified by location, transportation, gravity, and low sulphur advantages of Libyan crude, plus special Libyan claim for retroactive payments. Some Persian Gulf producers may demand further upward price adjustments, especially Abu Dhabi and Oman which also have low sulphur crudes. However, terms of Libyan agreement are probably not enough to create irresistible pressure for fundamental revision of Tehran agreement which could trigger further rapid upward spiral of prices.

6. Action posts should convey substance of above to host officials as appropriate.

End.

Rogers

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 6 LIBYA. Confidential; Priority. Drafted by Clark; cleared in EUR/RPE and AF/N; and approved by Akins. Sent to all OECD capitals, USOECD Paris, USEC Brussels, USNATO Brussels, New Delhi, and Islamabad; and repeated to Tripoli, Tehran, Beirut, Caracas, Djakarta, Lagos, Jidda, Kuwait, Algiers, Benghazi, and Dhahran.

89. Telegram From the Embassy in Iran to the Department of State[1]

Tehran, April 15, 1971, 0817Z.

1935. Subject: Shah's Concern Over Libyan Oil Settlement.

1. When I saw Shah April 14 he spoke critically of Libyan oil settlement,[2] saying oil companies always made greater concessions to radical producing states than to their moderate producing state friends. He said he was sending FinMin Amouzegar to London to discuss with oil companies Libyan settlement with view to finding some way to partially bridge gap between Gulf settlement[3] and excessive terms given Libya.

2. I reminded Shah of assurances he had given US and oil companies that terms of Gulf settlement would not be changed for five years even if Libya received more than Gulf producers.[4] I also observed that large part of disparity between Gulf and Libyan settlement was result of Libya's favored geographic position and low sulphur content of its oil. I concluded by saying that Iranian production and offtake so far this year was running substantially ahead of last year and that therefore I thought Iran was doing extremely well.

3. Shah replied that he would honor his word re five year assurances but would seek some way outside terms of Tehran settlement to help bridge disparity between Gulf and Libyan prices. For example, oil exported from Basra was obliged to pay a "port tax" and he had in mind possibility of port tax on oil lifted from Kharg Island.[5] I said such a step would be serious disappointment to oil companies and Iran's friends.

MacArthur

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Confidential. Repeated to Dhahran, Jidda, Kuwait, London, and Tripoli.

[2] See Document 88.

[3] For the terms of the Tehran agreement between the companies and the Gulf States, see Document 86.

[4] See Documents 74 and 81.

[5] On July 12, the Consortium agreed to grant the Shah's three demands for increased revenue, including port dues, compensation for barter deals with Romania completed prior to the increase in posted price, and increased capacity of the Abadan refinery. (Telegram 125275 to Tehran, July 13; National Archives, RG 59, Central Files 1970–73, POL 33 PERSIAN GULF)

90. Editorial Note

On June 4, 1971, President Richard Nixon announced that the United States was prepared to "move promptly" to permit Canadian crude oil into the United States "free of any quantitative restraints," once agreement had been reached on the security of supply. This announcement was part of Nixon's message to Congress on a new energy program. Other measures he proposed were funding for research and development, aid for the development of nuclear energy, the leasing of energy resources on Federal lands, environmental regulations, and formation of a single structure within a proposed Department of Natural Resources to unite all important energy resource development programs. The President's announcement is printed in full in *Public Papers: Nixon, 1971,* pages 703–714.

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91. Intelligence Note Prepared in the Bureau of Intelligence and Research[1]

RECN–17 Washington, August 11, 1971.

Oil: New Confrontation Over "Participation"?

Having wrung sizeable tax increases from the oil companies this year, major oil exporting nations are thinking of mounting a campaign this fall for partial control of the companies' producing subsidiaries, according to reliable reports of the July 12–13 Vienna Conference of the Organization of Petroleum Exporting Countries (OPEC).[2] Their initial target is thought to be a 20 per cent equity participation, to be increased later. Algeria is alone among the major exporting countries in already having obtained, by nationalization, no less than 51 per cent ownership in all the oil companies operating there.

The Vienna meeting is also said to have asserted OPEC's "natural right" to participation in "downstream" operations—oil transportation, refining, and marketing—but production or "upstream" operations, which can be nationalized by OPEC governments if other means fail,

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Secret; Limdis; No Foreign Dissem. Prepared by Harvey T. Clew and approved by Arthur P. Allen (INR/Economic).

[2] Abu Dhabi, Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, Venezuela. (Nigeria joined July 12.) [Footnote in the original.]

will clearly have first priority. A special conference to give form to the exporting countries' demands was reportedly set for September 22, but an unconfirmed British report has this meeting advanced to late August.

OPEC's oil tax victory over the oil companies earlier this year marked a definite shift in bargaining power in favor of the exporting countries. Taking advantage of a tight tanker situation and an unexpectedly rapid growth in the demand for oil in 1970, OPEC won large tax increases in oil exports under threat of a shutdown in production. This victory has caused world-wide increases in the prices of crude and petroleum products, and jarred governments in Europe, Japan, and other consuming countries to consider the possibility of new oil trading arrangements. The OPEC bargaining position will remain strong provided the supply of oil does not outrun demand by a substantial margin and the exporting countries refuse to allow the companies to play off any one country against the others.

An Iraqi goal as far back as 1932, participation became an OPEC objective in its 1968 Declaratory Statement of Petroleum Policy, which adopted as the basis for changing concession terms the Napoleonic code doctrine of "changed circumstances." OPEC has studied and debated participation without agreeing on an approach compatible with its members' diverse ideologies and economic circumstances. For some, participation seems largely political—control with the companies remaining in charge. Others seem to entertain notions of going into business themselves. If so, they may seek the right to take a share of concession oil in kind to dispose of as they please.

Most OPEC spokesmen have in the past treated participation gingerly, counseling a gradual buildup in government ownership to 50 per cent through negotiation and with compensation. Complete nationalization of production by one or even all OPEC countries has in the past been called "suicidal" by some OPEC members on the ground that the governments would be unable to refrain from competing with each other. With a potential oversupply of oil in proven reserves, the reasoning goes, competing nationalized supplies could drive prices down to actual production costs and governments' oil revenues to zero. Holding the downstream cards, the international companies would reap all the profits.

To avoid such a situation the producing countries would have to form a cartel which would establish production and marketing quotas and participate downstream. Most observers have little faith that the OPEC countries, despite the victory unity brought them earlier this year, could form a cartel. The July meeting in Vienna reportedly displayed the characteristic OPEC mix of militant and moderate views on how fast and far to proceed, with moderation prevailing. Libya, which has close ties with Algeria, reportedly urged that 51 per cent control be demanded immediately; but another military country, Iraq, seems to have gone along with 20 per cent as an initial share. (If each of the

six companies in the Iraq Petroleum Company surrendered one-fifth of its holding, the Iraqi Government's resulting 20 per cent share would be the largest single holding.)

Although all reports thus far concern equity participation, Venezuela, usually an OPEC trailblazer, appears to have adopted a more flexible policy which obscures the nationalization issue but satisfies domestic political needs. Legislation which became law July 30 gives the government vague but broad discretionary powers over the oil industry.

Association with government-controlled oil companies of Europe, Japan, and the other consuming areas may be a feature of any program the OPEC countries decide on. Such deals would give the government-controlled companies the independence from foreign oil companies they desire and might obtain for the exporting countries the downstream participation they want. OPEC may also focus on 1975, when the new tax agreements expire. Some OPEC governments then will be in a stronger financial position to press new demands. The London "Economist" reports that OPEC's ultimate goal is the revocation of all concessions by 1979. We have no confirmation of this report, but it is not implausible.

Some observers fear another grand confrontation this fall between united fronts of oil companies and OPEC, complete with threats of an oil embargo, if OPEC presents an ultimatum on participation. In the unlikely event OPEC should decide to use its bargaining power to the full this year, fall is the time to do it.

However, participation is not as simple or universal an issue as last winter's cry for "more money." The great variety of concession arrangements and local needs may deter collective bargaining. Some companies, furthermore, are reported prepared to accommodate reasonable OPEC demands. An OPEC move thus may result in an initial test of strength followed by a series of low-key and extended local negotiations. Each side will seek to divide the other and to appeal to interests of the consuming countries. OPEC's interests appear to lie in negotiating rather than imposing participation, particularly since its economic leverage this fall may not be as great as it was last winter. The demand for oil does not seem to have increased in recent months as rapidly as expected. Storage tanks are reported full and the tanker shortage evaporated this summer, although another shortage is not impossible.

The intentions of the OPEC countries may become somewhat clearer when the resolutions of the Vienna meeting are published on August 13.[3]

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[3] The major resolution passed by the Vienna meeting, as noted in telegrams 4984 and 4996 from Vienna, both August 13, focused on downstream operations. (National Archives, RG 59, Central Files 1970–73, PET 3 OPEC)

92. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to Secretary of State Rogers and Secretary of Defense Laird[1]

Washington, September 4, 1971.

SUBJECT

National Security Aspects of Oil Pipeline from Alaska

The Department of the Interior is currently engaged in a comprehensive review of all aspects of the trans-Alaska pipeline proposal, as stated in the attached letter from the Department's Acting Secretary.[2]

The President requests the Secretaries of State and Defense, in cooperation with other interested agencies, to assist in this review by developing a study identifying the national security considerations involved in the movement of oil by pipeline from Alaska's North Slope. The Department of the Interior is requested to provide such background information as may be required. The study should include a national security comparison of the possible Alaskan and Canadian routes for the pipeline.[3]

The Departments are requested to forward the completed study to the Secretary of the Interior by October 1, 1971, with a copy to the White House. There should be no public discussion or announcement relating to the study.

Henry A. Kissinger

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1971. Confidential. A copy was sent to Morton and Volpe. A typed notation on the memorandum indicates it was dispatched on September 6.

[2] Not printed is the August 26 letter from Acting Secretary of the Interior W. Pecora to Kissinger.

[3] Director of the Office of Emergency Preparedness George Lincoln was asked to coordinate the submissions of all participating agencies. (Memorandum from Kissinger to Lincoln, September 15; National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1971)

93. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to the President's Assistant for National Security Affairs (Kissinger), the Assistant Secretary of State for Economic Affairs (Trezise), and the Director of the Office of Emergency Preparedness (Lincoln)[1]

Washington, October 4, 1971.

Peter Towe of the Canadian Embassy called on me on September 29 to review the status of bilateral Canadian-U.S. negotiations on Canadian oil imports to the United States. As indicated in the attached paper[2] which he left with me, the Canadians have decided not to go forward with these talks[3] at this time, supposedly because their economic people are too busy with more important matters and because the "climate does not seem an appropriate one." In a frank discussion of the problems, I pointed out that Canadian access to the U.S. market would overcome some of the current problems by providing an opportunity for greater Canadian exports. I urged that the Canadians reschedule the talks at the earliest possible date in the mutual interests of both the United States and Canada. I did point out, however, that the Oil Policy Committee would now have to set the maximum level of crude oil imports for Canada for 1972.

Towe understood that the Oil Policy Committee action must be taken. He also indicated hope that Canada's oil export problem, as well as the other economic problems between Canada and the United States, would soon be solved.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 671, Country Files, Europe, Canada, Vol. III, September 1971–December 1972. No classification marking.

[2] Not printed.

[3] A reference to the ongoing bilateral negotiations on Canadian oil imports into the United States and the security of those imports.

94. Memorandum From Robert Hormats of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, October 20, 1971.

SUBJECT

Oil Companies Faced with New OPEC Negotiating Demands

At a meeting of an Organization of Petroleum Exportation countries (OPEC) held last month in Beirut, the member nations called for negotiations with the oil companies on:

—Compensation to the producing countries for loss in income caused by recent changes in currency values.

—Acquisition by producing countries of a participating share in the production activities of the concessionary companies.[2]

Issues

The companies, claiming that the contracts made with the producing countries in Tehran and Tripoli last year[3] guaranteed 5 years of stability, are likely to resist both OPEC demands. However, it is true that, because the price of a barrel of oil is denominated in dollars and the value of the dollar vis-à-vis major world currencies such as the mark, yen, and the pound has decreased, the oil producing countries receive less dollars in terms of other currencies than previously. Thus the oil companies might sell OPEC produced oil in, say, Germany, receive marks, sell marks for dollars (more of which can now be bought per mark than before August 15) and pay dollars to the producing countries. As the result the companies realize windfall profits. A satisfactory solution for handling this problem can probably be worked out.

The question of participation, which is more vital to the companies in that it is tantamount to forced nationalization of a share of their

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1971. No classification marking. Sent for information. A handwritten notation on the memorandum indicates Kissinger saw it. This memorandum was based on an October 18 memorandum from Eliot to Kissinger, which provided more detailed information on the new OPEC negotiating demands. (Ibid.)

[2] These OPEC demands were analyzed in INR Intelligence Note RECN–22, "Oil: OPEC Demands Participation, New Price Increases," October 13. (Ibid., RG 59, Central Files 1970–73, PET 3 OPEC) Additional information on OPEC Resolutions XXV.139 and XXV.140 of September 22, on parity and participation respectively, is attached to Saunders' copy of RECN–22. (Ibid., Nixon Presidential Materials, NSC Files, Box 1271, Saunders Files, Middle East Oil, 2/1/71–12/31/71)

[3] The Tehran agreement is described in Document 86 and the Tripoli agreement is described in Document 88.

operations against minimal compensation financed by foregone profits, will present a more difficult problem on which a confrontation is possible.

In any such confrontation, the companies have more leverage than last year. Fuel stocks in Europe are higher. The tanker shortage has eased. In addition, the producing countries know that the companies are the only viable instruments for marketing oil in either Western Europe or Japan, and the nationalization effort will be extremely unprofitable unless the companies agree to market the oil.

Future Scenario

The OPEC countries are not united in tactics. The more radical states such as Libya might threaten nationalization of all oil interests, and will probably drive the hardest bargain. As in the negotiations earlier this year, it will be difficult for Iran, Kuwait, and Saudia Arabia to hold a moderate line if Libya secures all its demands.

The first round of negotiations may settle the monetary question but will probably end inconclusively in the participation problem. On the latter issue it appears as if a prolonged set of negotiations will take place. A crisis similar to that we faced earlier in the year is a distinct possibility.

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95. Editorial Note

In response to memoranda from the President's Assistant for National Security Affairs, Henry A. Kissinger (see Document 92 and footnote 3 thereto), the Director of the Office of Emergency Preparedness, General George A. Lincoln, submitted a November 11 study entitled "National Security Aspects of Alaskan Oil." (National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1971) National Security Council staff member Helmut Sonnenfeldt summarized the study as follows:

"In the study, OEP and State agree: 1) that there is a national security need for Alaskan North Slope oil, and 2) that there is a national security need to transport that oil to the lower 48 states as soon as possible. Defense agrees that there is a national security need for the oil, but finds no preference from a national security standpoint for transport of the oil. The study notes that State has reviewed the possibilities of building a Canadian pipeline, that the Canadian government is not yet able to say when its studies on the feasibility of such a line will be completed, and that the Canadians thus cannot say when or if such a line would be approved. Accordingly, General Lincoln advises the

Secretary of the Interior that: *The Alaskan pipeline gives promise of bringing a significant quantity of North Slope oil to the lower 48 states by 1975—at least three years earlier than any of the alternatives to the Alaskan pipeline which have been discussed. And, early completion of the Alaskan pipeline must be considered an important national security objective."*

Sonnenfeldt recommended that the study be released to the public, provided that all references to the NSC were removed (as NSC played no role in preparing the study), and that a second letter from Lincoln to Secretary of the Interior Rogers C. B. Morton remain classified. (Memorandum from Sonnenfeldt to Kissinger, November 16; ibid.)

In Lincoln's second November 11 letter sent to Morton, he noted that while the United States could count on Canada in time of war, he was doubtful that Canada could be counted on to view future energy crisis situations in exactly the same way as the United States. Therefore he concluded that U.S. national security interests might best be met by moving Alaskan oil to the United States under U.S. control. (Ibid.)

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96. Memorandum of Conversation[1]

Washington, December 2, 1971.

SUBJECT

The Oil Companies and the OPEC Demands

PARTICIPANTS

Under Secretary John Irwin
George Piercy, Standard New Jersey
Henry Moses, Mobil Oil
Jones McQuinn, Standard California
Allan Martin, Gulf
Allan DeCrane, Texaco
John Simmons, Atlantic Richfield
Rodger Davies, NEA
Robert Smith, AF/E
James E. Akins, E/ORF/FSE

Representatives of the international oil companies called on Under Secretary Irwin December 2 to inform him of their attitude toward

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Confidential. Drafted by Brown (E/ORF/FSE) on December 7 and approved in U on January 10, 1972.

OPEC demands for compensation against currency revaluations, and participation. Mr. Piercy, who acted as spokesman for group during most of hour and a half meeting, said that the subject of compensation was the only one currently under active negotiation between the companies and OPEC members. He outlined the companies' objections to OPEC's claim for compensation, noting the companies believed that the Tehran and other 1971 agreements[2] had covered any possibility of currency revaluations under their escalation terms. Both the text and negotiating history of these agreements supported the companies he said; the OPEC countries had opted against use of any outside inflation index and had selected a flat 2½% rate covering everything.

Mr. Piercy also briefly reviewed the OPEC argument that a major currency revaluation such as the present one was not covered under the previous agreements; that whereas they were prepared to abide by the terms of the Tehran and other agreements, they wanted a separate settlement on the currency issue. In order to sidestep the apparently irreconcilable nature of these positions and keep negotiations going, the companies had proposed technical discussions in Vienna to study and assess the monetary and trade ramifications of the OPEC and company positions. This did not mean, Mr. DeCrane added, that the companies accepted the validity of the OPEC demand, but they did hope to avoid a negotiating impasse and defuse the situation to a point at which the OPEC countries might be able to back down from the high initial positions they had taken.

Vienna Talks with OPEC. The Vienna discussions had made some progress toward developing a common framework for the necessary studies, Piercy continued, but there had been no agreement on substance. The talks were about to recess in order to allow the government delegates to return home to brief their principals before the December 7 opening of the OPEC conference in Abu Dhabi. At Vienna, the OPEC countries had apparently been backing away from possible compensation formulae pegged to trade patterns, as these did not appear to support their position adequately. They were now talking about compensation based solely on monetary changes: i.e. an overall 7–8% at present, but perhaps as high as 14% if the full range of revaluations now being discussed by the Group of Ten came into effect. The company representatives had the impression that the OPEC side was treading water to see if new parities would be established. If the IMF dollar/Sterling rate were changed, for example, to correspond with the actual selling rate, it would deprive the companies of their argument that countries receiving Sterling were actually benefitting as a result of the difference between the rates at which the companies were calcu-

[2] Reference is to the Tehran and Tripoli agreements; see Documents 86 and 88.

lating their payments ($2.40) and actually buying the appreciated Sterling (c.$2.48). When Mr. Akins asked if the companies would in fact reduce their Sterling payments should a new IMF parity be set, the company representatives said that their payments procedures were set by agreements, which they would continue to follow when it is to their advantage, even as it was now to their disadvantage.

Mr. Irwin asked if the companies expected negotiations over this issue to reach crisis stage. The company representatives said they didn't know; they expected a continuing "scrap." Mr. Akins noted that the US Government would not be able to give the companies strong support on the issue: the OPEC countries were essentially right in pointing out that the currency dislocations were the result of US action. US démarches might actually hurt. If the companies did in the end come to some settlement on the issue, however, we hoped that they would not characterize it as a breach of the Tehran agreements; this would only hurt their position on other issues. The company representatives indicated they understood the USG position on both points. The Under Secretary seconded this point.

Participation. The Under Secretary directed the discussion to the participation issue by asking if the OPEC position that the Tehran agreements would be honored applied to participation. Mr. Piercy reviewed the OPEC arguments as to why this issue should be considered outside of the Tehran framework. The Under Secretary noted that the USG first got directly involved in the international oil situation at the time of his trip last January because of the strategic emergency, but that we did not want to get more and more involved. We would of course hope to see the Tehran agreements lived up to, given the USG involvement in obtaining the rulers' assurances. Without wishing to imply that the USG had or would take a position on the merits of the present issue, the Under Secretary offered as his personal view that the participation demand seemed a far more serious reopening of the Tehran agreements than the adjustment for parity changes. At the same time, we had to look at both issues with the recognition that LDC pressure for greater participation would inevitably grow. Summarizing, the Under Secretary said that the basic USG concern was over the broader political and strategic aspects of maintaining access to oil. A lesser, but still serious concern is the specific issue of continued observance of Tehran agreements.

Mr. Piercy said that the basic position of the companies was that the Tehran and other settlements had traded a high cash cost for a period of stability; now those assurances of stability were being undermined. The companies' legal position would be similar to that on the compensation issue. The Under Secretary pointed out that the "assurances" had been given to the USG in the context of his mission last

January on which he had: (1) argued that the producing countries should not resort to a shutdown in production as part of the bargaining process because of the grave strategic consequences for the West; (2) said that the companies were prepared to negotiate in good faith but needed more time because of their only just having received clearance from Justice to consult with each other on a negotiating position; and (3) argued for the need for assurances against the ratcheting or spiral effect of escalating demands between the Gulf states and the Mediterranean states. He assumed that Iran would argue on both the parity and the participation issues that the Tehran agreements were not being violated, i.e., that the Iranian interpretation of the agreements was just different from ours.

The Under Secretary subsequently asked if the companies saw a link between the two issues; if they gave ground on compensation, would it prejudice their position on participation? Mr. Moses answered, and the others concurred, that although there was no necessary legal connection, politically it would make a tremendous difference.

The pattern of negotiations over the participation issue was still evolving, Mr. Piercy continued. Officials from the Aramco group of companies had requested a meeting with Saudi Minister Yamani to discuss the matter, in view of his apparent designation by the other OPEC states as the leader in negotiations on this issue, and because of his long identification with the proposal. Messrs Moses and DeCrane, who had attended that meeting, said that the companies had reviewed their objections to participation with Yamani and had asked Yamani to take the lead in opposing the current OPEC drive. Yamani had asked for a second meeting on the subject, to be held sometime in January. It was apparent to the companies, Mr. Moses said, that the OPEC countries would claim that their demands were justified on the basis of changed circumstances since the time that the concession agreements were signed, and regardless of the Tehran agreements' provisions (the companies had learned that OPEC lawyers had advised last January that the text of the agreement would not prejudice the OPEC claim for participation). The companies realized, however, that the participation demand was more than a purely commercial or legal problem, and that it involved basic psychological and political needs in the producer states. The Under Secretary noted that this drive for national control of resources was a problem the world round and should be seen in light of the political pressures in the producing countries. The policy considerations for the USG were also very complicated. Mr. Akins pointed out that the companies, in fact, did not yet have a common position on the participation issue; each one spoke for himself for the present.

Comparative Negotiating Strengths. The Under Secretary asked how the companies saw the power balance in any negotiations on the OPEC demands. The company representatives mentioned that a number of factors were working for them. The present tanker surplus, the con-

servative outlook of some of the major Gulf producers, a possible lack of cohesiveness among the OPEC states, and the growing potential of new sources of energy; but that overall power was firmly with the OPEC countries. The question was how they would exert this power. The companies felt that the OPEC countries (except Libya) would not want to shut down production if it came to a crunch. That left the possibility of participation through legislative action. The Under Secretary asked if the industry could absorb the effect of a possible Libyan shut down; Mr. Piercy answered that European demand could most likely be met for 6 to 8 months with some drawdown in the presently high stock levels.

Mr. Akins asked what the Shah's position was on participation. Mr. Piercy said that the companies did not have a really good reading of the Shah's mind; the Iranians seemed somewhat lukewarm on the issue because of the approaching expiry of the consortium agreement in 1979. The companies hoped that they would be able soon to clarify with the Shah their future relationship in Iran. (Mr. Akins had previously urged the consortium members to make their views known to the Shah before the consortium concession renewal became an issue in Iranian internal politics.) Mr. Moses said he felt the Shah would be unlikely to give up the leverage the present uncertain situation gave him. The Under Secretary noted that the USG's interest was to keep the best possible overall relations with the Iranians; while this might not be specifically helpful to the companies, the absence of good relations would certainly make things worse for them.

The Implications for Europe. Mr. McQuinn said that the effects, were OPEC to use its negotiating power to impose a settlement on the companies, would be harmful to the US and its OECD partners. Mr. DeCrane said that many of our allies overlooked this; they felt that a producer takeover would benefit them by introducing lower prices through competition. The effect, in fact, would be just the opposite—their supplies would become more insecure and the prices would certainly go up in time. The OPEC countries were certainly not unaware of the advantages of a producer's cartel, and OPEC was already looking into the possibility. With world demand increasing at its present rates, moreover, it would not even require any production controls to raise price, but simply to limit the rate of growth in production capacity. In addition, the Europeans could not assume that the oil would not be used for political purposes: with 20% participation, the OPEC countries would control as a possible political lever over 5 million barrels/day of production. In addition, their percent of participation would inevitably go up. Mr. Piercy said that the companies hoped the USG would help convince the Europeans of the importance of the issue.

Middle East. Mr. DeCrane said that the Middle East situation also created political problems for the companies: for example, when the

Aramco partners had asked Yamani to oppose the present trends in OPEC, he had said it would be most difficult politically, and asked the companies to remember that Saudi Arabia was now Egypt's friend, as it had not been in 1967. Mr. Piercy and others said that anything which would work toward peace would make things much easier, to which the Under Secretary agreed.

Closing Comments: Participation. In closing, Mr. Piercy said that the companies would have to look at ways to blunt the OPEC thrust, as headed by Yamani, toward participation. Mr. DeCrane said that the companies would make efforts to avoid participation, but would try equally to avoid confrontations with the OPEC states along the way. He hoped the USG would be able to suggest in OPEC capitals, in a low level way, that confrontations be avoided. (In conversation earlier, the company representatives had suggested that the only way to stop Yamani's push toward participation was to get through to King Faisal (perhaps by lower level approaches to the Saudi Minister of Finance or other financial advisors). While they welcomed a high level US démarche to Persian Gulf rulers if necessary, they thought it would probably be premature at present. It might even misfire with Faisal, who would be apt to get onto "his subject" of the Middle East situation rather than the question at hand.

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97. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to the President's Deputy Assistant for National Security Affairs (Haig)[1]

Washington, December 7, 1971.

SUBJECT

US-Canada Oil Agreement

For some time, we have been urging the Canadians to negotiate an agreement whereby Canada would adopt adequate national security precautions against a cut-off of overseas oil imports in exchange for the US removing all quantitative limitations on imports from Canada under the Oil Import Program. General Lincoln, Jules Katz and I held a dinner meeting with Canadian officials last month during

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 367, Subject Files, Oil 1971. No classification marking.

which they indicated the willingness to begin serious negotiations, and we promised to prepare a US position.

By the end of last week, we had prepared in broad outline a US proposal which I transmitted orally to the Canadians along with the suggestion that if key Canadian officials could agree with the basic principles set forth in the US proposal, the Prime Minister and the President could make a forthcoming statement about the development of the talks.

The Canadians were not interested in having any reference to the oil negotiations made during the Prime Minister's visit yesterday. Accordingly, we simply reduced my oral proposal to writing and delivered it to Ed Ritchie, Under Secretary of State for External Affairs, for review by the Canadians. (see Tab A)[2] We expect a reply from the Canadians in the near future and are hopeful that serious negotiations will then get under way.

[2] Not printed. Flanigan's December 6 letter to Ritchie also included an attached U.S. proposal. In a December 10 memorandum to Haig, Sonnenfeldt summarized the U.S. proposal, remarking that Canadians should "make better provision for the security of their oil (particularly in their eastern market) in the face of any potential cut-off of their oil imports. In return, we would agree to remove the quantitative restrictions we have placed on imports into our western markets of Canadian oil." (Ibid.)

98. Memorandum From the Executive Secretary of the Department of State (Eliot) to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, December 13, 1971.

SUBJECT

Possibilities of an Oil Crisis

Attached is the study which you requested[2] on the possibilities of an oil crisis. The study concludes that a crisis of major proportions is

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Confidential. Drafted by Brown on December 10; cleared in draft in NEA/ARP, NEA/IRN, AF/EPS, AF/N, INR/REC; and cleared in E, E/ORF, and U.

[2] The White House requested that INR and E Bureaus prepare a joint study and a briefing memorandum for Kissinger before December 9. (Memorandum from Eliot to Kissinger, December 3; ibid., PET 1 US)

not likely in the near term, although there is some danger of supply interruptions from Libya.

Theodore L. Eliot, Jr.[3]
Executive Secretary

Attachment

OPEC Negotiations

Negotiations began in November between the Persian Gulf members of the Organization of Petroleum Exporting Countries (OPEC) and the international oil companies over OPEC's demand for increased payments in compensation for revaluation of the "oil dollar." (See my memorandum of October 18 for background to the negotiations.)[4] The negotiations, including the work of a technical committee which has been meeting in Vienna in an attempt to sort out the complex fiscal and economic relationships involved, have proceeded without either incident or much progress. Both sides seem to be playing for time; the OPEC members in anticipation that a setting of new parities will strengthen their negotiating claim of compensation on the order of 8–14 percent, and the companies in the hope that they will be able to reduce the producers' claims through hard bargaining. Both sides appear committed to carry the issue through by negotiation. The OPEC position on this score was reaffirmed at the just-concluded conference in Abu Dhabi, which called in its resolutions for a continuation of the negotiations. We believe the negotiations will continue for the next several months, at the end of which the companies will accede, with retroactive effect, to pay some compensation beyond that provided for in the Tehran and other pricing agreements.

Participation

The second OPEC demand, for participation, has not yet been discussed in a formal manner. The Aramco partners are expected to meet on the subject in January with Saudi Oil Minister Yamani (who has apparently been handed the negotiating role by the other Gulf states). The recent OPEC conference limited itself to endorsing further negotiations on the subject. There is substantial difference between members of OPEC, as well as between the various oil companies, in their positions on the issue and it is probable that meaningful discussions will

[3] Printed from a copy that Curran signed for Eliot above Eliot's typed signature.
[4] See footnote 1, Document 94.

be ultimately possible only on a country-by-country basis. For the moment, however, the issue has been in effect put aside while the compensation issue is brought to conclusion.

Events in Libya

The oil companies were already in a confrontation with Libya before the LARG's nationalization of British Petroleum (BP) on December 7.[5] The issue has been a Libyan attempt to change previous agreements through imposition of a two-level foreign exchange regime on the companies; the latter (able to act in concert as a result of Department of Justice Business Review Letters given October 22)[6] have refused to abide by the new regulation. This confrontation may now be deepened by the nationalization of BP. Even though the latter action was ostensibly taken in the purely political realm of UK-Libyan relations, the companies may see it as a test of strength with the LARG and contest it through efforts to block sale of the nationalized oil. Whether or not the BP nationalization can or should be treated in isolation from the other aspects of the LARG-company confrontation will depend to some degree on decisions now being taken by the companies, who are meeting in London. The oil companies appear determined to stand up to Libyan pressure, and are strengthened in their position by the knowledge that, even if Libya were to take sweeping action and close down all production, European supply is assured for the winter as long as Persian Gulf and other production can be maintained. The takeover of BP, however, may serve to tie down the LARG and restrain it from taking action against the other companies in their continuing confrontation over the exchange issue.

Conclusion

An early major oil crisis is not likely. Negotiations with the Persian Gulf producers will probably continue, ending eventually with a settlement in which the companies agree to pay some compensation for currency revaluations. Negotiations on the more important participation issue will begin in earnest only after the compensation issue is settled, and will most probably not come to a head this winter; both

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[5] Deputy Assistant Secretary of State for African Affairs Moore informed Acting Secretary Irwin of the Libyan nationalization of BP in a December 7 information memorandum; for text, see *Foreign Relations,* 1969–1976, volume E–5, Part 2, Documents on North Africa, 1969–1972, Document 80. The nationalization is summarized in the December 9 Intelligence Note, RAFN–60, "Libya/UK: Relations Near Nadir With Nationalization of British Petroleum." (National Archives, RG 59, Central Files 1970–73, POL LIBYA–UK) Additional information on the nationalization of BP is in telegram 5616 to London, June 16, 1972. (Ibid., PET 15–2 LIBYA)

[6] As related in telegram 196129 to London, October 27. (Ibid., PET 3 OPEC)

sides appear to recognize the importance of the questions involved and appear ready to take a measured approach.

In Libya, however, there are always chances of a supply cut-off resulting either from the currency exchange issue, or from strong industry support to BP should it contest the nationalization. In either event, the crisis could probably be limited to Libya alone. The major Arab Persian Gulf producers are unlikely in the present circumstances to support Libya in its anti-British and Iranian posturing, and Libya in effect further isolated itself by refusing to attend the latest OPEC conference. Iraq, the one state which might feel inclined to support Libya, is probably too dependent on current oil revenue to do so by taking action against the companies. The other Persian Gulf states would clearly prefer an OPEC with Iran and without Libya than the other way around.

Even if a crisis in Libya does occur, the companies are in good position to meet European petroleum needs for the remainder of the winter. One major company has estimated that the industry could meet a shutdown in Libya for 6 to 8 months, with some drawdown of presently high European stock levels.

We continue to keep closely in touch with the international oil companies over developments in the situation. Under Secretary Irwin spoke to representatives of several companies on December 2,[7] at which time the companies set forth their objections to the OPEC demands, particularly for participation.

[7] See Document 96.

99. Telegram From the Embassy in Libya to the Department of State[1]

Tripoli, December 16, 1971, 1352Z.

2302. Subj: UK Démarche on BP Nationalization. Ref: State 225386, Tripoli 2292.[2]

Summary: This message repeats our concern over UK action proposals to deal with BP nationalization question which we see as ineffective at best and counter-productive at worst. It argues that our interests are not in all respects same as those of UK and that we should not risk losing now however vulnerable an advantage our interests still possess as a result of LARG's differential treatment of US and UK interests. It ends by proposing certain steps we believe we should avoid and others we should undertake in effort promote cooling off period, assert our views to LARG on principle of compensation and try promote more pragmatic LARG view of its economic self interests.

Action Requested: Department's reaction to our analysis and proposed US positions and actions, with specific guidance on point raised para 8(E) on compensation.

1. I recall a British colleague once saying to me "the trouble with you Americans is that you mistake action for diplomacy." From admittedly scanty information we have here from State 224928[3] and contacts with British Embassy, I believe foregoing statement can be turned

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 15–2 LIBYA. Confidential; Immediate; Limdis. Repeated to Benghazi, Khartoum for Assistant Secretary Newsom, and London.

[2] In telegram 2292 from Tripoli, December 15, the Embassy stated that Libya would react "sharply" to any U.S. public statement in support of BP, and that while Libya's actions had implications for American interests in Libya, "it was not our ox that was gored and, in fact, the American ox in the same yoke has thus far been spared." The Embassy promised additional comments. (Ibid.) The Department responded in telegram 225386, December 15, that these additional comments should arrive in Washington by noon December 16. (Ibid.)

[3] As related in telegram 224928 to Tripoli and London, December 14, the British Embassy made a démarche to the Department on December 10, stressing the necessity for oil consumers to stand firm in opposition to Libyan action. The British Embassy spokesman stated that British Petroleum was prepared to take strong action against anyone buying oil from the nationalized concession. The British asked for U.S. support and, as needed, a statement deploring the use of petroleum for political goals. The Department noted in the telegram that the major oil companies had agreed to joint support of British Petroleum. The Department asked the Embassy in Tripoli to comment on the possible effects of U.S. public statements or démarches to European governments in support of British Petroleum and U.S. interests in Libya. (Ibid.) Secretary Rogers and Under Secretary Johnson were informed of the British request for support in a December 18 information memorandum from Moore, Katz, and Hillenbrand; for text, see *Foreign Relations,* 1969–1976, volume E–5, Part 2, Documents on North Africa, 1969–1972, Document 82.

on our cousins in present BP nationalization context. Problem is not in finding actions to take but in finding actions that are responsive to situation we face and which have some promise of effectiveness.

2. I do not wish in any way to seem to underestimate extreme importance and far-reaching implication of arbitrary and unwarranted nature of Libyan action in nationalizing BP on unrelated political issue. But we must face facts and among these are: (A) LARG will not reverse itself; (B) LARG will not commit itself either explicitly or implicitly never to do it again; (C) LARG will make its own decision on compensation; (D) official US and UK statements and overt actions are likely to make matters worse and invite retaliation against other of our interests; (E) even if unprovoked, LARG is quite capable, particularly with BP predecent under its belt, of acting against other Western oil interests if it decides in its own wisdom (however mistaken) that this is in interest its self-appointed Arab leadership role.

3. We should also bear in mind that, although there are admittedly large areas of overlap, our own interests and those of UK in resolution of BP problem do not completely coincide: (A) LARG chose a British issue to establish a principle of political nationalization and quite pointedly refrained from taking over BP's American partner; (B) in its parallel decision, LARG disposed only of its UK sterling assets and presumably has left its US dollar holdings unaffected; (C) to extent large Libyan claims against UK may have been a subsidiary factor in BP decision, no comparable situation exists in case of US.

4. So far as US interests are concerned, we see two main vulnerabilities at present time: (A) in short term Libyans might move against Bunker Hunt on grounds of its refusal to cooperate in lifting BP oil and doing enough to assist in operation of AGEC fields, or in retaliation for any US conspicuous support of BP; and (B) in longer term, LARG might move against other US Libyan producers either in context of participation or in connection with some development in Arab-Israeli context.

5. I recognize that present situation poses very real dilemma for US. Simply to lie low presents danger of LARG misinterpreting our silence as sign of weakness and resignation. On other hand, too high a profile may precipitate what we seek to avoid. In last analysis, LARG's actions are going to be determined by its own view of its own national interest. Thrust of our efforts, it seems to me, should be in direction of promoting a cooling off period and an effort to influence that view. The latter will not be easy and, from this vantage point, we certainly have no sure-fire formula.

6. I believe we have, however, certain things going for us: (A) LARG does not have capability at present time to operate BP concession unassisted and it will probably be some time before it acquires a

capability with the degree of efficiency which BP brought to operation. Except for short term dangers to Hunt, therefore, there is a good chance that acute indigestion will induce a breathing period before moves are made against other companies. (B) Although LARG is presently receiving far more revenue than it needs, it will undoubtedly try to avoid too much of a revenue loss during this period when its hopes are still running high for achieving, with commitments of Libyan cash, a greater degree of Arab unity and nationalization of the battle. This again bespeaks some caution on part of LARG in moving against other interests. (C) For obvious reasons, LARG has historically placed importance on diversifying its foreign exchange holdings. It has already reduced its flexibility by withdrawing its sterling holdings and is not likely soon to limit further its freedom to deposit by withdrawing or placing in possible jeopardy its dollar holdings.

7. To summarize up to this point, I see US objectives in this situation as follows: (A) to try to encourage an atmosphere that will assure continued functioning of US oil interests here; (B) to quietly encourage resolution of BP nationalization problem in way that will meet criteria of prompt, adequate and effective compensation; and (C) to encourage the LARG to take a more pragmatic view of its own self interests.

8. Against foregoing background, I would suggest following inventory of USG attitudes and actions: (A) we should eschew any public USG statements or conspicuous actions which identify us with BP or UK actions. (B) We should similarly avoid any conspicuous USG identification with UK moves to impose even limited forms of oil sanctions against LARG. (C) We should, however, refrain from encouraging any US companies to attempt operation BP concession under contract with AGEC. (We have no problem, however, with limited Bunker Hunt cooperation reported Benghazi 479.)[4] (D) Similarly we should encourage US companies to refrain from lifting and marketing BP oil. In so doing, we should base our position on BP's threat of legal action in order to depoliticize our advice as much as possible. (E) We should try forcefully to bring before the LARG the strength of our feelings on the general question of prompt, adequate and effective compensation. In doing this, however, we should avoid making any direct connection with BP nationalization. We have plenty of precedents of our own for making démarche on this subject, in view unsatisfactory status compensation payments for Seventh Day Adventist hospital, Esso, banks, insurance companies, etc. Even before BP nationalization, I had decided raise this question in general terms during course forthcoming US/LARG negotiations. I am even more convinced that this should be

[4] Dated December 16. (Ibid.)

done in light latter development. There is no need for us to make any connection with BP; LARG will draw inference for itself. (F) We should urge UK to encourage Egyptian efforts reported septel[5] to persuade LARG to work out some alternative form of arrangement with British interests which would both keep British in petroleum picture here and minimize losses. French have done this in Algeria and we see no reason why British should not at least try it here. Whatever chances of such an arrangement, they will not be improved by petulant tough British words and actions. (G) We should try to get into public domain unattributed information about difficulties which Algeria and other countries which have nationalized their oil industries have encountered. This will have to be sophisticated effort, not specifically targeted at Libya, but laying out facts which they can interpret for themselves. (H) As one final thought, could not British (and perhaps ourselves) use current situation as opportunity to persuade Iran, UAE states, Kuwait and Saudi Arabia to put participation issue on ice for a while? It seems to me British in particularly good position to make case that they have suffered heavily through BP expropriation as result of actions they took in interest stability Gulf, that they should not be penalized further and that to press for participation issue now would further play into LARG hands.

9. I wish we had more wisdom to offer but that is becoming an increasingly scarce commodity in this country in particular, and area in general. To which I can only add that one predictable thing in this situation is its continued unpredictability.

Palmer

[5] Not further identified.

100. Telegram From the Department of State to the Embassy in Libya[1]

Washington, December 17, 1971, 2232Z.

227215. Subject: BP Nationalization. References: (A) State 226700; (B) Tripoli 2302.[2]

1. Your penetrating, helpful and most timely analysis very much appreciated.

2. After careful consideration at highest levels, Dept has decided adopt following position:

(a) There will be no public statement by USG.
(b) Dept has indicated to Dept of Justice that it will not object if oil companies are permitted take concerted action to apply Libyan sharing agreement and to inhibit marketing of BP oil by LARG (N.B., this is extent of oil companies' request to Dept to date).
(c) As indicated State 226700, USG will support UK démarches to major consuming countries by private and confidential démarches to major consuming countries and will adopt similar position at OECD oil committee meeting in January.

3. You will receive separate instructions regarding possible representations to LARG on general question of nationalization, in light your comments in para 8 of Tripoli 2302.[3]

Rogers

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 15–2 LIBYA. Secret; Priority. Drafted by Harry I. Odell (AF/N); cleared by Brown and Scott George (EUR/BMI); and approved by Robert S. Smith (AF). Repeated to London and Benghazi.

[2] Telegram 226700 to London, December 17, summarized below, is ibid. Telegram 2302 is Document 99.

[3] These instructions stated that because the companies had not asked for U.S. intervention, and because of timing, the Department believed that the Embassy's suggestions would "clearly link USG with BP problem in LARG's mind. Libyans might well interpret it as support for British hardline position or might get impression of weakness or fear on our part re future of US companies, neither of which could work to our or companies' benefit." (Telegram 1346 to Tripoli, January 5, 1972; National Archives, RG 59, Central Files 1970–73, PET 15–2 LIBYA)

101. Telegram From the Department of State to Certain Diplomatic Posts[1]

Washington, December 22, 1971, 2323Z.

229809. Subject: Oil: Nationalization of BP Libya. Ref: State 224928 Notal.[2]

1. British Embassy has informed us that HMG will make formal démarches in OECD capitals to urge maintenance of common oil consumers' front toward Libyan nationalization of BP. Noting that BP intends take legal action against any purchasers of nationalized oil, British will ask OECD governments to use influence with their oil companies and refiners not to accept blacklisted oil.

2. Action addressees should, on appropriate occasion, inform host governments that USG supports above mentioned British position. However, this matter should be handled with great delicacy. We wish to do whatever we can to deter nationalizations of oil producing properties but at same time wish to avoid possible situation developing in which some other producing countries might conceivably support Libya against an effort by consuming countries to discourage use of oil from nationalized properties. We believe that consuming nations can best assure their long-term interest in stable and reasonably priced petroleum supplies through support of viable relationship between oil companies and producing states. If Libyan nationalization and marketing of nationalized BP oil condoned by OECD states, result would be to magnify negotiating and price-fixing power of producing nations. If countries were to accept Libyan-marketed oil, they might gain short run price advantage for relatively small quantities available from ex-BP concession, but future cost likely to be increased ability of producers to dictate price, and greater insecurity of supply.

3. OECD governments should be aware we making this approach in confidence and do not plan any public press statements.

4. For Jidda, Kuwait, Tehran, and Dhahran. We do not wish to inform Gulf producer governments of specific action we are taking in OECD capitals. If host governments ask you, however, about USG po-

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 15–2 LIBYA. Confidential. Drafted on December 20 by Brown; cleared in NEA/IRN, NEA/ARP, AF/N, E/ORF/ICD, EUR/BMI, EUR/RPE, U, and D; and approved by Katz. Sent to USOECD Paris, The Hague, Bonn, Rome, Paris, Tokyo, and Madrid. Repeated to USEC Brussels, Beirut, Dhahran, Caracas, Lagos, Kuwait, Manama, Jidda, Tehran, London, all other OECD capitals, and Algiers.

[2] See footnote 3, Document 99.

sition on BP nationalization you are authorized state that we trust they share our regret that oil should be used as political weapon in this or any other case. *End.*

Rogers

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102. Telegram From the Embassy in Iran to the Department of State[1]

Tehran, December 23, 1971, 1300Z.

7307. Subj: Iran's Post-1979 Plans re Foreign Oil Companies Operating in Iran.

1. *Summary:* In conversations with Ambassador and David Barran of Shell, Shah has declared that Consortium must prepare now for extensive changes in relationship with GOI by 1979. Of several options he presented, Shah prefers joint GOI-Consortium participation in production in Iran and downstream activities both in Iran and abroad. In meantime export and production facilities must be expanded. Shah and Consortium reps will meet Tehran or St. Moritz early February to discuss these issues. *End summary.*

2. On Dec 21 Shah informed me in confidence that GOI is initiating talks with oil Consortium regarding Consortium situation after 1979 when, he said, their rights will terminate. He said he is letting Consortium members know that if they wish to continue on anything approaching present basis after 1979, they must begin now to hammer out agreement and not postpone consideration of post-1979 situation till later.

3. Shah said he has certain requirements and demands re post-1979 which he will put to Consortium. He indicated among the most important of these was that after that date Iran would not tolerate any member with a 13½ per cent interest being able to have veto over other members of Consortium on what must be done to meet Iran's legitimate requirements (the implication was that he was referring among other things to production, off-take, etc.). He went on to say that if any of Consortium companies "have a stronger love affair elsewhere" and don't want to do what is required for Iran, then let them go elsewhere

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 6 IRAN. Confidential; Exdis. Repeated to Algiers, Dhahran, Jidda, Kuwait, London, and Tripoli.

and be replaced by other foreign companies who would be delighted to have opportunity to come in and operate in Iran on mutually satisfactory terms.

4. While not going into further detail, he said if Consortium companies could not meet his post-1979 requirements, they would appear to have two options open to them: (A) to share participation on fifty-fifty basis with Iran disposing of its share as it saw fit, or (B) simply becoming marketer of oil that Iran would supply. Shah said he personally hoped it would be possible to reach agreement with companies in forthcoming period as he felt arrangements could be worked out for post-1979 period that would be mutually satisfactory and serve interests of both parties and with which both companies and Iran could live.

5. I commented that in view of major importance of this problem and complexity involved, I hoped it would be handled most carefully with legitimate interests of all parties taken fully into consideration. Otherwise it obviously could cause problems which would affect adversely interests of oil companies and their countries of origin as well as those of Iran.

6. In separate and later conversation with Econ Couselor, Jan van Reeven, Managing Director Consortium (protect) described farewell call paid by David Barran on Shah before former's retirement as Chairman of Shell. Account provided gloss on several of Shah's points to Ambassador.

7. After wide ranging review of political and economic situation in area, Shah mentioned that Consortium agreements end in 1979 and said now is time for members and GOI work out future relations for post 1979 period. Shah required clear indication of Consortium plans for increasing export capacity and offtake over next six years i.e., final year Fourth Plan and complete Fifth Plan. Shah noted that completely satisfactory arrangement necessary if members expected to maintain future position in Iran. (Van Reeven commented that although no specific export goals set by Shah, that other sources have indicated GOI expects export capacity to be increased to 8 million BPD by 1977.)

8. Concerning possible future joint arrangements, Shah said he not interested in participation on terms proposed by recent OPEC resolution but suggested that members start thinking about possible downstream joint ventures outside as well as with Iran. Barran reminded Shah that operations in other countries are undertaken not by Consortium as such but rather by its individual members. Shah admitted this but said he also interested in a new export oriented refinery within Iran at a location considerably removed from the present Abadan refinery.

9. Shah noted that after 1979 several options are open to Iran. Among them: (A) Iran to take complete control of its oil production

and simply sell it to the companies at pier's end. This approach might work out satisfactorily if companies do not discriminate against Iran or, on the other hand, Iran did not discriminate against one or another company. This is least satisfactory solution in the Shah's view. (B) Iran could take over BP 50 per cent share in the Consortium. NIOC would market its share of Consortium oil in competition with Consortium members. This too has its drawbacks since probably the NIOC could not market such large quantities successfully and Consortium would have to sell most of Iran's share. (C) Companies could continue present arrangements in a slightly revised manner by including the NIOC in downstream operations either in or outside the country, and by providing an increased share of the revenues for the Government of Iran. In any case, the Shah added, Iran would no longer tolerate a situation whereby members controlling less than 14 per cent of the Consortium can frustrate actions of benefit to Iran.

10. Shah requested a specified annual amount of cost oil to market on its own. He noted that in the immediate future Iran would need oil for possible sales agreements currently under discussion with Cities Service and Ashland Oil of the United States. No quantities mentioned.

11. Later the Shah instructed Parviz Mina to call Barran to tell him Shah had forgotten to raise question of re-injection of associated gas (now flared) into reservoirs as a conservation measure. This is a subject which the Consortium has managed to evade over the years and van Reeven reported that Barran was somewhat surprised that the Shah should raise it. (We do not understand why he was surprised in view of publicity re re-injection as essential conservation measure.)

12. As background to above, Shah's wishes concerning post 1979 arrangements were raised by Eghbal in last October London talks. Members have been working on their projections through 1976 almost day and night since that time and had planned send high-level team to Iran in mid-January to inform Shah of results these deliberations. Since OPEC will meet in Geneva in mid-January, Shah has told members to meet him in early February either in Tehran or San Moritz, depending on whether he can depart for his annual winter holiday more or less on schedule. The Shah specifically mentioned that he preferred not to meet at Zurich because of the unhappy memories he had at the previous meeting with members there in early 1969.[2]

MacArthur

[2] A reference to talks between Iran and the Consortium in March and May 1969.

103. Telegram From the Embassy in Venezuela to the Department of State[1]

Caracas, December 23, 1971, 2240Z.

7564. Subject: Petroleum: Analysis of Recent Venezuelan Oil Measures.

Summary: This telegram attempts to assess meaning and significance of recent Venezuelan measures which will have effect of substantially increasing prices of Venezuelan petroleum products while forcing oil companies to increase their output and exports, and to make preliminary recommendations as to best course of action for USG.

Recommended Action: Embassy recommends that USG continue avoid overt involvement in developing controversy between oil companies and GOV, while seeking learn how companies view situation and what course of action they propose follow. USG should avoid any reactions that merely demonstrate pique without any likelihood of affecting outcome of dispute. *End summary.*

Background.

1. Embassy believes that decision to impose export controls was logical, if unfortunate, result of objective situation in which Venezuelan Government found itself, whereas decision on prices was somewhat irrational GOV response to political and psychological factors. Given difficult budgetary situation, and danger of further decreases in oil output in 1972 which would only worsen situation, some form of controls to boost or sustain oil output had to look very attractive to GOV. Embassy had doubted that they would create and sustain workable mandatory controls, but did not doubt that they would attempt some form of strong moral suasion or "voluntary" output quotas backed more by threats than legal penalties. Obviously, they have elected to attempt mandatory control approach.

2. Re prices, Embassy now believes that government's intentions escalated as time passed, and that until very recently they were intending to make only modest increase in TRV's that companies had expected, that is, nothing much more than 10 cents per barrel foreseen in latest budget estimates for 1972. In retrospect, change in GOV thinking seems to have been signaled in December 15 statement by COPEI Deputy and oil expert Jesus Bernardoni, who said government no longer thinking of increase in 10 cent range. Embassy believes GOV

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 6 VEN. Confidential. Repeated to Algiers, Dhahran, Djakarta, Jidda, Kuwait, Lagos, London, Tehran, Tripoli, and Vienna.

was stampeded toward higher prices mainly by the opposition's loud and repeated insistence that an increase of only 10 cents would be a sell-out, and that TRV's should be increased by 40 cents or more. Contributory factor may have been over-confidence from successes GOV has had with other measures against oil companies, which were in their time called unrealistic and unworkable.

Significance of GOV Measures.

3. Combination of increases in TRV's with controls over exports and exploration constitutes, as Minister Perez said, an oil policy without precedent in Venezuela. It represents an attempt to isolate and insulate Venezuela from normal market forces, by proclaiming to oil companies that they must export whatever quantities of oil the GOV tells them at prices set, in effect, by GOV, and regardless of prices at which oil from other overseas producing countries may be available to them. It tells oil companies to shut down computers that monitor production costs, tanker rates, and other factors and tells companies to shift some purchases from one source to another. It tells them to just ship specified quantities at specified prices, regardless of market factors.

4. Venezuelan measures could also be interpreted as move toward creation for themselves of Western Hemisphere preference in US market, or at least benefits of same. Main advantages Venezuela would hope derive from W. Hemisphere preference would be assured market for all petroleum they wish sell (or at least for specified quantity) at a price substantially higher than current price for offshore oil. If oil companies abide by new Venezuelan measures, GOV will in fact have achieved assured market for given quantity of oil as well as higher prices, which could well be increased in future increments until they reach maximum level that they could reach under a hemispheric preference, that is just below delivered cost of US oil in US markets.

5. Venezuelan oil will become more expensive, at least at low tanker rates, than oil from other sources which will mean lower profits for those who must sell it, unless other suppliers break their five year contracts and increase their prices as well. Increases other oil producers will receive under rubric of compensation for fall in value of US dollar could not be comparable in size to Venezuelan price increase.

Effect on Companies.

6. How seriously oil companies here will be affected by Venezuelan measures would seem depend mainly on whether they can pass along to ultimate consumers increased costs resulting from higher tax reference values. They passed along results of last increases in TRV's with little difficulty, but they believe market conditions will make it more difficult now.

7. If oil companies cannot pass along price increases, then their profits will be less than they would be if they were free to fulfill their needs in each market from most economical source. Director of large oil company here estimates that increased taxes will cause profits of most profitable companies to fall by 50 percent and those of least profitable to disappear.

8. If oil companies are able to pass along price increases to consumers, presumably this would involve increase in price of certain products in US even though Venezuela may only supply portion of US needs for such products. If so, companies would reap windfall gain on oil from US and other non-Venezuelan sources where taxes had not been raised. This however might cause other supplier countries to think themselves entitled to share in increased profits being made on their oil.

9. Given their past record in marketing, it is probable that major oil companies can find way to pass along cost increases from increased Venezuelan taxes. If so, major problems for them in going along with Venezuelan measures would seem to be 1) danger that other producers might imitate Venezuelan action thereby upsetting 5 year period of stability they thought they had achieved; and 2) unpleasantness of having to abandon traditional method of operation involving shifting of purchases from one country to another as market factors change and having to go along with more rigid system of buying fixed quantities as prices subject to change by action of others.

Options Open to Companies.

10. Embassy only sees two options open to companies: either to go along with Venezuelan measures or to create outright confrontation or showdown with GOV.[2] Early soundings here suggest that companies are more likely to go along and try to find some way to live with measures than to go to the brink with GOV. However, reaction from headquarters of parent firms might be more aggressive.

11. Embassy is reluctant to discuss possible apocalyptic consequences of a real showdown between companies and GOV, but it believes they must be mentioned because measures short of an outright confrontation seem unlikely to cause GOV to abandon its program.

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[2] In telegram 7600 from Caracas, December 28, the Embassy reported that Creole, presumably backed by its parent company Esso, found Venezuela's actions to be "so damaging to position of international oil companies that they are unacceptable and must be opposed even at cost of showdown" with Venezuela. Of particular concern were the mandatory export levels, which would "undermine entire basis on which private international oil companies operate." If other countries adopted this policy, the mandatory global export would "add up to more oil than could possibly be sold worldwide." Creole would, therefore, take a stand. (Ibid., PET 12 VEN)

12. In any real showdown, stakes would clearly be assets of companies. Difficult predict scenario, but crisis could be precipitated by sudden very large decline or cessation of production in early 1972. Resulting unemployment and chaos would lead to unpredictable consequences. One possible outcome might be fall in government, perhaps precipitated by military. Another, perhaps more likely outcome, would be nationalization of the oil companies, with public and military rallying around government.

Recommended Action:

13. Embassy believes that USG should continue to maintain low profile in this controversy, at this time. In particular we should avoid threats, inflammatory statements and small retaliatory actions that can have no effect on outcome and will only unnecessarily inflame US-Venezuelan relations before we are sure what is best course of action. Next step would seem to be to learn how oil companies view situation, what course of action they propose to adopt, and what help, if any, they would want from USG.

McClintock

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104. Memorandum of Conversation[1]

Washington, January 3, 1972.

SUBJECT

The International Oil Industry's Future

PARTICIPANTS

Department of State
John N. Irwin, Under Secretary
Nathaniel Samuels, Deputy Under Secretary, Economic Affairs
John R. Stevenson, Legal Adviser
Charles A. Meyer, Assistant Secretary, ARA
David D. Newsom, Assistant Secretary, AF
Rodger P. Davies, Deputy Assistant Secretary, NEA
James E. Akins, E/ORF
Claus W. Ruser, S/PC

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 6. Confidential. Drafted by Brown on January 6; cleared in E/ORF, D, and U; and approved on January 19 in S and D.

Fred H. Sanderson, S/PC
Scott Custer, U
Gordon S. Brown, E/ORF/FSE

Industry Participants
J.K. Jamieson, Chairman, Standard New Jersey
George Piercy, Senior Vice Pres., Standard New Jersey
Rawleigh Warner, Chairman, Mobil
Henry Moses, Vice President, Mobil
Maurice Granville, Chairman, Texaco
Robert Dorsey, Chairman, Gulf
Otto Miller, Chairman, Standard California
J. O'Brien, Vice President, Standard California
G. T. Ballou, Vice President, Standard California
John McLean, Chairman, Continental
John Kircher, Executive Vice President, Continental
Robert Anderson, Chairman, Atlantic Richfield
John Simmons, Vice President, Atlantic Richfield
Nelson Bunker Hunt, Bunker Hunt
Marvin Watson, Vice President, Occidental
Mr. Williamson, Vice President, Occidental
John Swearingen, Chairman, Standard Indiana
John J. McCloy, Attorney
William Jackson, Attorney

The Under Secretary opened the meeting by noting that the Department had been following developments in the international oil industry with concern and in recognition of the national security implications of the industry. While we were aware that our views and those of the companies would not always be identical, we shared the goal of a stable oil supply for the US and the western world and appreciated the commercial and other benefits to the US of the oil industry. We had kept up a satisfactory dialogue on matters of common concern, but thought it might be useful to structure the dialogue a bit more closely, particularly with a view to the longer range problems of the industry's future. He suggested that the industry might wish to form an advisory group to counsel the Secretary and to give a forum in which we could exchange views, and the companies could suggest how the USG could be helpful.[2]

[2] Both Akins and McCloy agreed in a January 20 meeting that an informal, rather than a formal, consultative body was acceptable. McCloy stated that some of the corporate representatives present at the January 3 meeting were disturbed at Akins' insistence that the companies change the nature of their relationship with the host producing countries by 1976, given the realities of the world oil situation, the companies' weak position, and "severely limited" U.S. ability to help them. Akins stressed that company intransigence would "increase the drive toward nationalist retaliation within OPEC," and that the companies needed sound and constructive proposals. (Memorandum of conversation, January 20; ibid., PET 3–1 US)

Establishment of an Advisory Body

The company representatives said they welcomed the Under Secretary's suggestion; however, they expressed some reservations on establishing a formal structure, to which legislative restrictions as well as anti-trust provisions might apply. They also felt that a close relationship between the industry and government might be subject to misinterpretation both domestically and abroad. The Under Secretary said we felt the substance of organized exchanges with the companies was more important than the form of the exchanges, although a smaller group would be more reasonable if we wished to have a real exchange. We would leave it to the oil companies and their attorneys to work out a format in consultation with Mr. Stevenson, and we would in turn inform the Justice Department of developments.

Mr. Swearingen and Mr. Miller pointed out that the USG would inevitably face difficult policy decisions on oil issues, and that the industry would want to help anticipate them and have an input in USG deliberations. Mr. McLean said the industry would hope to come up with joint positions on important issues. Mr. Samuels said that the advantage of regular meetings would be to work toward common concepts of the problems facing us and how to deal with them. Coordinated staff work on the companies' side would be needed.

Mr. Swearingen asked what subjects the Department had in mind for discussion. Mr. Irwin answered that we were already in regular contact on operational problems; although we would continue to work together on those problems we wanted specifically to discuss the longer range policy questions. For example, we were interested to know how the companies envisaged their relationships with the producing and consuming countries in the middle and late 1970's; what should the companies and the USG be looking forward to, and how did the companies believe the USG could be helpful. Similarly, we would welcome the companies' thoughts on what the USG could do in the OECD context, in reviewing the industry's future capital requirements with our allies, encouraging them to raise stock levels further, or other actions.

US Public Opinion and the Oil Companies

Mr. Anderson pointed out that the results of the present negotiations would have a profound impact on the world's energy situation in the coming decades, yet the issues were to some degree beyond the companies' competence, involving the possibilities of world energy shortages, economic slowdowns and other issues of national and international importance. The public, meanwhile continued to view the energy crisis as purely a company problem. The State Department could help by pointing out the international importance of the issues involved and drawing the attention of the whole Administration to the present dilemma and the issues of general national interest which

would be served by a solution. Mr. Warner added that the problems posed for the industry by its domestic critics weakened its bargaining hand internationally, as other governments saw in them signs of the companies' impotence and disinterest on the part of the USG. Mr. Irwin answered that the Department and the Administration in general recognized the problem, though we couldn't speak for the entire government. Mr. Akins commented that there were however no action recommendations before the government, although we intended to make some soon for action both here and abroad, in the OECD and elsewhere.

Libya

Mr. Warner asked how the USG saw recent events in Libya. Mr. Newsom answered that, although the Libyan move against BP had been based to some extent on Libya's dispute with the UK over debt matters, it was also intended to prove the point that the Libyans were prepared to use oil as a political weapon. We could not assume that it could not happen to another company, even though the Libyans continued to stress to us that the BP nationalization was an isolated incident. Mr. Davies added that other Arab governments in general looked upon Qadhafi as crazy; we believed that Libyan actions would have only limited impact as long as the present Arab governments remained, although Qadhafi's brand of fundamentalist socialism had some impact on the Arab masses. Mr. Piercy said it was unfortunate that Qadhafi had felt it necessary, even with a possibly valid claim against the British, to justify his action on political grounds. Mr. Irwin said that Qadhafi would evidently be willing to move wherever there was advantage, to which Mr. Warner answered (and Mr. Miller seconded) that the companies saw it important for that very reason to block Libya's efforts to market the nationalized oil. Mr. Akins said the USG agreed that it would be most unfortunate if Libya could sell the oil profitably, and that we had supported the British diplomatically in their efforts to discourage purchases. Mr. McLean said that what was needed was a collective effort on the part of the US, the foreign oil companies and the consuming country governments; in the BP case, for example, the US should talk firmly to the Spanish, Italian, Japanese, and perhaps German governments.

Phantoms for Israel

Mr. Williamson said that an equally large concern of his company (Occidental) was that a USG decision to sell F–4's to Israel might cause sweeping nationalizations in Libya. The company representatives returned repeatedly to the possible harm to US interests of a resumption of F–4 sales, and asked if any decision could not somehow be kept quiet. The Under Secretary said that, as a practical matter, it would be

very hard to keep such a decision quiet if it were made. Mr. Jamieson asked if the role of any advisory group would be seen as purely limited to technical matters, or whether the companies could express their views on foreign policy issues as well. Mr. Irwin said the companies would be welcome to raise any pertinent issue.

Venezuela

Mr. Simmons asked how the USG expected to deal with new Venezuelan production quota legislation.[3] Mr. Meyer noted that the USG was scarcely in a position to change the Venezuelan government action. He said that the new problem was highly germane to the question of USG-company consultations; we should carry out our exchanges on the basis of the existing political imperatives, rather than our "druthers." In Venezuela, oil was politics.

Mr. Jamieson said that Esso would attempt to pass on the new Venezuelan price increases to the consumer. At the same time, the company might reduce offtake for economic reasons; although it might expose itself to possible penalty taxes, it was prepared to challenge the legislation in the Venezuelan courts. He added that the industry would be making a mistake if it leaned over backwards to avoid paying penalties; it would simply be speeding up the dissolution of contractual rights everywhere. Mr. Piercy commented that the Venezuelans had by this move virtually gained their goal of production programming, and if the principle were to flow to the Middle East, the companies would be squeezed. Mr. Warner asked what Esso would do if it lost in court; Mr. Jamieson said it might simply refuse to pay, as it had done in Libya.

Participation

The subject of participation was brought up at several points in the 1¾ hour discussion. Mr. Anderson remarked that Under Secretary Irwin had apparently had the subject in mind when he spoke of the long term future position of the companies in the producing states. Quite aside from the prospect of inadequate compensation, Mr. Anderson said, a real problem for the companies was the prospect of an unwanted and expansive new partner whose injection would have a severe impact on all company operations. Participation, he felt, was the best way to slow down the necessary growth of the international oil industry; his company would certainly see its capital operations overseas quite differently if it had an unwelcome partner. Mr. Irwin said that we were aware of the extraordinarily difficult problems involved,

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[3] See Document 103. In addition, on December 31, 1971, Venezuela terminated the U.S.-Venezuelan Reciprocal Trade Agreement. (Memorandum from Eliot to Kissinger, January 12; National Archives, Nixon Presidential Materials, NSC Files, Box 797, Country Files, Latin America, Venezuela, Vol. II, 1972.

realized that they are problems for all the US, and felt this was a proper area for State Department interest. We wanted to establish a continuing dialog, and would want to do all we could within the context of the Tehran five-year agreements[4] to support the companies against participation demands. On the other hand, as we looked beyond those agreements we saw that the countries would push their demands harder. We felt that the Department and the companies should exchange ideas closely on the subject, not with a view toward our telling the companies what to do or assuming responsibility for a solution, but in an effort to define the issues—on which we might well differ.

Mr. Akins noted that when company officials had called on the Under Secretary in December,[5] we had not yet decided whether we could support them diplomatically in the Gulf on the participation issue. We had now decided that we would have to and felt it essential to work on the assumption that the five-year agreements will work. For balance of payments and other reasons, we feel it important that the companies remain in the production end. We will also point out in the OECD that participation can only raise the cost of their oil. Mr. Akins reminded the executives, however, that he had discussed with them individually what the USG could actually do in their support, and they had agreed that our levers were few if the countries move against the companies; in the Gulf we really could only call on the moral obligation of the rulers to see through the Tehran agreement.

Mr. Miller noted that approximately 60 percent of the foreign free world's oil reserves were under US company control; this was an important national asset, particularly in view of our increasing reliance on imports. The companies felt that it was consequently very important from a national security standpoint that the State Department give the companies very strong support when the producing countries attempt illegally to abrogate the agreements on which our access to the oil is based. Mr. Watson seconded Mr. Miller, and pointed out that the concessions provided arbitration as a basis for settlement of disputes. Mr. O'Brien added that the companies considered participation to be illegal confiscation as much as the Libyan nationalization of BP; the USG should in general support the sanctity of agreements. The Under Secretary said that we were prepared to support the companies on the immediate issue. As we looked further into the future, however, we noted that the 60 percent of the world's oil about which Mr. Miller had spoken was also concentrated in a very few countries. We would have to look at the practical aspects of the matter and the actual power re-

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[4] See Document 86.

[5] See Document 96.

lationships, irrespective of what we might think to be right. It would be no good being right if it led to confiscation.

Mr. Warner said that the companies had not yet decided what they would say to the OPEC negotiators on January 20. They could not say no, yet anything they might propose—e.g. a more satisfactory method of computing compensation than the book value principle of OPEC—would probably be unsatisfactory. It appeared that a crunch would inevitably come. If the USG were to base its entire argument on maintenance of the five-year agreements, however, it would create a wide open ball game for after 1976. In that event—if it looked as if participation were a sure thing—the capital investment to develop the necessary supplies of Middle East oil simply wouldn't come forth. The effects would only be felt in 1985, but the decisions would be made now. The Middle East governments should understand the importance of maintaining an atmosphere of confidence to bring out the required investments. Mr. Samuels said that the companies should use their ingenuity in finding ways to persuade the producing governments not to force participation on them. The issue had to be faced, and the companies should search for alternative courses. The meeting ended with Mr. Granville's comment that the companies would be in a better position to do as Mr. Samuels suggested if the countries didn't believe that they could get away with unilateral action.

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105. Telegram From the Mission to the Organization for Economic Cooperation and Development to the Department of State[1]

Paris, January 12, 1972, 1330Z.

642. Subject: OECD Oil Committee, High Level Group, January 10, 1972.

1. *Summary.* Prevailing sentiment was that although industry faced difficult set of situations of which Venezuelan most ominous in principle, Libyan action against BP had unique political origins and that if those actions could be contained, parity and participation issues

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OECD. Confidential. Repeated to Ankara, Athens, Bern, Bonn, Brussels, Canberra, Caracas, Copenhagen, Dublin, Geneva, The Hague, Helsinki, Jidda, Kuwait, Lagos, Lisbon, London, Luxembourg, Madrid, Oslo, Ottawa, Reykjavik, Rome, Stockholm, Tehran, Tripoli, Tokyo, Vienna, Paris, and Dhahran.

should be susceptible of settlement on basis "reasonable" company concessions, although with inevitable cost to consumer. Members favored early resolution dollar parity issue, with Japan and FRG stressing companies should not use increased costs to increase their own profits at expense consumer. Consensus was that participation, however deplorable, was probably inevitable and companies had no choice but to open negotiations this subject now. Nonetheless participation would be in violation Tehran agreements and it might be possible to postpone changes in existing company-government relationships until 1976. In any case moves toward participation should be resisted by consumers. UK and France said they would consider associating themselves with any diplomatic representations US may make on that point. Members endorsed efforts of BP and HMG to prevent Libyans profiting from BP takeover and welcomed news that US companies currently intending to resist Venezuelan measures.[2] These seen as potentially most dangerous developments of all. Group applauded US and Dutch plea for OECD solidarity and UK stressed need to put stockpiling and other emergency measures on current basis to make solidarity effective. Chairman described encouraging outlook in North Sea and urged on US importance of early approval Alaskan pipeline. Group agreed Canada should be invited to take part in high level meetings. *End summary.*

2. UK (Chalmers of FCO) made strong presentation on Libyan nationalization of BP. He described takeover as political action related to Gulf Islands; referred to BP invocation of arbitration and BP's letters and advertisements putting potential purchasers on notice; said HMG had acted to support BP in form of protest to Libya and representations to OECD governments. He expressed gratification for positive responses HMG had had from OECD governments and underlined BP's determination to proceed legally against purchasers and HMG's intention support BP.

3. Akins (US) expressed strong US support for HMG position on Libya, saying that Libyan success in action against BP could lead to similar actions against other companies in Libya and elsewhere. For that reason US had associated itself with HMG's representations to OECD governments and hoped that governments would use their influence to deny to Libya commercial benefits from BP takeover.

4. Other members (FRG, Italy, France, Netherlands) termed Libyan takeover unique in that it politically motivated action against single company and country. They were reluctant to discuss political origins of dispute. However, they agreed that Libyan success in carrying off takeover

[2] See footnote 2, Document 103.

profitably could have adverse implications for all consumers, and they endorsed BP and HMG efforts to deny benefits to Libya.

5. In response Dutch question about role of Bunker Hunt, Chalmers said Bunker Hunt had cooperated fully with BP. He added that BP had no wish interfere with Bunker Hunt efforts to obtain its rightful share of oil from concession but intended to claim any oil from concession which is not shipped by Bunker Hunt to Bunker Hunt customers.

6. *Dollar parity.* UK spokesman (Williams DTI) said that HMG understood companies have evolved formula based on trade values which would provide "reasonable" return to producers, and that companies would argue that 2–5 percent inflation increment in Tehran agreement should also be credited toward satisfaction of parity claims. Williams added that companies seeking best bargain feasible in terms their own interests and those of consumers but he guessed that they would do well if they could settle at or below 8.5 per cent (including 2.5 per cent inflation increment) as against reported OPEC demands amounting to 12.5 per cent or more.

7. Akins (US) said that US had similar information about producer demands and company intentions and similar expectations about probable outcome. He added that companies and USG taking position that resolution and settlement of this issue not in conflict with Tehran or Tripoli agreements[3] but supplementary adjustment necessitated by unexpected monetary events of August and December. He suggested that that position essential to defense of Tehran and Tripoli agreements against other encroachments.

[No additional pages of this telegram have been found.]

Greenwald

[3] For the terms of the Tripoli agreement, see Document 88.

106. Briefing Memorandum From the Acting Assistant Secretary of State for Economic Affairs (Katz) to the Under Secretary of State (Irwin)[1]

Washington, January 18, 1972.

GENERAL TALKING POINTS FOR YOUR MEETINGS WITH OTHER AGENCIES TO DISCUSS THE DEPARTMENT'S OIL STUDY

Introductory Remarks

—We have all seen the numerous recent studies on our energy problems. There seems to be little dispute over supply and demand projections which show that the U.S. may be dependent on foreign sources for as much as 50 percent of its petroleum requirements by 1980. Recent N.P.C. studies indicate this may happen much sooner. These projections also indicate that as much as three-quarters of our imports could come from Eastern Hemisphere sources, an area that we have always considered less secure.

—The Department views this with great concern. The foreign policy implications of an energy policy which makes us dependent on other countries for a large percentage of our petroleum supplies, which are essential to our national security, are obvious. In the past we were given some protection by a substantial surplus in production capacity in the world and by the producers' urgent need for coal. Both of these circumstances have changed.

—We therefore believe that urgent steps must be taken in both the international and domestic areas to lessen the likelihood of severe confrontations between the companies and the producing countries, which might result in cut-offs of supply, and to lessen the dependence on imports of oil from potentially insecure sources.

—After the signing of the Tehran agreements early in 1971, the world's petroleum consuming countries thought they could look forward to 5 years of relative stability in the world's oil market. Recent developments indicate, however, that this was a false hope. OPEC countries are now making new demands for part ownership in the operations of the oil companies.

—We hope that such demands can be forestalled until 1976, when the Tehran agreements expire. Failure to reach some arrangement on

[1] Source: National Archives, RG 59, Central Files 1970–73, FSE 15 US. Confidential. Drafted by Akins.

the participation issue could well lead to a significantly reduced role for international oil companies in the production end of the oil business.

—This would have severe consequences for the United States in terms of our national security, as much of the world's oil could fall into hands of elements hostile to the United States who might seek to use oil as a political weapon, or resort to economic blackmail. We also believe that the world's future supplies of petroleum would be substantially reduced, should production be taken over totally by the countries, as sufficient capital could not be found to bring forth new reserves and production needed to meet the world's growing petroleum requirements. Consuming countries would then be forced to compete among themselves for available supplies, and present alliances would be subjected to severe strain.

Departmental Action

Over the course of the last year the Department has taken several steps to protect our energy supplies.

—In meetings of the OECD Oil Committee and in bilateral discussions we have stressed the importance of maintaining consumer solidarity in the face of OPEC demands. We have also urged them to allow the companies sufficient profits to generate a significant portion of the capital the industry will need in the next decade.

—We have urged the OECD countries to increase their stock levels as a form of protection against supply cut offs.

—In January of last year I, acting as an emissary of the President, called on the rulers of Saudi Arabia, Iran and Kuwait[2] to emphasize the importance which we attached to continuing reasonable negotiations with the companies and the necessity of avoiding serious supply interruptions.

—We have recently taken steps in the Department to establish a loose, informal consultative body composed of senior officers of the oil companies and the Department. The committee would serve to solicit industry views on how best to deal with the changes which will face the international oil industry, and to give the industry the benefit of our judgment.[3]

The State Department Paper

While the actions that we have taken to date have been important in preventing serious confrontations between the companies and the

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[2] See Documents 74–76, 78, and 79.

[3] See footnote 2, Document 104.

producing countries, and resulting interruptions in supplies, we will need to do much more in the future. The study which I am giving you today contains a number of recommendations for further moves in both the international and domestic areas.[4] I realize that most of the measures taken domestically will have to be taken by other agencies. We are making these suggestions primarily because of the foreign policy implications inevitably arising from non-action.

Our Recommendation for Action

We believe that it will probably not be possible to expect an effective energy policy unless responsibilities are centered in one place. We are therefore recommending that the President appoint a coordinator for all domestic energy matters.

Other steps we will take include:

—Continuing our efforts to work out an energy agreement with Canada

—Providing diplomatic support, as necessary, to the companies in their negotiations with the producing countries

—Accelerating the exchange of information on nuclear energy with Europe and Japan

—Exploring possibilities for developing new sources of petroleum in other countries of the Western Hemisphere.

Domestically we will recommend that:

—Development of new forms of energy be accelerated

—Measures be taken to increase domestic production of petroleum

—Measures be considered which would decrease rates of energy consumption in the United States.

We also believe that some change in the present relationships between the companies and the producing countries is inevitable. To resist this change, we believe, can only lead to severe confrontation to the detriment of the consuming countries as well as to the companies. At some time we may therefore wish to discuss with the companies our hope that they will be willing to consider some forms of new relationships after 1976.

We would like to explore with you now and after you have had time to go over the paper, your views on the subject, particularly how the State Department can work with you to help solve the problem.

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[4] A reference to "The U.S. and the Impending Energy Crisis," March 9, which is summarized in Document 116. The NSC Staff's assessment of this paper, including an analytical summary, is Document 128.

107. Memorandum From the Executive Secretary of the Department of State (Eliot) to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, January 20, 1972.

SUBJECT

Qadhafi and Phantoms for Israel

During an interview in November 1971, Colonel Qadhafi, head of the Libyan RCC, expressed his readiness to use oil as a political weapon against countries threatening the "Arab cause." He demonstrated his willingness to use that weapon when he nationalized the Libyan affiliate of British Petroleum in retaliation against the UK for the latter's alleged complicity in the Iranian seizure of the Persian Gulf islands of Abu Mussa and of the Tunbs.[2]

Qadhafi's propensity to shoot from the hip has been amply demonstrated during the past two years. The nationalization of BP was the most recent example. His premature endorsement of the attempted coup against King Hassan of Morocco last July was another.[3] Still a third was his forcing down of the BOAC plane last July that was carrying two members of the group that had plotted against President Nimeri of Sudan, which led to their execution.[4]

Although he does not need any egging on from them, the Egyptian press campaign urging retaliation against American interests in the Arab world, in response to recent reports that we will supply additional Phantoms to Israel, fits in with Qadhafi's own instincts. The political and psychological impact of these reports on Qadhafi could be formidable. As the spearhead of the Arab cause, he may feel compelled to act by seizing one or more of the American oil producers in Libya. The precedent for doing so has already been set by grabbing BP.

One possible restraint on Qadhafi could be the problem of marketing the oil. There has been a decline in the demand for Libyan crude

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[1] Source: National Archives, RG 59, Central Files 1970–73, DEF 12–5 ISR. Secret. Drafted on January 12 by Blake and concurred in by Sisco, Atherton, Katz, and Newsom.

[2] See footnote 5, Document 98.

[3] Army officers attempted to assassinate King Hassan of Morocco on July 12, 1971, in a failed coup. The army units involved received immediate public support from Libya. Moroccan officials believed that Qadhafi had prior knowledge of the coup. Libya broke diplomatic ties with Morocco on July 15.

[4] Libyan authorities removed two members of the group behind the aborted coup against Sudanese leader Major General Jafaar Numeri from a BOAC airliner on July 22, 1971, after forcing it to land. Despite British protests, Libya turned the two men over to Sudan the next day. On July 24, they were executed.

because of its price. Legal difficulties in marketing the crude seized from BP might also make buyers wary of touching seized American crude.

But these are rational considerations, and Qadhafi is emotional on the Israeli problem. If he wishes to damage us, the most obvious target is our oil industry in Libya. A secondary target would be our diplomatic ties. As a target, the latter are less attractive than the oil, since Qadhafi does not attach importance to them, but they may not escape his ire.

Theodore L. Eliot, Jr.[5]

[5] James Carson signed for Eliot above Eliot's typed signature.

108. Telegram From the Department of State to the Embassies in Saudi Arabia, Kuwait, and Iran[1]

Washington, January 29, 1972, 0120Z.

16939. Subject: OPEC Participation Bid. Ref: London 673.[2]

1. Oil company officials who attended January 21/22 OPEC participation talks confirm reftel's report with following additions:

a. Although Yamani did almost all talking for OPEC side, other Persian Gulf states represented as follows: Atiqi of Kuwait, Rifai of Iraq, Oteiba of Abu Dhabi, Jaida and Hassan Kamel of Qatar, Froozan of Iran (number two on oil matters in Finance Ministry) and Pachachi of OPEC. All states represented, according to Yamani, were bound by agreement to insist on minimum of 20% participation.

b. Yamani said producers had right to demand participation, based on their accepted right to nationalize. If companies not prepared to agree, producers would exercise their right to nationalize.

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Secret; Exdis. Drafted on January 27 by Brown; cleared in NEA, NEA/ARP, NEA/IRN, and Akins; and approved by Katz. Repeated to Dhahran and London.

[2] According to telegram 673 from London, January 24, Yamani, speaking for OPEC, told the oil companies that OPEC producers wanted participation. He also requested a second meeting with one or two companies. (Ibid.)

c. Iraq specifically mentioned as desiring more than 20% participation. Yamani said however that Saudi Arabia would be satisfied with 20%. If companies made participation agreements, OPEC countries prepared to guarantee their stability.

d. Terms proposed for participation (para 3 reftel)[3] follow OPEC staff model. Companies characterized them as confiscatory and in violation of Tehran agreements, as buyback provisions would change financial obligations under agreements. Yamani stressed importance of avoiding market interruptions, but pointed out that consumers needed producers but not necessarily company middlemen. Company representatives said they could not be willing buyers of oil under proposed terms.

e. OPEC side authorized Yamani to proceed with negotiations in whatever manner he saw fit. Yamani informed companies he had to report to OPEC Council of Ministers by end February for decision whether to proceed with negotiations or take action. In interim, he prepared to talk with individual companies. (We have subsequently learned that Jungers of Aramco will initiate discussions with Yamani February 1; it's not clear however whether Yamani will be speaking for OPEC or in Saudi role only.)

2. While it too early to determine how solidly other Gulf states stand behind Yamani, we are concerned that forcing of the pace by OPEC may lead to early confrontation with the companies. On the other hand, companies not likely to address selves adequately to this problem unless OPEC pressure kept up. In this difficult situation, chances of miscalculation are serious and could lead to disruptive and harmful negotiating crisis. We believe it essential therefore to put our position on record in effort to reduce danger of miscalculation by both sides. We have done so with companies and will continue to urge them to make plans to meet strong, persistent demands of producers for changing their future relationships. Now that OPEC demands are clear, we believe it advisable to inform producer governments of our position before negotiating positions become public and subject to political pressure.

3. We are considering discussing this problem with Governments of Saudi Arabia, Kuwait, and Iran at appropriate Foreign Ministry level. We would not in initial round approach Governments of Qatar and Abu Dhabi. In approaching host governments three action addressees

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[3] According to paragraph 3 of telegram 673, Yamani stated that OPEC nations wanted a minimum of 20 percent initial participation, with the host producing countries share to rise to 51 percent over an unspecified period of time, and the right to market oil themselves or to sell it back to the companies at a halfway price. Compensation would be determined on net book value, presumably paid in forms other than oil. (Ibid.)

would tailor verbal presentation to reflect apparently differing position of each producer government on participation issue. We would present in each case, however, an Aide-Mémoire stating basic USG position on participation question. We feel this particularly necessary in case Saudi Arabia and Kuwait to assure that oil policy decision makers receive through Foreign Ministry precise exposition of USG position. Our statement of USG position would touch on following factors: a) mutual interest host government and consumer governments in stability of oil supplies; b) key role which international oil companies play in assuring this stability; c) contractual rights of these companies in return for their responsibilities in assuring stability of oil flow; d) importance of host government treatment these contractual rights in determining overall economic relationship between US and host country and security of investment in each other's countries; e) long and successful tradition of effecting changes to company-host government relationship through negotiations rather than unilateral action; f) our agreement with host government that oil relationships are to be treated as commercial rather than political matter; g) our gratification that Tehran agreement underscored host government's endorsement of principles noted above; h) our hope that participation question will be approached through deliberate and constructive negotiations between host government and concessionaires.

4. Would appreciate action addressees comments on desirability, substance and modalities of above approach.[4] We are conferring with companies to assure that our discussions with host governments would not undercut tactics on-going company/producer government negotiations.[5]

End

Rogers

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[4] In telegram 143 from Kuwait, January 31, the Embassy suggested that it was not time for a direct approach to the Kuwaiti Government and that Kuwait was not prepared to carry out nationalization as Yamani had claimed. (Ibid.) The Embassy in Tehran replied that the Shah was more interested in a post-1979 agreement that allowed Iran to participate in downstream operations than in participation negotiations. (Telegram 648, February 1; ibid.) From Jidda, Thacher supported the direct approach to the King. He suggested that oral remarks emphasize the years of successful negotiations between the companies and the Saudi Government, that the United States "regards participation issue of special importance but not on political plane," that the large moderate Gulf producers could face down radical government tactics, and that the companies needed time. (Telegram 307 from Jidda, January 30; ibid.)

[5] On February 1, Akins informed company representatives that a possible aide-mémoire would be based on this telegram, plus Thacher's approach as proposed in telegram 307 from Jidda. (Memorandum of conversation, February 1; ibid.)

109. Memorandum of Conversation[1]

Washington, January 31, 1972.

SUBJECT

Conversation with the White House Staff on the Impending Energy Crisis and State Department Suggestions on Meeting It—(Part III of a series of Talks)

PARTICIPANTS

Peter G. Peterson, Assistant to the President for International Economic Affairs and Secretary of Commerce-designate

Peter M. Flanigan, Assistant to the President and Assistant to the President for International Economic Affairs-designate

James Loken, Mr. Flanigan's Office

Under Secretary Irwin
James E. Akins, Acting Deputy Assistant Secretary, E/ORF

The Under Secretary outlined at length the State Department concern about the impending energy crisis and our growing reliance on imported crude oil. Mr. Akins elaborated on these remarks with a set of charts (attached to Memorandum #1 in this series)[2] which summarized projections in consumption and production of hydrocarbons over the next decade.

Mr. Peterson said that these concerns were not new; the matter had been studied as early as 1951 and even at that time there were those who recognized the trends. Under Secretary Irwin said that this was precisely the point we were making; the energy situation has been studied and restudied over many years and the conclusions were always the same. We believe there is little utility in undertaking additional studies; all the information we need is already at hand; and there is no need to fill in the few minor details that are still missing. In short the time for action has come.

The Under Secretary told Mr. Flanigan and Mr. Peterson about the State Department paper on oil and energy problems[3] and our

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[1] Source: National Archives, RG 59, Central Files 1970–73, FSE 1 US. Secret. Drafted by Akins. This memorandum of conversation is Part III of a series of memoranda covering six meetings Irwin and Akins held with other heads of agencies. They met with Lincoln and Schlesinger on January 21 (Parts I and II), Morton on February 1 (Part IV), Nassikas on February 2 (Part V), and Stein on February 8 (Part VI). (Ibid., FSE 15 US) They also met with Connally on March 8. (Ibid., FSE 1 US) The reception of the Department's presentations, which were based on Document 106, was both positive and supportive.

[2] The charts are attached to the February 8 memorandum of conversation with Stein.

[3] A reference to "The U.S. and the Impending Energy Crisis," March 9, which is summarized in Document 116. The NSC Staff's assessment of this paper, including an analytical summary, is Document 128.

proposals to start moving to solve them now rather than waiting until we face actual shortages. The Under Secretary said the State Department was taking action abroad, in the OECD and elsewhere; we intended to continue encouraging cooperation among our allies but it seemed clear that the only hope of solving the problem would be largely through domestic action. The first move should probably be to coordinate energy policy. It seemed to us that, for structural purposes, the "coordinator" should be in the new Department of Natural Resources and, pending its establishment, in the Department of the Interior.

Both Mr. Peterson and Mr. Flanigan agreed that it would be of great importance to the nation to centralize authority on energy matters. Both thought, however, that with the present disarray in the Interior Department it would not be practical to place the coordinator there. Mr. Peterson said that he understood there was considerable feeling in the Administration that energy policy should not even be in the new Department of Natural Resources; the new Department would only implement policies determined elsewhere.

Mr. Flanigan said that he had set up a small ad hoc body in the White House to look into energy matters and that State would be included in future deliberations. Under Secretary Irwin pointed out that the paper we have already completed might be used to further its work.

Mr. Flanigan said that the picture was not as black as we had painted it. We could get oil from the outer continental shelf, from shale, from Prudhoe Bay, Alaska and from Navy Petroleum Reserve No. 4 in Alaska. Mr. Akins said we agreed but, as we had pointed out, our projections were made on the basis of no change in present policies. And unless present policies are changed, none of this new oil Mr. Flanigan had postulated would be available by 1980—if ever. We had, in our paper, specifically mentioned the four items Mr. Flanigan raised. We also had a number of other suggestions for domestic action.

Mr. Flanigan said that he doubted if it would be possible to take significant action in 1972, an election year. Nonetheless, he hoped the Administration would follow our suggestion, would appoint a coordinator who would set up a plan for action and then we could put it into effect very shortly after the election. He said the one major obstacle the Administration faces is the large body of Congressmen and Senators which has accepted the "energy conspiracy" theory. He said the White House so far had not been effective in convincing many of these men that there is any danger of supply cut-offs. Perhaps the State Department could do a better job; he hoped so.

Mr. Flanigan then raised the subject of tariffs on crude oil and residual oil. They apparently will revert automatically on July 1 to their statutory levels as a result of the Venezuelan termination of the U.S.-

Venezuela Trade Agreement.[4] Mr. Akins said we should first decide whether we want the duties to rise. If we don't, there seemed to be three courses of action, all difficult:

1. Persuade the Venezuelans not to terminate all of the agreement. Our Embassy believes that this is a non-starter but Ambassador McClintock will be in Washington the end of this week to discuss this and other matters. Ambassador McClintock will see Mr. Flanigan on Friday, February 7.
2. Pass legislation keeping the tariff at the present concessionary rates. Such a bill would open up the whole oil import program and would most likely be submerged by many amendments on other tariff items. We are not pleased at the prospect of such a bill being introduced.
3. Have a national security finding that it is in our interest to keep the tariff low. This would be hard to defend as long as we have a quota program designed to keep imported oil out. It would be particularly hard to justify on residual oil which comes in without restrictions into District I. Such a security finding would be attacked by the small oil producers and the coal industry.

Mr. Flanigan thought that the third method would be feasible. He said we keep out imported oil with our quota system; it could therefore be maintained that it is in our security advantage to keep the price of all imported oil low.

Mr. Akins said that he did not believe the increased price of oil would be significant to the ultimate consumer, although admittedly the increased payments by power companies for residual oil would cause them anguish. With the higher duty it would be easier for us to eliminate restrictions on Canadian oil with less worry of Canadian impositions of export taxes. And in any case, the price rise would not be caused by any Administration action—or even lack of action—but by Venezuelan unilateral abrogation of the agreement.

Mr. Flanigan said he disagreed; the price increases would cause loud complaints from New England. The Administration will be blamed and we should avoid this if we can. He asked that we look again at the means of keeping tariffs low and inform him of our conclusions.

[4] See footnote 3, Document 104.

110. Intelligence Memorandum Prepared in the Office of Economic Research, Central Intelligence Agency[1]

ER IM 72–15 Washington, February 1972.

OIL COMPANIES COMPENSATE FOR DOLLAR DEVALUATION: THE GENEVA AGREEMENT

1. On 20 January 1972 the Persian Gulf members of the Organization of Petroleum Exporting Countries (OPEC) and the foreign oil companies operating in those countries (see the tabulation) agreed to a substantial increase in posted prices of petroleum. The increase is designed to restore to the oil producing countries the purchasing power lost because of the dollar's devaluation. The other OPEC members—Algeria, Indonesia, Libya, Nigeria, and Venezuela—had already increased their prices individually or are expected to do so in the near future. The agreement should add about $670 million in revenues to the Persian Gulf States in 1972, at least enough to compensate for the reduction in purchasing power of the dollar. It will not impose an added burden on the oil companies or cause much if any increase in retail prices in the major oil importing countries.

Parties to the 20 January 1972 Geneva Agreement

Companies	Persian Gulf Members of OPEC
British Petroleum	Abu Dhabi
Compagnie Francaise Des Petroles	Iran
Gulf Oil	Iraq
Mobil Oil	Kuwait
Shell Petroleum	Qatar
Standard Oil Company of California	Saudi Arabia
Standard Oil Company (New Jersey)	
Texaco	
Continental Oil	
Atlantic Richfield	
Standard Oil Company (Ohio)	
Hispanica De Petroleos S.A. (HISPANOIL)	
American Independent Oil Company of Iran	
Signal (Iran) Petroleum Company	

[1] Source: Central Intelligence Agency, Office of Research and Reports, Job 79–T00935A, Box 66. Confidential. The tables are attached but not printed.

Background

2. The "posted price," the base price against which taxes and royalties to producing governments are assessed, is denominated in US dollars. Oil companies pay taxes and royalties either in US dollars or the dollar equivalent of other currencies. Under this system a devaluation of the dollar means that producing countries receive either the same quantity of depreciated US dollars or a lesser amount of the more valuable non-dollar currencies. Since oil revenues for the Persian Gulf States provide a dominant share of their foreign exchange earnings—ranging from 75% in Iran to virtually 100% in Abu Dhabi—the effect is to reduce substantially the oil countries' purchasing power in those countries whose currencies appreciate relative to the dollar.

3. The threat to the oil countries' purchasing power surfaced in May 1971 when the German mark was allowed to float upward, but did not become acute until 15 August 1971, when the United States suspended the convertibility of the dollar into gold and called for a realignment of international exchange rates. OPEC first reacted in September in a resolution calling for member states to join together to forestall a reduction in their purchasing power. The oil companies at first claimed that the devaluation was simply a reflection of inflation in the United States and that the Teheran agreement[2] of February 1971 already contained a provision for automatic annual posted price increases of 2.5% to adjust for inflation. This argument fell on deaf ears; and, in November, working level negotiations started between OPEC and the oil companies to determine the extent of OPEC members' losses. Uncertainty in the international monetary sphere, however delayed a settlement. Finally the new exchange rates agreed to by the "Group of Ten" on 18 December 1971 enabled the negotiators to estimate more precisely the degree to which the oil countries' purchasing power had been eroded. Meaningful negotiations began on 10 January 1972, and a final agreement was signed in Geneva on 20 January 1972.

The Agreement

4. The Geneva agreement increases the posted prices of Persian Gulf crude exports by 8.49%.[3] The posted prices of crude oil exported from Iraq and Saudi Arabia via pipeline to the eastern Mediterranean

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[2] For the terms of this agreement, see IM 71–43, Some Revenue Implications of the 14 February Oil Settlement with the Persian Gulf States, March 1971, Confidential/No Foreign Dissem. [Footnote in the original. IM 71–43 is printed in *Foreign Relations,* 1969–1976, volume XXIV, Middle East Region and Arabian Peninsula, 1969–1972; Jordan, September 1970, Document 94. For the terms of the Tehran agreement, see Document 86.]

[3] This percentage increase was probably derived in order to yield the countries an increase in revenues closely conforming to the devaluation of the US dollar relative to gold. [Footnote in the original.]

will be increased by the same percentage. This latter percentage can be changed, however, if another Mediterranean producer, such as Libya, receives a higher price increase in subsequent negotiations. The new agreement is considered supplemental to the Teheran and related agreements hammered out in the first half of 1971 and will be effective from 20 January 1972 until the earlier agreements expire at the end of 1975.

5. In anticipation of future exchange rate changes, the accord also provides for further posted price adjustments based on a foreign exchange parity index of nine major currencies relative to the US dollar. These adjustments will be made quarterly beginning 1 April 1972.

Effect of the Agreement

Persian Gulf OPEC Members

6. In total, the Persian Gulf members of OPEC will receive increased oil revenues of about $670 million in 1972 as a result of the Geneva agreement (see Table 1). The Gulf States purchase about 60% of their imports from the major industrialized nations of Western Europe and Japan, which together have revalued by an average of 11% relative to the US dollar. The remainder of the Gulf States' trade is with the United States or with countries whose currencies have not changed or have changed little in relation to the dollar. Overall, therefore, it would seem that the Gulf countries will be more than adequately compensated for the reduced value of the dollar. Individual countries, however, will be affected differently, depending on their particular trade pattern. For instance, while 25% of total Gulf States' imports are purchased from West Germany and Japan—the countries which have revalued the most—the corresponding figure for Iran is 33% and for Iraq, 7%. Under present trade patterns, therefore, the benefit accruing to Iran will be substantially less than accrues to Iraq. This disparity can be reduced by shifts in future trade patterns, but trade relationships are slow in changing. Table 2 shows the Persian Gulf OPEC import pattern in 1970.

Other OPEC Members

7. Indonesia and Algeria individually control the actual sales prices of their crude oil exports on which their revenues are based. Venezuela has legislated the authority to set its own tax reference prices on oil exports. On 1 October 1971, Indonesia raised its prices by 17% to offset the "de facto" devaluation of the US dollar—particularly the substantial devaluation in relation to the Japanese yen. Indonesia sells most of its oil exports to Japan and buys a substantial part of its imports there. Although the 17% increase closely conformed to the eventual increase in the value of the yen relative to the dollar, Indonesia raised its prices by an additional 14% in early February 1972. A substantial part of these increases probably was related to factors other than the yen's appreciation,

for example, the low sulfur content of Indonesian crude oil. The Venezuelan government traditionally sets a new tax reference price for oil exports every year. The last annual change was made on 21 December 1971, when the price was increased 32 cents a barrel—about 12%—for oil exported during calendar year 1972, of which 6 cents was tied to the dollar's devaluation. Since this change was made after the international monetary realignments had been agreed to, it is unlikely that Venezuela will increase its prices further as a result of the Geneva agreement. Algeria's national oil company, SONATRACH, produces almost 80% of the country's oil and had already concluded contracts for the sale of all of its 1972 production before the 20th of January. Some of SONATRACH's sales contracts contain an escalation clause tying price to the dollar's value; and the company apparently is invoking this clause, possibly in response to the Geneva agreement.

8. Libya and Nigeria both plan to open negotiations with oil companies and probably will achieve settlements comparable to the 8.49% increase obtained by the Persian Gulf countries. Such an increase in posted price would yield Libya about $150 million and Nigeria about $100 million of additional revenue in 1972.

Oil Companies

9. The Geneva settlement will not impose an added burden on most international oil companies. Approximately 70% of the Gulf countries' oil exports are sold in Western Europe and Japan, where local currencies have appreciated by an average of 11% relative to the US dollar. A substantial share—probably at least 80%—of the crude oil sales from the Persian Gulf move through thoroughly integrated company channels. The marketing subsidiaries of the international oil companies receive appreciated currencies at the consuming end while producing subsidiaries make payment in devalued US dollars at the extraction end. From at least 15 August 1971 to the new agreement of 20 January 1972 the vertically integrated international oil companies had been enjoying a profit "windfall," since domestic oil prices in Western Europe and Japan had been generally stable. The oil producing countries, on the other hand, were sustaining losses—in the form of reduced purchasing power. The new agreement simply helps to restore the two parties approximately to their original positions. For the smaller oil producing companies lacking marketing subsidiaries in Japan and Western Europe the effect of the Geneva agreement will depend on the terms of the contracts concluded with the importers. If the sales price has been denominated in US dollars, the windfall has been enjoyed by the importer and the Geneva agreement will impose an added burden on the oil company. If the sales contract provides for payment in an appreciated currency or contains an escalation clause based on exchange rates, the non-integrated

producer, like the integrated company, will simply be moved closer to its original position.

Oil Consumers

10. The Geneva agreement should have little effect on retail prices in the major oil importing countries. There is no justification for increasing retail prices in Japan and Western Europe, because the oil companies are already receiving additional income from the appreciation of these countries' currencies, and the increased dollar payments to the oil producing countries apparently do not exceed the increased dollar value of oil sales. Even if the oil companies successfully pass on the extra dollar costs by increasing retail prices, the result would be an increase of less than 4%[4] in the price of crude oil imported by Western Europe and Japan and an increase of less than one-quarter of 1% in the costs of total imports. Such a change is easily overshadowed by even minor changes in tanker rates. The increased government revenue per barrel wrought by the Geneva agreement amounts to 11 cents, or only about one-quarter of a cent per gallon. By comparison, the retail price of regular gasoline in the United Kingdom is 70 cents per US gallon.

11. On the other hand, the price of Persian Gulf crude oil exported to the United States and to less developed countries whose currencies were devalued or were not substantially appreciated almost certainly will increase. The United States, however, imports petroleum mainly from Venezuela and Canada, and the increased dollar payments to the Persian Gulf countries should have little effect on imported petroleum costs to the United States. If the whole increase were passed on in the form of higher prices, the increased costs to the United States would amount to only $20 million in 1972. At the same time the United States stands to gain through increased exports to the Persian Gulf States. For many less developed countries, however, the burden could be substantial. India, for example, faces higher oil import costs of about $10 million in 1972, further aggravating its annual trade deficit.

[4] The percentage increase in cost at the importing end is less than half the percentage increase in oil countries' revenues because transportation and production costs make up at least half the delivered price of petroleum. [Footnote in the original.]

111. Information Memorandum From the Acting Assistant Secretary of State for Economic Affairs (Katz) to the Under Secretary of State (Irwin)[1]

Washington, February 9, 1972.

Oil Participation Negotiations—Companies to Make Proposal

Esso Executive Vice President Emilio Collado told Jim Akins in confidence yesterday that the oil companies plan to put forth a substantial negotiating proposal in the participation talks. The final decision on the companies' offer will be taken by the London Policy Group February 10; if approved, (and Mr. Collado said this was only a formality) the proposal will be advanced to the Shah and Saudi Petroleum Minister Yamani next week.

The companies will propose, in simultaneous conversations with the Shah in San Moritz and Yamani in Jidda, that they enter into large new joint ventures with the producing governments in areas carved at least in part from their present concessions. In Saudi Arabia—if Yamani agrees to the company stipulation that he speak only for Saudi Arabia and not for OPEC—the companies will propose surrender of some of their territory in the Empty Quarter, matched by Saudi assignment of some presently unassigned blocks in the same area. A joint operating company would be set up to explore and develop the concession. A similar arrangement would be proposed for Iran, although we do not know in what area. The concession area in Saudi Arabia could be drawn to include some already proven but undeveloped oil fields, and the same arrangement could also be made in Iran.

We believe this is a foresighted move on the part of the companies. It is one we have specifically suggested to them, and it will undoubtedly change the negotiating situation considerably. Consequently, the démarche to set forth our position on the OPEC demands does not seem called for at present.

Neither the Shah nor Yamani, however, is likely to swallow this bait whole. Participation, either in the disguised form which the Shah has suggested or in the OPEC form, would still be more advantageous to the governments than new joint ventures. Even if they included proven oil fields, the joint ventures would involve large capital commitments and a number of years' development time before they could

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Secret; Exdis. Drafted on February 8 by Brown and concurred in by Akins. A copy was sent to Davies and Miklos.

begin to pay off. Nevertheless, the companies have now done what we and many of their own employees have been urging them to do and are about to take a major step toward a new future.

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112. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, February 17, 1972, 1810Z.

536. Ref: Jidda 535.[2] Subject: Discussion re Participation With Min-Pet Yamani.[3]

Summary: In hour-and-half meeting with Yamani and Deputy Pet-Min Prince Saud, Amb asserted fundamentals of USG interest in international oil industry stressing particularly our deep concern at prospect possible unilateral seizure by Saudi Govt of Aramco's basic contract rights. Owing great sensitivity of US opinion re security foreign investment, USG compelled make its views known on issue which has record being most troublesome over recent years. Reiterating this point several times, Amb also noted fine history of successful negotiation of evolving relationship which has characterized Aramco–SAG contacts over years. Expressed strong hope Aramco offer presented to Yamani might be basis for traditional negotiated settlement of issues. Yamani pointed to deep Saudi concern with maintenance stability in oil supplies and positive role SAG has played over years in assuring these. New winds now blowing as marked by Algerian action, Libyan and Iraqi attitudes. Saudi Arabia will suffer severe damage if left behind. Amb found further opportunities stress again momentous consequences seizure of company's rights by one of world's largest oil pro-

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Secret; Immediate; Exdis. Repeated to Dhahran, Tehran, Kuwait, and London.

[2] Dated February 17. In it, the Embassy reported that, at a February 15 meeting, Yamani refused to consider Aramco's proposal for joint venture development of untapped acreage as the answer to OPEC participation. Yamani indicated that "life for Aramco may be more difficult in future." (Ibid., Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. III) In telegram 1548 from London, February 20, the Embassy reported that Yamani had stated on February 15 that Aramco's proposal was "meaningless and irrelevant," and it was important to "have Saudi blood in Aramco itself" and not just in areas proposed for joint venture. (Ibid., RG 59, Central Files 1970–73, PET 6 SAUD)

[3] Thacher had been instructed to speak with Yamani using points in Document 108, without an aide-mémoire and before Yamani's departure for Geneva. (Telegram 27632 to Jidda, February 17; National Archives, RG 59, Central Files 1970–73, PET 3 OPEC)

ducers. Saudi position in Middle East strong. Its capacity for leadership still great. Could it not continue lead toward moderate rather than radical solutions?

Yamani concluded view Aramco's refusal present proposal which could reasonably meet requirements of situation, he must yet return to OPEC Committee, tell them of failure his efforts and turn problem back to OPEC for handling. He indicated radicals in OPEC could be expected seek much more drastic solutions far more seriously damaging oil company interests. Jungers believes Yamani may well depart soon to do as he says.

1. I met hour and a half with Yamani late morning February 17. Deputy Minister Petroleum Prince Saud al-Faisal also present. Jungers and Brock of Aramco were leaving just as I arrived. Commenced by saying I wished reiterate fundamental USG concerns relative international oil industry. These included of course our interest in seeing uninterrupted supply of oil to important and dependent consumer governments, our conviction international oil companies continue have vital, useful role in stability of oil flow, function which has been of mutual benefit to producing governments and consuming countries. Similarly USG has over years observed with respect manner in which Aramco and Saudi Government successfully negotiated their evolving relationships. Under these circumstances USG had almost never found any necessity intervene.

2. Negotiating problem which currently under consideration was entirely different from those that had hitherto arisen between SAG and Aramco. Prospect of possible unilateral change by Saudi Government of vital contract rights touches sensitive US nerve. In such situations USG is compelled to make its views known. Pressure of public and congressional opinion compels us to act. In my diplomatic experience I had noticed few other matters that could be so troublesome as seizure by foreign government of rights of US investors. As evidence of intense USG concern, I reminded Yamani President had recently issued public policy statement[4] on this question which, if not applicable in all its provisions to situation between Aramco and SAG, was certainly evidence USG awareness great public sensitivity on this issue. I was perhaps more lucky than other colleagues who had had to deal with issues of this kind around the world in that I was privileged to talk with government where friendly relations strong and dialogue carried out on basis confidence and mutual understanding.

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[4] Apparently a reference to the President's "Third Annual Report on United States Foreign Policy," dated February 9. The President's message is printed in *Public Papers: Nixon, 1972,* pp. 194–345.

3. Expressed warm hope as Aramco and SAG faced new negotiating problem, tradition of amiable fruitful government-company exchanges might be preserved for mutual benefit. In present case, as I understood it, Aramco had made offer for participation with regard to certain new acreage. While I could not pass on its merits, urged this be regarded as basis for beginning negotiation in usual fashion.

4. Yamani commenced his response by saying that fundamental motivation behind current SAG oil policy was desire to maintain stability and create a new satisfactory era of company-government relations which would last for long time to come. Over years Saudi Arabia has developed strong sense obligation maintain supplies to consumer countries. In assessing Saudi views, USG should give full credit part Saudi Arabia has played in maintaining stability in oil relationships.

5. National sentiment for control over their domestic national resources has become steadily stronger. Among raw material producing governments Algerians have already taken 51 percent. Libyans have [made] clear they going at once for same thing. Iraqis are becoming extremely active, Yamani noted. Iran too has made clear present concession will be finished after 1979. Only by going out to meet this developing situation with some reasonable proposal of type SAG now suggesting can threat of much more drastic and dangerous takeover of oil company interests be avoided.

6. Yamani then expounded favorite "change of circumstances" doctrine, which he asserted possesses recognized legal status. History of Saudi-Aramco relationships marked by seven different changes in original concession agreement over past ten years.

7. New era in oil industry coming. How can Saudi Arabia stand by while its neighbors move to assume control over their oil resources? Were it to remain far behind times, Saudi Government's international prestige and its prospects for internal stability would be severely damaged. Proposals now agreed upon by OPEC which had been basis his instructions for talks with Aramco had only been created after many weeks of persuasive arguments by Saudi reps at OPEC. Saudi Arabia and some other governments prepared now to guarantee absolutely that 51 percent would be limit of demands by Saudi Arabia, Kuwait and Gulf states. Other states, he implied might soon go to 100 percent.

8. Yamani concluded by asking USG help with urging companies to cooperate in this last chance for preserving stability in oil supplies so vital to West. Aramco proposal (detailed explanation of which Jungers had just given him Jidda 535) had nothing in it which Saudis could offer to other governments as meeting participation requirement. Jungers had informed him companies had nothing further to present. Under these circumstances he had no choice but to return to OPEC and turn matter back to its committees for their action.

9. In reply I pointed out to Yamani that what he had said pointed again at what seemed to me most crucial aspect: dangers of seizure of contract rights by unilateral action. Tehran agreement had reasserted inviolability of contract rights of companies. Now law of changing circumstances was being cited for drastic new request less than a year later. Could companies under such conditions reasonably be expected to accept another guarantee by governments? Moreover I wondered if "law of changing circumstances" was not based on concept of mutual agreement by both parties to accept changed circumstances.

10. As to pressures for change I told Yamani we recognized existence of these and nationalistic feelings of producer governments. But could these not be satisfied better through mutual agreement than through possible disastrous unilateral action. Step by one of largest oil producing governments in world to seize contract right of producing company would have enormous, worldwide ramifications.

11. I told Yamani that US had over years valued greatly its friendship with Saudi Arabia because of Saudi stability, moderation and common ties between us. Strong position of SAG had recently still further increased. Respect Saudi Government enjoyed in Middle East and world scene steadily increasing. While Minister saw things necessarily in oil context, I hoped he could be aware too of other elements in Saudi position which gave it strong potential to play moderate constructive role which under Saudi leadership could be general policy of Gulf region. Noted I not aware what Iranian Government proposing but my understanding Iran intending abide by existing contract terms until contract expired. Prince Saud remarked companies were saying Saudi Arabia intended confiscation. This not case. Saudi Arabia intended pay compensation. I said I thought here again companies were speaking primarily of possible loss by Saudi legislative action of basic contract right.

12. Yamani remarked that immediately prior to signing of Tehran agreement producer governments had convoked their lawyers for careful study provide assurance agreements about to be signed would not interfere producing governments' right to participation. Yamani admitted, however, it was error not make this point clear to company representatives at that time.

13. At any rate, declared Yamani, it was clear in view Aramco attitude that mission assigned him by OPEC had come to an end and problem must now be turned back to OPEC committee where there are attitudes and voices far more radical than Saudi Arabia's. When I asked if he would be making his report about March 1 as agreed with OPEC colleagues, Yamani said understanding had been that he would respond earlier if he felt there was nothing else he could achieve.

14. Repeating my hope that drastic right-seizing route would not be chosen and yet as Yamani had described situation we see end standing at brink of most ominous decision. I had hoped that my presentation views my government might have some influence in this situation. Yamani expressed appreciation, asking again that we be helpful with oil companies but saying also "your visit will have its effect", and, somewhat inconclusively, "we are always ready to do what we can do." I ended session by reminding Yamani that in view official character my representations I felt obligation inform Saqqaf of our talk since he was my regular official channel. Yamani nodded but made no comment.

15. Meeting, while tense, was friendly throughout marked by occasional signs weariness, even dejection, Yamani part through his statements were without bitterness.

16. *Comment:* Yamani's final remarks seemed reflect slight willingness take into account seriousness our concern and points I had made to him. With Jungers immediately afterwards we tried assess degree Yamani's intent return to Geneva in near future, perhaps next couple days. Jungers, who has spent many hours with Yamani, found him to a degree bitter, even somewhat hostile (see Jidda 535). He sees nothing motivating Yamani abstain from reporting quite promptly his "failure" to OPEC committee. I had same feeling during course of meeting and it was for this reason I told him I obligated inform Saqqaf. As perfectly correct diplomatic measure, Yamani cannot seriously feel I am pressuring him unduly. Yet by telling Saqqaf we make reasonably sure King will know of my approach hopefully before Yamani's possible departure.

17. Jungers and I agreed it best withhold next day or so futher representations on my part with Fahd, Sultan or other senior government figures until we see what further reaction there may be from Saudi side.

Thacher

113. Telegram From the Embassy in the United Kingdom to the Department of State[1]

London, February 18, 1972, 1448Z.

1505. 1. *Summary.* Shareholder rep described Shah's position at St. Moritz meeting as reasonable and encouraging. At his request Consortium planning second meeting with Shah, and would like to have it before next OPEC meeting. *End.*

2. Our source said that first session had been rather difficult with Shah pointedly referring to end of Consortium concession in 1979 and airing very ambitious list of expectations, including cost oil and role in marketing operations in US.

3. In later session discussion reportedly more "realistic" and Consortium team took away and agreed to consider seven point shopping list.[2] Shah asked team to meet again with him for further discussion this list, and although no date or place fixed, Consortium sentiment here is in favor of getting back to Shah before next OPEC meeting (which is expected at end February or very early March). Shah reportedly indicated that if Consortium responsive to his 7 points, he would rise above legalities of extension of concession in 1979, and foundation would be laid for "evergreen" agreement.

4. Our source did not enumerate Shah's seven points nor offer details of package which Consortium team outlined to Shah, however 3 of Shah's points reportedly overlapped with Consortium offer on investment in production and export capacity. According our source, Consortium envisaged doubling of its production and offtake over 5 years. In addition Shah sought commitment to considerably higher level of exploration activity and to construction of new export refinery. Reportedly, Shah abandoned his first references to cost oil, concentrating on Consortium's suggestion of increased quantities of oil to NIOC at preferential price, and also set aside his initial suggestion of role for NIOC in Consortium marketing. However, Shah reportedly indicated that he does envisage increased marketing activity on part of NIOC, and he revealed throughout the discussion strong interest in US market. Apparently he mentioned Cities Service and Ashland as potential partners, if Consortium shareholders not able or willing.

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Confidential; Priority; Limdis. Repeated to Bonn, The Hague, Jidda, Kuwait, Lagos, Paris, Tehran, Tripoli, Dhahran, Vienna, and USOECD Paris.

[2] Although the telegram references a seven point shopping list, telegram 1137 from Tehran, February 24, lists the following points: substantial amount of oil for marketing in the United States, partnership in downstream operations, a change in the APQ voting procedure, and conservation measures. (Ibid.)

5. Consortium team presented its proposals for new capacity and higher offtake as part of package, which included additional oil to NIOC at preferential price, and offer to relinquish certain areas Consortium concession for purpose carrying out activity there on joint venture basis with NIOC. Team reportedly indicated that its package proposal predicated on assurances about continuation of concession after 1979, pointing to impossibility of investment if future uncertain, and assumed stability of Tehran agreement.

6. Consortium plans first meeting for discussion of St. Moritz results on February 18.

7. *Comment:* Our source was encouraged by the results of St. Moritz. He described Shah's presentation as "statesmanlike" and apparently based on sound technical preparation. In view of this source, Shah's seven points (or at least those revealed to us) are negotiable.

Annenberg

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114. Memorandum of Conversation[1]

Jidda, February 21, 1972.

SUBJECT

USG Views on SAG Aramco Oil Negotiations

PARTICIPANTS

His Majesty King Faisal
H.R.H. Prince Nawwaf, Royal Counselor
H.E. Dr. Rashad Pharaon, Royal Counselor
H.E. Sayyid Omar Saqqaf, Minister of State for Foreign Affairs
H.E. Shaikh Ahmad Zaki Yamani, Minister of Petroleum
Ambassador Nicholas G. Thacher
Francois M. Dickman, Acting Deputy Chief of Mission and Counselor for Economic Affairs
David G. Newton, Principal Political Officer

The meeting, which lasted for sixty minutes, began with Prince Nawwaf as sole Saudi observer. During the meeting the three other participants joined, the last arrival being Minister Yamani.

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 6 SAUD. Secret; Exdis. Drafted on February 26 by Newton and cleared by Thacher. The meeting took place in King Faisal's office. Thacher made this approach as instructed in Document 108.

The Ambassador said he was grateful to meet with His Majesty. He had brought some notes in the interest of precision and to save the King's valuable time. He wanted to present some of the U.S. Government's thoughts on the present oil situation. We both, i.e., the United States and Saudi Arabian Governments, have common interests and the U.S. Government also wanted to learn some of the King's views.

Saudi Arabia, the Ambassador noted, shared with the United States and the Free World, a great common interest in the stable flow of oil. It was of great importance to Saudi Arabia as a steady source of income. Western Europe and Japan had a great interest in a stable supply of oil. Over the years SAG and the companies had established a model, greatly admired in the world, for negotiation through understanding to achieve a common arrangement of great value to both sides. There had sometimes been hard bargaining and keen debate, but over the years full understanding had been reached. It had been a strong, useful, and fruitful partnership. The USG hoped very much that this pattern of mutuality in negotiating and arriving at agreements could be maintained into the future, with useful benefits for all.

We understood that, in the present situation of negotiations between the companies and SAG, the companies had put forward a proposal. We did not wish to pass on merits or details nor was the Ambassador authorized to support any such detail, but the U.S. Government hoped that this proposal would be the basis or starting point for agreement, as had happened in the past. The U.S. Government was not suggesting that it intervene in the negotiations in any way; it knew negotiations had been very successful in the past. It was only suggesting, with regard to the company's offer, that there be a continuation of the traditional pattern of negotiations.

In this connection the U.S. Government's attention had been drawn to the principles contained in the Tehran Agreement. In the agreement it was stated that the basic contract rights would be respected by the governments for the period covered. The U.S. Government understood that perhaps some consideration was being given, should it not be possible to arrive at any agreement with the companies, to taking away some of these contract rights. Thus, in certain circumstances, the companies would lose these rights which were reaffirmed at Tehran. It was the U.S. Government's feeling that the existing pattern of international oil by which the governments respected contracts rights while the companies performed the useful role of assuring a smooth flow and a stable price had proved beneficial and had assured a steady income to the governments.

The Ambassador concluded his presentation saying that his government had instructed him to place these views before the King and to give him its understanding of the situation. Because of the long spirit

of goodwill and friendship between the two countries, he felt they could discuss these matters in full and frank friendship.

King Faisal responded that the history of Saudi Arabia-company relations showed that SAG had always followed a policy of cooperation based on mutual understanding and mutual interest. He wished the other side would meet SAG halfway.

The question of oil in this region of the world was a sensitive question. Saudi Arabia was always accused of being agents for the Americans. In the area there were now those who were calling for everyone to take a stand against the Americans and Europeans, who always sided with Israel. Saudi Arabia had always tried to keep clear and to avoid such an embarrassing situation. If Saudi Arabia found itself taking a position at variance with that of everyone else, it would be very difficult. Saudi Arabia always requested from its partners, the companies, that they meet it halfway and cooperate for the common interest.

With regard to the Tehran Agreement, Saudi Arabia had no objection to it but it was not germane here ("ma fi kalam"). Saudi Arabia's suggestion was that the oil producing countries have an effective partnership to avoid the danger to the companies of having the producing countries turn against them. The King had instructed the Minister of Petroleum to say that the companies should appreciate this situation so that Saudi Arabia would not be forced to take a position it did not want to take. The Minister conveyed this message, but unfortunately the companies did not respond.

The Ambassador replied that it was his understanding that the companies had presented an offer. The U.S. Government did not suggest this offer was perfect or not negotiable. But it hoped that this offer could be a beginning for negotiations, so as to avoid drastic actions which, as His Majesty had noted, could have serious repercussions. The King responded that the companies were considered friends and had thereby been given SAG's frank opinion. SAG did not want to bargain but wanted their definite and final response. The Ambassador suggested that possibly there was a misunderstanding. The companies in their meeting with Minister Yamani, with Deputy Minister Prince Sa'ud present,[2] had presented a written proposal. This had been the basis for the Ambassador's reference to his hope that it would be a beginning.

The King said, that in such matters, the Saudi Government presents its "suggestion" in final form, after having taken into consideration the interests of its partners. SAG did not want to be in an embarrassing (political) position and it was incumbent on the companies to help it get out, not to give an opportunity for hostile parties to attack

[2] Apparently a reference to the February 15 meeting; see footnote 2, Document 112.

both the Saudi Government and the companies. The Ambassador responded that the U.S. Government understood the King's point. The King knew the position of his own country and government and the Ambassador would not presume to contradict his interpretation. His Majesty had spoken of the pressures on the Saudi Government, its enemies, etc. The United States recognized these problems. Nevertheless, Saudi Arabia over many years had had a policy of negotiation, moderation and partnership. The United States hoped this policy could be continued and that Saudi Arabia would continue to set this pattern as a leader in world oil policy.

The King then reiterated that this had indeed been SAG policy—one of mutual understanding, interest and benefit. But the companies had to understand that Saudi Arabia was now in a different situation. When Saudi Arabia made a decision, it kept the interests of both parties in mind; such a decision was normally final. Saudi Arabia did not demand unreasonable or impossible things like some other countries. He reemphasized that the situation had changed and the companies had to help Saudi Arabia out of its difficulties and not let it fall into a situation both sides wanted to avoid.

The Ambassador said that the fairness of Saudi Arabia was well known and had benefited the world oil economy, the companies, and Saudi Arabia itself. He believed that the companies understood the King's views. There was one additional important point in connection with the Ambassador's call. This was that the present problem between the companies and the Saudi Government was somewhat different than previous ones which dealt with such matters as taxes, shares of profits, etc. This time it involved the ownership of certain rights, of the enterprise itself. It was a matter of concern for the many owners in the United States who were an important segment of domestic public opinion. His Majesty had lucidly explained some of Saudi Arabia's political problems; in frankness, the U.S. Government (and the companies) had somewhat the same kind of problems since it involved the ownership of American companies and some rights which were part of the contractual arrangement. In mentioning this aspect (i.e., the difference between this and earlier government-company problems), the Ambassador was pointing out that it was thus a matter of interest for the U.S. Government. He believed that it was a matter that still could be worked out.

The King then said it is basically a question whether SAG's colleagues prefer still to have a partnership or to be thrown out. Saudi Arabia, as did the Ambassador, wanted them to remain.

King Faisal then asked Minister of Petroleum Yamani, who had arrived a few minutes earlier, whether he had read the *Ra'y al-'Amm* (Kuwait) editorial attacking President Sadat for saying that Arabs should not use oil as a political weapon against the West, since they would only be harming themselves. The King emphasized that this

attack had appeared from a moderate state, not a radical one such as Libya or Algeria. Yamani responded that Iraq in 1964 had demanded 33⅓% participation; Libya wanted control; even Nigeria wanted more than SAG. Saudi Arabia was caught in the middle. As he had told the Ambassador two days earlier,[3] Saudi Arabia was a buffer between the companies and the radicals and was suffering. If the companies didn't like what Saudi Arabia was doing, it could withdraw and leave them to face the radicals.

The Ambassador replied that he understood the problem of radical pressure. But Saudi Arabia had the strength and power and King Faisal had the prestige and ability to prevent anything happening to destroy the partnership between the two sides. The King interjected that when SAG's partners persisted in not helping, it could not carry out its intentions. The Ambassador responded that the U.S. Government hoped that these partners had made a helpful first step. The King replied that the issue was not one of bargaining; Saudi Arabia had given its final view and wanted their decisive and final answer.

In summation, the Ambassador said that the U.S. Government hoped that the process of negotiation would continue in good spirit and goodwill. It was concerned by this matter and hoped that the King would understand that action by Saudi Arabia or any government to seize contract rights would have great consequences. Saudi Arabia had a great position and great responsibilities and would not, the U.S. Government hoped, take away these contract rights unilaterally. It was important to keep this satisfactory relationship as in the past. Hopefully, instead of any such seizure occurring, the two sides could work out a continuing relationship. The U.S. Government was not unaware of the problems facing His Majesty, but it hoped that the path of negotiations could be followed. This is what it believed the companies wanted. The U.S. Government did not take a position on the details of their offer, but realized that they felt that the Tehran Agreement had preserved their contract rights. A spirit of understanding and cooperation, in the U.S. Government's view, could and should be preserved.

The King responded in summary that this was all that the Saudi Government hoped. It did not want to be forced to take an attitude it did not desire, but needed the companies' understanding of SAG's situation and its present difficulties. He wanted to reaffirm that Saudi Arabia would continue to cooperate with the companies and wanted this spirit of cooperation to prevail through the expiration of the concession so that there would continue to be further cooperation afterwards. The one condition was that the companies help and meet Saudi Arabia halfway.

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[3] See Document 112.

The Ambassador concluded saying that his request for a meeting was a sign of the concern and interest of the U.S. Government. He reiterated its hope that the negotiations would succeed and that there be no seizure of rights as this could have worldwide ramifications. He hoped careful consideration would be given to the companies' offer. The King closed by saying that he also hoped for agreement.[4]

[4] The next day, Thacher commented that if other members of the King's inner circle, who were not usually conversant with oil issues, had been present, it might have lead to discussions concerning the course Yamani was pursuing. (Telegram 361 from Dhahran, February 22; National Archives, RG 59, Central Files 1970–73, PET 3 OPEC)

115. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, March 2, 1972, 1600Z.

703. Subject: Current Assessment Oil Participation Situation.

Summary: It seems clear Yamani intending lead and orchestrate producing government demands for participation and that he has secured support in SAG top levels with compelling political arguments drawing particularly upon nationalistic impulses which impel all developing nations seek control their vital national resources. It will be hard find anyone in top level Saudi establishment prepared argue against such considerations. Several USG démarches have not to date had visible effect, but neither have they, we believe, cost US much good will or political capital. However, further US representations to Saudis will begin have effect on Saudi-US relations. USG support for bitter, last ditch stand by companies could be most costly, not only in Saudi Arabia but in other Arab countries as well. Believe our role to date leaves us still in position exercise influence helpful to companies when time comes for bargaining over details of ultimate settlement such as period of time in which 51 percent is achieved or level of compensation. *End summary.*

1. Petroleum Minister Zaki Yamani has professed to be motivated by fear of pressures and embarrassment which radical oil producing states could bring to bear on Saudi Arabia if it does not move promptly

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Secret; Priority; Exdis.

to obtain participation from oil companies or legislate it by decree. There is a germ of truth in such apprehensions but we convinced Yamani has other objectives in mind and intends instead claim for Saudi Arabia role as leader in battle against oil companies. Victory would clearly establish King Faisal and SAG as champions in struggle for assertion of Arab and developing country rights. At this point, it probably not worth our while endeavor analyze obscure complex of personality characteristics, ambitions and frustrations which may be motivating Yamani. But his carefully tuned press campaign intended gradually draw King into public commitment to Yamani's demands, his travels of last few days to Beirut (where it is reported he saw Libyan Oil Minister), Tehran, and Baghdad indicate deliberate preparations on his part to orchestrate OPEC position rather than (as he has tried to imply to US and to Aramco) simply reporting his "failure" and leaving Saudi and Gulf policy generally to be decided by committee action. Report in press here today of Kuwaiti announcement GOK intention to secure participation or legislate it shows too, careful coordination by Yamani and Atiqi. Whatever OPEC announcement may follow March 8 meeting, we think it quite likely substance will be something Yamani has designed.

2. As Department knows, seizure of national resources is intoxicating doctrine in any developing country, including those with conservative governments. Pharoan's remarks (Jidda 666)[2] are good indication Yamani has not had to trouble with explaining any complexities of oil business, contracts, etc., but has composed compelling political arguments with which to secure support of top-level figures of SAG. His appeal has two important elements: Saudi Arabia is often accused in Arab councils of being a stooge of US, a charge which makes Saudis uneasy and recalls to them fate of Nuri government in Iraq and Idris regime in Libya which were similarly considered good friends of USA.[3] Yamani has no doubt argued with his colleagues that there is opportunity for SAG direct developing oil events so that they will strengthen SAG's position on Middle East scene. Choice is to let Saudi Arabia be, as he claims it has too often been in the past, a follower bringing up rear, or to be leader gaining credit as progressive standard bearer.

3. Second aspect Yamani's appeal is probably even more compelling: Saudis should have control their country's only important nat-

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[2] Dated February 29. In it, the Embassy reported that Pharoan stated that the companies should at least accept the principle of participation. The alternative would place the King in an embarrassing predicament, expose Saudi Arabia to attack by radical Arab critics, and raise the specter of imposed participation or even nationalization. (Ibid.)

[3] Nuri es-Said was Prime Minister of Iraq for the eighth time when the government of Faisal II was overthrown in a coup on July 14, 1958. Faisal and es-Said were among those assassinated. King Idris of Libya was overthrown in the 1969 coup that brought Qadhafi to power.

ural resource. We have world wide experience of strong emotional, political impact this doctrine. Now if, as we suspect, it has been spread throughout top levels of SAG, it will be hard to find anyone in Saudi establishment prepared argue against it on basis sanctity of contracts, difficulties of finding future investment funds or other reasoning. As Yamani said to me in our meeting of Feb 17, "we want to place a Saudi flag, if only a little one, over our own oil industry."[4] At time Prince Saud followed up with earnest plea that Americans must realize Saudi Arabia is solely dependent on oil and must try to understand inevitable nationalistic desire control disposition of asset most vital to Saudi existence. In many Saudi minds such emotions would be re-inforced by strong underlying resentments stemming from US support of Israel and pleasure at prospect of seeing Arabs win victory at US expense.

4. We see little visible results ours or Aramco's (and we don't expect much from Aramco-King meeting if it takes place) representations to date. In constant daily contact with King, Yamani is able, of course, do effective job refuting our concerns and give heavy emphasis to many strong cards in Saudi hands should showdown come including sellers' market, apparent easy Venezuelan, Algerian, and Libyan successes in besting oil companies, etc. As noted at Under Secretary's Jan 3 meeting with oil company heads,[5] real leverage which USG can bring to bear is not very great. (Moses of Mobil also told Ambassador companies aware this fact.)

5. To date, USG representations on participation issue here have we think been received in same friendly spirit with which they offered but we are nearing point where further démarches will commence using up some of our political capital with adverse impact on Saudi-US friendship. USG support for bitter last ditch stand by companies could, of course, depending on circumstances, do significant damage to Saudi-US friendship with unfavorable impact on other important USG interest not only in Saudi Arabia but in other friendly Arab countries as well. US position in Arab world will suffer on day that Yamani decides release to press announcement that USG is trying to interfere with Arab countries' rights to their own natural resources. Such declaration would seem highly unfortunate at time when USSR concluding agreements for closer ties with Kuwait's and Saudi Arabia's Arab neighbors.

6. In past confrontations between US companies and producing governments, USG has often found it desirable remain aloof from early phases struggle and keep its influence in reserve for application at point where two sides may be nearing some agreement. Believe we could still play such role, which could be distinctly helpful to companies, in

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[4] See Document 112.

[5] See Document 104.

present instance when Aramco and government get down to hard task of bargaining over terms of compensation, rate at which participation increases to 51 percent, etc. However, our potential as helpful informal arbiter in final stages of negotiations (role in which we might gain considerable kudos with both sides) will be reduced if we continue simply reiterating present arguments and company positions without offering new proposals for solutions. Until latter are forthcoming, we think it best we not undertake further representations to SAG.

Thacher

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116. Memorandum From Secretary of State Rogers to President Nixon[1]

Washington, March 10, 1972.

SUBJECT

Petroleum Developments and the Impending Energy Crisis

During the last year and a half my staff has conducted a comprehensive examination of the changing energy situation. We have reviewed various studies conducted by other government agencies and private organizations and have held extensive consultations with oil experts in and out of government, with officials concerned with energy matters in allied capitals, and with senior executives of the oil industry.

Our conclusions to date are as clear as they are disturbing. Unless present trends are reversed, the United States by 1980 will be producing little more oil than its produces today while consumption will rise from 15.8 million barrels per day in 1971 to 24 million barrels per day in 1980. At that time we will be forced to import half our petroleum needs, largely from the Arab States, which contain at least two-thirds of the non-Communist world's oil reserves.

Our NATO allies and Japan are in an even more precarious position. They are already heavily dependent on the Arabs for a large share of their total energy consumption. In 1980, by all accounts, this dependence will be still greater.

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 1 US. Secret. Drafted on March 9 by Akins and cleared in E, E/ORF, D, and U.

The bargaining strength of the Arabs and the other oil producers is increasing. Most of these governments are now organized in a de facto producer cartel (OPEC) and their revenues and foreign exchange reserves will increase enormously in the years ahead. There is a strong trend toward nationalization in many of the producing countries which, they have stated openly, they expect to achieve in a short time.

While dependence on the Eastern Hemisphere for much of our energy is almost certainly bound to grow whatever we do, this dependence can be significantly reduced if we move now to reverse production and consumption trends in the non-Communist world, particularly in the United States.

Since September 1970 we have had almost constant conversations with our allies and our oil companies on this matter. We have kept them as fully informed as possible on developments in OPEC and on threats to our security. We have urged common action by consumers in the OECD and we have urged our European allies to raise the levels of their strategic stocks of petroleum to give them at least some degree of flexibility in dealing with the producing governments.

We are also taking the following actions which we believe could help alleviate our situation:

—We are continuing our efforts to work out an energy agreement with Canada. The discovery of large quantities of oil and gas in the Canadian Arctic may convince the Canadian Government that the natural market for these hydrocarbons is in the United States.

—We are examining a proposal for an energy agreement with Venezuela which would now allow some and would ultimately permit all Venezuelan oil to come freely into the United States, provided Venezuela will give us, in the form of an executive agreement or a treaty, assurances that the investment needed to develop Venezuela's very large reserves of heavy oil will be secure.

—We will ask our allies—notably Canada, Japan, the UK and the EC countries—to examine with us the feasibility of vastly increased cooperation in the development of both traditional and nonconventional energy forms.

It is clear, however, that the energy crisis will be solved primarily by domestic action, not by action taken abroad. I hope the Oil Policy Committee or the Domestic Council will be able to draw up concrete plans for your consideration and, if you approve, for early implementation.

I am enclosing the current draft of a paper we have been working on which discusses the impending energy crisis.[2] It includes a list of

[2] The paper, "The U.S. and the Impending Energy Crisis," March 9, is not printed but a copy is ibid., Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Energy Crisis Part 3. The NSC Staff's assessment of this paper, including an analytical summary, is Document 128.

suggested actions which we might take to reduce our dependence on foreign oil. These are not definitive recommendations but are being put forward for discussion and consideration by the Oil Policy Committee and the Domestic Council.

Jack Irwin has discussed this or an earlier draft with most of the key Administration officials who have an interest—Messrs. Connally, Morton, Laird, Schlesinger, Lincoln, Flanigan, Peterson, David, Stein and Nassikas.[3] They may differ with us somewhat on approach but they all agree with our analysis of the seriousness of the problem and the necessity of taking action.

William P. Rogers

[3] See Document 109.

117. Telegram From the Department of State to the Embassies in All OECD Capitals[1]

Washington, March 11, 1972, 0006Z.

42129. Subj: Petroleum: Aramco Accepts Participation Principle. Ref: State 40217 (Notal); State 38469.[2]

1. Parent companies of Aramco have advised Department that Aramco President Jungers informed Saudi Petroleum Minister Yamani, on March 10 in Beirut, that company prepared accept principle of twenty percent participation in Aramco, as requested by King Faisal.[3] Aramco however reserved its position on timing, compensation, amount of compensation, disposition of government's share of production, future financing requirements, and desire for assurances for future.

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Secret. Drafted on March 10 by Brown; cleared in NEA/ARP, AF/N (in substance), EUR/RPE; and approved by Katz. Repeated to USEC Brussels, USNATO Brussels, Algiers, Beirut, Dhahran, Kuwait, Jidda, Djakarta, Benghazi, Caracas, Lagos, and Tripoli. Printed from an unsigned copy.

[2] In telegram 40217 to Jidda and London, March 7, the Embassy reported that Aramco owners were preparing to send a letter to the Saudi Government advising that they would accept Faisal's principle of 20 percent participation. (Ibid.) In telegram 38469 to all OECD capitals, March 8, the Department summarized the status of the OPEC-oil company negotiations. (Ibid.)

[3] As reported in telegram 771 from Jidda, March 7. (Ibid.)

2. Aramco decision has come after failure of owners' efforts, through appeal to King Faisal, to block Yamani's participation push. Faced with King's insistence that companies accept principle of participation, and some indication that Saudis prepared to show flexibility on terms, companies apparently saw no choice but to accede. They secured agreement of other international oil companies in meeting of London Policy Group on March 9 in New York. They also agreed to inform major consuming governments immediately after giving letter to Yamani.

3. Although long and perhaps bitter negotiations remain with Saudi Arabia and other oil producers, Rubicon has been crossed. While it obviously impossible to predict how companies' new course will work out, we consider their decision was correct and that they have chosen least undesirable alternative open to them.

4. Yamani agreed to make press announcement March 11 before opening of OPEC conference in which he, speaking as Saudi Oil Minister, would announce companies' decision and state that complicated negotiating process due to start soon. Companies will also release press statements in New York. Yamani told Jungers that Council of Ministers had already arranged OPEC resolution; it unclear whether it will now be changed to reflect new Aramco position.

5. Next Aramco–SAG meeting tentatively set for March 18. Jungers informed Yamani, and latter accepted, that companies would be prepared only to discuss agenda for subsequent meetings.

March 16, 1972–March 6, 1973

118. Editorial Note

Representatives of the United States and the United Kingdom met March 16 and 17, 1972, for consultations on oil policy at the Department of State in Washington. Under Secretary of State John Irwin and James Akins, Director of the Office of Fuels and Energy, led the U.S. delegation. The British delegation head was Deputy Secretary for the Department of Trade and Industry, John G. Liverman. According to the summary portion of the memorandum of conversation, the meetings were held "to review the present situation in negotiations between the international oil companies and OPEC, and in an effort to assess future prospects for the oil industry and oil supplies for the consuming nations. The U.S. and U.K. sides established that there was a common estimation on most matters under discussion; that participation was inevitable, although the terms on which it might be accomplished remain unclear; and that the consumer nations should continue efforts to reduce their dependence on OPEC oil and should keep in close contact in order to strengthen their defense against demands by producing countries. Meetings were also held March 17 with representatives of the Department of State's geographic bureaus, to discuss the political and economic situation in the various producing areas."

The topics discussed by the two delegations included the Saudi participation negotiations, Iran, prospects for negotiation, information sharing, effects of participation, consumer government defenses, Iraq, Libya, Asian offshore, Venezuela, Algeria, Nigeria, Middle East/Arab-Israeli, U.S. import and tax policy, and the OECD Oil Committee.

Both sides agreed that in coming negotiations over participation "a middle road would have to be found between overly fast surrender of the companies' rights, and intransigence leading to unilateral action by producer governments." The "most important conclusion" was that "close contact be maintained between British and American officials, and with the respective companies, and that other consuming governments be kept informed of developments." Both sides expressed strong concern that participation could present "substantial dangers to future investment and oil supply," making measures for the reduction of dependence on OPEC oil essential. Irwin stated that the U.S. Government would be prepared "in certain circumstances" to make representations in OPEC capitals, but was not "as prepared as HMG to interfere with, rather than advise, the companies." Liverman said that Great Britain did not intend to interfere with the negotiations, but would press its

views on the companies if there were threats to supply. (Memorandum of conversation, March 1972; National Archives, RG 59, Central Files 1970–73, PET 1 UK–US)

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119. Memorandum From Chester A. Crocker of the National Security Council Staff to Richard T. Kennedy of the National Security Council Staff[1]

Washington, March 21, 1972.

SUBJECT

State Paper on the Energy Crisis

You were correct in surmising that the attached study[2] is fascinating. State's paper covers the whole spectrum of oil and energy related issues—trends in attitudes and bargaining power among the oil-producing countries, consuming countries and oil companies; current issues in the OPEC talks; projections of reserves, investment requirements, production costs and pricing; alternative energy sources; and ways of dealing with the "crisis."

The *thrust* of the study is conveyed by its title—we face the likely prospect of an energy crisis over the coming decade. Unless corrective action is taken we will be facing by mid-decade a "permanent sellers market" for the oil produced by a primarily Arab cartel which controls ⅔ to ¾ of the non-Communist world's known reserves. By 1980 we will have to import 50% of our projected requirements, primarily from Arab producers; there is little prospect of increased domestic production without conscious and determined USG and company effort and changes of policy. (The prospects for our European and Japanese allies

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–197, National Security Study Memoranda, NSSM 174 (Response). Secret. Sent for information. An attached handwritten note from Kennedy to Crocker reads: "Thanks—an excellent summary. Please ask Bob Hormats how this is being handled. (I understand it has been referred to Peter Flanigan—CIEP). When and how will NSC staff input be made? What is the implication for oceans policy and Law of the Sea? Have the national security implications been examined fully? What are the long range and foreign policy implications vis-à-vis Arabs, Europe, and our Hemispheric friends? Does this suggest any important changes in the thrust of our policies toward them? RTK"

[2] Entitled "The U.S. and the Impending Energy Crisis," March 9, and summarized in Document 116. The NSC Staff's completed assessment of this paper, including an analytical summary, is Document 128.

are even worse.) For the U.S., the balance of payments impact of this level of imports by 1980 is estimated at between $6.5 billion (current prices) and $25 billion (U.S. domestic prices). The study concludes that sellers market conditions caused by worldwide production and consumption trends will not only cause prices to rise (theoretically to the level of costs for producing oil from sands and shale), but will drastically reduce the bargaining power of international companies and consuming nations. These trends could eliminate or radically alter the companies' role.

To deal with this "impending crisis," the State study suggests a number of actions for consideration by the Oil Policy Committee and the Domestic Council, to gradually reduce our dependence on foreign oil. They include:

—encourage companies to recognize the urgency of forestalling forced "participation" or nationalization by OPEC, by offering new arrangements to producing countries for the period after the expiration of the Tehran accords;[2] and to broaden international participation in production arrangements.

—U.S. diplomatic initiatives in the OPEC context to assure maximum security of oil supplies, and respect for existing agreements.

—U.S. diplomatic efforts in the OECD context to encourage more serious study of energy problems, capital needs, diversification of supply possibilities, desirability of increased stocks of oil, alternative energy possibilities (atomic power).

—serious efforts to conclude energy agreements with Canada, Venezuela, and other Western Hemisphere producers to increase oil supplies from these sources.

—a determined national effort to increase domestic oil production by changes in licensing and oil lease policies, encouraging exploitation of secondary and tertiary reserves, etc.

—encourage more "rational" use of our energy supplies by fostering mass transit, discouraging wasteful forms of consumption, raising gasoline taxes, etc.

—encourage development of alternative energy sources—atomic power.

Comment:

While some of the analysis may be imperfect and some of the recommendations extreme, I think the study should be taken very seriously indeed—particularly *the general recommendations that the issue be given greater priority and that more concentrated decision-making authority on energy matters be developed within the USG.* The study's key premises—that the problem of dependence on the Arabs may well reach crisis proportions and that there are things we can do about it—are valid in my view.

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[2] See Document 86.

120. Memorandum From the Under Secretary of the Interior (Whitaker) to President Nixon[1]

Washington, March 24, 1972.

SUBJECT

Meeting with Secretary Rogers Morton, General Alexander Haig, George Shultz, John Whitaker, and Peter Flanigan
March 27, 1972 (30 minutes) 4:00 p.m.
The President's Office

I. Purpose

(a) Review Secretary Morton's suggestion that the Alaska Pipeline be routed through Canada rather than through Alaska (and then by a tanker shipment to the West Coast); (b) if a decision is reached to consider a Canadian route, then how should negotiations be conducted with the Canadians and the oil companies to assure top level consideration and strict secrecy by all parties.

II. Background

A. Interior has prepared an extensive Environmental Impact Statement[2] as required by the National Environmental Policy Act. Secretary Morton must deny or grant a permit to a consortium of oil companies (Alyeska) to build an Alaska Pipeline from Prudhoe Bay to Valdez, Alaska, and then ship the oil by tankers to the West Coast. Should Secretary Morton grant the permit, then protracted litigation will follow in the courts with various environmental groups. Interior and Justice rate our chances on winning in the D.C. District Court as good, but they believe they have a less than a 50–50 chance of winning the District Court of Appeals (the judges are very pro-environment). Both Interior and Justice feel the case will eventually go to the Supreme Court which would mean a year or more of litigation before the case is decided.

B. Secretary Morton will propose that we negotiate secretly with the Canadians and if they are interested, then with the oil companies.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 250, Agency Files, National Energy Office, Vol. I, March 1972–February 1973. Top Secret. Haig forwarded a copy of this memorandum to Kissinger on March 29. A handwritten note by Kissinger on Haig's transmittal memorandum reads: "have serious doubts."

[2] On March 20, the Department of the Interior released a massive nine-volume, 25-pound Environmental Impact Study on a hot oil pipeline across Alaska. Three of the volumes concerned economic and national security aspects of the proposed pipeline routes. The study stressed the need for Alaskan oil on the U.S. West Coast and the need for domestic oil sources. (*The New York Times*, March 21, 1972, p. 1 and p. 40)

The aim would be to announce, when you are in Ottawa (April 13–15), an agreement for an international joint venture between the U.S., Canada and the oil companies for construction and operation of a "common carrier" pipeline system for transporting oil and gas from Alaska and the Canadian Arctic through Canada to Edmonton then on westward to Seattle and eventually, also from Edmonton, southeast to Chicago.

C. Canada, the U.S. and the oil companies would each put up one third of the capital and share equally in the revenues generated. The thrust of Morton's argument is that: (1) the costs for the Alaska versus Canada route are comparable—a point that needs thorough checking with the oil companies; (2) we might not get the oil out of Alaska any quicker to help our national fuel shortage because of the protracted litigation, and we have no idea of the Canadian schedule if they decide to do business with us; (3) it will give you a strong international and environmental issue (nationally), but it will hurt you (jobs) in Alaska; (4) the Canadian route would be cheaper for the oil companies if the U.S. and Canadian Governments subsidized the project. More details of Secretary Morton's proposal are attached at Tab A.[3]

D. John Ehrlichman, Peter Flanigan and John Whitaker have heard Secretary Morton's proposal and feel it has enough merit so that you should be exposed to it first-hand. We lean toward opening discussions both with the Canadians and the oil companies. However, if there is a leak and the public learned we were actively thinking about the Canadian route and the negotiations fell through because of either Canada or the oil companies failure to close a deal, the environmentalists would have a strong argument in court that we were recognizing significant damage would occur to the environment if Secretary Morton grants a permit to bring the oil out via Alaska. Therefore, should you decide to authorize negotiations with the Canadians, absolute secrecy is necessary.

F. Donald MacDonald, the Canadian Minister of Energy, Mines and Resources (Secretary Morton's counterpart), Jack Austin, MacDonald's Deputy, and Dr. R. D. Howland, Chairman of the National Energy Board will see Peter Flanigan on Wednesday, March 28 and Secretary Morton on Friday, March 30.[4] The Canadian press reports that

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[3] Attached but not printed at Tab A is "An Alternative to the Alaska Pipeline."

[4] No record of these meetings was found; however, in two March 28 letters to Rogers, who was to meet with Morton prior to his March 30 meeting with MacDonald, Armstrong recommended that it was "better for the United States to build the Alaska pipeline than to become dependent upon the Canadians." He reasoned that the Alaska route was quicker, the balance-of-payments impact of the route through Canada would be heavy, the United States was already "sufficiently vulnerable to the Canadians" for energy supplies, and Canadian nationalism could be a problem. (National Archives, RG 59, Central Files 1970–73, PET 18–1 US)

a Canadian pipeline for Alaskan oil is on their agenda of discussion with Secretary Morton and Peter Flanigan. You do not need to make a decision to authorize Secretary Morton or Peter Flanigan to bring up this matter when they meet with the Canadians, but we do not readily see how we can learn more about the Canadian or oil company's attitude unless we expose Secretary Morton's proposal to them.

G. Your meeting with Secretary Morton obviously has no press plan nor would the meeting be shown on your published calendar.

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121. Editorial Note

On March 27, 1972, President Richard Nixon met with Secretary of the Interior Rogers C.B. Morton, the President's Deputy Assistant for National Security Affairs Alexander Haig, Secretary of Labor George Shultz, Under Secretary of the Interior John Whitaker, and the President's Assistant for International Economic Affairs Peter Flanigan to discuss Secretary Morton's suggestion that the Alaska pipeline be routed through Canada rather than Alaska. Morton argued that although an arrangement with Canada would require an international corporation, it would facilitate a future gas pipeline between the United States and Canada, and would be faster than the Alaskan route currently held up by environmentalists. Morton thought such an initiative would outmaneuver the environmentalists, be an immediate credit for Nixon, and compensate for the political problems associated with Vietnam. Nixon expressed concern over employment in Alaska, the three Alaskan electoral votes, and the existing investment in the Alaskan route by the oil industry. Shultz stated that the "hang up" with the Canadians, "was not so much the money, but the arrangement of the security of the oil. The oil, so to speak, came through Canada, and if some sort of Middle Eastern oil crisis of some sort, then would they siphon that oil off and hold it hostage against American oil on the East Coast of Canada."

When Shultz brought up the fact that the Alaskan field was bigger than originally estimated and needed to be exploited, Nixon pointed out that "the Alaskans are much better off to find a good way to get the oil out of there and they take their money out of the oil. Right? They think this damn thing is a one shot deal." He then told the officials, "Let's forget the Alaskan politics." Nixon suggested that the Canadians be given the "run around" during upcoming negotiations, stating, "I don't care one damn about the Canadians. Or the fact that I want to screw this Trudeau when I'm up there." He added: "We

don't want to do it with the Canadians. From a political settlement, if you weigh jobs in Alaska against what environmentalists in Los Angeles are going to think about the Alaskan pipeline, it's a loss. It's a bird in the hand against maybe four in the bush." The meeting ended on how to present upcoming negotiations with the Canadians to the press. (Recording of conversation, March 27, 4:08–4:57 p.m.; National Archives, Nixon Presidential Materials, White House Tapes, Oval Office, Conversation No. 694–3) During his subsequent state visit to Canada, April 13–15, Nixon did not make a public announcement on Alaskan oil. He did address the Canadian Parliament and signed an agreement on the Great Lakes. Nixon's address and the agreement are printed in *Public Papers: Nixon, 1972,* pages 537–543.

On May 11, Secretary Morton announced that he would grant permits for construction of a trans-Alaska oil pipeline to avoid dependence on oil from the Middle East. He ruled out a trans-Canadian route for environmental reasons, because of the potentially negative impact of such negotiations on U.S.-Canadian relations, and to avoid placing a large portion of the pipeline under the jurisdiction of another country. The pipeline would run from Prudhoe Bay to the Port of Valdez. (John Maclean, "U.S. to Grant Permits for Alaska Oil Pipeline," *Chicago Tribune,* May 12, 1972, page 8)

In a May 11 meeting, Under Secretary of State John Irwin told Canadian Ambassador Joseph D. R. M. Cadieux of this decision against the trans-Canadian route and the national interest considerations behind it. He also told Ambassador Cadieux "how important it would be for us if the Canadian Government could exercise as much restraint as possible in any comments it may make on the decision," and of the usefulness of upcoming discussions on a common policy toward energy and energy security. (Letter from Irwin to Flanigan, May 12; National Archives, RG 59, Central Files 1970–73, PET 18–1 US, and letter from Katz to Armstrong, April 17; ibid., RG 429, Records of the Council on International Economic Policy 1971–77, Central File 1972–77, Box 8, Energy Talks with Canada) Flanigan expressed his concern that the Canadians refrain from playing a role in the environmentalist challenge to the Alaska pipeline decision. (Memorandum from Flanigan to Irwin, May 18; ibid., RG 59, Central Files 1970–73, PET 18–1 US) Under Secretary Irwin reassured him that the Canadians had shown "some restraint," even though some disaffection would be apparent. (Letter from Irwin to Flanigan, May 20; ibid.)

122. Memorandum of Conversation[1]

Washington, May 22, 1972.

SUBJECT

Impending Energy Crisis and Means to Meet It

PARTICIPANTS

Acting Secretary Irwin
Mr. Donovan Zook, Director, Office of Atomic Energy Affairs, SCI
Mr. James E. Akins, Director, FSE
Dr. James R. Schlesinger, Chairman, AEC
Mr. John J. Flaherty, Assistant General Manager for Energy and Development Programs, AEC

Under Secretary Irwin and Mr. Akins outlined the world energy scene, which had deteriorated considerably since they had last met with Dr. Schlesinger.[2] Under Secretary Irwin said that this was the reason for his letter of May 17, attached.[3] Dr. Schlesinger went over the list of subjects Under Secretary Irwin had suggested we might discuss. He commended the Department for its activities in the energy field, for our testimony before Congressional committees, and for our private work with members of Congress to convince them of energy needs and the necessity of taking action. He said he hoped that this would be continued and expanded.

Dr. Schlesinger said that one field where considerable savings in oil consumption could be made would be in tankers. He said that in the trip from the mid-east to American and European markets 15 percent of the fuel carried by the tankers is consumed. If nuclear powered tankers were used, this would result in saving literally millions of barrels of oil per year. When Mr. Zook noted the current interest of the Maritime Administration in nuclear propulsion, Dr. Schlesinger observed that this interest was focussed primarily on containerized cargo ships rather than tankers. Mr. Akins said he would take the matter of nuclear-powered tankers up with major oil companies soon.

Dr. Schlesinger and Mr. Flaherty were less optimistic about the prospects of producing gas from tight formations through nuclear stimulation than they had been at the earlier meetings. The problem is essentially one of public resistance to the nuclear detonations which would be required. Mr. Flaherty said that he had just come back from

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[1] Source: National Archives, RG 59, Central Files 1970–73, FSE 13. Confidential. Drafted by Akins.

[2] See footnote 1, Document 109.

[3] Attached but not printed is Irwin's May 17 letter to Schlesinger.

Wyoming where he was trying to get community acceptance of a few test sites and that he had "just escaped from a mob intended to tar and feather him." The AEC still believes that it would be relatively easy physically to open up gas resources at the rate of one trillion cubic feet per year with the explosion of one hundred nuclear devices a year. This should cost no more than 50¢ a thousand cubic feet and additional radiation would be minimal. However, the increasingly negative attitudes of environmental groups in Colorado and Wyoming, where the nuclear explosion would take place, is so intense that we should perhaps stop considering this as a practical measure to increase energy supplies. They pointed out that the matter was ironical since more energy could be made available through this method than would be produced by using the same quantity of uranium for straight nuclear powered electricity generating plants.

Under Secretary Irwin and Mr. Akins said that they had talked informally with our European and Japanese allies about the prospects of cooperating to find and develop new sources of energy and avoid the competition for available energy in times of crisis. They said responses had varied from skepticism to enthusiastic approval.

Dr. Schlesinger said as he had at the earlier meetings that the only way to solve the problem would be through a strong coordinated international organization similar to the European Coal and Steel Community. He had hoped such an organization could be established.[4] He said that the United States was prepared to share some of its technology but that the new secrecy comes from the Europeans, particularly the French, not from the Americans. Mr. Akins said that there appeared to be some suspicion from the Europeans that we might be using this proposal as a device to assume control over their economies. He said that this, of course, was true and that while the United States could expect, through its advanced technology, to reap very substantial commercial benefits in such an "energy community," this would not be the primary reason for the proposal. The Europeans should see, if they haven't already, that the alternative to close cooperation among the major consumers is a shortage of energy combined with sky-rocketing prices, which would be disastrous.

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[4] In a speech before the 1972 OECD Ministerial Council, Irwin argued for the formation of a consumers union "to increase the availability of all types of energy resources, to lessen, to the degree possible, an overdependence on oil from the Middle East, to coordinate the response of consuming countries to restrictions on the supply of Middle East petroleum, and to develop, jointly and cooperatively, a responsible program of action to meet the possibility of critical energy shortages by the end of this decade." He added that the OECD High Level Group was the logical forum for the development of such a program. (Airgram A–171 from USOECD Paris, May 30; National Archives, RG 59, Central Files 1970–73, OECD 8–2)

Mr. Akins said that we would be working up a draft proposal on how cooperation might be carried out among the countries which are heavy energy consumers, and that we would certainly want to incorporate AEC points of view. He said that we would work on a first draft and would discuss this with the AEC within a month or so. Mr. Flaherty said he would welcome the opportunity to work with us on this.

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123. Editorial Note

President Richard Nixon scheduled a stop in Tehran on his return from the Moscow Summit, May 22–30, 1972, to talk with Mohammed Reza Pahlevi, Shah of Iran. Prior to his departure for Moscow, President's Assistant for National Security Affairs Henry Kissinger passed to President Nixon, on May 6, briefing material from Peter Flanigan, the President's Assistant for International Economic Affairs, on the current state of oil negotiations between the Consortium and the National Iranian Oil Company. As summarized by Kissinger, Flanigan requested that the Shah "not be encouraged in his desire for access to the US market for Iranian oil. His [Flanigan's] point is that such access would make our relations with other Persian Gulf countries as well as with Venezuela extraordinarily difficult and would make impossible the already difficult task of managing the mandatory oil import program." While Kissinger agreed with Flanigan's basic point, he thought it possible the Shah would be less worried about access to the U.S. market now than he had been in 1969. Kissinger also noted that the question of selecting friendly countries to import from rather than less friendly ones be "thoroughly examined." He also informed Nixon that Admiral Thomas Moorer, Chairman of the Joint Chiefs of Staff, wanted Nixon to tell the Shah how much he appreciated the Shah's "key role" in stable global energy relations. (Memorandum from Kissinger to Nixon, May 6; National Archives, Nixon Presidential Materials, NSC Files, Box 602, Country Files, Middle East, Iran, Vol. IV, 9/1/71–4/1/73) Kissinger's memorandum is published in *Foreign Relations,* 1969–1976, volume E–4, Documents on Iran and Iraq, 1969–1972, Document 189.

President Nixon's conversations in Tehran with the Shah touched only briefly on oil issues. During their May 30 meeting, the Shah expressed his agreement that there were key areas which could not be neglected, such as Europe and the Middle East. He said Libya's oil would go dry in another decade and a half. The United States would have to get more of its oil from the Middle East but could not allow itself to get in a position where it could be "cut off." Nixon responded

"that crazy fellow Mossadegh did it." The Shah agreed that Mossadegh was "nuts." The discussion on May 31 did not cover oil. (Memoranda of conversation, May 30, and May 31; Library of Congress, Manuscript Division, Kissinger Papers, Box TS–28, Kissinger Telcons, Geopolitical Files, Iran, Memcons, Notebook 30 May 72–15 September 73) Both memoranda of conversation are published in *Foreign Relations,* 1969–1976, volume E–4, Documents on Iran and Iraq, 1969–1972, Documents 200 and 201.

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124. Intelligence Note Prepared in the Bureau of Intelligence and Research[1]

RECN–15 Washington, June 27, 1972.

OPEC OPENS OIL MINISTERS' MEETING IN ATMOSPHERE OF UNCERTAINTY

The OPEC[2] Ordinary Ministerial Council Conference opened June 27 in Vienna with important issues unresolved. The main issues facing the conferees are: (1) OPEC failure to make any headway with the oil companies on implementation of the 20 percent participation agreed to in principle by the companies last March;[3] (2) Iraq's nationalization of the Iraq Petroleum Company (IPC) on June 1;[4] and (3) Iran's agreement with the consortium of oil companies operating in that country to extend the consortium's concession beyond the current expiration date in 1979.[5]

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OPEC. Confidential; No Foreign Dissem. Drafted by Leo F. Cecchini, Jr. (INR); approved by Ghiardi; and released by Weiss.

[2] OPEC members are: Abu Dhabi, Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and Venezuela. [Footnote in the original.]

[3] See Document 117. Additional information is in circular telegram 85455, May 16; telegram 94112 to Jidda, May 26; telegram 113190 to Jidda, June 23; and telegram 2104 from Jidda, June 26. (National Archives, RG 59, Central Files 1970–73, PET 3 OPEC)

[4] The nationalization of IPC is analyzed in Intelligence Note RNAN–19, "Iraq: The IPC Nationalization," June 19. (Ibid., PET 14–2 IRAQ) Eliot provided Kissinger with background information in a June 2 memorandum. (Ibid., Nixon Presidential Materials, NSC Files, Box 603, Country Files, Middle East, Iraq, Vol. I) The nationalization is also analyzed in CIA Intelligence Memorandum, ER IM 72–92, "Some Implications of Iraq's Oil Nationalization," June 1972. (Central Intelligence Agency, Office of Research and Reports, Job 79–T00935A, Box 70) The latter is published in *Foreign Relations,* 1969–1976, volume E–4, Documents on Iran and Iraq, 1969–1972, Document 311.

[5] Details of the Iranian deal with the Consortium included a statement by the Shah that since the Consortium and Iran were working in "full partnership," the question

Participation

OPEC won the first round in the participation negotiations when Aramco, acting on behalf of all the major oil companies operating in the Persian Gulf, agreed to the principle of 20 percent participation in company operations by host countries. Since March OPEC and the oil companies have not even been able to agree on the form participation will take—stock in the company, share of oil production, and/or share of the profits, not to mention the more difficult matter of how much the companies should be compensated for the loss of assets and future profits. Lack of progress in negotiating details of participation will generate acrimonious debate at the Conference. The minimum position the Conference seems likely to agree to is one calling for immediate transfer of a 20 percent share of oil production to host governments, a timetable for attainment of a controlling interest, and deferring a decision on the thorny issue of compensation.

IPC Expropriation

Two sobering realizations have been brought home by the Iraqi expropriation of IPC. Coming on the heels of Libya's expropriation of BP's holdings in that country and Algeria's seizure last year of majority interest in French companies operating there, Iraq's action has made the companies more acutely aware of how fragile the control they have over their concessions has now become. On the other hand, Iraq's difficulties in resuming oil exports from the expropriated fields—there have been no exports from these fields since the expropriation—have once again reminded producer countries of their dependence on the companies for distributing the oil. (Libya has experienced similar difficulty in marketing oil from the nationalized BP fields.)

In initial statements most OPEC member states promised to support Iraq's move against IPC by not increasing oil exports to make up for the reduction in flow from the former IPC held fields in northern Iraq and to oppose any retaliatory actions taken by the IPC shareholders[6] against Iraq. The Ministers at the Conference will probably follow up this earlier action by issuing a statement whose general thrust would be to support nationalization of oil production whenever current owners fail to meet the "reasonable" demands of host governments. A

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of expiration was "no longer material." (Telegram 3830 from Tehran, June 24; National Archives, Nixon Presidential Materials, NSC Files, Box 602, Country Files, Middle East, Iran, Vol. IV, 9/1/71–4/1/73) Nixon wrote to the Shah of his "great satisfaction" that the agreement had been signed and how he had been "impressed by the seriousness of purpose and pragmatism that has characterized the attitudes and positions of both sides." (Telegram 120017 to Tehran, July 3; ibid., RG 59, Central Files 1970–73, POL 15–1 IRAN)

[6] BP, Shell, CFP, Esso, Mobil, and the Gulbenkian Foundation. [Footnote in the original.]

statement of this type would satisfy the "radicals" and the "moderates" since "reasonable" means different things to different countries and leaves them free to act according to their own national interests.

Iran's Agreement

Iran has agreed to extend the Consortium's[7] exclusive production rights in the "agreement area" fifteen years beyond the current expiration date in 1979. In return for the extension the Consortium has agreed to increase oil production from the current level of 4.3 million barrels per day (b/d) to about 8 million b/d in 1976, turn over the large Abadan refinery to the government for its use, build a new Consortium refinery at Kharg Island, and provide crude oil to the National Iranian Oil Company (NIOC) for Iranian domestic consumption and marketing abroad. The agreement makes no provision for participation by Iran in the Consortium's crude output, a point that will be roundly criticized by other OPEC members at the Conference. However, Iran owns the fixed assets in the "agreement area" and in effect has achieved many participation objectives using a different approach.

Iran is not alone in following a different approach to participation. Iraq's expropriation of IPC is in effect participation with a vengeance and certainly takes a long step ahead of the plan for 20 percent participation now, with the understanding that majority or full ownership would come after a period of phased increments in participation. Nigeria has taken a slightly different tack in insisting on an initial minimum 35 percent participation in its older concessions (in new concessions Nigeria has retained a controlling interest in production). Venezuela is apparently satisfied with its own agreements that will give it control over virtually all oil production in the country by 1983. Libya is demanding 51 percent participation in current negotiations for production rights with the Italian national oil firm, ENI. The picture that is developing is one of general OPEC agreement on the principle of participation, while the form, payment for, timing, and other critical details will be left to individual countries to work out on a case by case basis in accordance with their own interests.

Consumer Country Action

While the different approaches to participation taken by various OPEC members may signal incipient divergence in that group, the important change in the relationship between the companies and host governments has not served to unite the consumer country governments vis-à-vis the producers. A Dutch proposal that OECD govern-

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[7] Shareholders in the Consortium are: BP–40%, Shell–14%, CFP–6%, Esso, Mobil, Gulf, Texaco, Socal–7% each, and a group of smaller American companies–the remaining 5%. [Footnote in the original.]

ments use their oil stockpiles to back up the companies in negotiations with producer governments was sidestepped at the June 19 meeting of the working group of the OECD Oil Committee and deferred to the group's next meeting scheduled for November. Other consumer governments are less interested in supporting the predominantly American, British, and Dutch oil companies. As long as oil supplies do not appear seriously threatened, consumer governments seem to prefer leaving the participation matter to the companies to work out with OPEC. Whether a supply crisis would lead consumer countries to form a united front vis-à-vis the producing countries is not clear and is probably not a choice that will have to be made in the near future.

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125. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to Secretary of Labor Shultz and the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, June 29, 1972.

SUBJECT

Oil Negotiations with Canada

The meeting in Ottawa last Tuesday[2] was limited to a presentation by the Canadians outlining their view of the national security problems posed by Eastern Canada's substantial reliance on overseas oil imports, a proposal by the Canadians for an arrangement with the USG to permit greater exports of Western Canadian oil to the US while meeting GOC national security needs (Tab A),[3] and a mutual discussion of the security problem in the context of the GOC proposal.

The Canadians had done some homework this time and were substantially more explicit and forthcoming on the security issues than they have been in prior phases of these long drawn out discussions. Nevertheless, their view of national security contingencies which must be met in fashioning North American oil policies (a 25% overseas

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 671, Country Files, Europe, Canada, Vol. III, Sept 71–Dec 72. No classification marking.

[2] The memorandum of conversation of the June 27 meeting is ibid., RG 59, Central Files 1970–73, PET 4 CAN–US.

[3] Attached but not printed at Tab A is "Possible Objectives for the Canada-U.S. Oil Discussions of 27 June, 1972."

cut-off for six months) is substantially less rigorous than USG security planning (which assumes a 100% cut-off for one year). Moreover, GOC officials expressed complete unwillingness to take any protective actions beyond their limited national security efforts in the event such additional actions would be necessary from the US standpoint to justify complete removal of US oil import quotas on Canadian oil.

The US side agreed to study carefully and to respond to the GOC initiative. The two governments also agreed (i) to exchange views as to the bases for their respective national security policies, and (ii) to cooperate more closely in the work of the OECD Oil Committee.

Our ultimate goal is to eliminate the quotas on Canadian oil imports to permit the free market to operate for the maximum development of North American oil and gas resources. The current GOC position, if accepted and formalized, would seem to justify expanding the Canadian quota significantly but is not adequate for a common national security policy.

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126. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to President Nixon[1]

Washington, July 7, 1972.

SUBJECT

Mid-East Oil Issues

1. The US now obtains a small percentage of its oil requirements from the Middle East; in 1971, imports from Middle East and Arab

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 647, Country Files, Middle East, Middle East (General), Vol. IX, 1972–. No classification marking. According to a notation on the memorandum, a copy was delivered to Kissinger on July 10. A note on the memorandum indicates the President saw it. A handwritten notation by Nixon reads: "1) Return to me when I see Connally. 2) Give Connally a copy." This memorandum is part of a briefing prepared by Saunders, July 12, for Nixon's discussion with Connally after Connally's meeting with the Shah. (Ibid., Box 1282, Saunders Files, Iran, 6/1/72–9/30/72) According to the President's Daily Diary, the meeting with Connally took place on July 13 at San Clemente. (Ibid., White House Central Files) Both the briefing and the telegram reporting the discussion between the Shah and Connally are published in *Foreign Relations*, 1969–1976, volume E–4, Documents on Iran and Iraq, 1969–1972, Documents 211 and 213. No other record of the meeting was found.

North African nations comprised 11.7% of total US oil imports and 2.9% of total US oil consumption. On the other hand, imports from these sources are rising and with 70% of known Free World oil reserves located in this region, it is obvious that long-range US energy policy must take account of the strategic importance of Mideast oil to the OECD nations including the United States.

2. Iran is both an important oil producing nation and a key political ally in this turbulent region, but the US has equally important oil interests in the Arab world, principally in Saudi Arabia and Kuwait. Based on 1970 National Petroleum Council data, total proved oil reserves were: Iran, 70 billion barrels; Kuwait, 67 million barrels; Saudi Arabia, 130 billion barrels; (United States, 37 billion; Venezuela, 14 billion; and Canada, 11 billion). The State Department believes these figures understate Saudi reserves and also notes that US companies have significantly greater oil investments in the Persian Gulf nations ($1.1 billion) than in Iran ($330 million). Future Iranian production would be limited to 8 million barrels per day, based on current proved oil reserves; while current projections of Saudi Arabian production do not reach a reserve limitation.

3. US oil policy while minimizing the dependence on Arab sources, relies most heavily on the friendly countries. Of total 1971 oil imports, Saudi Arabia supplied 3.25%, Iran 2.9%, Libya 1.3%, Kuwait 1.0%, and Iraq 0.3% (Canada 20%, Venezuela 30.7%). These figures do not include substantial residual fuel oil imports from Caribbean refineries which rely predominantly on Venezuelan crude oil.

4. Our policy has been to attempt to control the actions of the radical oil nations by denying them markets for their oil. The current mechanism for implementing this strategy is a consortium of international oil companies and companies owned by oil consuming nations such as France and Italy. The US has encouraged this consortium to take action designed to punish the radical Arabs economically and thus to stabilize oil politics throughout the Arab world. To this end, the Department of Justice has given the companies limited anti-trust immunity to negotiate collectively with the producing countries.

5. Regarding Iran, the oil companies and the Shah have reached an agreement on the future development of Iranian oil[2] that is a major plus in our oil relations with the Middle East. This agreement, which is of course very beneficial to Iran, looks to the development of Middle Eastern oil in a direction diametrically opposed to that taken by the other oil producing countries. The new pattern of relationship with

[2] See Documents 117 and 124.

Iran does not include direct government ownership, but is sufficiently favorable in other ways to make unnecessary the granting of preferential treatment of Iranian oil under the US quota system.

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127. Memorandum From Robert D. Hormats, Richard T. Kennedy, and John D. Walsh of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, July 11, 1972.

SUBJECT

Foreign Policy Ramifications of U.S. Oil Policy

Introduction and Summary

Secretary Rogers has submitted to the President a State Department study of "U.S. policy and the impending energy crisis." (The study, together with our summary and the Secretary's covering memo, is at Tab D.)[2] State's study includes "suggested actions" to meet the problem, and indicates that these suggestions are being put forward for consideration by OEP's Oil Policy Committee and by the Domestic Council's Subcommittee on Energy.

The State Department paper makes the case that *we face the likely prospect of an energy crisis over the coming decade.* The facets of this crisis will include:

—a permanent sellers market for oil produced by a primarily Arab cartel.

—growing U.S. oil import requirements, largely from the Middle East, with attendant political and balance of payments costs of increased import dependence.

—elimination or reduction of the leverage and lucrative earnings of the international oil companies.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–197, National Security Study Memoranda, NSSM 174 (Response). Secret. Sent for action. Concurred in by Jorden, Saunders, and Sonnenfeldt. Printed from an uninitialed copy.

[2] Rogers' covering memorandum is Document 116. The study is attached but not printed. The summary is Document 128.

State argues that its proposal could significantly alter the prospects for 1980. In effect, *State wants policies which would minimize the potentially damaging influence of oil problems by reducing our dependence on imported, especially Middle East, oil.* Though it is debatable whether much could be achieved along these lines before 1980, we agree that a start should be made.

The Political Dissension

The problem with State's paper is that it addresses the energy crisis in *essentially technical terms. We consider that the oil problem has political ramifications of direct and fundamental importance to U.S. foreign policy—and will increasingly do so in the years ahead.* What is needed is sharper analysis of its *political* consequences and the *political* fallout from alternative courses for dealing with it. In the absence of a broad political review, we foresee a real risk that our policy will be shaped by ad hoc country-by-country (and company-by-company) decisions reflecting the full weight of parochial interests within the USG.

The case for reviewing the energy crisis in *political* terms is as follows:

1. The past few years have seen a *decisive shift in the balance of power* away from the oil companies and consuming countries and in favor of the producing states. In origin a result of supply and demand factors, this trend has fed on anti-western nationalism and the demonstrated vulnerability of foreign oil concessions in areas of political turmoil. Today, key Middle East states are able to play the companies (and the consumers) off against each other, where formerly it was the Arabs who could be so manipulated.

2. The new leverage of producing states has led directly to sharply increased oil prices and to growing demands for "participation" in lucrative foreign concessions. It may soon eliminate the current role of private western companies in Middle East oil production. *But the most politically significant development is an emerging Arab capacity to sustain financially a total embargo on oil shipments over a protracted period. The growing financial reserves of Middle East producers have made oil a weapon for coercion or blackmail that we can no longer dismiss.*

3. This shift in power introduces *a new factor into the Arab-Israel equation,* creating the potential for serious Arab pressure on the U.S. and on our principal allies. Moreover, since European and Japanese dependence on Middle East oil will continue to be far greater than ours, effective Arab leverage will increasingly represent a *divisive factor in overall relationships with our allies,* and points to further divergence of views on the Arab-Israeli situation.

4. *The prospects for enhanced Soviet pressure and influence are clear.* We can no longer assume that the Arabs' need for exports will ensure

their resistance to Soviet and radical pressures to cut the flow of oil for political purposes. Moreover, growing Soviet export commitments, and the cost of developing Soviet reserves, suggest that Moscow may increasingly offer an alternative middle man for Arab oil.

5. Supply and demand pressures are approaching the point where *all major energy importers are anxious to secure supplies*. Growing talk of "energy blocs" bolsters the leverage of producing states. Soviet offers of "secure" supplies to Europe and Japan are a direct result of this process. Again, the *political* implications for our alliance relationships suggest the need for serious attention to oil policy. As an increasingly import-dependent consumer, the U.S. must also weigh carefully the pros and cons of the "energy bloc" approach reflected in pressures for Western Hemisphere preferences.

6. *The economic pressures of the energy crisis could produce their own political dynamics*. Our balance of payments position is affected by oil in two ways—by the currently substantial earnings of U.S. companies overseas and by the price of oil we import. (State calculates that price increases and our growing import requirements will have an adverse payments impact of $6.5 to $25 billion by 1980.) *It is prudent to recognize that balance of payments problems approaching this order of magnitude could generate further domestic pressure on the costs of U.S. foreign policy.* U.S. military deployments overseas and our economic aid program could become vulnerable targets.

7. The energy crisis has a *direct security dimension* in our desire to limit dependence on a volatile nationalistic region such as the Middle East. At the same time, there is little evidence that any other region can begin to rival that area's reserves (currently 2/3rds to 3/4ths of global reserves). State's proposals for expanding U.S. production run into the *security hazards of "draining America first*." These factors may suggest the need for greater urgency in *diversifying away from oil as an energy source*.

Where We Go From Here

State's paper is a useful beginning, but it should be folded into a broader review addressing the sorts of issues we have outlined. State urges that greater USG attention be given to oil policy, and proposes a concentration of decision-making authority for all forms of energy in OEP's Oil Policy Committee—pending formation of the new Department of Natural Resources proposed by the President.

We think top priority should be given now to addressing the overall foreign policy ramifications of oil policy. Strong support for this view is contained in Senator Jackson's recent letter to the President (Tab E)[3] urg-

[3] Attached but not printed is the June 13 letter.

ing an NSC review of "the national security, foreign policy and domestic energy policy implications of our growing dependence on imported crude oil and petroleum products from the Middle East and elsewhere." The Senator's letter indicates that he plans hearings on our international oil policy in the near future.

In light of his key role in oil matters, Peter Flanigan has action on the State paper. Nevertheless, *we consider that oil issues are now so basic to U.S. foreign policy that it is appropriate for you to indicate your concern to Flanigan and propose a joint NSC–CIEP review.* Such a review is desirable now (1) to lessen the risk that ad hoc decisions could jeopardize our broader interests, (2) to ensure a balanced and thorough review of the issues we have raised, and (3) to capitalize on the opportunity, presented by public and Congressional interest, for you to emphasize the fundamental foreign policy dimensions of oil policy.

We have drafted a memorandum from you to Flanigan at Tab A. It asks him to co-sign a memorandum to the President (Tab B)[4] recommending that he approve a joint study. Our proposed NSSM is at Tab C.[5]

Recommendation

That you sign the memorandum to Peter Flanigan at Tab A.

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[4] Neither Tab A nor B is attached.

[5] The proposed NSSM, "U.S. International Oil Policy," is attached but not printed. In an August 4 memorandum, NSC Staff member Jonathan Colby informed Kennedy that the proposed NSSM was stalled by Saunders, Hormats, Odeen, and Hyland (acting for Sonnenfeldt). They thought the proposed NSSM placed an insufficient emphasis on economic and balance-of-payment questions, were reluctant to involve Kissinger, and felt the timing was poor. Odeen also thought the proposed NSSM was too political. (National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–197, National Security Study Memoranda, NSSM 174 (Response))

128. Paper Prepared by the National Security Council Staff[1]

Washington, undated.

ANALYTICAL SUMMARY

The thrust of the study is conveyed by its title:[2] we face the likely prospect of an energy crisis over the coming decade.

[Omitted here is a summary of the Department of State paper based on Document 127.]

Key State Recommendations

1. State should *outline to the oil companies USG views* on probable developments in the world oil market over the coming decade, and *encourage them to consider new relationships with OPEC producers* after 1976 when last year's Tehran accords[3] expire. Encouragement should also be given to *enlarging existing consortia* to include companies from major oil consuming nations such as Germany, Italy, and Japan.

Comment: State is already doing some of these things in a routine, low key way, but a good case can be made that they should be done more vigorously. As the study notes, existing concessions are unlikely to last through 1976, and pressures for further oil price increases and for new company/government relationships are growing inexorably. There is substantial evidence from within the oil industry that companies could have been more imaginative in responding to nationalist pressures—e.g., for government participation in concessions—and in directing them to constructive channels. There is a major debate within the industry itself as to how it can relate to the changed essentially political demands of the producing countries.

Before the USG takes sides in this debate, we need to know within the USG what role is feasible for the companies in the coming decade. The purpose here is to know what advice to offer, and to avoid becoming tied to unrealistic and possible counterproductive company policies. The State Department—and the rest of the USG oil community—should be asked to argue the issues the companies face and to state the options they have and then to address the overall question of whether the USG should informally take a position and, if so, what.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–197, National Security Study Memoranda, NSSM 174 (Response). Secret.

[2] A reference to the March 9 Department of State paper, "The U.S. and the Impending Energy Crisis." See Documents 116 and 127.

[3] See Document 86.

2. *The USG should provide appropriate diplomatic support to assist the companies in facing OPEC demands—e.g., on "participation"—which would unilaterally alter existing agreements.* In particular, we should remind producing countries of the dangers inherent in undermining the stability hopefully achieved by the 1971 Tehran agreements.

Comment: This goes back to the basic question concerning the degree to which USG interests and company interests are parallel. Clearly, much depends on the companies' posture as nationalist pressures grow. This last spring, we counseled Aramco against intransigence in the face of Saudi participation demands, and encouraged a process of dialogue and compromise.[4] Though agreement in principle was reached, negotiations are continuing and this issue could flare up again at any time. Since foreign ownership goes to the heart of the company role in Middle East oil, USG involvement can be deeply resented by the producing governments. We need to address basic questions now concerning our future posture and the degree of USG involvement.

3. *The U.S. should maintain friendly relations with producing governments by continuing a policy of balance in our relations with all Middle Eastern states, avoiding a return to an "overtly, exclusively pro-Israeli position."* State argues that failure to maintain this balance would negate "most and probably all of the other steps the United States could take to secure oil supplies."

Comment: There are *two aspects* to this long-standing issue. On the one hand, it should be recognized that many of the nationalist pressures confronting western oil interests would exist regardless of the Arab-Israeli situation. We need greater awareness of underlying social and political forces and sharper analysis of what can be done to deal with them. On the other hand, the Arab-Israeli problem is integrally related to the oil picture, and we must realize that oil leverage adverse to our interests is increasing. The real question here is whether likely oil developments constitute an argument for some action on the Arab-Israeli issue before this leverage gains intensity. This argument now is either being over-emphasized or not being adequately taken into account. We need to get it in perspective.

4. *The U.S. should take appropriate steps to diversify our sources of foreign oil supplies.* In particular, we should (a) work for energy agreements with Canada, Venezuela, Mexico, and other Latin American producers and (b) actively raise the issue of diversification of sources within the OECD context.

Comment: There are several facets to this problem and we consider that more overall analysis is needed before clearcut decisions are made.

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[4] See Document 114.

One issue is the desirability and likelihood of the emergence of "energy blocs." Some argue that no matter what we do to secure Western Hemisphere supplies, Middle East oil will remain crucial. This view argues against any action on our part which would promote the impression that we have opted for the Western Hemisphere in preference to the Middle East, or that would encourage the development of a Middle East oriented bloc that discriminated against U.S. interests. Others argue that such blocs may be inevitable, and that we must play the game to avoid ultimate damage to our security of supplies. This school further maintains that the Western Hemisphere is the obvious choice for some form of preferential access to the U.S. market if we are to play the game. It may be, however, that Western Hemisphere supplies can be increased without damage to our interests elsewhere.

Another issue concerns *the basis for discrimination about the reliability of alternative foreign suppliers.* On geographic and political grounds a case could be made that we should concentrate on developing increased secure oil supplies from our own backyard, where Soviet influence is least prevalent. On the other hand, perhaps we should not assume that Latin producers are less likely than their Middle Eastern counterparts to exert nationalist pressures on U.S. oil interests. This line of reasoning argues for a *selective discriminatory approach* favoring increased U.S. oil imports only from countries with whom we can expect to maintain a *sound political relationship.* It must be recognized, however, that by politicizing oil relationships, we may be encouraging precisely the trend that has fuelled concern over the energy crisis. Some technical rationale would have to be found for masking the political criteria.

Finally, the current state of play is that *we appear to be moving on all fronts simultaneously. We see no evidence within the USG of a clear conception* of (a) worldwide oil availabilities, (b) capital and technological requirements of alternative oil strategies, (c) oil company plans and priorities on a regional and global basis, and (d) the political/strategic implications of alternative approaches. For example, we are now actively seeking to work out an energy agreement with Canada which would offer unlimited access to our market in return for certain supply guarantees in times of emergency. While this is an important objective, it should be recognized that our political and oil interests may suffer in Venezuela in the absence of a similar deal there.

5. *The U.S. should give high level priority at home and abroad to encouraging the development of nuclear and other alternative forms of energy.*

Comment: We have no problem with State's recommendations in this area, which are consistent with current policy. The only question concerns State's implication that not enough is being done to facilitate construction of nuclear plants and to explore other energy sources.

Most suggested alternatives to oil run immediately into cost and technology hurdles, but there is some evidence that more could be done to follow up on the President's Energy message of June 1971,[5] especially in the area of exotic technologies. The real issue here is whether, to reduce our vulnerability to foreign oil blackmail, we are prepared to pay more for U.S.-produced alternatives.

6. *The U.S. should take necessary steps to increase domestic oil production.* Specific steps include development of Continental Shelf deposits, tax allowances for newly discovered oil, and rapid exploitation of oil shale and coal conversion.

Comment: Any proposal to maximize domestic U.S. oil production confronts the security argument that we should not "drain America first." We do not want to solve our dependency and balance of payments problems for today at the expense of creating a permanent U.S. oil deficit in future. This, of course, is the rationale behind many of our existing oil policies. These points only emphasize the need to loosen our dependence on oil as a fuel by promoting development of other energy sources.

Conclusion

Clearly, we have a variety of sometimes conflicting interests in oil matters—e.g., to lessen the possibility of being blackmailed or coerced by reducing our dependence on Arab oil and diversifying to other foreign sources; to keep oil prices down so as not to penalize our competitive economic position; to maximize the balance of payments advantages flowing from the U.S. company role in oil; to protect our oil investments; to avoid depleting U.S. reserves; and to reduce our dependence on oil as a fuel.

[5] See Document 90.

129. Paper Prepared by Harold H. Saunders and Robert D. Hormats of the National Security Council Staff[1]

Washington, July 19, 1972.

PRESIDENT'S THURSDAY BRIEFING

For the President

Letter from King Faisal on Oil: King Faisal has written you a letter[2] in which he asks that you "use your good offices with the oil companies which are active in the Middle East area so that they may be responsive to the member states of OPEC toward reaching an end satisfactory to all parties concerned and so that these companies may be flexible in their negotiations."

The background of this letter is that the negotiations between ARAMCO and the Saudi government are reaching a climax. The Saudi negotiator has told ARAMCO officials that there will be one more meeting in which to reach an agreement and that after that the Saudis will have to legislate a settlement.[3] The main issue between the Saudi government and ARAMCO is that of compensation for the share of the business which the Saudis would buy in assuming participation in the corporation. The OPEC countries have demanded compensation for net book value of the assets above ground alone while the companies have insisted on compensation for reserves as well.

Privately, Saudi officials have told ARAMCO that they feel that the top echelons of our government are being misinformed by senior oil company officials and therefore may not understand the depth of Saudi conviction in going ahead with participation arrangements on their terms. The companies themselves have been divided on whether to meet OPEC terms. Some of the senior management level have felt that the companies have no choice but to make the best of Saudi demands and move quickly to an agreement. Opinion at the directors'

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1287, Saunders Files, Saudi Arabia, 1/1/72–8/31/72. Secret. Incorporated into the President's July 20 daily briefing as part of a July 20 memorandum from Kissinger to Nixon. (Ibid., Box 43, Presidential Daily Briefings)

[2] July 10; attached but not printed.

[3] According to telegram 2376 from Jidda, July 17, Yamani told ARAMCO that the company had one last chance to reach an agreement with Saudi Arabia on the terms of participation. If no deal was made, Yamani would return the subject to the individual countries who could each do what they liked about participation. He also told ARAMCO officials that he would be happy to arrange a meeting for them with Faisal. ARAMCO officials concluded that Yamani "has King's full backing and that both are fully committed to participation on terms about one-third of ARAMCO offer." (National Archives, RG 59, Central Files 1970–73, PET 3 OPEC)

level seems to be that the companies can force Faisal to back down. The Saudi negotiator has apparently proposed that the companies send some of their top level people to see King Faisal so that they will understand the firmness of the Saudi position. Faisal's letter is a mild effort to assure that top US officials take his position seriously.

A recommendation for a reply will come to you separately.

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130. Airgram From the Department of State to the Embassies in All OECD Capitals[1]

A–7360 Washington, July 21, 1972, 9:10 a.m.

SUBJECT

Highlights of Meeting of High Level Group of OECD Oil Committee, Paris, 13 June 1972[2]

Meeting of the High Level Group was marked by what, in the opinion of several long-time observers, was the frankest exchange ever to take place between delegations. This exchange is reviewed in the following.

1. US (Akins) opened the survey of the current oil situation, the only major item on the agenda, by stating that the more sensitive matters had been saved for this forum. The US Delegate described the recent action of Libya calling in all US oil companies operating in Libya for an emergency meeting, which subsequently proved an outlet for an emotional harangue on US foreign policy.[3] These US companies were given one month to change certain aspects of prevailing US policy in the Middle East. In July the companies will of course report back that they have had little success. With this in mind, we must consider what might happen. All Libyan and Iraqi crude could be nationalized and Tapline we must assume would be out. There simply is no way that we could make up the resultant loss of almost 4 million b/d. The British delegate (Beckett) agreed and said only that 1 million b/d could be made up from other sources.

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OECD. Confidential. Drafted by R. Ebel on July 12 and approved by Akins.

[2] The meeting was reported in airgram A–7373 to all OECD capitals, July 21. (Ibid.)

[3] As related in telegram 930 from Tripoli, June 5, and telegram 939 from Tripoli, June 9. (Ibid., PET 6 LIBYA)

The US Delegate added that anyone might set out to strike individual deals with the Iraqis, but he should keep in mind the recent example of the Commonwealth Oil Refinery Company (CORCO), which thought it had made an advantageous, long-term, low-price purchase of oil from Algeria, only to see the contract torn up when other deals, at higher prices, came along. And the French delegate might wish to comment on ERAP's unhappy experiences in Iraq.

World oil prices could well reach the level of US prices by 1976, that is, after the end of the Tehran and Tripoli agreements.[4] If this does happen, then alternative supplies (shale oil, tar sands, etc) could come in. (It is well to note that prices could be a lot higher, unless consumers decide otherwise, for if we begin to compete one with the other, $5 oil will seem cheap). In any case the lead time in developing this synthetic oil would be very long.

Producing capacity in Saudi Arabia is currently at a physical limit and there is almost no chance of Kuwait upping its output. Abu Dhabi, Iran, Nigeria and Venezuela all offer some shut-in capacities, and together could offset the 600,000 b/d loss of Iraqi crude, discreetly, so that no one will notice. But again, a loss of 4 million b/d could not be offset.

2. The Delegate from France (Vaillaud) expressed some surprise at the US statements, admonishing that France, in its continued dependence on imports, had become accustomed to keeping its cool. The US comments, from a country now becoming a major importer, and one starting to cry "wolf," are inflammatory.

Referring to the various crises that might arise, Vaillaud volunteered that he was a bit blasé about it all. While not denying there are problems, he admonished the delegates to see what can be done to hold prices down, to attempt to create a good investment climate, and try not to complain too loudly. When other delegates started referring to the "black Akins picture" and the "rosy Vaillaud picture", Mr. Vaillaud objected, saying he is no way optimistic, only that he was somewhat less pessimistic than Mr. Akins.

3. The Chair (Beckett) backed the U.S. position by noting that 4 million b/d could indeed be lost and we should be prepared for it. By way of explanation, the US delegate added that we had not said Libya would cut off its oil, only that we must consider the possibility. Refusal to do so would be irresponsible. The short-term depends on what Libya will decide to do; the longer term is more dangerous and it would be a grave error to presume that oil will be available.

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[4] Regarding the Tripoli agreement, see Document 88.

4. At this juncture, the Chair returned to a familiar theme by observing that inevitably there must be a major change in Middle East oil production, and that he would like to see Japan, Italy and Germany coming into the structure, implying that such entry would give them access to the current scene which they now lack.

5. The Dutch (Wansink) aired the interesting concept that the oil companies were afraid of the consumer governments, afraid that the price increases put forward by the companies would not be accepted, knowing of their general preoccupation with inflation. The Dutch also took the opportunity to agree with the French, to note that Europe was more accustomed to "walking on the razor's edge," having lived with a heavy reliance on imports for so long. The Dutch Delegate broke sharply with the French, however by asking if it were not possible to create machinery to tell the companies what is acceptable, and what is not, in their negotiations with the producing countries and then to give them full backing—even to the point of restricting imports, if the producing governments [omission in the original]

6. Attention then turned to a discussion of the role participation oil might be expected to play, the prices at which this oil might be sold and the volumes that might become available. Some believed that when participation oil becomes available in large volumes, competition for a place in the market will drive prices down. The US Delegate saw no basis for optimism in this respect. Oil is not infinite, and the time when prices were dropped to increase sales is long since past.

7. Mr. Vaillaud continued his reprobation of the US by commenting that participation was not a major problem of today for most consumers; it involved only the Anglo-Saxon companies and the producers. What can we do today, he queried, that will have a favorable impact 5 to 6 years from now? He answered his own question by stating that our real problem was our dependence on the Middle East, and that we lacked any means of overcoming this dependence.

8. The Delegate from Germany (Lantske) returned to the thought that the companies have let their positions be determined by the fear that price increases would not be allowed. We hope, he continued, that the US fear of an oil supply crisis will not be realized but, he said, we must act on the premise that it will. The companies have been on the defensive now for the past 18 to 24 months and no end is in sight. Could not the consumers take a more active role? Italy joined in by inviting, without further comment, and without further support, their colleagues to some form of militant action to avoid (oil supply) crises.

9. Japan normally turns out a sizeable delegation for the OECD Oil Committee meetings, but in the past has been content to listen, to take notes but not to contribute. Considerable insight into present Japanese thinking was provided when the delegate from Japan, in

responding to an invitation from the US to speak to the matters at hand, observed that nuclear energy is the only prospect for freeing dependence on oil, and Japan intended to proceed as rapidly as possible with the development. The Japanese delegate said he viewed government-to-government action as dangerous, and that commercial risk cannot be eased through political action. Japan, he said, realistically works through private channels and the implication was clear that it would continue to do so. He said he did not share the French view that nationalization was only a US–UK concern; it vitally affected all consumers.

10. The Swedish delegate (Blomquist), in picking up the tempo, volunteered that it had little of substance to contribute but that Sweden shared the US gloomy view. In essence, one must be prepared for the worst, and be happy if the worst does not come about. But, he continued, he had given thought to the search for expanded communications with industry, and would it not be possible to use the International Industry Advisory Body (IIAB) in a reverse manner. That is, the IIAB originally was created as an advisory body to us, the governments. Could not we now advise them?

11. The European Community (Spaak), while not holding as gloomy an outlook as the US over the short run, was considerably more concerned than was France. He said he saw two dangers emerging: first, the danger of the consumers becoming a buffer between the companies and the host nations; and second, the danger of consumers not knowing what was going on.

12. The Chair summed it all up this way:

a) We cannot expect to be in agreement on the near term on all points, but he thought all showed to some degree the U.S. concern over oil supplies.

b) The prospect of contact between the OECD and OPEC filled him with horror; but

c) the Swedish suggestion of using the IIAB was most intriguing. The GWG was charged with investigating the possibility of bringing either the HLG or the plenary into direct contact with oil industry representatives through use of the IIAB.

Rogers

131. Memorandum From James H. Critchfield, Special Assistant to the Deputy Director of Plans, Central Intelligence Agency, to Director of Central Intelligence Helms[1]

Washington, July 24, 1972.

SUBJECT

King Faisal's Letter to President Nixon on Oil Negotiations

1. King Faisal's letter to President Nixon[2] is intended to reenforce the King's public stance of personal support for OPEC demands on equity participation by the individual OPEC member in its concession-holding foreign oil companies. King Faisal was probably playing to the Arab audience when he came down hard on 10 July in his public demand that the foreign oil companies operating in the Gulf get on with the OPEC negotiations on participation.[3] He is also not unmindful that a high percentage of the oil-exporting nations in their religion look toward Mecca. King Faisal's deep preoccupation with "Islamic Solidarity" as an international political factor dates back several years before the June 1967 war; the new Saudi politics in the Arab world is a phenomenon of the period since the 1967 war. The Saudi regime has successfully broken out of the isolation in the Arab world that persisted during the early Sixties; for the first time, Saudi Arabia has active relations with most of the Arab regimes; in oil matters, in particular, these ties transcend old hostilities between the Arab traditional and revolutionary states. During the past two years King Faisal has quietly developed a close relationship with President Sadat of Egypt which has more recently been extended to effective Saudi ties with Syria. Faisal has supported Sadat's sustained effort to revive the Arab League and, through his own energetic petroleum minister, Dr. Zaki Yamani, has taken the lead in a move to revitalize OAPEC, the Arab counterpart of

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 209, Agency Files, CIA, Vol. VI, 1972 Memoranda. Secret. Helms planned to meet with Kissinger on July 25. According to Haig, Helms would suggest that "rather than send a further tension raiser to Faisal that we consider sending an emissary to Faisal to demonstrate our goodwill and at the same time to attempt to elicit a degree of Saudi flexibility. At the present time it looks like both sides are playing a game of chicken, an enterprise that is sometimes risky between friends." (Memorandum from Haig to Kissinger, July 25; ibid.) No record of the Helms–Kissinger meeting was found.

[2] Summarized in Document 129.

[3] According to telegram 2273 from Jidda, July 10, the Saudi Government publicly accused the companies of delaying tactics and warned they would be held responsible if current negotiations failed. The government also reaffirmed its right to assure continued flow of Saudi oil to consumer countries. (National Archives, RG 59, Central Files 1970–73, PET 3 OPEC)

OPEC, and to expand its membership in recent months to include Egypt and Syria.

2. The Shah of Iran has, by his unilateral actions on the Gulf islands late in 1971[4] and his decision to go his own way on the OPEC participation issue, irritated Saudi-Iranian relations and contributed to Faisal's determination to play the role of the Arab leader in OAPEC—increasingly the oil forum for the Arab League. The Shah's 24 June press conference in London to announce his separate agreement with the oil companies on the participation issue[5] came on the eve of the OPEC ministerial conference in Vienna at which Dr. Yamani, as the OPEC negotiator, reported his own failure to make progress with the oil companies operating elsewhere in the Gulf. Both the facts and the timing of the Shah's statements outraged many of the OPEC oil ministers assembled in Vienna; undoubtedly some of Dr. Yamani's embarrassment was shared by King Faisal.

3. The Iraq decision to nationalize IPC on 1 June 1972[6] has influenced Faisal's position on relations with the oil companies. All of the oil-exporting Arab nations, including Saudi Arabia, were well aware by the last week in May that Iraq action against the IPC was imminent. Iraq acted on 1 June with assurances of unified Arab support. The Iraqi foreign minister had personally undertaken, late in May, a successful mission to Saudi Arabia. As the critical events of June approached, it was clear that Arab and thus OAPEC solidarity was surprisingly strong; OPEC was faltering. Faisal is acutely aware that Iraq is testing the proposition that it can operate a nationalized oil industry and market its export crude at the terminals in the Mediterranean and the Gulf. Before the end of 1972 the new oil politics of Iraq should have been sufficiently tested and exposed to tell the world whether an oil-exporting Arab nation can strike out on its own.

4. King Faisal now needs time to assess (a) the Iraq effort to go it alone, (b) the substance of the deal the Shah has made with the oil companies, (c) the new government in Libya, (d) Sadat's dramatic move to reduce the Soviet presence in Egypt and (e) the cost, in terms of the

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[4] Iran seized the Tunb Islands in December 1971; see *Foreign Relations*, 1969–1976, volume XXIV, Middle East Region and Arabian Peninsula, 1969–1972; Jordan, September 1970, Document 110.

[5] As an alternative to participation, the Shah offered a revised formula for pricing oil that would link Iran's income from oil with food and other commodity prices, i.e., a "basket" price. Thus if the basket price rose, Iran's tax revenues and payments would also increase. The Shah stated this would allow Iran to continue its development program without fear of inflation eating up some of the proceeds from oil income. (*The New York Times*, June 26, 1972, p. 10) See Document 124 for details of the agreement with the Consortium.

[6] See footnote 4, Document 124.

new Saudi politics in the Arab world, of not following through with action on the Saudi 10 July démarche to the oil companies. This statement included language that has been variously interpreted by qualified observers as threatening immediate nationalization, as the creation of more direct ties between Saudi Arabia and the consumer nations and as an invitation for the United States government to step in and play a more active role in the negotiations.

Although Dr. Yamani acts in the capacity of an OPEC-elected negotiator, in fact he speaks only for the Gulf producers; of these Iran and Iraq have gone their own way. King Faisal, by committing his personal prestige to Yamani's OPEC task, has introduced a whole array of other U.S. and foreign oil companies and other governments into the historically relatively simple bilateral relationship between the United States, including the ARAMCO American shareholders, and the Saudi government.

5. King Faisal's letter to President Nixon offers the United States government an opportunity to move into this situation to ensure that the immediate problem of concluding an acceptable arrangement between the oil companies and Dr. Yamani's Arab clients in the Gulf will not endanger the unique bilateral United States relationship with Saudi Arabia, which so clearly involves the longer-range United States interests in the region. By adopting Yamani's OPEC position as his own and by raising the matter to the highest level between the governments of the United States and Saudi Arabia, King Faisal appears to have taken the matter out of the hands of OPEC, Dr. Yamani and the oil companies. The objective of any action on King Faisal's letter should be to get the oil negotiation back in the hands of Dr. Yamani and the oil companies; this will have to be done in a way that takes into consideration King Faisal's view of his own image in the Arab world.

James H. Critchfield[7]

[7] Printed from a copy that bears Critchfield's typed signature.

132. Memorandum From Harold H. Saunders of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Haig)[1]

Washington, July 26, 1972.

SUBJECT

Saudi Arabian Oil Negotiations

I do not claim to be an expert in the complex field of international oil, but I gather you are interested in knowing as much as you can about the Saudi negotiations, and I write this to give you the picture that I see. I emphasize that there are others that know much more about this, but I have enough information from different quarters to make me feel that there is a lot of truth in the following.

As I understand it, the following is the *background of the proposal that an emissary like Mr. Connally be sent to talk with King Faisal.*[2]

In the context of the current negotiations, King Faisal made a statement through his cabinet on July 10 (attached)[3] which the top echelons of the four ARAMCO owner companies interpreted as a signal that the King was backing away from support of his petroleum Minister, Zaki Yamani, who is the chief negotiator with the companies. Their point was that by speaking through the Cabinet the King was speaking indirectly and taking some distance from the government position. However, ARAMCO officials in Saudi Arabia immediately cabled the companies here saying that was exactly the wrong interpretation of the King's statement—that this is the King's normal way of speaking and that they had had a number of approaches in Saudi Arabia warning the companies to take this as a demonstration of the King's support for the current Saudi negotiating demands. Moreover, the proposal was informally made that, if the companies did not believe that the King supports the demands, they should send an emissary to talk with him. ARAMCO officials judged that such a bluff would not be made idly and argued that the offer to receive an emissary supported their interpretation that the King fully backs Yamani's position.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1287, Saunders Files, Saudi Arabia, 1/1/72–8/30/72. Confidential. Sent for information. Printed from an uninitialed copy.

[2] See footnote 1, Document 131.

[3] See footnote 3, Document 131. A copy of telegram 2273 from Jidda, July 10, is attached.

To put this in broader perspective, one must be aware of the fact that there is a serious difference between company officials at the Vice Presidential level who are closest to the position of the foreign governments and the top management of the companies:

—The younger officials who tend to be supported by the independent oil consultants feel that the handwriting is on the wall—that participation in the companies by the host government is inevitable and that the only way the companies are going to survive is to work out a fresh relationship with them.

—The company management, on the other hand, tends to feel that if they just hold out, King Faisal and others like him will cave in. They do not accept the notion that the tide of nationalism is so strong that their days are numbered unless they ride with it.

I am not intimately enough involved in this whole business to be advocating one position or another. What I an reporting is that at least some intelligent officials feel that the USG could put itself into a fruitless confrontation with the Saudi government by involving itself. They feel that in sending such an emissary the USG—whether intentionally or not—would be acquiring certain obligations toward the outcome of these negotiations that we could not meet. If after the emissary went the companies still refused to move and a settlement was decreed in Saudi Arabia, this would be a set-back for the USG and its relationships not only with the Saudi government but presumably with the other oil producing governments in the Gulf area. The advantage of sending an emissary, of course, would be to get an accurate picture for top company management of just exactly how the King himself feels. I suppose the middle gound is that if an emissary is to be sent he should not be one who can be interpreted as representing the USG in any way.

I would caution that much of what I get comes from senior managers rather than from the policy level of the companies, but the argument is becoming so pronounced in the oil community that it seems worth looking for some fire behind the smoke.

133. Transcript of a Telephone Conversation Between the President's Assistant for National Security Affairs (Kissinger) and John B. Connally[1]

July 27, 1972, 3:58 p.m.

C: Hello?

K: John?

C: Yes sir, Henry.

K: Where did I get you?

C: Out at the ranch; I'm at home.

K: John, I sat at dinner next to Ken Jamieson yesterday and this thing is a little more complex that we just thought. King[2] had in fact written a letter to the President, which puts himself behind this plan so there's no sense attempting to go around him out of the blue. What we now have to do is, and the only plan that has a chance of working, in answering the letter we send an emissary out there to deliver a reply and get it to King that way. Now, I wanted to get your opinion whether you think that's a good idea.

C: Yes, I think that's probably a damn good idea. I don't know any other way you could. I don't know [what] the content of the letter says.

K: Well he puts himself in effect behind his own Administration. Now Jamieson says that what we should reply is that we want a negotiation because he says they started with a similar demand from the Shah and came out all right. But then the next question is whom the hell can we send out with the reply. Course Jamieson says you are the guy we should send; I think [so] myself but I wanted your judgment and I told this to Jamieson that in the political climate now it might be a little conspicuous.

C: Yes, I think it would be.

K: I mean I don't see how we can get you out there without getting a first class brouhaha going.

C: I don't either.

K: Well whom can we send?

C: Well first, let me tell you something that perhaps you don't know, and I don't know whether it would change anything at all but in the Madison Hotel in Washington as of this moment, there's a man,

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 15, Chronological Files. No classification marking. Kissinger was in Washington; Connally was in Texas.

[2] King Faisal of Saudi Arabia.

Saoud Haikal,[3] the son of the King, who, according to a conversation he had with Bob Herring, Chairman of the Board of Houston Lighting and Power Company who went over to Saudi Arabia to talk to them about gas and building a methane plant over there, partners with the Saudi government, this man Emir Saoud Haikal has come to this country for the principal purpose of unofficially talking about Saudi Arabia oil policy and he has indicated that they're going to have a new minister of oil in the next 60 days. Now he wants to see somebody in the government. He specifically mentioned Rogers Morton and Lincoln assuming that they are the people in government with whom he could talk about oil matters.

K: Why don't we send him to Shultz?

C: And I think he ought to talk to . . . at this point I think . . .

K: Well are you going to be up here?

C: Yeah, I'm going to try to see him Monday.[4]

K: Well, why don't you see him.

C: But on the other hand, I don't know what your schedule is, you don't know the details of it I guess, but it looks like you ought to see him, without bringing anybody else into it.

K: All right, I'll see him Saturday morning. Can you arrange that or should I do it?

C: No, I can call and arrange it. I'll just call and tell him to call your office. He wants to do it on an unofficial basis.

K: That's exactly what I want.

C: And that's what you want, and I think we should keep it on an unofficial basis more, and that's all I know and I assume that information is correct.

K: That's why I asked whether you'd do it.

C: All right, I'll do it. I'll arrange it.

K: Well, let me talk to Jamieson with that information.

C: And then I'll see this man Monday morning.

K: Good and then let's hold out decision until then. And then let's you and me talk.

C: All right. And when I meet him I'll be thinking about who might go over there as a representative of this country. All that seems to me is that if this is one of the assignments that the President had in mind weeks and weeks ago, that's the only way you could justify my going.

K: That's right and that's how we would have to do it.

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[3] A transcription error; a reference to Prince Saud.

[4] July 31.

C: Otherwise it has a, you know, it has political implications that we ought not to have to try to explain.

K: Well my only problem is that in general I don't like to get a brawl started without knowing where the cards are.

C: I believe it.

K: And if we could get an initial reaction and send you in the second round it would seem to me a lot better.

C: I would sure agree with that. And I'll be thinking about who the hell we can go and send.

K: I mean I just am reluctant to go and use you up by sending you over there and getting you kicked in the teeth.

C: Yup, yup. Well, let me . . . let's talk to Saoud Haikal first cause hell they want to talk about this very thing and then we'll decide who to send over, okay?

K: Excellent.

C: All right, will you tell Ken that?

K: I will call him this minute.[5]

C: Okay.

K: Good.

C: Thank you Henry.

K: Bye.

[5] In a telephone call that afternoon, at 4:21 p.m., Kissinger told Jamieson that he and Connally agreed that a letter to the King should precede an emissary "to see where the cards are stacked." (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 15, Chronological Files)

134. Memorandum of Conversations[1]

Washington, July 26–31, 1972.

SUBJECT

United States and Saudi Arabian Views on Oil and Energy Policy and on the Current OPEC Negotiations

PARTICIPANTS

Amir Saud bin Faisal, Saudi Arabian Deputy Minister of Petroleum
Muhammad Joukhdar, Saudi Arabian Deputy Governor of Petroleum and Minerals Organization

Mr. James Schlesinger, Chairman, Atomic Energy Commission, July 26, 10:00 a.m.
Mr. Peter Flanigan, Assistant to the President, July 26, Noon
Mr. Hollis Dole, Assistant Secretary of Interior for Mineral Resources, July 26, 3:00 p.m.
Mr. John Nassikas, Chairman of the Federal Power Commission, July 27, 10:00 a.m.

Mr. John Irwin, Deputy Secretary of State
Mr. George Lincoln, Director, Office of Emergency Preparedness, July 28, 10:00 a.m.

Mr. John Connally, Former Secretary of the Treasury, July 29
Mr. Henry Kissinger, NSC, July 31

Senator Clifford Hansen, (R. Wyoming) Dinner evening July 26
Senator John Tower, (R. Texas) July 28, 3:00 p.m.
Senator William Fulbright, (D. Arkansas) Dinner evening July 29

Mr. James Akins, Director, Office of Fuels and Energy, Department of State

Mr. Akins attended all of the meetings except four: with Chairman Schlesinger and Chairman Nassikas, both of whom were briefed by him prior to their meeting and both of whom informed him fully afterwards; and with Secretary Connally, who came to Washington to see Saud, and with Henry Kissinger.[2] Our only accounts of the latter two meetings has come from Saud, himself. Mr. Akins also met alone with Saud on July 25, 28, 31 and August 2 and 5. Mr. Joukhdar attended all the meetings except those with Mr. Akins, with Secretary Connally and Dr. Kissinger. A full memorandum of the conversation with Deputy Secretary Irwin has been separately prepared.[3] This will be an amalgum of that and all other meetings.

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET SAUD. Confidential. Drafted by Akins on August 8.

[2] See Documents 135 and 137.

[3] Dated July 28; National Archives, RG 59, Central Files 1970–73, POL 7 SAUD.

I. Background of the Visit

Amir Saud arrived in New York the afternoon of July 24; neither the Department, the Embassy in Jidda or the Saudi Embassy in Washington had been informed in advance. He called Mr. Akins the morning of July 25; said he had come to discuss Saudi views on the "participation" issue and wished to learn the American views on energy policy.[4] He apologized for the short notice but asked if appointments could be made with appropriate officials in the U.S. Government dealing with energy matters.

In subsequent conversations Saud said that the Saudi Government had been disturbed by the intransigence of the companies, by their lack of understanding of the Saudi and OPEC positions and their refusal to see that new arrangements between the Governments and the companies must be developed. It was clear to the Saudi Government that the intervention of the United States Government would be necessary to bring about a satisfactory resolution of the problem. Saud said that his government had noted Secretary of the Treasury Connally's statements on the necessity of the U.S. Government taking over negotiations from companies;[5] the Government assumed that the United States Government had already done this in reaching the new arrangements in Iran.[6] Accordingly, King Faisal, on July 10th, wrote to President Nixon and asked him to intervene with the companies.[7] He decided that, as a follow-up and more personal approach, Prince Saud should come to Washington to give the views of his Majesty and the Saudi Government.

II. The Main Saudi Points

A. Saudi Reserves

Saudi Arabia has a reasonably good idea of its own petroleum reserves and it knows how large these are in comparison to the total world reserves and how large they figure in the world supply picture over the next two decades. The increasing reliance of many of the

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[4] In the meeting with Flanigan on July 26, Prince Saud stated that "the root of the participation drive" was the desire "to be more than passive recipients of royalty revenues with respect to their principal natural resources. Thus, the OPEC nations are looking for control—the power to regulate rates of production so that income to the producing nation is maximized, the ability to gain footholds in downstream refining and marketing activities, and so forth." In response to his reiteration that OPEC's offer of compensation was at depreciated book value rates, Flanigan stated, "depreciated book value is nothing more than an accounting device which is considered at least in this country to have very little relation to the purchase value of particular assets." (Memorandum for the files, July 26; ibid., Nixon Presidential Materials, White House Special Files, Subject Files, Confidential Files, Box 8, [CF] CO 128 Saudi Arabia, 1971–1974)

[5] See paragraph III. D below.

[6] See Document 124.

[7] See Document 129.

industrial states on OPEC and specifically on Saudi Arabia, "frightens" the Saudi Government. This is an enormous responsibility, and it is an enormous danger. Saudi Arabia's great wealth could incite its neighbors or even some of the great powers to move against it.

B. The Participation Issue

There has been a tendency in Saudi Arabia to have as little as possible to do with the details of oil production. Some still believe all the Kingdom should do is to take measures to increase its income by instructing Aramco to increase production and by increasing taxes and royalties. This would certainly be the easiest way of handling the relations with the oil companies; and it probably would also be the most profitable. There are two dangers in such an approach: one for the companies and one for the government. For the companies it would have meant the probability—in fact the certainty—that the Saudi Government would, in a very short time, have imposed production controls on Saudi oil. It is quite possible that Saudi Arabia would not have been able to absorb the income from oil production and would have concluded that it would be better to leave the oil in the ground for future exploitation. And it is unlikely that production could ever reach ten million barrels/day. Saudi Arabia recognizes that this could have repercussions on many of the consuming nations. The danger to Saudi Arabia would have been less clear but more insidious. The effect on Saudi Arabia's public morality is bad enough now. Money is being given to the Government and the people without their having earned it; it is only because their soil happens to contain large oil reserves. If income increases, with no corresponding efforts by the Saudis, then the entire people would be corrupted.

The Saudi Government has decided that it is imperative that it control the operation of the oil resources in the country. This is not only for the reason mentioned above (i.e. to give the Saudis a direct stake in the operation of the oil industry) but because in this age it is impossible to allow foreign private companies to control the destiny of the country. In the past, Saudi Arabia has made suggestions to ARAMCO: in some case it has made demands; but the final decision on what action would be taken was made by the companies. ARAMCO has been cooperative and the Saudi Government believes that its relations with it are better than that of any other country of the Middle East with its concessionary companies. Nonetheless, it must have the final say in the operation of the industry which is vitally important to its own well-being.

C. 50 vs 51 percent participation

OPEC has decided that participation will start out at 20 percent and rise to 51 percent. The Saudi Government is in full accord with this

OPEC position. The companies attach great importance to whether the Government's share will rise to 50 percent or to 51 percent, but this is not necessarily a crucial issue. If the minority shareholder's position is protected and if action cannot be taken which would hurt its interests, then there is little difference between 50 or 51 percent participation.

There seems to be considerable understanding among some of the companies of the necessity of moving forward to 51 percent participation. The Saudi Government knows that some companies are still opposed but even in those companies there are some officials who realize that this is inevitable and that the companies should make the best of it. The Saudi Government has no intention of reducing ARAMCO to a powerless appendage to its oil operation in Saudi Arabia.

D. Future Relations with ARAMCO

Saudi Arabia in no sense intends to expel the companies or replace their personnel with Saudis. ARAMCO has been forthcoming in training Saudi Arabians and the Government is grateful. But with the planned expansion of the country, increases of production of oil and investment inside Saudi Arabia, it is quite clear that for the foreseeable future the oil companies and their expatriate staffs will be needed to operate the industry efficiently. In fact, Saudi Arabia envisages in the next few years a vast transformation of its character: other Arabs will come into the Kingdom, will be naturalized and will take up duties as Saudi citizens; the oil companies will maintain their present staffs, perhaps even enlarge them.

E. Compensation

There is still a wide gap between the government's and the companies' positions. On the question of compensation the original company position was "not serious" as it would have resulted in an increased cash flow to the companies throughout the life of the entire concession. In other words, if such a proposal on compensation were accepted, every oil company would demand total nationalization immediately. The most recent offer of the companies was considerably better. It amounts to $1.80 for every barrel produced in one year; this amounts to about six times book value. The OPEC position is still "book value" as a basis for compensation, but the Saudi Government has recognized that it should pay more than this basic sum. This can be done through various buy-back arrangements; or perhaps there are other ways it could be handled. The Saudi Government has not been inflexible in dealing with the companies, as the companies evidently have told the U.S. Government. The latest Saudi offer was considerably above book value; in fact, it was almost three times book value.

One thing was established in the initial company-government talks, was that the participation negotiations would not be a typical

commercial transaction; ARAMCO was not a willing seller and the Saudi Government was the only buyer. Compensation therefore would *not* be tied to what ARAMCO might be able to get for the concession were it selling it on the open market.

There is no doubt that if ARAMCO had made an offer of participation a few years ago the settlement would have been much higher; in fact, it very likely would have to be higher than the recent company proposition. Even if it had been made before the nationalization in Iraq and Libya, the Saudi offer would have been more favorable. Now that the radicals in the Arab world have moved against the companies and have had some success in taking over the operation it would be very difficult—in fact it would be impossible—for the moderates to appear to yield to the companies.

The Saudi Government believes that the question of compensation should not be over-emphasized however. The companies have a long and profitable future in Saudi Arabia and in other producing countries if they reach a reasonable accommodation with the governments. The Saudi Government is sure that ARAMCO will do this although it may be difficult at times and conceivably could be impossible. King Faisal and his Government hope that the United States Government will be influential in advising the companies to make a quick and adequate settlement with them.

F. Unilateral Saudi Action in Case No Agreement Reached

Saud said that it was quite clear in the letter from King Faisal to the President that the Saudi Government looked on this matter very seriously. If the companies did not reach a rapid accommodation with the Government, Saudi Arabia would have no choice but to take unilateral action. (Mr. Akins said that this was not our interpretation of the King's letter; indeed we did not get any such sense from the careful reading of the text). Saud said he had come to Washington to reemphasize this fact. It was not a threat against the companies; it was that Saudi Arabia would itself feel threatened by the companies and particularly by radicals in OPEC if it did not reach a satisfactory solution. Saudi Arabia believes that if the companies will not reach an agreement at least comparable to the one reached in Iran or probably to be reached in Iraq, then Saudi Arabia will lose its position of authority in OPEC and the guiding power will devolve on the radicals. Saudi Arabia has not helped Iraq and at present does not intend to. Iraq had taken its action against the IPC without consultation with the other members of OAPEC and it must be prepared to take the consequences. Iraq has already been hurt; civil servants salaries have been cut and there is even some possibility of suspension of salaries. If Army salaries are cut, quite possibly there will be a change in government in Iraq.

G. Investments

Saudi Arabia looks forward to the billions of dollars it will have at its disposal in a very short time. It does not regard itself as a financial institution, even less as the banker for the world. It believes it would be imprudent to keep this money much longer in banks in the Middle East, Europe or America; and Saudi Arabia must start looking seriously at investment possibilities at home and abroad. It is already considering downstream investments in oil, in tankers, in petroleum refineries and even in marketing outlets: it is not thinking in terms of starting new ventures itself but rather buying into existing companies. The capital available would make it possible to take over smaller companies, if this is the route Saudi Arabia decides to follow. Saudi Arabia does not intend to limit its investments to petroleum related activities and would be prepared to invest in other projects in the developed or the undeveloped world. (The question of investment in the Arab world was raised several times but was not directly answered by Saud.) Saudi Arabia is also looking at massive investment inside the country. It will have the capital to buy factories and have them built in Saudi Arabia, but as its experience so far in this field has been bad, Saudi Arabia would prefer to have companies invest in Saudi Arabia in joint ventures with the Saudis. In such cases, the interest of the foreign investors in profits would be far greater than if the plant were merely built for the Saudis or even if foreigners were managing it for them. Saudi Arabia would be willing and would be anxious to start such a program right now, but it has only vague ideas as to how to go about it. It would be willing to entertain any suggestions or offers from foreigners. Saudi Arabia would be particularly interested in petroleum related activities such as petrochemical plants, or in energy intensive industries, such as manufacture of aluminium, which could use natural gas now being flared.

If Saudi Arabia does indeed embark on a program of investment at home and abroad it will very likely need all the capital that can be generated by oil production in the country. In this case, and only in this case, oil production could rise to the limits ARAMCO foresees for the country, i.e., 25–35 million barrels per day by 1985.

H. Reliability of Saudi Oil

Saudi Arabia has read with some concern statements made by many American officials about the unreliability of Eastern Hemisphere oil. It interprets this as meaning Arab oil. Saudi Arabia would like to point out its extraordinary record of supplying oil to the West. The boycott of Britain and France in 1956 was not effective and was widely recognized as such. The boycotts of the United States, the United Kingdom and West Germany in 1967 lasted no longer than a week in

Saudi Arabia and even then the deliveries to the Bahrein refinery, which supply the American forces in South East Asia, were never interrupted. Furthermore, Saudi Arabia played the major role in the Khartoum conference which resulted in the lifting of the boycott on the three countries. It was only after the boycott was lifted that Saudi Arabia agreed to make its payments to Egypt and Jordan. Saudi Arabia would like to have a special relationship with the United States, similar to that currently enjoyed by Iran. While an outright alliance is out of the question, a closer political and economic relationship with the United States and with Western Europe would be something that should be carefully considered by both the United States and Saudi Arabia.

Saudi Arabia nonetheless recognizes the United States concern about the unreliability of Eastern Hemisphere oil. It knows many threats have been made to use it as a political weapon. Much of this can be attributed to the unrest in the Middle East and to American policy which many Arabs believe to be anti-Arab. Rather than talking about insecure oil, the United States might well consider policies which would make this oil more secure.

III. The American Position

A. Basic Importance of Saudi Oil

Most of the American officials and particularly Deputy Secretary John Irwin, Peter Flanigan and James Akins told Saud they recognized the extreme importance of Saudi Arabia to the world supply of energy over the next few decades. All expressed a strong desire that the current negotiations between the companies and the OPEC Governments be worked out in a manner satisfactory to both parties.

Oil is extremely important to the well-being of the Kingdom of Saudi Arabia; it is scarcely less important to the health and stability of all developed nations including the United States. The main concern of the United States Government is that the oil continue flowing and that it be available on reasonable terms to all consumers.

B. Basic Importance of Companies

We had another important concern however; that is the well-being of our oil producing companies abroad. There is the traditional protection given to investments abroad; there is also our interest in the contributions of their investments to our balance of payments. In the case of the oil companies there is much more: we believe the oil companies provide the best means of finding and developing oil reserves, taking the oil to consuming areas, refining and marketing it. When governments have tried to take over this function they have not proven to be very successful.

C. Compensation

We recognize the sovereign right of any nation to nationalize property within its borders. We have always insisted that the compensation be fair, prompt and adequate. When we read the initial OPEC offer of compensation; that it be on the basis of depreciated book value only, we were astounded. Mr. Flanigan said that book value is of some theoretical interest to accountants but it has no relationship to the true value of property. Frankly, he said, he would consider compensation limited to book value, "confiscation." Most others with whom Prince Saud spoke made the same point.

Mr. Irwin pointed out that Saudi Arabia itself intends to invest heavily outside its own borders. The issue of compensation for its own property may sometime become acute for Saudi Arabia. We would have thought that Saudi Arabia would do well not to speak of compensation in terms of book value. The United States has given and loaned funds to many developing countries. This will probably continue, but there are limits as to how much we can do as a government. We believe that much of the investment must be done by the private sector. The United States itself was developed by British and other European capital. Without this, it is doubtful that the United States economic advance could have been as rapid or as dramatic as it was. We know that circumstances have changed but we still believe that private capital could give the impetus to economic advance throughout the undeveloped world. For this reason we are apprehensive at any proposal to compensate on the basis of book value alone. And on this point, we are perhaps even more rigid than the oil companies themselves. If the final OPEC settlement is indeed on this basis, the principle could spread elsewhere and there would almost certainly be an inhibitory effect on foreign investment throughout the world. This would, in a short time, harm the economies of these countries and they would probably call for increased loans or gifts from the developed countries, who in turn might be reluctant to comply in view of undeveloped countries unwillingness to encourage private investments. In short we would not like to see a settlement on book value alone even if there were other "sweeteners" somewhere in the background.

D. Government-to-Government Contacts

Mr. Irwin and Mr. Akins said that the United States Government until recently had not become involved in matters between the oil companies and the producing governments. Any thing we do now is still quite minor. We had no intention of emulating either the Communists or the Japanese where the Government actually carries out negotiations. (In the conversation with Secretary Connally, another view was

expressed. Secretary Connally told Saud that the question of energy supply was too important to be decided by the companies. The United States Government would very likely play a much greater role in negotiations with the producing governments than it has in the past; in fact it might take over all negotiations itself.)

E. Investments

The United States was most pleased with Saudi Arabia's intention to invest downstream. Saudi Arabia could buy stocks on the New York exchanges; it could, with its enormous capital, buy out individual companies or buy controlling interest in them. It could start new factories from scratch; it could invest in hotels or land; in short the possibilities for investment in the United States are almost unlimited. Mr. Flanigan spoke at length on this subject; said that he was responsible for encouraging foreign investment in the United States and he urged Saud to let him know if ever there were any obstacles to such investments.

F. Attitudes of the Companies

We had talked with the companies and found them realistic and flexible. We know that the first company position would be turned down by the OPEC negotiators but the companies expected this. We would not wish to get involved in the details of the negotiations but we believe that the latest company offer (which seemed to be about ten times as good as the first one) had much to recommend it. It was about six times book value; but the important thing, from the Saudi point of view, was that the compensation was to be paid for out of the income of the 20 percent participation share. Over the 10 or 12 year period set for compensation, the net cash flow to the Saudi Government would always be positive. This seemed to us to be an excellent arrangement for Saudi Arabia. It nationalizes; it takes control and the compensation is extended for many years. And at no time during this period would Saudi Arabia be called to add other funds for payment.

G. Alternative Energy Supplies

Chairman Schlesinger and Chairman Nassikas reviewed for Saud our problems and our potential in nuclear energy and natural gas. In the long run, nuclear energy will meet much of our needs, but in the short run we will need increased imports of petroleum. Whether there is a crash program in the United States to develop new energy forms depends largely on action by the Administration and the Congress. And their will to move depends on the availability of foreign oil, on its cost and on the threats that are made by producers to exploit our dependence on imports. The greatest stimulus to increased action on energy supplies in the United States is the threat by OPEC to cut off or to restrict oil deliveries to gain political or economic goals.

IV. Results and Conclusions

The first concrete result of the visit was probably the statement made by King Faisal on August 3 that Saudi Arabia did not intend to use oil as a political weapon;[8] it did not believe the Arabs should try to do so; and the United States could not be greatly hurt in any case as it had alternative sources of energy.

There is also good reason to believe that there will be more flexibility in the government position when talks resume. Saud told us that OPEC would be reasonable; Mr. Joukhdar said just before he left that we "would be pleased" with the new OPEC position; and Hassan Yassin, a friend of Saud, told Mr. Akins on August 6 that Saud understood our position, and that "we will compromise on the compensation issue." All three urged that these statements not be passed on to the companies; they said they feared that "if the companies think we will yield, they won't move at all; and then we'll have a real confrontation."

Signs of a lack of frankness or at least faulty communication between OPEC and the companies appeared during the Saud visit. The companies maintained that the OPEC negotiators were absolutely inflexible, with Yamani's maximum offer for compensation being book value plus twenty-five percent. Saud said the companies had deceived us; that OPEC was flexible and, indeed, the latest OPEC offer was considerably above book value. The companies told us that their greatest worry was the disposition of the participation oil; Saud said that this issue was settled very early in the discussions. We told each side of the statements made by the other and suggested that it would be profitable to both if they would clear up the misunderstandings.

[8] As reported in telegram 2195 from Cairo, August 9. (National Archives, RG 59, Central Files 1970–73, POL 15–1 SAUD)

135. Transcript of a Telephone Conversation Between the President's Assistant for National Security Affairs (Kissinger) and John B. Connally[1]

Washington, August 2, 1972, 12:32 p.m.

K: Hello, Mr. Secretary.

C: Hello there, Doctor, how was your trip?

K: Very interesting.

C: That's good. I talked to Prince Saud Faisal and had a two hour visit with him. He is extremely knowledgeable about these negotiations and he is waiting to come over to see you this afternoon. He's at the Madison Hotel. I suggested 3 or 4 o'clock because I wasn't sure but if you don't mind you might ask your secretary to call him and set a time.

K: Oh, good. I can't do it at 4; I can do it at 3.

C: Well, I'm sure he'll do it anytime, Henry.

K: Now is there anything I ought to know.

C: Yes. They apparently are pretty well locked in on a participation at 20% and escalating really to 51%. He asked me if we were worried about this net book value.

K: There are two issues. One is the participation and the other is . . .

C: the matter of compensation.

K: Exactly.

C: Now he says that for the most part they have everything agreed except the matter of compensation and I said "Well, it's a very vital factor. And I said net book value—the use of that would upset us enormously. That means that you're going to be trying to set a pattern for the rest of the world, not just in the petroleum industry but in all types of industries." I said, "Net book value, particularly of extractive minerals industry does not in any sense reflect value." "Well," he said, "we can use other words. There are ways that we can affect compensation. There are many hidden compensations. Maybe we'll have to devise new words." And I said, "I think it's absolutely essential that we get away from the net book value."

K: What did he say about that?

C: He just simply said that in effect perhaps we will have to get away from that and find some new words to describe value and quit using the words of art—in other words of net book value.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 15, Chronological Files. No classification marking.

K: Have you talked to Ken Jamieson?

C: Yes, I have and gave him a fairly good rundown on it.

K: Good. I felt an obligation.

C: I told him that we were going to try to set this up for him to see you this afternoon. He then expressed the hope that you would let him know after that. The Prince has on his own initiative asked for a week's delay of these negotiations.

K: Oh good. Well, that's what Jamieson wanted.

C: Jamieson is asking really for two weeks delay. I suggested to Saud that they just hold everything in abeyance until after the election. I said, "Now frankly things have reached the point where we don't want the American oil companies negotiating foreign policy for us and I said you and I are deeply engaged in foreign policy." I got into the whole Middle East situation with him and discussed it fairly lengthy. I said, "Now this country has been derelict in not establishing over the years a more specific oil policy and an energy policy but this President wants to do it and we're going to do it. But we can't do it in the next two weeks and we don't want you all to take any action that would set you on a course that would make a confrontation with us inevitable because we're going to be a great consuming nation. We're the largest consuming nation in the world. You're going to be the largest producing nation in the world. You are now. Now frankly we don't want you to set a course that makes it absolutely impossible for us to work out and coordinate policy with you." Then he said, "We need to get this settled. We're not going to do anything that would make it impossible for us to work out a coordinated policy. That's the reason His Majesty wrote the President because we had understood from things that were said in this country that this government was for the first time seriously considering the establishment of an international policy and His Majesty's letter was for the purpose of inviting a dialogue with us." And I said, "Well, that's great. We'd like to have that dialogue, but you must understand that we're all deeply involved in election procedures here now for the next 90 days. I don't know what great urgency there is in your moving forward with these negotiations and establishing the principle of participation looking toward 51% prior to the time that we could get together and talk about it.

K: I agree with you.

C: But they want to settle this.

K: Let me proceed on that. I will follow exactly the same line. I will call Jamieson afterwards and I'll call you.[2] How long will you be down here?

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[2] See Document 137.

C: I don't know. I may be here tonight, Henry.

K: Want to have breakfast tomorrow?

C: I'm not sure because I may or not see the President. If I see him I'll remain over, but if I don't I'm going on home this afternoon.

K: Are you telling me that if the President sees you for breakfast you're turning me down.

C: Yes. I hate to tell you that but that's one of the facts of life. I'm sorry to disillusion you, but you haven't been rejected many times.

K: Do you want to stop in after? It's entirely up to you. I can see you next week.

C: No, I'll probably see you next week Henry.

K: Are you coming early next week?

C: Yeh, I'll be in Sunday night.

K: Look, I'm really quite anxious to get your judgment from—of the problem we discussed last time. That's beginning to crystallize now and I can't make it for breakfast on Monday but . . .

C: We can do it anytime Monday.

K: Shall we set a time now? 10 o'clock.

C: That's good. See you at 10 on Monday.[3]

[3] August 7.

136. Memorandum From Harold H. Saunders of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, August 3, 1972.

SUBJECT

Saudi Arabian Oil Negotiations—A Compromise Figure for Compensation

You have asked for a gross number which could represent a fair settlement between the Saudi government and ARAMCO on compensation for the agreed Saudi share of participation in ARAMCO. The two

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. III, Sep 1971–Apr 1973. Confidential; Sensitive. Sent for action. Kissinger and Haig initialed the memorandum, which has the notation "OBE."

criteria for such a number are (a) that it be enough above net book value to satisfy the companies and (b) that it be low enough so that the Saudi government will not appear to have sold out the OPEC countries.

On this latter point, two issues are involved: (a) There is the political principle in the "anti-imperialist" world that the oil under the ground belongs to the countries and not to the companies. This is at odds with the companies' point that it was their investments that made this oil available to the countries and they should get some compensation for that. (b) The companies are worried about establishing the principle of net book value in part because the net book value of their assets in Kuwait and Iraq is much lower even than in Saudi Arabia. It must be remembered that the Saudi negotiator, Yamani, is technically negotiating on behalf of OPEC.

As a framework for discussing such a number, it is worthwhile to think of *the following numbers* which *set the outer framework for discussion:*

—It is generally agreed that the *net book value* in the ARAMCO negotiations is *$190 million.* This represents 20% of the present agreed net book value since the negotiations involve payment for 20% Saudi participation.

—The *last industry offer* to the Saudis in the present negotiation totals *about $1.1 billion.* This includes the following components:

—The net book value figure of about $190 million.

—In addition, the Saudis would pay a sum of money adding up to $900 million over a period of years. This would be calculated at a rate based on production of oil so that the Saudis could pay out of ongoing production.

It is between these outer limits that the present negotiations are taking place. In the course of the present negotiations, the following thoughts have been thrown out either officially or privately:

—The OPEC (Saudi) negotiator in rejecting the companies' last formula suggested a formula of net book value plus 25–50%. This would add up to about $250–285 million.

—Prince Saud told a State Department official privately that he thought the number might be raised to a little less than three times book value. This would result in a figure around $550–$600 million.

—Guesses about the companies' position have been hazarded privately that if the OPEC offer could be raised to four times book value or about $750 million a company position might be crystallized.

The one other point that has to be considered is how any level would compare with Iran's settlement. The two cases have many differences, but as I understand it, a highly oversimplified judgment based on technicians' calculations is: A settlement at *$600 million* would be

enough better than the Shah's settlement to cause him to seek adjustments, whereas a settlement around *$750 million* would be a little better but not vastly so. That judgment may be the basis of the notion that a company position might be crystallized around $750 million or four times book value.

I suppose as a matter of general principle one should shave the estimates even of the technical people somewhat, although I'm told their analysis seems to be pretty straight. If one were to do this, we would be talking about a figure around *$700 million.* This would be just a little above splitting the difference between net book value and the last company offer which would produce $650 million.

I provide these figures just to give you a framework for judging what you may get from Jamieson. He may prefer that no figure be offered at all, and in any case he would presumably need to talk to the three other owner companies involved.

As you see, this is an inexact science!

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137. Transcript of a Telephone Conversation Between the President's Assistant for National Security Affairs (Kissinger) and John B. Connally[1]

August 5, 1972, 1:40 p.m.

K: Hello, John.

C: Hi, Henry.

K: How are you?

C: Fine, sir.

K: John, we're having some trouble with these Standard Oil people whose political acumen is not up to their income to put it mildly.

C: Yeah.

K: But I wanted to mention it to you and you can think about it and we can talk again on Monday.[2]

C: OK.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 15, Chronological Files. No classification marking. Kissinger was in Washington; Connally was in Texas.

[2] August 7.

K: You know, I talked to Saud after you did.[3]

C: Yes.

K: And I made essentially the same points to him. One, that we need a long-term policy and two, that it isn't in their interests to adopt a confiscatory approach. Because if they get too far ahead of the other countries that they will start a whole new round of crises in the Middle East. Secondly, if they get into a confrontation with us, they will have to lean to states whose interest has to be to undermine them. And, therefore, for political reasons, it's not in their interests. At the same time I told them it was not in our interests to impose a settlement on them that made them come out worse than the other states because we were interested in their stability. He took all of this very well. He agreed or he reconfirmed his agreement to delay. He said that they would not insist on net book value and he would recommend that when he got back. And he said that they would agree to a fair figure. And he said that there is good will. If I gave him what I personally thought was a fair figure, they would be heavily guided by that. I called up Jamieson and his people and they thought they had the game won at that point.[4]

C: Oh yeah.

K: And they wouldn't give me a figure. And said that's their business to negotiate it.

C: Yes.

K: And wouldn't talk about long-term policies said that wasn't their business either and got semi-snooty about it and sort of thanked me and dismissed me. Then the idiots, if you forgive me, on Friday[5] after having asked for a postponement which they had been given, the idiots went to Saud on Friday in New York and started talking to him before he could even go back and negotiate and talk to his Government.

C: Jesus Christ.

K: So he, of course, pretended he didn't know what they were talking about. Now Jamieson called me this morning[6] and said apparently our two messages hadn't gotten across. I said now listen Mr. Jamieson, you can tell me he didn't agree with us, but it's inconceivable that Connally and I can both talk to a man who doesn't know what we are talk-

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[3] Undated talking points for Kissinger's meeting with the Prince are in the National Archives, Nixon Presidential Materials, White House Special Files, Subject Files, Confidential Files, Box 8, [CF] CO 128 Saudi Arabia, 1971–1974.

[4] Apparently a reference to Kissinger's telephone conversations with Hedlund on August 2 at 5:41 p.m., and Jamieson on August 3 at 10:20 a.m. (Ibid., NSC Files, Kissinger Telephone Conversation Transcripts, Box 15, Chronological Files)

[5] August 4.

[6] Telephone conversation between Kissinger and Jamieson, August 5, 9:05 a.m. (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 15, Chronological Files)

ing about. Obviously this guy before he went back to Saudi Arabia couldn't say anything.

C: Right.

K: And equally obviously he couldn't be in a position of having first asked for a postponement on their behalf and settling it with them before the first date for which they asked for a postponement.

C: Right.

K: This is the dilemma they are in. Now they again want to send an emissary.

C: Well the hell with them.

K: Well, that's my view.

C: We can talk about it tomorrow, but the hell with them.

K: Jamieson wants to come down and meet with you and me but I don't know whether we ought to do Standard Oil's business.

C: You and I ought to meet separately first.

K: That's what I think.

C: No question about it.

K: That's exactly what I think.

C: They want to use us, Henry, and then when they think we've set them up for them then they want to try and knock a home run. God damn it, if they want to negotiate now let them go on over there and negotiate.

K: John, that's exactly my attitude. I just thought I had missed the point. They were using us to set something up and then they were going for the home run.

C: Sure.

K: The stupid bastards. They could have given me a figure a $100 million higher than what they were going to settle for.

C: That's correct. Well, let's you and I talk about it before we get involved with them.

K: OK, good. Your reaction is exactly mine and I just wondered whether I had missed something.

C: Oh hell no, your instincts are always right. You're right again.

K: I look forward to seeing you and I would like to talk over some other things.

C: OK, Henry. We'll meet tomorrow.

K: No, Monday.

C: Monday. I'm sorry, Monday yes.

K: I had to slip it to noon. Is that—

C: I understand and that's fine.

K: That's fine. OK, good.

C: All right.

138. Letter From President Nixon to King Faisal of Saudi Arabia[1]

Washington, August 11, 1972.

Your Majesty:

Your letter of July 10, 1972,[2] was most welcome, and I was gratified to know that the current negotiations between the oil industry and the Organization of Petroleum Exporting Countries are receiving your personal attention. The United States Government recognizes the importance of these negotiations and shares your view that the outcome will have a profound effect on the Free World's economy and on the prospects for stability in the Middle East.

I also fully share Your Majesty's concern over the future control of Middle East oil and your desire that a negotiated settlement be achieved. It is in the interest not only of our two countries but of the Free World generally that the settlement finally agreed upon be viewed as fair to both parties and as providing for a lasting relationship between the companies and your government.

If a structure of world peace is to be built, it will depend in large measure on the ability of us all to establish certain principles to govern our relationships. This is as true of economic as of political relationships. In the case of the present negotiations, it is important that the compensation finally received by the companies be regarded by all nations as just and adequate; the settlement of the compensation question will be evaluated in terms of its impact on international trade and investment relationships. If the settlement adversely affects these relationships, for example by impeding the flow of private investment and technology to the developing world, the vacuum thereby created would tend to be filled by interests that are inimical to the principles and values we both uphold. I am sure Your Majesty will have very much in mind the need to balance short-term advantage against the long-term interest in strengthening the forces of moderation in the world.

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[1] Source: National Archives, RG 59, Central Files 1970–73, POL 5–1 SAUD. Secret; Exdis. The letter was submitted to Nixon under an August 8 covering memorandum from Kissinger and Flanigan, which informed Nixon of the differences between ARAMCO and Saudi Arabia on the question of compensation. (Ibid., Nixon Presidential Materials, NSC Files, Box 1287, Saunders Files, Saudi Arabia, 1/1/72–8/30/72) Thacher personally delivered the letter to Faisal, August 14. (Telegram 2628 from Jidda, August 13; ibid., Box 761, Presidential Correspondence, Saudi Arabia, King Faisal, 1972) His comments on the meeting were transmitted in telegram 2656 from Jidda, August 15. (Ibid., Box 1287, Saunders Files, Saudi Arabia, 1/1/72–8/30/72) The letter was also passed on to Jungers. (Telegram 149065 to Jidda, August 16; ibid., Box 761, Presidential Correspondence, Saudi Arabia, King Faisal, 1972)

[2] Summarized in Document 129.

I had noted with some concern the initial OPEC compensation proposals which would meet no generally accepted standard for the adequate determination of the value of enterprises. We were most pleased with the visit of His Highness your son, Prince Sa'ud,[3] and to learn from him that your negotiators have very much in mind our interest in fair and equitable compensation to the companies. Prince Sa'ud met with all senior officials in my government who deal with energy policy to discuss the position of Your Majesty's government on this and related subjects. He performed this mission with great eloquence, and we presented our views with great candor. He indicated that he would report to you.

It seems to us that the American oil companies have shown and are prepared to continue to show flexibility on the issues involved in the current negotiations. They have expressed to us their desire to reach a mutually satisfactory settlement and their intention to take reasonable positions on the issues. As Your Majesty knows, true negotiations require flexibility on both sides. With such flexibility I am confident that the negotiations can be brought to a successful conclusion. Your continued personal interest will do much to assure their success.

The world forces of moderation and evolutionary progress, eminently represented by Your Majesty, have scored solid gains in the last few years. And, as I wrote Your Majesty on July 21,[4] the cooperation of the states concerned with the stability of the Arabian peninsula has been enhanced by your policies. It is my sincere hope that this will continue to be the case and that each step taken may strengthen the foundation for our cooperation in the pursuit of our common interests.

Prince Sultan's visit here provided an excellent opportunity for us to exchange views on the interests that Saudi Arabia and the United States have in common.[5] As I wrote to Your Majesty after my talk with Prince Sultan, we very much welcome such discussions and believe continuing exchange of this kind will serve the best interests of both our nations. Prince Sa'ud's talks enhanced our understanding of each other's concerns with respect to our future energy requirements, and I would welcome further discussions over time on a long-term approach to the problems of oil in the Middle East.

Sincerely,

Richard Nixon

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[3] See Document 134.

[4] Nixon's letter to Faisal is in the National Archives, RG 59, Central Files 1970–73, POL 7 SAUD.

[5] Regarding Prince Sultan's visit to the United States, see *Foreign Relations*, 1969–1976, volume XXIV, Middle East Region and Arabian Peninsula, 1969–1972; Jordan, September 1970, Documents 160 and 161.

139. Intelligence Note Prepared in the Bureau of Intelligence and Research[1]

RECN–26 Washington, August 31, 1972.

OIL OUTLOOK: CAUTIOUS OPTIMISM

Participation talks between company representatives and Saudi Arabian Oil Minister Shaykh Zaki Yamani, who is acting on behalf of the Arab Persian Gulf members[2] of the Organization of Petroleum Exporting Countries (OPEC), appear to be making progress. Final agreement on implementation of 20 percent participation (ownership) in oil company operations by host governments is a distinct possibility by the end of September, the deadline set for agreement by OPEC. Finishing touches are being put to the new agreement between Iran and the consortium of Western oil companies operating there which will extend the consortium's operating concession to 1994. Less certain is the current status of mediation of compensation for Iraq's nationalization of the Iraq Petroleum Company (IPC), which seems to have stalled. However, it may just be a case of both sides waiting to see what happens in the participation talks before going further.

Outside of the Persian Gulf there are some rumblings against the companies. Of most immediate concern are renewed rumors of impending Libyan action against the oil companies operating in that country. Less threatening was the opinion voiced at the Venezuela-inspired Latin American Petroleum Conference that the international oil companies are "unnecessary middlemen" and should be replaced by government-to-government oil sales.

Persian Gulf: Real progress appears to have been made in the latest round of talks on the implementation of participation in oil production by host governments. The talks, with Saudi Arabian Oil Minister Shaykh Zaki Yamani representing the Arab Persian Gulf members of OPEC, and executives of Esso, Royal Dutch Shell, and Texaco representing the companies, have lasted longer than expected and have moved to the cozier atmosphere of Yamani's villa outside of the initial meeting place, Beirut. Prior to this session Yamani held talks with Aramco in Saudi Arabia, presumably to get an idea of Aramco's plans for future investment and production in Saudi Arabia.

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 2. Confidential. Drafted by Cecchini; approved by Arthur P. Allen, Acting Director, Office of Economic Research and Analysis, INR; and released by Weiss.

[2] Abu Dhabi, Kuwait, Iraq, Saudi Arabia, and Qatar. [Footnote in the original.]

The talks have focused on the key question of compensation for the share of company operations to be acquired by the host governments. The governments insist that compensation can be only for the book value of physical assets. The companies demand compensation for lost future production, i.e., output from the share of their operations turned over to the governments. Some imaginative proposals have been put forward to escape from this impasse.

Yamani has expressed OPEC members' willingness to pay something more than the book value of the assets they will acquire. One formula is to combine book value with profits for one year on 20 percent of production in a package labeled compensation for an "on-going concern." If the companies accept such a proposal, it is probably because they expect an additional form of compensation under the arrangements to be made for marketing the governments' share of oil. This means that the governments would sell their share of oil to the companies for less than the prevailing market price, allowing the companies to make a profit on the oil when they resell it.

By limiting "formal" compensation to the value of the assets acquired, even including token payment for such intangibles as "on-going concern," and refusing compensation for lost oil production, the governments would not compromise their principles of no compensation for oil in the ground. At the same time, a marketing arrangement such as described above would provide a formula for compensating the companies for lost production that would not be affected by how large the governments' participation may become, even to the point of 100 percent ownership. Of course, to the extent the governments find they are able to market their own oil, or to the extent the differential between the price the companies pay for the governments' oil and the one at which they sell it may narrow, this formula loses its value.[3]

Final touches are being applied to the new agreement between Iran and the consortium of Western oil companies operating in the agreement area in southern Iran. The new agreement will extend the consortium's operating concession to 1994 and approve its construction of a new refinery, expected to be located on Kharg Island where a loading terminal is now located. In return, the consortium will increase crude production to 8 million barrels per day (b/d); turn over the

[3] The oil companies briefed Department personnel on September 28 on the current status of participation talks with Saudi Arabia. According to company officials, Yamani had departed from the OPEC formula of net book value by adding on factors that increased the net book value, but the two sides remained "fairly far apart" on a total figure, with Saudi Arabia suggesting $400 million and ARAMCO $600 million. Other issues remained under negotiation, including buy-back oil. (Circular telegram 177818, September 28; National Archives, RG 59, Central Files 1970–73, PET 3 OPEC)

Abadan refinery, the second largest in the Persian Gulf, to the National Iranian Oil Company (NIOC); sell 20 percent of its output to NIOC at an "advantageous" price (i.e., less than market price); and tie the posted price for crude after 1975 to an index of goods imported into Iran. On the consumer side a major oil supply has been assured, while for Iran the attractive feature of the agreement is that its national oil concern will be able to market sizeable amounts of oil abroad. The "advantageous price" provision for oil sold to NIOC has implications for the buy-back arrangement being made in the participation negotiations.

While the major Persian Gulf supplies of crude oil are almost assured, there remains some uncertainty in Iraq. Mediation of the Iraq seizure of the Iraq Petroleum Company seems to be at a standstill. However, it may be that this is simply a matter of the two sides waiting for the final outcome of the participation talks before proceeding on this related issue. The latest word from IPC sources is that co-mediator and IPC executive Duroc-Danner has gone to Baghdad for the purpose of moving the talks from OPEC-sponsored mediation to direct negotiations between Iraq and the company.

Libya: The most immediate threat to world oil supply is the possibility of a partial or complete cut-off of Libyan oil. Rumors are rife about an impending Libyan Government partial or full nationalization of additional oil companies[4] on September 1, anniversary of the overthrow of King Idris.

However, Libya does not now have the critical place in world oil supply it had in 1970. Lower tanker rates make Persian Gulf oil readily available in Western Europe at prices more favorable than those for Libyan grades. The less competitive position of Libyan oil is reflected in decline of production to a 5-year low of 2 million b/d, which is rapidly being overtaken by Nigeria's output, now at 1.8 million b/d. Libya's ability to affect the total oil supply has also been lessened by resumed exports from Iraq's Mediterranean pipeline and rapidly rising Algerian exports, now at almost 1 million b/d, up 23 percent over peak 1970 levels.

The net result is that while Libya can damage the companies operating there, alone it cannot seriously hamper the worldwide flow of oil or even the flow to Western Europe. These factors may deter the Libyans from taking adverse action against oil interests in the country at this time. However, the Libyan Government's actions are difficult to predict.

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[4] Libya nationalized BP's assets there in 1971. [Footnote in the original.]

Latin America: The first Latin American Petroleum Conference recently held in Caracas aired the subject of the role of international companies in the oil trade. Discussion at the conference characterized the international firms as "needless middlemen" and recommended easing them out of intra-Latin American oil trade by encouraging government-to-government oil sales. On a continent where government-owned companies already play an important role in refining and marketing, this cannot be considered entirely an idle threat. However, given the relative inexperience even of long-time producer Venezuela in international oil marketing and the continued need for company investment in exploration and production, the companies are likely to be around in Latin America for quite a while.

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140. Memorandum of Conversation[1]

Washington, September 30, 1972, noon.

SUBJECT

Saudi Investments in the United States; Saudi Proposal of a Special US-Saudi Oil Relationship; OPEC Negotiation

PARTICIPANTS

Ahmad Zaki Yamani, Saudi Arabian Minister of Petroleum and Mines
James E. Akins, Director, Office of Fuels and Energy

Saudi Investments in U.S.

Shaikh Zaki and Mr. Akins commented on the widespread assumption that the speech Mr. Akins gave to the Mid-East Institute on September 29 and the one given by Shaikh Zaki the next morning had been carefully coordinated (both speeches are attached).[2] Mr. Akins said that he had vigorously denied such allegations. The reaction had usually been indulgent smiles, but he was undisturbed. If we had reached the same conclusions on the world oil situation and on probable future developments, this should scarcely be surprising.

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[1] Source: National Archives, RG 59, Central Files 1970–73, FN 9 US–SAUD. Secret. Drafted by Akins on October 2.

[2] Akins' speech was not attached and not found. The text of Yamani's speech before the Middle East Institute, September 30, was transmitted in circular telegram 179548, October 2. (Ibid., PET 17 US–SAUD)

Saudi Proposal to U.S.

Mr. Akins said however that he was quite surprised at Shaikh Zaki raising in an open forum the proposal he had made the previous day to Deputy Secretary of State John Irwin: that Saudi Arabia and the United States enter into an agreement which would allow entry of Saudi oil and investments into the United States without restrictions.[3]

Shaikh Zaki elaborated on his proposal. Saudi Arabia, he said, clearly has the largest oil reserves in the world. It knows that much of the developed world in the next few decades will be dependent on imported oil and that Saudi Arabia will supply much of this oil. He said Saudi Arabia is fully aware of its own weakness and how unique the situation is. He said he "knew" that the "United States and others" had considered occupying Saudi Arabia but he hoped we realized how impractical such a move would be. He said the oil installations could and would be reduced to rubble at the start of an invasion; that the same fate would meet all Arab oil installations and that production could not be resumed no matter how strong the occupying army. In the meantime the developed world would be brought to its knees. He said he firmly hoped that Saudi Arabia would not be faced with such a prospect; that it hated and distrusted the communists and that it wanted to be friendly with the United States, the strongest country in the free world which could protect it. He said there were of course, political problems which disturb our relations; and the United States "must not underestimate the danger of the Palestinians and their power to disrupt United States interests in the Middle East." But he said that Saudi Arabia thought it could overcome these obstacles.

The United States, continued Shaikh Zaki, will need large quantities of imported oil in the future. Saudi Arabia has the oil. What better relationship could there be? Saudi Arabia will invest in the refineries, the ships, the marketing outlets, the petrochemical plants which we will need in the future. This will "more than offset" the money the United States will have to pay for imported oil. And with an investment of many billions in the United States, the "new interdependence" Mr. Akins had talked about in his speech would be

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[3] At their September 29 meeting Yamani told Irwin that once participation was achieved, Saudi Arabia wanted to invest in downstream oil operations; otherwise it was not in Saudi Arabia's economic interest to increase oil exports and accumulate surplus cash reserves in depreciating currencies. Yamani hoped the United States would give Saudi oil "special treatment." If it did, the result would be "a huge Saudi investment in downstream facilities in the U.S. with an obligation by the Saudis to move their oil to these facilities in future years. Not only would this assure future energy supplies to the U.S. but would also benefit the U.S. balance of payments." (Ibid., PET SAUD) The memorandum of conversation is printed in full in *Foreign Relations,* 1969–1976, volume XXIV, Middle East Region and Arabian Peninsula, 1969–1972; Jordan, September 1970, Document 164. The Embassy in Jidda's assessment of Yamani's offer is ibid., Document 166.

achieved. The United States on its side would give a preferred position to Saudi oil in its markets; and would encourage investments.

Shaikh Zaki concluded by saying that there would be no lack of other countries anxious to conclude agreements with Saudi Arabia if we did not wish to pursue the matter. He said the Japanese had already made specific proposals to Saudi Arabia but "I don't like doing business with them." He said there had been inquiries from Germany and "others" but that Saudi Arabia wanted to tie itself to the United States and would not move until it knew our reactions.

Mr. Akins said that the Saudi proposal was indeed exceedingly interesting. He said the Saudis knew of the talks we have had with Canada and Venezuela; but this was a proposal quite unlike anything we had discussed with either of those countries. He said he thought there might be objections from the rest of OPEC or from the Arabs (Shaikh Zaki said he could handle any such problems), and wondered why we would even need an agreement. Would it not be possible he asked to reach the same goals without a formal agreement? We would welcome Saudi investment in the United States. The President's assistant Mr. Peter Flanigan had made this very clear to Prince Saud a few weeks ago.[4] In fact, Mr. Flanigan had told the Prince that if Saudi Arabia ever had problems in investing in the United States he should let him (Mr. Flanigan) know and he would straighten them out immediately. It was clear that we will have to increase our oil imports in the next decade and if Saudi Arabia had invested in the refineries or other petroleum using firms in the United States, it would be perfectly logical for these firms to use Saudi oil. The duty is so small (10.5¢/barrel) that it would not seem worth trying to get an exception for it.

Free entry of Saudi oil, outside the quota, would have some interest now; but with the price differential between domestic and foreign oil narrowing, and with our growing imports, even this would not seem to be of lasting benefit to Saudi Arabia. We had however considered free entry in the Western Hemisphere context. Western Hemisphere producers had been given a preferred position in the Task Force Report on Oil Imports[5] and the world understood our Hemispheric policy. If we were now to make a formal arrangement with Saudi Arabia, we would have to make the same offer to other Eastern Hemisphere countries, certainly Iran and Indonesia, but also Kuwait and perhaps others. Shaikh Zaki said he would have no objection to our doing this, but would like to point out that no other country could offer us what Saudi Arabia had. Kuwait, he said, is limiting production; the production in Iran and Indonesia will soon be limited by physical factors; and "neither has any capital to invest in the United States."

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[4] See footnote 4, Document 134.

[5] See Document 32.

Mr. Akins said that we will give his proposition the most careful consideration. He hoped that Shaikh Zaki could look at the mutual advantages which would arise from a less formal understanding, from increased Saudi investments in the United States, without an "agreement." Shaikh Zaki said he would and asked if he and Mr. Akins could get together sometime soon to discuss the United States reaction.

Comment: The Saudi proposal is incomparably more attractive to the United States than our suggestion to Venezuela on the exploitation of the heavy oils. In the Saudi proposal, Saudi Arabia gives us access to the oil; it invests in the United States, thereby giving us a guarantee on the continuing deliverability of the oil; and it keeps prices low. The development of the heavy oil in Venezuela would require an enormous U.S. investment in Venezuela for a lesser quantity of oil; the cost of the oil would be high and the balance of payments drain would be great. We would need treaty assurances from Venezuela on the investment, and these would be hard to get. In the past, an argument in support of the Western Hemisphere oil has been that we get a higher proportion of the cost back in increased trade. The new Saudi proposal includes more than off-setting investments in the United States.

While there is no doubt that the Saudi proposal, if fully implemented, would reduce the hazards of importing Arab oil, there would still be domestic U.S. political objections to it and there can be no guarantee that the Saudi government will permanently endure or that it could fulfill its guarantees in crisis conditions. In short it would seem that we have no overriding reason to abandon our earlier position that extreme reliance on the Arabs, even on one friendly Arab country, would be dangerous to the United States.

If we accept or reject the Saudi proposal there is little doubt that other consumers will soon be pounding on Yamani's door with proposals of their own. If we reject the offer there is little doubt that the Saudis will be receptive to some of the European countries; and the oil world could quickly become polarized with a series of direct consumer-producer deals. This could effectively eliminate our oil companies from production and possibly even from down stream operations. The game could spread to other OPEC countries and the ruinous competition among consumers which we foresaw by 1976 could begin this year or next.

Current OPEC Negotiations with Companies

Shaikh Zaki repeated much of the information already given us by the oil companies. He said the two sides were close together on buy-back prices for the oil, and "there will be no problem in reaching agreement." He said Saudi Arabia wanted to proceed to 51% participation by 1979, whereas the companies would like to delay another five years, but here too, "there should be no problems." He said the main obstacle is the difference on compensation, with his offer now about $400 million,

and the companies asking for $600 million. He said this was much more important an issue than money alone. OPEC had said that compensation should be net book value and he had already gone far beyond that. Nonetheless, he thought that he could sell the package, more or less as it stands now, to Kuwait, Qatar and Abu Dhabi. With support from these three he was prepared to go back to OPEC and face Iraq and Libya who will be strongly opposed. If he were to give more on compensation he would not be able to bring Kuwait along; and he said that Iraq was constantly importuning Kuwait to follow its line and not that of Saudi Arabia. He said he was prepared for an onslaught from Iraq but this did not bother him. He also said that it was important to the moderate Arabs that Iraq's nationalization of the IPC not be successful.

The company-OPEC meetings were to be resumed in New York October 1. Shaikh Zaki said he hoped to reach an agreement in a short time, but was not sure whether it could be concluded in New York or would have to be continued elsewhere. He said his time was limited, and the companies at last had also concluded that time was not on their side.

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141. Memorandum From Acting Secretary of State Irwin to President Nixon[1]

Washington, October 6, 1972.

SUBJECT

Petroleum: OPEC Developments

Summary and Conclusions. The participation settlement reached October 5 between the Saudis and the international oil companies looks toward 51% control by the producing governments by the early 1980's but on terms the companies and consumers can find acceptable.[2] The agreement has to be approved by the Arab states of the Persian Gulf, and then implementing agreements must be negotiated. Efforts by the Libyans to obtain better terms may endanger the agreement, and a confrontation between the companies and the Libyans seems certain. The

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 250, Agency Files, National Energy Office, Vol. I, March 1972–Feb 1973. Confidential. According to an attached note, this memorandum was incorporated into the President's October 11 daily briefing.

[2] The details of the participation agreement and an analysis of its contents are in INR Intelligence Note RECN–31, "OPEC: Participation Agreement," November 2. (Ibid., RG 59, Central Files 1970–73, PET 3 OPEC)

Iraqis will also attack the agreement, but for the present seem unready to fuel any crisis which may develop.

Participation Settlement Negotiated. Representatives of the major oil companies holding concessions in the Middle East and Saudi Minister of Petroleum Ahmad Zaki Yamani have successfully negotiated a framework agreement for eventual 51% participation by the producer governments in the major oil producing concessions. Yamani will now seek approval of the agreement from the Arab states on whose behalf he has been negotiating (Kuwait, Abu Dhabi, Qatar, and Iraq); it is expected that all but Iraq will eventually approve. Specific implementing agreements will then have to be negotiated in the approving countries.

The terms of the agreement have not yet been released and there are some aspects of the settlement which are still open. The terms appear to be satisfactory for the companies, who have received a compensation settlement which, although not generous, is not confiscatory, and have been able to negotiate terms which assure them of relatively stable access to the necessary oil supplies at reasonable prices. Consumer nations will probably be unhappy at the slightly higher prices which will have to flow from this settlement, but nonetheless will probably agree that the companies got as good a deal as possible in view of their limited negotiating leverage.

The producing governments who accept this agreement will take 51% control of the concessionary companies by the early 1980's at the latest (this is one of the points which has not yet been nailed down). The bulk of the oil, however, will continue to be marketed by the companies during this period, thereby assuring some stability of supply.

Iran, which has chosen an alternative route to participation which does not involve equity partnership in the producing company, will wish to renegotiate parts of its still-unconcluded agreement on future relationships with the oil consortium. The more radical states of OPEC, however, particularly Libya and Iraq, will attack the agreement and may cause considerable difficulty for Yamani in implementing it.

Libyan Moves. The Libyans have always indicated that they did not consider the OPEC formula for participation satisfactory, and will criticize Yamani's acceptance of a compensation basis greater than the depreciated (net) book value of the assets. They have now begun to move toward participation on their own terms. Last week they concluded an immediate 50/50 participation agreement with the Italian company ENI which, even though it involved special circumstances, set an unfortunate precedent for compensation at net book value. The Libyans have quickly seized this precedent to present an ultimatum to the American company Bunker Hunt for an equivalent settlement; this company (which used to be the partner of British Petroleum before its nationalization last December) is in a vulnerable position. The Libyans obviously hope to move through it to isolate the other companies, one

by one. The companies, however, are likely to support Hunt (through their Sharing Agreement) if he refuses to settle on the Libyan terms. Smaller oil companies are likely to support Hunt because each will feel that its turn may be next; the larger companies will support him because they fear that a Libyan success in securing a net book value compensation settlement would destroy their carefully-achieved agreement for the Persian Gulf. A prolonged confrontation with the Libyans seems likely.

Iraqi Situation. The one Arab state of the Gulf which is unlikely to accept Yamani's proposal is Iraq, which, like Libya, insists that compensation should be paid at net book value only. The Iraqis will want to negotiate a tougher settlement but do not have the financial security of the Libyans (whose foreign exchange reserves exceed $3 billion); they have been under an austerity regime since their nationalization of the northern IPC concessions last spring, and promised Arab financial aid has not all materialized. The Saudis, who promised a loan, have not made it and will presumably try to use this fact to keep the Iraqis quiet during the period necessary to put their participation agreement into effect. The companies are also anxious to keep their disputes with the Iraqis on the back burner for the coming period, and will extend the period during which they will refrain from taking legal action against buyers of their nationalized oil.

The Department is following developments closely and is remaining in continuing contact with the American companies.

John N. Irwin II

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142. Editorial Note

Representatives of the United States and Canada met in Washington on October 12, 1972, and again on December 8, 1972. The U.S. delegations were led by James Akins, Director of the Office of Fuels and Energy; the Canadian delegations were led by D. S. McPhail, Director General, Economic and Scientific Branch, Department of External Affairs. The summary of the October 12 meeting stated that the meeting was "part of a series of discussions concerning future U.S./Canadian petroleum relations. Three subjects were discussed: (1) Respective responses to an OECD request that non-European member countries join in an OECD-wide plan to share oil in time of emergency; (2) the vulnerability of North America to cutoffs of overseas oil; and (3) the time of the next meeting—to discuss Canadian proposals for the switching of oil in North America during periods

of emergency. The U.S. advised that it would express support at the next OECD Oil Committee Meeting of the formation of a committee to study the question of sharing. The Canadians said this probably would also be their position, although it had not yet received ministerial approval. No consensus was reached concerning vulnerability to supply cutoffs. The Canadians asked that the U.S. develop a chronological sequence indicating the possible timing of major cutoffs requiring advance planning and preparation. In turn, Canada would reconsider the possible consequences and likelihood of the various risks described by the U.S. The Canadians expressed doubt that it would be possible to hold further discussions until after the U.S. elections in November."

Discussion on the possible cut-off of Middle East oil dominated the discussions. Akins stated that the 1970 Cabinet Level Task Force Report on Oil Import Control (see Document 32) remained the basis for U.S. emergency planning. He also stated that the United States worked on the possibility of a one-year cut-off, including a cut-off resulting from an invasion of Saudi Arabia by its neighbors, as the Saudis feared. However, he stated, "short of war or revolution in the Middle East, the U.S. does not envisage a serious physical shortage of oil before 1975." Akins illustrated how the impact of any cut-off was directly related to the amount of imported oil coming into the United States and production levels in key producing states.

Akins also informed the Canadians that successful Libyan and Iraqi nationalization was a worst-case scenario as it would "completely undermine the domestic position of the Shah and conservative Arab governments and result in their overthrow. Europe and Japan would become entirely dependent on production from Venezuela, Nigeria and Indonesia. Under these circumstances, we have to assume that all Venezuelan oil would not be available to North America. Pressures to supply our allies would be irresistible. The cutoff of overseas oil to North America could then be almost total." Should the Saudi Government fall, or should another Arab-Israeli war break out, or should Iran invade Saudi Arabia, the oil fields "will be sabotaged" and all of Saudi production "lost," which would "spread chaos to other areas of the Middle East."

Akins reminded the Canadians that if Middle East, especially Saudi, production were secure "we would not be worrying about talks with Canada and Venezuela."

McPhail responded that Canada had "intentionally excluded" these worst case situations, and assumed a 25 percent cut-off over a 6-month period of time. Canada, he stated, "had difficulty in envisaging an escalation from a cutoff by one country to a complete cutoff of Middle East oil to consumers." (Memorandum of conversation, October 12; National Archives, RG 59, Central Files 1970–73, PET 1 CAN–US)

According to a summary, in the December 8 meeting an "agreement was reached, subject to the approval of both governments, concerning the conditions under which the U.S. and Canada might be willing to enter into a voluntary OECD wide agreement for the sharing of oil in times of emergency. Both delegations also agreed to submit to their respective governments a proposal for an exchange of Diplomatic Notes which would constitute a formal agreement between the United States and Canada for sharing and exchanging oil in times of emergency. The agreement, if accepted by both governments, would also eliminate quantitative restrictions on future U.S. imports of Canadian oil."

Akins made it clear that the sharing of oil did not include internal North American production and that any apportionment scheme would require that American and Canadian oil be treated as a "single unit." He also anticipated that the Europeans, Australians, and Japanese would agree, even if reluctantly. McPhail expressed relief that the United States "did not intend to give away any more than was absolutely necessary," saying this would probably be accepted in Canada. Neither side could agree on security considerations (that is, the extent, duration, and consequences of an oil cut-off) but found compromise on exchange ratios. Both sides reviewed their positions that were to form the basis of a future agreement. The meeting ended with McPhail warning against leaks. (Memorandum of conversation, December 8; ibid.)

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143. National Intelligence Estimate[1]

NIE 98–72 Washington, October 19, 1972.

[Omitted here are a cover sheet, map, and the table of contents.]

VENEZUELA: THE POLITICS OF OIL

Conclusions

A. Venezuela, whose modernization was launched and sustained by oil, has become concerned about its future development. The high

[1] Source: Central Intelligence Agency, National Intelligence Council Files, Job 79–R01012A, Box 446. Secret. The Central Intelligence Agency and the intelligence organizations of the Departments of State and Defense, and NSA participated in the preparation of this estimate. The Director of CIA submitted this estimate with the concurrence of all members of the USIB, with the exception of the FBI, which abstained on the grounds that it was outside its jurisdiction.

price of Venezuelan oil on the world market—a result of government demands for ever-larger shares of the profits of the oil companies—and a virtual standstill on exploration of new fields have slowed the growth in oil production and revenues and, as a consequence, the pace of economic development over the past decade. Because of the slowdown in growth and a new sense of nationalism, the Venezuelan Government has adopted a tougher stance towards the companies and is making stronger demands for a larger share of the rapidly expanding US oil market.

B. Despite persisting social problems, stemming in part from maldistribution of Venezuela's oil riches, one of the two major center parties, AD or COPEI, seems likely to win the presidential election in December 1973 and to perpetuate the country's generally moderate political course through the next presidential term 1974–1979. Emerging anti-establishment parties are seeking to radicalize the nationalist mood. But the leaders of the country's sizable business sectors are exerting strong counterpressures; and the military, though not directly involved in the political scene, remain a strong force for moderation.

C. The major parties cannot ignore rising nationalist pressures. But neither can they overlook the need for cooperation with the US and the oil companies to guarantee the markets and capital required for steady national development. AD and COPEI have recently agreed to try to keep the touchy issue of oil on the side lines in the coming political campaign, and the government has adopted a more prudent attitude in dealing with the companies and the US on oil. This more accommodating approach is encouraged by recent US proposals for a long-term treaty that would provide the Venezuelans with continuing high revenues, large new amounts of foreign investment, and a secure US market. At the same time the treaty would extend to the companies financial incentives and guarantees to explore and exploit new deposits believed to be large enough to provide the US with a reliable source of oil to help meet rising energy demands.

D. Radical or opportunistic politicians are likely to continue to exploit aspects of the oil problem for partisan purposes, and negotiations for an energy agreement will be complicated and delicate. If the negotiations become stalled or are abandoned over the coming year, we would expect a new government squeeze on the companies, leading to a further slowdown in production and possibly a phase-out by one or more of the companies. In such circumstances there would be considerable pressures to give vent to popular nationalist feelings against the oil companies. Another conflict with the companies could touch off anti-US incidents in the country and lead to a crisis in Venezuelan-US relations generally.

E. The prospects now seem good, however, for completion of a treaty during 1974 after the new Venezuelan administration takes of-

fice, which will meet the essential long-range requirements of Venezuela, the US, and the companies. The favorable negotiating climate reflects in part the concerns of Venezuelan political leaders about declining proved reserves and their efforts to work out a common petroleum policy.

F. Once in force, the treaty will be subject to continuing nationalist pressures. In the event a rightist regime, e.g., one headed by Pérez Jiménez, came to power in 1979, we would expect that it would abide by the agreement, as long as it provided the income required to sustain economic growth and did not hinder nationalist aspirations in other directions. A radical leftist victory in 1978, on the other hand, would probably lead to pressures for major revision of the treaty to maximize Venezuela's advantage over the companies. The country's continuing need for oil revenues and access to the US market, and strong moderating influences from centrist political forces and from the military might, in the end, impel the government to try to work out new arrangements to permit continued operations by the companies. But in the absence of new mutually acceptable arrangements, prolonged and acrimonious conflict between the government and the companies would have a serious adverse impact on the Venezuelan economy, further inflame Venezuelan nationalist passions, and create a major crisis in US-Venezuelan relations. These developments could produce a showdown between moderate and radical forces and strong pressures for intervention by the military.

G. We believe, however, that the considerable advantages that would become available to Venezuela under a long-term energy agreement with the US would enhance the prospects for a centrist party to win the 1978 elections and thus reduce the chances for the above contingencies. While even a moderate government would seek periodic modifications in Venezuela's favor, there is a good chance that under such a government the treaty would continue to hold up at least through the presidential term of 1979–1984.

[Omitted here are 8 pages: Section I, Nationalism and Income, and Section II, The Venezuelan Scene.]

III. Venezuela, Oil, and the United States

25. The interest in Venezuelan oil is essentially four-sided. On the US Government side, there is the need for increased oil imports from politically secure sources to meet growing energy needs. On the company side, the interest in Venezuelan oil is tempered by a reluctance to accommodate to the Venezuelan squeeze on profits, by the resulting high price for Venezuelan oil which makes it less competitive on the world market, and by an uncertain investment climate. On the Venezuelan side, there are the often conflicting drives to maximize income from, and at the same time to impose greater national control

over, the oil industry. Finally, there are complicating influences stemming from the emerging world sellers' market in oil and from Venezuelan membership in the Organization of Petroleum Exporting Countries (OPEC).

A. The United States Interest

26. US oil requirements are expected to increase by about 50 percent in this decade; by 1980 oil imports are likely to be at least double, possibly triple, the 1970 level.[2] While seeking to diversify foreign sources of oil, the US is likely to continue to rely on suppliers in the Western Hemisphere for a substantial portion of its imports. Within the hemisphere, Venezuela, despite its lagging production of recent years, will continue for some time to provide an important part of total available supplies.[3] The US thus has a considerable interest in the establishment of conditions that would provide for a sustained expansion of imports from that country.

B. The Company Side

27. The oil companies, too, have a strong interest in development of Venezuela's oil resources, but only under arrangements which promise stable and profitable operating conditions. And recent events have made the companies cautious and uncertain of their position. Though Venezuela still enjoys a favorable US market for its fuel oil and residual oils, it has lost its competitive position in crude oil to Middle East producing countries. In addition, the companies have become concerned over the prospect of large financial costs connected with phasing out their existing concessions after 1983. Under the government's new reversion law the companies will be forced to forfeit not only installations and equipment connected directly with production but also property not involved in the production process which they had not expected to lose. The companies have been required to deposit 10 percent of annual depreciation allowances in a government fund for repair or replacement of equipment judged by the government to be in poor condition when the concessions expire. All of these developments have dampened the companies' interest in further significant investment in their present holdings or in new investments to expand production in other areas of the country.

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[2] Based on current estimates of the Office of Oil and Gas, Department of the Interior. [Footnote in the original.]

[3] At present Venezuela supplies 50 percent of total Western Hemisphere production (excluding the US). [Footnote in the original.]

The Principal Foreign Oil Companies
Operating in Venezuela
(Approximate percentage of total production)

Creole Petroleum Corporation (Standard of N.J.)	40
Shell Company of Venezuela, Ltd. (Shell)	25
Mene Grande Oil Company, C.A. (Gulf)	10
Venezuelan Sun Oil Company (Sun)	25
Mobil Oil Company of Venezuela (Mobil)	
Texaco Maracaibo, Inc. (Texaco)	
Texas Petroleum Company (Texaco)	
Sinclair Venezuelan Oil Company (Sinclair)	
Chevron Oil Company of Venezuela (Standard of California)	
Phillips Petroleum Company (Phillips)	

C. The Venezuelan Side

28. For their part, while increasingly anxious to attract new investment to explore for and exploit new oil resources, the Venezuelans remain heavily dependent on increased oil revenues from currently exploited fields to maintain present economic growth rates. It is this more immediate interest, as well as nationalistic pressures, that has turned the government towards ever-larger financial demands on the companies in recent years. The current round of price and tax hikes started in late 1970 with passage of a bill which raised the income tax rate on the oil and mining companies from 52 to 60 percent. In March 1971 the government arbitrarily boosted the tax reference values (TRVs) used in valuing oil exports. Later in the year, in addition to the new reversion law, other decrees further expanded government control over the companies' operations, output, and exports; imposed financial penalties for fluctuations in production of more than 2 percent below or above the 1970s levels; and further increased the TRV rate.

29. Although additional restrictive measures are expected, there are signs of a changed government attitude towards the companies. The administration is considering measures which would make it possible for the companies to avoid the recently imposed penalty payments for excessive fluctuation in exports. It has also proposed that companies working low-productivity fields be taxed at a reduced rate.

30. One of the reasons for this more accommodating attitude is the increasing Venezuelan concern over the rapid depletion of oil reserves. New discoveries dropped drastically after 1960. Proved reserves declined from over 17 billion barrels at the end of 1960 to about 14 billion by the end of 1971—an amount sufficient for little more than 10 years' production at the current rate (3.3 mbd). Without greatly increased exploration, Venezuelan production is likely to remain at

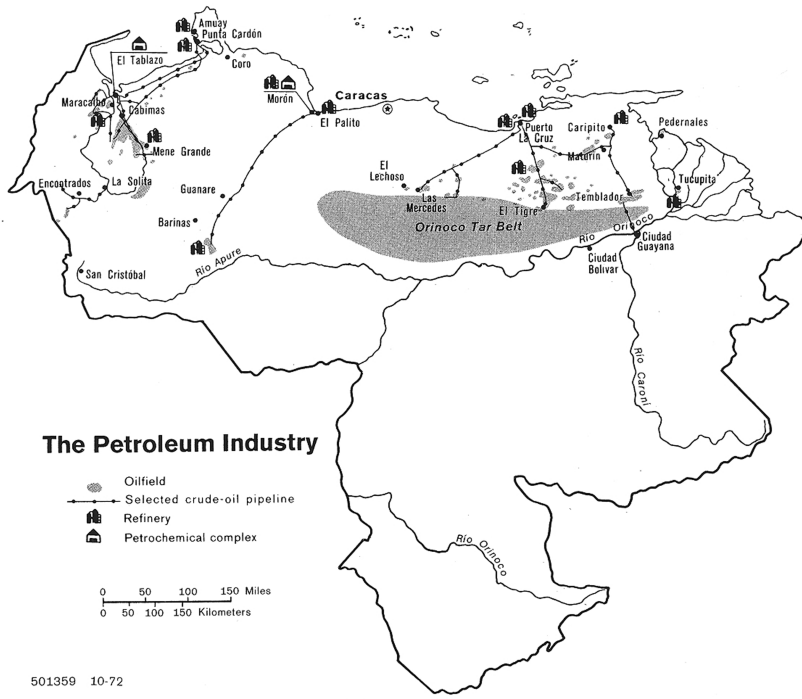
about the present level for the next few years and then slowly decline. Even this prognosis is based on successful implementation of secondary recovery methods, which could add some 25 billion barrels to reserves. Venezuelan concern is reflected in a growing strength of conservationist sentiment, which would slow down production from present fields to stretch out the process of depletion. The Venezuelans would thus hope to take advantage of expected higher market prices in future years and of the fact that 100 percent of the profits will be Venezuela's after 1983.

31. The Venezuelans are counting heavily on the development of new reserves beyond the present concession and service contract areas to improve their long-term prospects. Though estimates vary widely, some 70 to 300 billion barrels may be recoverable from deposits of very heavy crude oil along the "tar belt" bordering the Orinoco River.[4] Beyond this, though definitive surveys are not available and no firm estimates are possible, the Venezuelans hope for several more billion barrels of recoverable reserves in untapped offshore areas. If proved, the total of recoverable reserves from new areas would be enough to increase Venezuelan production substantially and to maintain it at high levels well into the next century.

32. At present, however, little is being done to develop these potential resources. Although service contracts with three companies have been signed for exploration of the southern half of Lake Maracaibo, two of the companies have already suspended drilling operations after sinking seven dry wells. Unless new arrangements are made to revive investment interest, production in these new areas is likely to rise only slowly and reserve levels will remain low. In these circumstances, there would be a slowdown in the growth of Venezuela's income from oil.

33. There is little indication that the Caldera government, or any likely successor, will come up with dramatic new solutions to reduce significantly Venezuela's dependence on oil revenues for economic development. The results of efforts at economic diversification have so far been disappointing. Primary reliance on the present tax system, which places the largest burden on the oil and mining sectors, will probably continue to produce periodic fiscal crises and generally tight government budgets. Yet enormous sums of money will be needed to expand oil reserves and production beyond present concession areas. In addition, the government has recently assumed full control over

[4] The technology required to develop the tar belt is within the present state of the art. If the means of development are made available, and sufficient reserves are found to recover the enormous capital costs required, the total cost per barrel produced would be expected to be much lower than that from most other sources of unconventional oil production, e.g., US oil shales or Canadian tar sands. [Footnote in the original.]



the development of a liquified natural gas industry. To finance these projects the Venezuelans will require very substantial new sums of foreign investment.

D. Venezuela's Position vis-à-vis OPEC

34. As a founding member of OPEC, Venezuela will continue joint efforts with other producing countries to gain maximum advantage from the rising world demand for oil. Yet the country's dependence on the US market will oblige any Venezuelan Government to shape its oil policies in most respects independently of OPEC. Neither major party is likely, at this stage at least, to want to assume the enormous management or marketing responsibilities involved in nationalization à la Iraq and Libya. Neither wishes to run the risk of economic chaos and, as a possible consequence, a return to military rule by taking over an industry which in any case will revert to the state beginning in 1983. The government would probably be interested in a larger measure of "participation" in the industry along lines being pressed by OPEC Arab countries only if it involved minimal financial investment on the Venezuelan side. But Venezuela's position is one of a bystander with respect to current OPEC negotiations on this subject.

35. Similarly, Venezuela would be likely to try to stay on the side lines in the event of a temporary embargo of oil supplies from the Middle East by the Arab OPEC countries. As a founding member of OPEC, the Caracas Government would feel strong pressures towards maintaining OPEC unity. But its almost total dependence on the US market would enable it to plead special circumstances, and it would probably reject any Arab demands to cut off or reduce its level of exports. On the other hand, the country's dwindling proved reserves, its still strong commitment to OPEC objectives, and nationalist pressures against "selling out" to the companies would make it difficult for the Venezuelans to take advantage of a possible Arab embargo. Though the companies would probably be permitted some gradual rise in production, the Venezuelan Government would probably resist an increase which might be large or rapid enough to offend its OPEC partners.

36. In line with its nationalist aspirations, Venezuela seems in fact to be trying to establish new regional arrangements of its own. At a meeting of major Latin American oil consuming and producing countries called by Venezuela in late August, the Caldera government sought a common regional position on pricing and marketing policies. One objective apparently was to ensure a Latin American market for Venezuelan oil and gas, in exchange for increased imports of nonpetroleum products from other Latin American countries. Little was accomplished along this line, largely because of the conflicting interests of producing and consuming countries. But the participating governments are to consider several measures which might lead eventually to closer coordination of supply and demand and terms of trade for petroleum in the region. Another meeting is scheduled for December 1972.

[Omitted here are 7 pages: Section IV, Prospects and Implications.]

144. Telegram From the Deputy Secretary of State (Irwin) to the Department of State[1]

Paris, October 25, 1972, 0954Z.

20276/Depto 15. Subj: OECD Oil Committee High Level Group Meeting.

1. Deputy Secretary Irwin October 24 gave full review in energy field to OECD Oil Committee High Level Group.[2] He told them USG plans move on several fronts in an effort to begin solving our energy problems early in 1973. Many actions we propose can and will be taken by US acting alone; others must be taken jointly. We consider energy problem so grave that purely national solutions of its many aspects are inadequate and inadvisable—even for US—and a cooperative approach to problem in next two decades is essential.

2. Irwin described Yamani offer;[3] said it undoubtedly has attractions for USG but acceptance of full proposals would be counter to current US practice and policies. US wishes to encourage Saudi investment in US and will inevitably accept more Saudi oil. It does not wish to offer Saudi Arabia, or Iran, which had made similar offer two years ago, preferred positions in US market, although we had not rejected the proposal. US had noted that several countries had suggested similar deals with Saudis and other producers. This caused us concern. For any major consumer to try to secure for itself large segment of available oil, to detriment of other consumers, could launch world on competition cycle for oil which we had long sought to avoid. We had no doubt that we would have some success in such a competition for oil, in that we could secure adequate supplies for ourselves, but we would pay more for that than we might otherwise need, other consumers would be hurt and strains would be placed on our relations with our friends. We would strongly prefer a cooperative approach to the energy problems and we would like to hear expressions from Europeans and Japanese on the subject.

3. Akins had had long meetings with Spaak and Haferkamp in Brussels October 23; told them of Saudi offer (which obviously disturbed them considerably); said we might be forced to enter into relationship with Saudi Arabia and Iran if other countries persisted in trying to sew up supplies for themselves. These conversations were discussed with all Community energy officials (including UK) who met in Brussels later that afternoon and they decided there on common approach.

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 3 OECD. Confidential.

[2] The text of Irwin's statement to the High Level Group is in telegram 213860 to USOECD, November 24. (Ibid.)

[3] See Document 140.

4. At OECD meeting October 24 Spaak spoke for entire Community—and he [and] Haferkamp noted at dinner meeting evening of Oct 24 that this had been an important day in Community history and in Community relations with US. US had urged cooperative approach to energy problems and Community had responded for first time with one voice. Spaak said Community was pleased with US frankness and honesty; was impressed by Irwin's arguments and concurred with his conclusion that problem should be faced jointly.

5. British and Germans gave Spaak strong support and Italians urged quick action to meet problems. High Level Group agreed appoint working group to make quick résumé of energy problems to finish work before March, with High Level Group meeting sometime in February to review conclusions and study means of meeting methods of cooperative actions to meet problem.

6. At dinner meeting with Haferkamp and Spaak we reviewed presentations; Haferkamp reviewed Community policy. Both Spaak and Haferkamp were elated at first formulation of Community energy policy and also pleased with decision to move in cooperation with US to solve problems. Haferkamp said these two steps were "strong medicine and must be taken in small doses" but urged frequent meetings and consultations even before energy résumé completed. He agreed the Community would have to develop specific action proposals and would start working on this immediately.

7. From our point of view meetings successful. European analysis of energy problem is essentially same as ours—and clearly influenced by our work—and Europeans for first time have jointly expressed their desire to cooperate with us on broad front to solve energy problems. They were disturbed by possibility of US sewing up energy supplies for itself and they recognize that such an approach would damage them more than it would us; they were pleased and impressed with our initiatives. The Japanese were non-committal. We are more inclined to view this as usual Japanese reluctance to commit themselves rather than rejection of concept of a cooperative approach to problem. Spaak suggested joint US-Community approach to Japanese to convince them of usefulness of cooperation and dangers of unilateral attempts to cover own energy needs.[4]

8. Full account of meetings follows by airgram.[5]

Irwin

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[4] In telegram 217867 to Tokyo, December 1, the Ambassador was requested "to call on highest appropriate FonOff official to emphasize importance USG places on Japanese participation in cooperative efforts to insure that future world oil supplies are available in adequate quantities and at reasonable prices." (National Archives, RG 59, Central Files 1970–73, PET 3 OECD)

[5] A full account of the meeting is in the official report, entitled "OECD HLG and Oil Committee Meetings, Paris—October 25–26." (Ibid.)

145. Intelligence Note Prepared in the Bureau of Intelligence and Research[1]

RECN–36 Washington, December 6, 1972.

IRANIAN OIL NEGOTIATIONS

The claim of Sheykh Yamani, Saudi Arabia's Minister of Petroleum, that the participation agreement[2] he negotiated is four times "better" than the one reached by the Shah has set off a chain reaction and brought forth demands from Iran that its spring 1972 agreement[3] be revised. This is an example of the leapfrogging effect which has long been of major concern to the companies in their negotiations with various oil producing countries. The consortium companies[4] have presented to Iran calculations that compare revenues to Iran under the spring 1972 agreement and under the Yamani agreement were it to be applied to Iranian production. These calculations appear to indicate that under the Iranian Spring Agreement revenues would exceed those of the Yamani formula through 1985 but would be less from 1986 through 1994. A tenuous consideration in these calculations is the appropriateness of including the new Kharg refinery—see below—as a revenue benefit to Iran, an important component of the Consortium's comparison presentation.[5] The benefits from the new refinery include the higher cost of refinery construction in Iran compared to that in large consuming markets and the higher transport costs of refined product compared to crude. The Iranians remain unconvinced of the validity of the assumptions upon which this part of the presentation is based.

[Omitted here are sections on Background and Current Demands.]

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 6 IRAN. Confidential. Drafted by Robert L. Dowell, Jr. (INR); approved by Ghiardi; and released by Weiss. Published in full in *Foreign Relations,* 1969–1976, volume E–4, Documents on Iran and Iraq, 1969–1972, Document 239.

[2] See RECN–31, "OPEC: Participation Agreement," November 2, 1972," (Confidential). [Footnote in the original. For RECN–31, see footnote 2, Document 141.]

[3] See footnote 5, Document 124.

[4] Consortium member companies are: British Petroleum (40%), Shell (14%), Exxon, Gulf, Mobil, Standard Oil of California, and Texaco (7% each), Compagnie Francaise des Petroles (6%), and a mini-consortium of American companies (5% total). [Footnote in the original.]

[5] The companies' estimate of the benefit of the Kharg refinery to Iran represents about 20 percent of the estimated increased revenues from 1973 to 1994. [Footnote in the original.]

146. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to President Nixon[1]

Washington, December 26, 1972.

SUBJECT

Progress Report on Administration Energy Initiative

Background

During your first term, the US energy picture has changed dramatically. We no longer have excess oil production in Texas and Louisiana, and the Arab states control 62% of the world's proven oil reserves through the OPEC cartel. OPEC has increased crude prices 40% in the past two years; prices are expected to rise significantly again in 1976. US oil production has peaked, constrained by price and availability of new oil bearing areas on the Outer Continental Shelf. Natural gas production has also peaked because gas exploration and development are unprofitable at prices set by the FPC. Production of coal, our most abundant fossil fuel, has been stymied due to increasing costs, the uncertainty created by the Clean Air Act,[2] and possible strip mining legislation.

The following is an interim report on the progress of the Domestic Council's Subcommittee on Energy which has been working for the past eight months under my direction on solutions to the nation's energy problem. The urgency of the problem is indicated by the intense attention it has been given in recent weeks throughout the media and in Congress. The limited fuel shortage in the Middle West during the recent cold spell may well be followed by broader shortages elsewhere this winter.

After an initial Subcommittee meeting at the Secretary level, work during the summer was limited to seven Task Forces, with further meetings of principals delayed until after the election to avoid making this already difficult problem a campaign issue. Though McGovern[3] did deliver one ineffective speech on energy, the so called energy "crisis" never surfaced as a full blown issue.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 219, Agency Files, Council on International Economic Policy (CIEP), 1972. No classification marking. A copy was sent to Ehrlichman, Shultz, and Kissinger.

[2] The Clean Air Act of 1970 was amended in 1972. (42 USC 7401–7671)

[3] Senator George McGovern (D–South Dakota) was the Democratic Presidential candidate.

Since the election, the principals have met six times to review and refine Task Force proposals.[4] As a result of this effort, there soon will be developed for your consideration a set of proposed actions—some through executive orders, some through international negotiations, and some through legislative proposals. In considering these proposals it is important to recognize that past action by the Federal government has been one of the primary causes of the energy problem. For valid security reasons the government has limited oil imports from abroad; for environmental reasons the government has set standards prohibiting the burning of much of the nation's coal; and for price reasons the government has so limited the cost of natural gas at the well-head as to discourage exploration for new gas reserves.

While not purporting to be the final and complete solution to a constantly evolving problem, the proposals listed below will comprise a comprehensive initial attack on the energy problem in the near term (1973–85), the medium term (1985–2000), and the long term (after 2000). They relate to all forms of energy, and to both the domestic and international fronts. The principle underlying these proposals is that government interference with the free market system should be as limited as possible, and that this system is best capable of providing sufficient clean energy at an acceptable price. This is a consistent set of proposals which will build on your first Energy Message of June 4, 1971[5] and which holds the promise of providing sufficient energy from our domestic resources at a reasonable environmental and economic cost.

Proposals

1. *Request Congress to pass legislation permitting competition to set the price at the well-head of newly found natural gas.* Twice since the Supreme Court ruled in 1956 that the Federal Power Commission has the power to regulate the well-head price of gas the Congress has reversed this, only to have it vetoed, the last time when President Eisenhower vetoed the Harris Bill. The result has been a lid on gas prices which has made gas the cheapest fuel, thus increasing demand, while at the same time making gas exploration uneconomic, thus decreasing supply. Studies by industry and academic experts uniformly predict that a continuation of present policies would result in cutting current domestic gas production in half by 1985 (with the difference made up by 10 million barrels per day of imported oil at an annual cost of $14 billion).

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[4] Materials for the December 13 meeting of the Energy Subcommittee are in the National Archives, Nixon Presidential Materials, White House Special Files, Staff Member and Office Files, John D. Ehrlichman, Box 44, Special Subject File 1958, (1969)–1973, Energy Subcommittee Meeting. Materials for other Subcommittee meetings have not been found.

[5] See Document 90.

By allowing the market to set the price, an increase in prices (perhaps 65¢ a thousand cubic feet compared with today's 26¢) would increase production by 1985 by 50% to a level equal to demand.

In the face of today's acute and growing gas shortage, we are restricting the price paid to the domestic producer to one-fifth of the equivalent price of imported LNG and other substitutes. This anomaly is so blatant, and the results of FPC regulation so stifling, that such disparate groups as the environmentalists, certain gas distributors, the gas producers, and even the *Washington Post* have called for a change in the pricing system. Consumerists will, of course, oppose any lessening of federal regulation. Your Economic Report of a year ago[6] called for competitive pricing of new gas.

2. *Instruct the Department of Interior to accelerate its leasing on the Outer Continental Shelf (OCS).* The American continental shelf is believed by most geologists to be rich in oil and gas, and the areas where work has been done—the Gulf of Mexico and the southern California coast—have confirmed the projection. The need for development of these areas was emphasized by this week's auction of offshore leases which brought the Treasury bids of a record $1.67 billion.

A continuation in the present leasing schedule is projected to yield no significant increase in annual gas and oil production by 1985. A sharply expanded leasing schedule, which the Department of Interior now proposes, including the Atlantic coast, the Gulf of Alaska, and continued leasing in the Gulf of Mexico into waters deeper than 200 meters, is projected to yield an important portion of our gas and oil requirements.

This program will bring objections from some environmentalists but the alternative to drilling in these areas would be increased oil imports.

3. *Reorganize the Executive Branch's mechanism for handling energy problems.* Although the Congress refused to move your proposal for a DNR, the present organization of the Executive Branch is under constant Congressional and press attack.

John Ehrlichman, together with Interior and OMB, is developing a three phase proposal to (a) reorganize Interior by Executive Order to better manage energy, (b) perhaps request an additional Under Secretary for this purpose from Congress and (c) consider resubmitting legislation for a Department of Energy and Natural Resources.

4. *Accelerate research and development on hydrocarbons, nuclear energy and exotic forms of energy.* While this is one of the most frequently ad-

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[6] Reference is to Nixon's Annual Message to the Congress, "The Economic Report of the President," January 27, printed in *Public Papers: Nixon, 1972,* pp. 111–114.

vanced solutions to the energy problem, there is also serious exaggeration of how much could be accomplished in the next few years. OMB proposes increases in R & D from $596 million in FY 73 to $643 million in FY 74, while OST recommends $709 million in FY 74. Though this builds on the substantial R & D program for breeder reactors set forth in your first energy message, it will inevitably be castigated by Congressional and other critics as inadequate.

A proposal is also being developed to encourage substantial increases in private utility funded R & D.

5. *Alterations in the Mandatory Oil Import Program.*[7] When the MOIP was instituted in 1959 the US had considerable surplus spare production capacity, imports were limited to 12% of domestic production, and shortfalls in demand were made up by increased domestic production. Since early in 1972 US reserves have been produced to capacity, so increased demand has been met from increases in oil imports. In 1972 imports will average about 4.7 million barrels per day; in 1973 they will rise to over 6 million.

The Oil Policy Committee is considering two changes in the Program: (a) auction any increase in quota tickets, instead of giving them away, and (b) allow free importation of foreign crude oil for production of synthetic natural gas and residual fuel oil. Although the latter would result in high price gas, it would be quickly available and the procedure would encourage development of domestic refining capacity for fuel oil. These steps would be supported by critics of the Oil Import Program.

6. *Request Congress for legislation for federal leasing of deepwater ports.* Our imports of oil and other raw materials in the future, regardless of what other action we take, will increase. Most oil in world trade is now carried by giant tankers, which currently can dock at no American port. Importing oil by super-tankers unloading at deepwater ports is preferable both from an economic and an environmental point of view to the smaller tankers now used for the US imports. The proposed action would incur no cost to the federal government, and private interests building deepwater unloading facilities would have to comply with state regulations.

7. *Increase utilization of coal.* Our most abundant domestic source of energy is coal, yet production in 1972 declined. Stringent air pollution regulations made it difficult to use much of the high-sulfur coal

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[7] Flanigan submitted a report on the Mandatory Oil Import Program to Nixon on September 29, but any decision to alter the program was deferred until after the November Presidential election. (National Archives, Nixon Presidential Materials, White House Special Files, Staff Member and Office Files, President's Office Files, Box 18, President's Handwriting, Sep 16–30, 1972)

and utilities switched to imported oil; safety regulations have resulted in a decline in productivity in most deep mines in the last two years and strip-mining is under constant attack.

Proposals are being studied regarding the interrelated problems of the effect of currently proposed air quality standards, the state of the art of stack gas cleaning, and the cost of alternate fuels. Study is also being given to the appropriate Administration position on strip-mining legislation.

8. *Proceed with leasing of shale lands.* There are very substantial oil reserves—estimates run as high as a trillion barrels—in the oil shales of the West. The cost of production is high, the water requirements are enormous, and the problems of disposing of the waste material have not been solved. The Department of the Interior has a program to lease six 5,120 acre tracts, two each in Colorado, Utah and Wyoming. (This is less than 0.3% of the shale lands in these three States). It is expected that these leases will result in the development of technology so that shale can be an important long term source of energy for the US. Environmentalists have opposed this program.

9. *International actions regarding the energy problem*. Cooperation between major consumers and major producing nations on developing new sources of energy and on handling available energy in times of shortages must be increased. Europe and Japan are entirely dependent on imported oil. US representatives have talked with the Europeans and Japanese for two years on a possible cooperative approach to the problem but until recently they have looked on these overtures as a not-too-subtle attempt to regain economic hegemony over them. Their views have now changed and they seem to understand well that if each nation tries to solve its own problems, the solutions will be slower; and if each nation tries to sew up available hydrocarbons around the world, the result would be bidding prices up to astronomical levels. An intensification of these discussions is under consideration. It may well be appropriate to include in a Presidential energy message a statement that we recognize the international nature of the problem and desire to examine the possibility of a wide cooperative approach.

Negotiations are underway with both Canada and Venezuela on energy matters. If the talks with Canada are completed, the removal of quantitative restrictions on Canadian oil could be included in an energy message. Reference could also be made to the negotiations with Venezuela which we hope will result in the exploitation of Venezuela's very large heavy oil reserves.

10. *Measures to conserve energy and use it more efficiently.* References to the Administration's backing of legislation to use part of the gasoline tax for mass transit, to work being done by the GSA on energy conservation in homes and office buildings, to DOT's work on more

efficient automobile engines, and to research being carried out on more efficient electricity generation and transmission could be included in an energy message. Study is being given to proposals for the formation of an "Office of Energy Conservation" in the Department of the Interior, and compulsory labeling of energy efficiency and cost operation of appliances and automobiles. This initiative will be attacked as inadequate, with proposals for federal regulation of the use of energy.

Congressional Aspects

The above proposals cover so broad a field as to engage many Committees in the Congress, including Interior, Commerce, Government Operations, Joint Committee on Atomic Energy and Science and Astronautics—at least on the House side.

In the Senate, Jackson has shown the greatest interest in energy matters and has a commanding position as Chairman of Interior and as a senior Democrat on Government Operations and JAEC. As such, he can be the key Committee member on legislative proposals involving Government Organization, Research and Development, the Oil Import Program, and Land Use. However, the key proposal—allowing the market to set the well-head price of new gas—would go before the Commerce Committee. Here Magnuson would be the key, with Norris Cotton instrumental to the success of our efforts.[8]

I had Jackson to lunch at the White House (where he requested the subsequent meeting with you) and have met with the Republican side of his Committee twice. Based on these meetings and discussions with his staff, I am convinced that, while calling for "more" in Government Organization and R & D, he will generally support the proposals described above as long as credit for progress is fully shared with him.

Cotton is concerned about Magnuson's reaction to any proposal to remove from federal regulation the price of new gas. He points out, however, that Magnuson will probably again propose legislation to reverse the Supreme Court's decision in the El Paso case, which legislation the Administration has opposed in the past.[9] Consideration might be given to reviewing this Administration position.

While the House has no broad energy leader, Holifield chairs Government Operations and is senior on JAEC. As such he will be

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[8] Senator Warren G. Magnuson (D–Washington) and Senator Norris Cotton (R–New Hampshire).

[9] Reference is to the Supreme Court decision in The United States v. El Paso Co., 376 US 651 (1964), which reversed a lower court decision that had dismissed U.S. charges that the purchase of Pacific Northwest Pipeline Corporation by El Paso Natural Gas Company substantially lessened competition and was therefore in violation of the Clayton Act.

important on both Government Organization and R & D. On the latter, however, Science and Astronautics has taken the lead, with McCormack (the junior Democrat) heading the Subcommittee. I have met with him, Mosher (the ranking Republican) and their staff and am convinced their only criticism of the Administration proposal will be that it is "too little." The key to the House may well be the Speaker, and through him, his fellow Oklahoman, Jarman,[10] who is number three on Interstate and Foreign Commerce to which legislation regarding gas pricing will be directed.

To assure prompt and successful Congressional attention to the Administration's proposals will require a broad and well designed effort. The program must and can be sold as *pro* environment and *pro* consumer. The tag of pro industry must be avoided. In working the Congress, however, individuals, such as Charls Walker, who is already counseling with me, will be invaluable.

Timing

The question of the optimum timing for launching the Administration's initiatives is controlled by the urgency of the problem. This includes:

(a) The possibility of area energy shortages this winter;
(b) Industry uncertainty as to how to proceed, leading to the possibility of major investment decisions (ie, LNG imports) based on the assumption of no change in domestic policy; and
(c) The likelihood of early Congressional action which could force the Administration into a reactive, rather than a leadership, position. Jackson's hearings will commence again on January 9th.

The arguments counseling delay are:

(a) Time to have a fully developed set of proposals;
(b) Congressional discussions; and
(c) Public education as to the problem, and its effect on national security, the environment and the economy.

As this memo indicates, the substantive proposals and Options Papers for Presidential decision are well advanced and will be ready by mid-January. Congressional contacts are underway, with expanded effort awaiting a return of Congress. Finally, the process of educating the public has started, with speeches and/or TV appearances laying the groundwork for Administration action, having been made by Ehrlichman, Ruckelshaus, Schlesinger, Morton, Peterson and Akins. I have met

[10] Representative Chester E. Holifield (D–California); Representative John W. McCormack (D–Massachusetts), Representative Charles A. Mosher (R–Ohio); Representative and Speaker of the House Carl Albert (D–Oklahoma); and John Jarman (D–Oklahoma).

with the Washington leaders of the environmentalists, and obtained at least their qualified support for some of our proposals. The schedule of Administration appearances will be increased after the first of the year.

Given this base, energy could be a major topic for your State of the Union speech. This could be followed by an Energy Message to Congress, including all the required legislation, by mid-February. Should you decide to use this schedule, the total work program will meet it.

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147. Paper Prepared by William B. Quandt and Harold H. Saunders of the National Security Council Staff[1]

Washington, December 26, 1972.

PRESIDENT'S WEDNESDAY BRIEFING

For President

Arab Oil Developments

In the past few days Saudi Arabia and Abu Dhabi have both signed the participation agreements with oil companies operating in their countries. The most important provision of these agreements is that by the early 1980s the producing countries will own 51% of production. In the meantime, they and the companies will be closely linked by the terms of the participation agreements. Kuwait is expected to approve a comparable agreement in the next few days. Finally, Iraq, which earlier this year nationalized its northern oil fields, appears to be close to agreement on compensation with the Iraq Petroleum Company.

These developments demonstrate both the growing power of the oil producing countries to extract generous terms from the companies and the continuing interdependence between suppliers and consumers. Despite recurring threats by Arab oil producers to use oil as a political weapon, most of these governments still seem more interested in

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1287, Saunders Files, Saudi Arabia, 9/1/72–12/31/72. Confidential. Incorporated into the President's December 27 daily briefing as part of a December 27 memorandum from Kissinger to Nixon. A notation on that memorandum indicates the President saw it. (Ibid., Box 48, Presidential Daily Briefings, December 18–30, 1972)

increasing their control over oil production than in disrupting the flow of oil. This report represents a near-term improvement in the situation over what it was at the time Messrs. Lincoln and Connally saw King Faisal.[2]

Source: Kuwait 2686, 12/23/72.[3]

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[2] Connally visited Saudi Arabia December 17–18, and Franklin Lincoln visited during the week of December 10, for broad-ranging discussions. See *Foreign Relations,* 1969–1976, volume XXIV, Middle East Region and Arabian Peninsula, 1969–1972; Jordan, September 1970, Documents 169 and 170.

[3] Attached but not printed.

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148. Memorandum of Conversation[1]

Washington, December 29, 1972.

SUBJECT

Oil Company Negotiations on Participation

PARTICIPANTS

Mr. Charles Hedlund, Exxon Middle East, Vice President
Mr. Laurance Folmar, Texaco, Vice President
Mr. James Akins, Director, Office of Fuels and Energy, Dept. of State
Mr. George Bennsky, Office of Fuels and Energy
Mr. Gordon S. Brown, Office of Fuels and Energy

Mr. Hedlund and Mr. Folmar gave us a briefing on the general agreement on participation, just concluded between the companies and the Saudi and Abu Dhabi Governments. They ran over the history of the concept, the previous negotiations, and the final sessions in Riyadh at which Saudi oil minister Yamani demanded, and at least partially obtained, substantial increases in the prices of oil to be sold by the governments to the companies. Saying that the companies had been disappointed by Yamani's "back-off" from the October agreement with the companies,[2] Mr. Hedlund admitted that Yamani's insistence on higher prices was at least in part supported by recent higher market prices for oil, even though some of the increase was due to anticipation

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 17 US–SAUD. Limited Official Use. Drafted by Brown. The meeting was held in the Executive Office Building.

[2] See Document 141.

of the higher prices which participation would bring. He noted that the companies, under pressure from Yamani who had threatened to make the agreements retroactive to 1 January 1973 no matter when they signed, had also had to yield to an accelerated escalation table with 30 percent participation now to come in 1978, and 51 percent on 1 January 1982 rather than 1983. He and Mr. Folmar said that Yamani had been a very strong and forceful negotiator throughout the negotiations, on more than several occasions making fairly direct threats of nationalization.

Mr. Hedlund pointed out that only Saudi Arabia and Abu Dhabi had as yet signed the agreement; discussions were still underway in Qatar, which wanted its crude prices to be closer to those for Abu Dhabi, but might be brought along. Gulf Oil had not signed the general agreement yet and was looking to see how the situation would develop in Kuwait, where Oil Minister Ateegi "was in a jam" trying to sell the agreement to the government and parliament. Mr. Hedlund gave us a copy of the General Agreement, which he noted had already appeared in the oil trade press, though with some slight variations. He and Mr. Folmar briefed us on the terms of the agreement as follows:

—The agreement, which will have to be supplemented by specific implementing agreements in each country, covers only the oil producing facilities—the disposition of other installations such as refineries, Tapline etc, will have to be worked out separately.

—The companies had negotiated long and hard for a compensation settlement better than OPEC's net book value formula, and had finally gained (with some USG help) a settlement which approximated twice net book value on an average—although the exact figure will be left to the implementing agreement in each country. The calculations for "book value" compensation agreed upon provide that past investments can be recalculated in present dollars by use of a construction cost index, and that past depreciation which had not been used to reduce taxes can be recapitalized. Under this computation, Mr. Hedlund said, the figure for 25 percent of Aramco will be about $525 million when finally worked out in the implementing agreement. Mr. Hedlund's notes showed the following tentative evaluations for other concessions:

Kuwait Oil Company	$150 million
Abu Dhabi Petroleum Company	81
Abu Dhabi Marine Areas	81
Qatar Petroleum Company	28
Qatar Shell	43
Basra Petroleum Company	103
Iraq Petroleum Company	68

These amounts are payable in cash, either immediately or in three payments over two years.

—Mr. Hedlund and Mr. Folmar stressed the efforts the companies had made in order to negotiate terms on the buy-back oil which would assure stable supplies and lowest possible cost to the consumer. The result has been to create four categories of oil for future trading, the prices for which are set through 1975 in private side letters. The categories are:

Bridging oil—this is oil which will be sold by the governments to the companies during the first three years of the participation agreements, in order to allow the companies to meet existing marketing commitments. It will amount to 75 percent of the government's 25 percent share in the first year, 50 percent the second year, and 25 percent the third year. The price was negotiated at close to the market price: for the benchmark Arabian light crude oil it will be at quarterway price plus 19 cents, or $2.05—as opposed to OPEC's original demand for the half-way price of $2.11. (Although Mr. Hedlund did not give us prices other than for Arab Light, he said that the highest price negotiated is for Abu Dhabi Murban, which will be $2.25 in this category.)

Phase-in oil—this is oil which will be in excess of the governments' needs while they are entering the crude marketing arena, and which will be sold by them on long-term contracts and at a lower price than "bridging" oil. A ten-year schedule was worked out with the quantities to be sold fixed for the first three years; if the governments decide not to renew specific contracts, there will be long phase-out periods. The price set for Arabian light in this category is at tax paid cost plus 35 cents, or $1.97.

Forward avails—this is oil which will come from increases in production capacity beyond the government's ability to market. Quantities will be set three years in advance when the partners table their future oil requirements and plan for capacity increases. Like "phase-in" oil, the sales will be for long terms and with long-term phase-out provisions in case the government wishes to cancel the sale. Prices will be still lower: for Arabian light, at tax paid cost plus 26 cents, or $1.88 in 1973.

Overlift oil—this is oil which will be traded between partners on a short-term basis to meet commercial contingencies; the prices will be quarterway price as is standard in most Middle East consortia.

—All barter oil agreements will be cancelled for governments accepting participation. At the same time those governments will contribute their equity share of oil to meet local consumption requirements.

—The form of Aramco's relationship with Petromin is still being worked out. The companies prefer to be represented as a single party with an undivided interest, but the Saudis want to enter the existing corporation. If the latter becomes necessary, the companies will still be protected from having to pay the Saudis their equity share of profits by the company practice of apportioning profits in proportion to each member's contribution, i.e. sales volume. Messrs Hedlund and Folmar were unclear as to how the parent companies would treat their potential loss of U.S. tax credits on the 25 percent of production.

149. Letter From President Nixon to Director of Central Intelligence Helms[1]

Washington, December 29, 1972.

Dear Dick:

I tried to reach you by phone the day after Christmas but then recalled that you were taking a well earned rest in Mexico. The purpose of my call was to ask you to have a chat with John Connally when you return to get his observations with regard to his visit to Saudi Arabia and also to Algeria.[2] In your position as Ambassador to Iran[3] I would like for you to take as an extra assignment an analysis of the entire Mideast oil situation analyzing, of course, the relations of American and European companies with the various governments and also the stability of the governments.

As I consider the energy crisis we are going to be facing in the next 10 years a continuing supply of oil and gas from the Mideast is absolutely indispensable, not only to Western Europe and Japan but also even to us. The greatest threat to this source of supply, of course, is the instability of the governments in that area. We all remember what happened when Mossadegh was in power in Iran. The same thing, of course, could happen in Saudi Arabia and even in Iran today if something should happen to the Shah and, of course, in the new and highly unstable gulf states.

I would like for you to make a thorough study of this situation before you leave for Iran and then after you arrive there I want you to visit some of the other countries in the area and give us an evaluation of the stability of their governments and what we can do to shore them up. Before you leave perhaps we can have a further talk on this subject.

With every good wish for the New Year,

Sincerely,

Richard Nixon

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 8, HAK Administrative and Staff Files, Memoranda Dispatched from WB, Nov. 1, 1972 through May 31, 1973. No classification marking. A note to Kissinger from Kennedy, attached to another copy of this letter, reads: "The President personally dictated the attached letter to Director Helms concerning the energy crises and the Middle East." Kissinger wrote on the note: "Forward to Helms on Monday." (Ibid., Box 209, Agency Files, CIA, Vol. V, 1972, Memoranda)

[2] See footnote 2, Document 147.

[3] Helms was appointed Ambassador to Iran on February 8, 1973.

150. Memorandum From Philip A. Odeen of the National Security Council Staff to the President's Assistant for International Affairs (Kissinger)[1]

Washington, January 3, 1973.

SUBJECT

U.S. Energy Policy

You are scheduled to meet with John Ehrlichman and George Shultz to discuss energy today at 3:00 p.m., January 3, 1973.[2]

The Energy Problem

Current projections of both U.S. and allied energy needs through 1985 projects major increases in consumption from foreign sources:

—U.S. oil imports will increase threefold with about 40% coming from the Middle East countries.
—Europe and Japan will increase their imports even more sharply.

Since about half of the world's reserves are in the Middle East and the Soviet Union, these countries will enjoy increased political and economic leverage. If we compete with our allies for these scarce resources rather than cooperate with these countries, influence will be enhanced. Moreover, increased U.S. balance of payments deficits and resulting changed world monetary flows could also have national security and foreign policy implications.

Domestic energy supply has not kept pace with demand for a variety of reasons:

—Total demand has risen markedly (twofold) in the past ten years.
—The regulated price of domestic gas has been kept artificially low, shutting off gas exploration and development.
—Environmental concerns have shut off some sources of energy—particularly coal.

With the government already so deeply involved in the regulation of natural gas prices, oil and gas imports and environmental regulations, the future national security implications of the energy problem

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 250, Agency Files, National Energy Office, Vol. I, March 1972–February 1973. Secret; Outside System. Urgent; Sent for information.

[2] It is possible this meeting was not held. According to Kissinger, Nixon had requested that he, Ehrlichman, and Shultz study "the relationship between energy policies and foreign and security concerns," but that "before the study could be completed, events supplied the answer." (*Years of Upheaval*, p. 869) No account of the meeting was found.

will be the direct result of USG policies that will be formulated over the coming couple of years. *The key question is, how the growing demand for energy will be met and, in particular, the weight given to various elements of national concern (e.g., national security, environmental and economic) in the formulation of future policies.*

The Bureaucratic Situation

The Domestic Council has established an Energy Subcommittee under Peter Flanigan composed of all concerned domestic agencies. The committee has not yet concerned itself on a large scale with major foreign policy and national security concerns, since their charter has been confined to the domestic problem. This will not continue, however, and already the committee has taken some initiatives relevant to foreign policy.

—A CIEP decision memo (16) tasks the Secretary of Commerce with clearing the Interagency Task Force on Soviet gas projects.[3]

—A recent subcommittee decision recommended that the USG pursue bilateral discussions with Canada and Venezuela to work out an oil import agreement that would guarantee future oil imports.

Although past involvement has been minor, a strong NSC initiative is needed now if national security and diplomatic concerns are to be adequately reflected in future policy formulation. Moreover, our diplomatic policies vis à vis the allies and other countries will not reflect adequately energy concerns unless we take action to ensure broad guidelines are established.

Moreover, in February, the President will make a public statement of national energy policy which will set the broad guidelines of our future energy policy. Peter Flanigan has agreed to coordinate the statement with us before it is published.

Finally, there are several individual proposals currently being considered which will increase imports of foreign energy supplies—e.g., the Soviet LNG deal[4] which would develop (at a cost of about $5 billion) and import large quantities of Soviet natural gas costing at least twice the domestic prices. These decisions should not be made until

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[3] CIEP Decision Memorandum #16, October 24. (National Archives, Nixon Presidential Materials, White House Special Files, Subject Files, Confidential Files, Box 12, [CF] FG 6–20 CIEP 1971)

[4] The proposals had been discussed within the NSC since early 1972. Flanigan and Peterson opposed the deals from the beginning, arguing that they were too expensive, that European financing was problematic, and the political costs too high. Documentation on the LNG projects is ibid., NSC Files, Box 214, Agency Files, Commerce, Vol. III and IV; ibid., Box 219, Agency Files, Council on International Economic Policy (CIEP), Vol. II, 1972; and ibid., Box 250, Agency Files, National Energy Office, Vol. I, March 1972–February 1973.

the national security elements of the energy problem and alternatives are considered.

I have drafted a NSSM which will be forwarded within a day or so for your signature. A copy is at Tab A.[5] At Tab B is a copy of the covering memo which you should read if time permits for more detailed information on the energy problem.[6]

The Meeting

At the meeting with Shultz and Ehrlichman, *I recommend:*

—You stress your intention to become more involved in formulating future energy policy and, in particular, coordinating on the President's coming energy policy statement.

—Mention that an interagency study focused on the national security and diplomatic aspects of the energy problem will be published soon to provide a broad analysis of the national security and diplomatic implications of energy alternatives. The study has been coordinated with Flanigan, and although the study will not be completed by the time of the President's statement, some results should be available.

—You should also stress a desire to coordinate regularly on individual proposals which would increase energy imports (Peter Flanigan is now coordinating regularly on energy subcommittee matters).

[5] Attached but not printed. The final version of the NSSM is Document 171.

[6] Memorandum from Odeen, Marshall, and Hormats to Kissinger, January 4; attached but not printed.

151. Briefing Paper Prepared by the National Security Council Staff[1]

Washington, January 18, 1973.

Middle East Oil Situation: The several sets of negotiations between the international oil companies and the Arab governments are producing mixed results.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 219, Agency Files, Council on International Economic Policy (CIEP), Vol. II, 1973. No classification marking. This briefing paper, prepared for Kissinger prior to a meeting with Flanigan, was based on the following telegrams, which were attached but are not printed: Telegram 5598 to London, January 10; telegram 247 from Tehran, January 13; telegram 6609 to Tehran, January 11; telegram 249 from Tehran, January 15; telegram 280 from Tehran, January 16; and telegram 10218 to Tehran, January 17. The meeting was held on February 6 but Kissinger did not attend. See Documents 160 and 161.

—The pricing arrangements under the participation agreements (25 percent now and 51 percent in the early 1980s) between the Persian Gulf OPEC members (less Iran) and the companies are in some cases still being worked out. Saudi Arabia, the most important producer, has now been signed up but the Kuwaitis and the smaller producers are still dragging their feet, and the Saudis have let it be known they will expect as much as the Kuwaitis get.

—The Iranians, who last spring agreed in principle to an innovative "package" settlement, have now, in view of the OPEC settlement, backed away from it. The Shah is now pressing for a so-called "purchase-sales" arrangement under which Iran would take over full operating control of all consortium facilities (they have already technically owned them since 1954) and would enter into a long-term contractual supply arrangement with the companies. The consortium is resisting this approach because of tax problems it would create for them here, the weak position it would leave them with in future price negotiations, and the precedent it would set. From all indications, the Shah is apparently motivated as much by a desire to set the pace of negotiations with the companies as by revenues.

—In Iraq, talks are resuming concerning compensation for and future operating arrangements of the Iraq Petroleum Company's facilities that were nationalized last summer. The IPC reports that the Iraqis have been negotiating realistically on a whole range of issues, including compensation.

—The Libyans will soon open their first serious participation negotiations with the American partners of Oasis, one of the major companies operating in the country, after first having tried and failed to scare a smaller company (Bunker Hunt) into giving up a majority interest right now. Our Embassy believes that for the first time the companies have some significant advantages not only because they are relatively united but, more importantly, because the Libyans have other problems which seem to transcend their basic urge for greater control and more revenue.

The basic problem that the companies are having through all these negotiations is the stabilization of their relationships with the various governments. As soon as a framework is established with one government or group, another has raised the ante and new arrangements have had to be worked out at a higher level. This is why the Shah's latest gambit is worrisome—not so much because of the added revenue, which is marginal, but because it implies full participation now and could undermine the gradualistic arrangements being worked out through OPEC and with the Libyans.

Iranian Oil Negotiations: The Shah has apparently turned aside a compromise proposal from the consortium of oil companies and,

according to the companies, is continuing to demand what would amount to 100 percent "participation." The Shah reportedly has said that his approach is the only way to assure the security and stability of Iran's oil supply and to meet attacks being made on him by the Communists. The Shah emphasized that the consortium must say "yes" before January 22.

The Shah's proposal as it presently stands amounts to 100 percent takeover of consortium management, operating, and financing responsibilities (ownership was technically accomplished in 1954) by 1979 at the latest. This is in sharp contrast to the participation agreements recently concluded with several major Arab governments in the Persian Gulf, which provide for only 25 percent control now and 51 percent in 1982, and also goes beyond current Libyan demands. If the Shah prevails, it will inevitably undercut the agreements with the Arab governments and reopen the negotiations just concluded, leaving the international petroleum scene in a continued state of unrest and uncertainty. The day before the Shah's most recent meeting with the consortium representatives, Ambassador Farland expressed our "deep concern" to the Shah's Court Minister about this situation.

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152. Editorial Note

On January 18, 1973, President Richard Nixon wrote Mohammed Reza Pahlevi, Shah of Iran, that he was "deeply concerned" over recent reports on the state of negotiations between Iran and the oil Consortium. Nixon stated that Iran's most recent proposals "could seriously affect the entire area and the whole course of our mutual relationships." Moreover, given the current involvement in Vietnam, the reorganization of the administration, and preparations for the inauguration, Nixon was unable to "address the substance of the present situation." He added that, "since a unilateral step which does not meet the legitimate interests of both sides could have serious consequences for the objectives which we are pursuing together, I do want to express the hope that you might defer any unilateral action until I can study the issue and put my considerations before you." (National Archives, Nixon Presidential Materials, NSC Files, Box 755, Presidential Correspondence, Iran—M.R. Pahlavi)

British Foreign Secretary Sir Alec Douglas-Home sent a similar message to the Shah, stating that if the Shah committed himself to an "irrevocable position with companies in course of speech next week," there would be "serious effects" on Anglo-Iranian relations. Ambas-

sador Joseph S. Farland reported that the British letter amounted to "not so veiled threats." (Telegram 355 from Tehran, January 19; ibid., Box 602, Country Files, Middle East, Iran, Vol. IV, 1 Sept 71–Apr 73)

In a January 20 response to President Nixon, the Shah pointed out that the oil companies had had ample time to reach an agreement but had not. He was also "convinced that after the announcement of our policies which are the best guarantor of the secure flow of oil supplies through the companies good prices and discounts, there will still be time for the parties concerned to meet our legitimate rights and reasonable demands. I am fully aware of your many preoccupations at this time and the very heavy schedule you have at the moment, but I deemed it necessary to bring this matter to your attention." The substance of the Shah's letter was conveyed to the British Foreign and Commonwealth Office. (Telegram 12618 to Tehran, January 22; ibid., RG 59, Central Files 1970–73, PET 3 OPEC) The Shah's letter to Nixon is scheduled for publication in *Foreign Relations,* 1969–1976, volume XXVII, Iran; Iraq, 1973–1976.

Iranian Court Minister Assadollah Alam reiterated to Ambassador Farland, January 22, "with considerable coolness and complete absence usual pleasantries" the contents of the Shah's letter. Alam said President Nixon "had a one-sided briefing (from oil companies)" and "there were other facts and issues of which President should have been aware before communicating with Shah." Alam also said "leapfrogging" was not a valid argument and that a buyer-seller relationship was the best. He ended by stating that "for us this is now a matter of principle." (Telegram 416 from Tehran, January 22; National Archives, Nixon Presidential Materials, NSC Files, Box 602, Country Files, Middle East, Iran, Vol. IV, 1 Sept 71–Apr 73)

The New York Times reported that on January 23 the Shah told the Consortium that its contract would not be renewed after it expired in 1979. He warned the companies that they would have to double their present production or sign a new agreement turning over operations to Iran. ("Iran Tells Consortium Pact Will Not Be Renewed," *The New York Times,* January 24, 1973, p. 51)

153. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, January 21, 1973.

Delivered herewith is the initial version of a lengthy book on "Energy."[2] The introductory section deals with the history of the energy problem, the current situation, and the broad options for action. Following that is a section of each major issue under consideration. Each section is made up of (a) a background discussion, (b) a statement of the problem, (c) a series of options, with pros and cons relating to each, and (d) a statement of the conclusions and recommendations reached by the responsible agencies. For some issues there is also included additional information in appendices. Should you want further information or studies on any issue, it is available. Where legislation is required by the recommendations, it is prepared and available.

Attached is a seven page summary of the energy problem, and the recommendations for dealing with it reached by the Domestic Council Subcommittee.

For the quick "education" in energy which you requested, I particularly commend to you the summary memo and the introductory section of the book. Because the international aspects of energy are of particular interest to you, I also recommend that you read the section entitled "International."

Attachment

THE ENERGY PROBLEM AND POSSIBLE SOLUTIONS

Summary

Background

During the last four years, the U.S. energy picture has changed dramatically. We no longer have excess oil production in Texas and Louisiana, and the Arab states control two-thirds of the world's proven oil reserves through the OPEC cartel. OPEC has increased crude prices

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 250, Agency Files, National Energy Office, Vol. I, March 1972–February 1973. No classification marking.

[2] The full study was not enclosed and a final version has not been found. Flanigan's progress report on this undertaking is Document 146.

40% in the past two years; prices are scheduled to rise significantly through 1975 and a further sharp increase is expected in 1976. U.S. oil production has peaked, constrained by price and availability of new oil bearing areas on the Outer Continental Shelf. Natural gas production has also peaked because gas exploration and development are unprofitable at prices set by the FPC. Production of coal, our most abundant fossil fuel, has been stymied due to increasing costs, the uncertainty created by the Clean Air Act, and possible strip mining legislation.

The following is a review of the findings and recommendations of the Domestic Council's Subcommittee on Energy which has been working for the past eight months on solutions to the nation's energy problem. The urgency of the problem is indicated by the intense attention it has been given in recent weeks throughout the media and in Congress. The limited fuel shortage in the Middle West during the recent cold spell may well be followed by broader shortages elsewhere this winter.

In considering these proposals, it is important to recognize that past action by the Federal government has been one of the primary causes of the energy problem. For valid security reasons the government has limited oil imports from abroad;[3] for environmental reasons the government has set standards prohibiting the burning of much of the nation's coal; and for price reasons the government has so limited the cost of natural gas at the well-head as to discourage exploration for new gas reserves.

While not purporting to be the final and complete solution to a constantly evolving problem, the proposals listed below will comprise a comprehensive initial attack on the energy problem in the near term (1973–1985), the medium term (1985–2000), and the long term (after 2000). They relate to all forms of energy, and to both the domestic and international fronts. They involve legislation, action through executive order and international negotiations. The principle underlying these proposals is that government interference with the free market system should be as limited as possible, and that this system is best capable of providing sufficient clean energy at an acceptable price. This is a consistent set of proposals which will build on the President's first Energy Message of June 4, 1971[4] and which holds the promise of providing sufficient energy from our domestic resources at a reasonable environmental and economic cost.

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[3] Scowcroft underlined the first clause of this sentence and wrote in the margin: "questionable assumption."

[4] See Document 90.

Proposals

1. *Request Congress to pass legislation permitting competition to set the price at the well-head of newly found natural gas.* Twice since the Supreme Court ruled in 1956 that the Federal Power Commission has the power to regulate the well-head price of gas the Congress has reversed this, only to have it vetoed, the last time when President Eisenhower vetoed the Harris Bill. The result has been a lid on gas prices which has made gas the cheapest fuel, thus increasing demand, while at the same time making gas exploration uneconomic, thus decreasing supply. Studies by industry and academic experts uniformly predict that a continuation of present policies would result in cutting current domestic gas production in half by 1985 (with the difference made up by 10 million barrels per day of imported oil at an annual cost of $14 billion). By allowing the market to set the price, an increase in prices (perhaps 65¢ a thousand cubic feet compared with today's 26¢) would increase production by 1985 by 50% to a level equal to demand.

In the face of today's acute and growing gas shortage, we are restricting the price paid to the domestic producer to one-fifth of the equivalent price of imported LNG and other substitutes. This anomaly is so blatant, and the results of FPC regulation so stifling, that such disparate groups as the environmentalists, certain gas distributors, the gas producers, and even *The Washington Post* have called for a change in the pricing system. Consumerists will, of course, oppose any lessening of federal regulation. The President's Economic Report of a year ago[5] called for competitive pricing of new gas.

2. *Instruct the Department of Interior to accelerate its leasing on the Outer Continental Shelf (OCS).* The American continental shelf is believed by most geologists to be rich in oil and gas, and the areas where work has been done—the Gulf of Mexico and the southern California coast—have confirmed the projection. The need for development of these areas was emphasized by December's auction of offshore leases which brought the Treasury bids of a record $1.67 billion.

A continuation in the present leasing schedule is projected to yield no significant increase in annual gas and oil production by 1985. However, a sharply expanded leasing schedule, which the Department of Interior now proposes, including the Atlantic Coast, the Gulf of Alaska, and continued leasing in the Gulf of Mexico into waters deeper than 200 meters, is projected to yield an important portion of our gas and oil requirements.

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[5] See footnote 6, Document 146.

This program will bring objections from some environmentalists, but the alternative to drilling in these areas would be increased oil imports.

3. *Reorganize the Executive Branch's mechanism for handling energy problems.* Although the Congress refused to accept the President's proposal for a DNR, the present organization of energy management in the Executive Branch is under constant Congressional and press attack.

The Domestic Council and OMB have developed a series of options for both improving the capability of the Department of Interior and for broader reorganization. The preferred reorganization would involve increased emphasis on energy in DNR, renaming the department the Department of Energy and Natural Resources (DENR). The most difficult question involves the conduct of energy R&D, either including most of the non-military, non-regulatory AEC functions under DENR (favored by the Domestic Council) or placing all energy research under AEC (favored by OMB).

4. *Accelerate research and development on hydrocarbons, nuclear energy and exotic forms of energy.* While this is one of the most frequently advanced solutions to the energy problem, there is also serious exaggeration of how much could be accomplished in the next few years. OMB proposes increases in R&D from about $600 million in FY'73 to $660 million in FY'74, while OST recommends somewhat more than $700 million in FY'74. Though this builds on the substantial R&D program for breeder reactors set forth in the first energy message, even the high OST recommendation will inevitably be castigated by congressional and other critics as inadequate.

A proposal is also being developed to encourage substantial increases in private utility funded R&D.

5. *Alterations in the Mandatory Oil Import Program.* When the MOIP was instituted in 1959, the U.S. had considerable surplus spare production capacity, imports were limited to 12% of domestic production, and shortfalls in demand were made up by increased domestic production. Since early in 1972 U.S. reserves have been produced to capacity, so increased demand has been met from increases in oil imports. In 1972 imports averaged about 4.7 million barrels per day; in 1973 they will rise to over 6 million.

The Oil Policy Committee is considering two changes in the Program: (a) auction any increase in quota tickets, instead of giving them away, and (b) allow free importation of foreign crude oil for production of synthetic natural gas and residual fuel oil. Although the latter would result in high price gas, it would be quickly available and the procedure would encourage development of domestic refining capacity for fuel oil. These steps would be supported by critics of the Oil Import Program.

6. *Request Congress for legislation for federal licensing of deepwater ports.* Our imports of oil and other raw materials in the future, regardless of what other action we take, will increase. Most oil in world trade is now carried by giant tankers, which currently can dock at no American port. Importing oil by supertankers unloading at deepwater ports is preferable both from an economic and an environmental point of view to the smaller tankers now used for the U.S. imports. The proposed action would incur no cost to the Federal government, and private interests building deepwater unloading facilities would have to comply with federal and state regulations.

7. *Maintain utilization of coal.* Our most abundant domestic source of energy is coal. Stringent air pollution regulations make it difficult to use much of the high-sulphur coal and utilities have switched to imported oil; safety regulations have resulted in a decline in productivity in most deep mines in the last two years and strip mining is under constant attack.

Reasonable strip mining legislation is imperative; there are essentially no alternatives. However, the interrelated problems of the effect of current air quality standards, the state of the art of stack gas cleaning, and the usability of coal do provide options. At the present time, it is expected that delay by the states in implementing the secondary standards (allowed under the Clean Air Act) will allow continued production of high-sulphur coal at present levels. With technological developments, production of high-sulphur coal can increase by 1980.

8. *Proceed with leasing of shale lands.* There are very substantial oil reserves—estimates run as high as a trillion barrels—in the oil shales of the West. The cost of production is high, the water requirements are enormous, and the problems of disposing of the waste material have not been solved. The Department of Interior has a program to develop commercial-scale prototype shale plants which was proposed in the first energy message. Six 5,120 acre tracts will be leased, two each in Colorado, Utah and Wyoming. (This is less than 0.3% of the shale lands in these three states.) It is expected that these leases will result in the development of technology so that shale can be an important long-term source of energy for the U.S. Environmentalists have opposed this program.

9. *International actions regarding the energy problem.* Cooperation between major consumers and major producing nations on developing new sources of energy and on handling available energy in times of shortages must be increased. Europe and Japan are entirely dependent on imported oil. U.S. representatives have talked with the Europeans and Japanese for two years on a possible cooperative approach to the problem, but until recently they have looked on these overtures as a not-too-subtle attempt to regain economic hegemony over them. Their views have now changed and they seem to understand well that, if each na-

tion tries to solve its own problems, the solutions will be slower; and if each nation tries to sew up available hydrocarbons around the world, the result would be bidding prices up to astronomical levels. An intensification of these discussions is under consideration. It may well be appropriate to include in a Presidential energy message a statement that we recognize the international nature of the problem, and that we desire to examine the possibility of a wide cooperative approach.

Negotiations are underway with both Canada and Venezuela on energy matters. If the talks with Canada are completed, the removal of quantitative restrictions on Canadian oil could be included in an energy message. Reference could also be made to the negotiations with Venezuela which we hope will result in the exploitation of Venezuela's very large heavy oil reserves.

10. *Measures to conserve energy and use it more efficiently*. References to the Administration's backing of legislation to use part of the gasoline tax for mass transit, to work being done by the GSA on energy conservation in homes and office buildings, to DOT's work on more efficient automobile engines, and to research being carried out on more efficient electricity generation and transmission could be included in an energy message. Study is being given to proposals for the formation of an "Office of Energy Conservation" in the Department of Interior, and compulsory labeling of energy efficiency and cost of operation of appliances and automobiles. This initiative will be attacked as inadequate, with proposals for federal regulation of the use of energy.

[Omitted here is the section on Congressional Aspects.][5]

[5] This section of the summary closely resembles the progress report Flanigan provided Nixon, Document 146.

154. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon[1]

Washington, January 26, 1973.

SUBJECT

Reply to King Faisal

King Faisal has written you the letter at Tab B[2] expressing his concern for progress toward an Arab-Israeli settlement, reviewing his security interests in the Arabian Peninsula and Indian Ocean, and wishing you the best in your second administration.

After congratulating you, Faisal thanks you for your involvement in the oil negotiations last August. He then goes on to express regret that none of the efforts to achieve an Arab-Israeli settlement over the past four years has borne fruit. He calls attention to Sadat's expulsion of the Soviet military technicians and hopes that you may again give the Arab-Israeli problem "your highest consideration." He urges that this be done by pressing Israel to withdraw and that US assistance be stopped if Israel refuses. He then urges US assistance to Yemen for the sake of stability in the Arabian Peninsula and resistance to Soviet encroachment through Southern Yemen (Aden). He concludes with good wishes.

The letter prepared for your signature [Tab A][3] covers the following points: It reaffirms common objectives shared by the US and Saudi Arabia; reasserts that the Middle East remains among the highest priorities on our agenda; encourages renewed attention to an interim agreement on the Canal while insisting that progress depends on negotiations between the parties themselves; restates our willingness to contribute where we can to stability in the Arabian Peninsula; expresses pleasure on the conclusion of the oil negotiations; and suggests gently that both of us have much to gain from continued close cooperation

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 761, Presidential Correspondence, Saudi Arabia, King Faisal, 1972. Confidential. Sent for action.

[2] Faisal's November 12 letter to Nixon is not attached. It is ibid., Box 1287, Saunders Files, Saudi Arabia, 9/1/72–12/31/72.

[3] Brackets are in the original. The letter is dated January 30; attached but not printed. The section on oil reads: "I wish to take this occasion to express my own pleasure at the successful conclusion of negotiations between Your Majesty's Government and American oil companies having concessions in Saudi Arabia. It is particularly gratifying that this historic agreement was reached through sound and constructive negotiations which took the viewpoints of both sides seriously into account. I am hopeful that this agreement will assure stability in the world oil market, which is in the interest of both our countries."

without having our relationship become too closely tied to the Arab-Israeli conflict.[4]

This last point is in oblique response to Faisal's comments to Messrs. Lincoln and Connally that we could not expect to see US-Saudi economic relations expand further as long as the Arab-Israeli impasse remained unresolved.[5]

Recommendation: That you sign the letter at Tab A. [Text cleared by Mr. Price. Mr. Flanigan has personally cleared the portion dealing with oil.][6]

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[4] According to a January 16 memorandum from Saunders to Kissinger, the letter took into account the completed oil participation negotiations and Faisal's conversations with Connally and Lincoln. (See footnote 2, Document 147.) Saunders thought it "good to move this now while the situation is stabilized." (National Archives, Nixon Presidential Materials, NSC Files, Box 761, Presidential Correspondence, Saudi Arabia, King Faisal, 1972) It replaced other drafts prepared in response to Yamani's request for a special bilateral relationship, which more explicitly addressed that issue. (Memorandum from Rogers to Kissinger, January 12; ibid., RG 59, Central Files 1970–73, POL SAUD–US) See also *Foreign Relations*, 1969–1976, volume XXIV, Middle East Region and Arabian Peninsula, 1969–1972; Jordan, September 1970, Document 168.

[5] See footnote 2, Document 147.

[6] Brackets are in the original. There is no indication as to whether Nixon signed the letter.

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155. Memorandum From Harold H. Saunders of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, January 29, 1973.

SUBJECT

Briefing on Middle East Oil Situation in Relation to US Energy Requirements—Briefing in Roosevelt Room, 11:00 a.m., January 30

As I understand it, Mr. Ehrlichman has set this briefing up for you, Secretary Shultz and himself as a quick exposure to the nature of the energy problem.[2] During the briefing

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 250, Agency Files, National Energy Office, Vol. I, March 1972–February 1973. Limited Official Use. Sent for information.

[2] The meeting occurred without Kissinger on February 6. See Document 160.

—Jim Akins, the State Department expert on oil now working with Peter Flanigan on the President's energy message, will describe the supply-demand situation.

—Jim Critchfield, Dick Helms' senior man following this problem, will discuss the Middle Eastern political framework.

An outline of the subjects to be touched on is attached.[3] In addition, it may be useful for you to keep in mind the following as one formulation of the main issues:

1. *Policy on oil imports.* The US has traditionally sought to avoid "overdependence" on foreign supplies of oil in the belief that *national security* required virtual self-sufficiency in energy. As we now face the prospect of declining US reserves of oil and gas and high costs for alternative sources of energy, we cannot avoid some absolute increase in the quantity of imported oil. Our interests will be in price and stability of supply arrangements. The choice is not between developing our own self-sufficiency and importing. The issue is where our emphasis will fall. A strong case can be made for harboring our scarce reserves for use in future national emergencies, while importing substantially larger quantities of low-cost Middle East oil. At the same time, there will be an argument for further development of our own resources in order to reduce our dependence on foreign supplies. How we balance this choice between costly efforts at self-sufficiency and a liberalized and diversified import strategy will be of fundamental importance.

2. T*he relationship between the Arab-Israeli conflict and oil supply.* Efforts by producing countries to use oil as a political weapon have occurred on several occasions, but have so far not had much impact. Increasingly, however, it is apparent that the Arab oil-rich countries will command a growing influence over the international oil market and will possess vast reserves of hard currencies that will allow them to withhold oil for political purposes. The US could suffer some shortages and loss of investment if blackmailed by the Arab countries because of our support of Israel, but our European allies are much more vulnerable. While the relationship between the Arab-Israeli conflict and future oil supplies cannot be measured precisely, a settlement of the Arab-Israeli problem would make it

[3] The suggested agenda, attached but not printed, entitled "Middle East Oil in Relation to the US Energy Problem" included an Introduction and sections on oil supply and implications and on the Middle East political framework. According to an attached January 29 memorandum from Saunders to Kissinger, Flanigan additionally wanted to discuss U.S. policy toward the present situation in Iran. The briefing material on Iran is Document 157. Two meetings took place on February 6: a general meeting based loosely on this agenda, the notes of which are Document 159, and one on Iran, as described in paragraph 2 of Document 161.

much easier for the US and its allies to work out a coherent energy policy that would help guarantee stable supply relationships. For one thing, our allies may feel they cannot concert policy with us if that might expose them to Arab threats of withholding oil on political grounds.

3. *US energy policy and our NATO and Japanese allies.* A strong argument can be made that unless we develop a common energy policy with our major allies, we may face the prospect that divergent approaches to energy matters will become a contentious issue in our relations, placing great strains on traditional friendships. A weak front among consuming countries will also leave virtually all power over prices and terms of supply in the hands of the OPEC countries. If the US decides to forego an increase in oil imports as a way of dealing with our energy problems, we should try to turn this to political advantage in our relations with Europe and Japan.

In short, our import policy will affect the cooperative relationship with our allies and the degree to which this cooperation will be important to us. In any event, there is a strong case for a concerted energy policy. If we want close cooperation on energy matters with our allies, what happens on the Arab-Israeli problem will have some effect on the degree to which that is feasible.

Phil Odeen has sent you more extensive briefing material.[4] The purpose of this memo is mainly to put the attached outline in your hands before tomorrow's briefing.

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[4] In a January 29 memorandum to Kissinger, Odeen summarized the national energy problem, its foreign policy implications, and the policy alternatives facing the United States. He argued that the primary cause of the energy crisis was a shift toward greater dependence on Middle Eastern oil and a failure of domestic fuel supplies to keep pace with the overall growth in demand. He concluded that the result was a "growing gap between domestic supply and total demand that is made up by imports of both natural gas and crude oil—particularly oil." (National Archives, Nixon Presidential Materials, NSC Files, Box 250, Agency Files, National Energy Office, Vol. I, March 1972–February 1973)

156. Memorandum From Philip A. Odeen of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, January 29, 1973.

SUBJECT

National Energy Office Organization

Charles DiBona has been offered a position heading up a new White House-based organization which would provide a focal point for coordination and direction of national energy policies and programs. He has apparently been offered the position by John Ehrlichman and DiBona has forwarded his views (Tab B)[2] on how the office would function for you, John Ehrlichman, and George Shultz as the "Special Energy Committee" that will make substantive decisions on energy matters.

Mr. DiBona recommends that his new organization be structured much like the National Security Council and the Council on International Economic Policy. In his capacity as "Deputy Assistant to the President for Energy Matters," DiBona would work for the Special Energy Committee in developing and monitoring an overall national energy policy. As such, his role would include:

—Defining the policy options and collecting analysis through an interagency working arrangement modeled along the lines of a miniature NSC. Policy decisions would be published through the use of decision memos much like the NSDM.

—Having a say in the new legislation applicable to the many semi-independent agencies involved with energy (e.g., the Federal Power Commission, the Environmental Protection Agency, and the Atomic Energy Commission).

—He would not appear before Congress but he would make public announcements, hold press briefings, etc.

Comments

Because the energy problem is so broad and does not naturally fall under any existing agency's responsibility, there is a clear need for some focal point in the government charged with the responsibility of gen-

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 250, Agency Files, National Energy Office, Vol. I, March 1972–February 1973. No classification marking. Concurred in by Hormats and Kennedy.

[2] Not printed. Tab B is a January 18 memorandum from DiBona to Shultz, Kissinger, and Ehrlichman.

erating alternatives for Presidential decision and monitoring decisions on energy matters.

Two alternative organizational approaches have been under active discussion:

—One would place the focal point for management within a beefed-up Department of the Interior with a new "Assistant Secretary for Energy." White House staff participation would be limited to a one or two man liaison office, probably in CIEP or the Domestic Council. Primary coordination and policy formulation would be the responsibility of the Secretary of Interior.

—A second option would focus the policy making and control function in the White House staff. The agencies' policy role in this case is reduced to responding to study requests and forwarding their proposal to the responsible White House official.

Mr. DiBona's proposal appears to be a sensible attempt to implement the second alternative. But, there are also problems which I foresee with his proposal as it now stands. In particular:

—As national energy head, DiBona will be working for three assistants to the President—Shultz, Ehrlichman, and yourself, a very difficult situation at best. His proposal now contemplates "walking papers through each of the principals" which I know would be infeasible on a continuing basis. To make this system work smoothly, DiBona should be directed to work with specific individuals from each of the three groups concerned—the NSC, the Council on Economic Policy, and the Domestic Council.

—Secondly, DiBona makes no allowance for control over the government energy research and development programs, a vital area of national policy which sorely needs coordination. Elements of energy related research and development programs are scattered between AEC and Interior and they need unified policy direction. Before industry can make enlightened investment decisions and embark on needed programs of research and development, some coordinated government energy policy will have to be developed.

—Finally, Mr. DiBona proposes that his group manage the analyses of both the domestic and international aspects of the energy problem. This has real drawbacks. I believe analysis of the foreign policy and national security aspects of the problem should be carried out within the National Security Council framework if those aspects are to be given the weight they deserve and not be subordinated to purely domestic concerns. Our fuel needs are already impacting heavily on our foreign policy posture and in turn our security posture throughout the Near East. They will increasingly affect the conduct of our affairs with Latin America, Eastern Europe, and the Soviet Union. I see no problem in DiBona being tasked with the preparation of issue and options

papers but I believe you should ensure that these aspects be considered under your direction. The international economic aspects of the energy problem will, of course, be handled by George Shultz's Council on Economic Policy but again these must be coordinated with you.

I have prepared a memo from you to John Ehrlichman giving general approval to Mr. DiBona's proposal and commenting along the lines outlined above. The memo also designates me as the NSC representative for general energy matters. Obviously, energy questions have broad application and I will be careful to coordinate within the NSC staff.

Recommendation

That you sign the memo at Tab A.[3]

[3] Attached but not printed. The copy bears no date or signature. There is no indication as to whether Kissinger approved Odeen's recommendation, although Kissinger later suggested that DiBona work through the NSC Staff. See Document 159.

157. Memorandum From Harold H. Saunders of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, January 30, 1973.

SUBJECT

Meeting with Flanigan on Iran Oil

I understand Peter Flanigan will be pressing to see you about the Iran oil problem. This memo gives you the background and describes Flanigan's meeting with Ken Jamieson Monday,[2] which provided the impetus for Flanigan's move.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 137, Country Files, Middle East, Iran–Oil. Confidential. Sent for information. An attached handwritten note from Scowcroft to Kissinger reads: "Flanigan wants to know if you will meet with Shultz, Ehrlichman and him tomorrow (Jan 31) to discuss the Iranian oil situation." Kissinger checked the OK line, then wrote, "If I must. HK." The meeting took place February 6. Kissinger did not attend. See Document 161.

[2] No record of Jamieson's meeting with Flanigan was found. However, during a meeting with Rogers on Monday, January 29, Jamieson asked for U.S. diplomatic intervention with Iran. He called the Iranian alternatives "unacceptable," noting that the "problem was how to get Shah back to negotiating table without getting hurt in crossfire between Saudi Arabia and Iran." He added that there had been no real negotiations

The Situation

On January 23, the Shah publicly announced[3] that the consortium of oil companies operating in Iran face two choices:

—They can continue their activities under present arrangements until the expiration of the consortium agreement in 1979, provided they raise production to 8 million barrels per day and that the income per barrel is no lower than that received by other Persian Gulf producers. In this option, the companies would enjoy no special privileges after 1979.

—They can negotiate a new agreement under which they would turn over all assets and responsibilities to the National Iranian Oil Company, in return for which they would receive long-term purchasing contracts that would insure a supply of oil on favorable terms. Discounted prices for oil might be the means by which Iran would compensate the companies for their assets, or this could be done by a cash settlement. The Shah, however, said nothing about the terms of compensation.

The companies feel that both alternatives could be confiscatory, but the broader concern in the USG is that the second option of immediate nationalization would reopen for consideration the recently concluded participation agreements with Saudi Arabia and Kuwait.

The Issues

Ken Jamieson, Chairman of Jersey Standard and negotiator with the Shah for the consortium members, was in town to see Peter Flanigan and Secretary Rogers Monday. His main points on Iran were that the companies have not decided on a course yet; they do not find either of the Shah's proposals acceptable; if they had to accept one of them they would probably choose a special deal now, although that is far from certain. Flanigan told him to work out his position and come back; we would see what can be done to support it. Secretary Rogers is much less inclined to have the USG involve itself, despite the fact that most experts agree now that the companies no longer have the leverage to work out arrangements necessary to preserve stable supply at reasonable prices.

Flanigan's main point, therefore, will be that we must quickly develop a relatively hard position to take with the Shah. Exactly what that position should be will be difficult to determine precisely until the companies decide what course they will take.

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with the Shah after the participation deal and the Shah was "burned up" at Yamani. Rogers told Jamieson that the United States wanted to stay out of the negotiations themselves but would urge the Shah to negotiate seriously if he was unresponsive to the company offer. Jamieson accepted this proposal. (Telegram 19185 to Tehran, January 31; ibid., RG 59, Central Files 1970–73, PET 6 SAUD)

[3] The Shah's speech is summarized in telegram 427 from Tehran, January 23. (Ibid., PET 6 IRAN)

Flanigan will make *another point*—this one on Iraq. Jamieson said the companies are inclined to accept a sales-contract arrangement with Iraq. Flanigan makes the reasonable point that we cannot be expected to make a strong case with the Shah against such an arrangement—if that turned out to be our position—if the companies are going to give on this point in Iraq, which is much less friendly. Our roles in the two countries are quite different, however, and you might press Flanigan to clarify this point. It is not clear to me just what his point is.

At this stage, discussion will be preliminary. The next step is to see what a USG position would look like.

Flanigan may mention how much we are doing for Iran. He is working from something like the following figures:

—Iran has placed orders for US military and other equipment worth $2.9 billion.

—Our Export-Import Bank has now outstanding $927 million in credits for Iran. ($216 million of this has been extended since September.)

—Additional transactions are in prospect that would raise the Ex-Im to $1.1 billion.

—Beyond the above, Mr. Kearns has indicated that Ex-Im is prepared to extend a further $500 million in credit over the next year, half loan and half guaranteed private credit.

—The US Ambassador is under instructions to present to the Shah this week a proposal for some 900 technicians (500 military, 400 civilians) to work with the Iranian forces in integrating new military equipment. These are in addition to 42 such technicians already in Iran. (These are the technicians the President promised last May.)

A memo from Acting Secretary Irwin on this subject is attached.[4] The President is aware of the situation, so it would seem logical not to bother him further until the next recommendation is ready for his consideration.

[4] January 26; attached but not printed.

158. Memorandum From Philip A. Odeen of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, February 1, 1973.

SUBJECT

Prospects for Nuclear Energy as an Energy Source

You asked if the slow growth projected for nuclear energy as a domestic energy source (e.g., 15 percent of total demand in 1985) was "inevitable." (Tab A)[2]

Our use of nuclear power could be increased somewhat by 1985 (to about 20 percent of total consumption). This would reduce energy imports but would not significantly change our position of major dependence on foreign energy sources. Moreover, nuclear power would be significantly more costly than alternative energy sources—particularly oil from Middle East. There are major technical problems associated with sharply increasing our production of nuclear power—especially in the short term. For example:

—Nuclear power plants take a long time to build (five to eight years);

—The contribution of nuclear power to our overall energy needs is limited because nuclear power can be used only to generate electricity. Electricity accounts for about 60 percent of total energy consumption and could not be used to power cars, etc., without major costs;

—Nuclear power plants are expensive to build and conversion of existing power plants from fossil fuels to nuclear power requires the construction of entirely new power plants. Thus, the use of nuclear energy is largely planned to supply the growth of new energy demand. It would be too costly to convert existing power plants to nuclear energy for operating power generating plants;

—Environmental concerns have cut into the growth of nuclear power by slowing the processing of applications for generating plant sites. Despite the development of what the industry believes are adequate safeguards, the public still fears radioactive spills—a possibility which cannot be ruled out no matter how good the safeguards. Thermal (heat) pollution is also a major concern.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 250, Agency Files, National Energy Office, Vol. I, March 1972–February 1973. Confidential. Sent for information.

[2] Not attached.

Despite these problems the contribution which nuclear power could make to our overall energy needs could be increased in the early 1980s *if we are willing to pay the increased cost.*

Thus, the prospects for nuclear energy principally depend upon the price we are willing to pay to satisfy future energy needs. This, of course, is also true for other domestic energy sources such as oil shale, tar sands, etc. Our (overly simplified) alternatives are to (a) opt to supply our energy needs principally from domestic sources at a higher cost; or, (b) enjoy a lower price for energy by continuing to buy cheaper overseas oil and accepting the drain on our balance of payments.

Are Projections of Energy Demand Overstated?

An important fact you should know is that the projections of energy demand for the 1980s are quite soft. The increased price we will pay for energy in the 1980s will have *some* impact on energy demand—a factor not sufficiently taken into account by current projections. *Projections of future energy consumption may, therefore, significantly overstate the seriousness of our problems—in particular, the quantity of oil we will import from the Middle East at increased prices.*

The key question is how sensitive the demand for energy will be to changes in price, e.g. to what degree will increases in price have as a dampening effect on total demand?

Estimating this impact (known as elasticity in economic terms) is very difficult to determine, but it must be done before we will have a good grasp of the magnitude of the energy problem. Rand has some work underway on this question which we will follow closely.

159. Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, February 6, 1973.

SUBJECT

National Energy Office Organization

This proposal causes me great concern.[2] It seems clear that its implementation would result in a new NSC-like structure cutting across and competing with NSC, CIEP and Domestic Council business. It is difficult for me to imagine that we need another empire to further complicate the bureaucratic pulling and hauling already extant.

Without knowing what discussions have already taken place, I would think that Charles DiBona could perhaps better serve as a sort of Executive Secretary to the Special Energy Committee. His job would be that of coordination among NSC, CIEP and the Domestic Council. Tasks would be given to whichever of those organizations had the predominant interest in the issue, with representation, if necessary, from the others. In this manner, we might be able to avoid the development of a new bureaucracy which, I fear, would be constantly trodding on our—and everybody else's—toes.[3]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 250, Agency Files, National Energy Office, Vol. I, March 1972–February 1973. No classification marking.

[2] See Document 156.

[3] A handwritten notation by Kissinger at the bottom of the page reads: "I agree completely. Make clear Ehrlichman understands." Kissinger subsequently phoned Ehrlichman on February 7 at 8:45 a.m. to inform him that he was "violently opposed to setting up another inter-agency committee called an Energy Committee." He preferred that DiBona act through the NSC. Once Ehrlichman said that this was "no problem," Kissinger implied he was ready to work on an NSC study on the international aspects of the energy problem. (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 18, Chronological Files)

160. Notes of Meeting[1]

Washington, undated.

OIL BRIEFING

3 ml bbs day North Sea
6 North Africa
8 Iran

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40 m bbs/day from Arab
45 " " non-Arab
85 " " Total demand

Kuwait knows its reserves and wants them to last.

Lower Arab states could get to 8 [m bbs/day]

Iraq, Saudi Arabia } most interesting to US.

Saudi is where the world's oil reserves are concentrated (145 bil–300 bil)

Iraq reserves are also underrated (36 bil) & may range to 2/5 of Saudi reserves

We will need Saudi to produce 25 mil/day. They can, but will they want to.

The OPEC countries (particularly Arab) don't need the money they are getting now.

—They will have tremendous capital accumulation by 1980
—They want to invest in oil related business

By 1980 there will not be significant spare oil capacity in the world.

—Arabs may be able to use oil as a political weapon

Other sources of energy

—Nuclear energy projections have been reduced by 40%
—We shouldn't expect much help

If we all compete for the available oil, the price can go much higher than otherwise

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 137, Country Files, Middle East, Iran–Oil, 5 Feb 1973–7 Sep 1974. No classification marking. The original is handwritten notes taken by Scowcroft of a February 6 meeting on oil. Additional information on this meeting is in Document 161. No other record of the meeting was found.

We need to develop Saudi-Iranian cooperation in the Gulf to get the increased oil we need.

We haven't developed a policy framework for Gulf to try actively to bring together the major parties

King Faisal is afraid of the power his oil represents and is afraid of being invaded—by Iran, Israel, or both.

———

→ Consortium meet on 12 Feb.
→ They present new compromise to Shah
→ We (at some point) urge Shah to compromise

Jim Akins
Saunders
Jacob Bennett (Commerce)
Jim Critchfield[2]

Hal met with Akins
Set up meeting for Tuesday[3] 10 a.m.

[2] Partial list of attendees.
[3] February 12.

161. Memorandum From James H. Critchfield, Special Assistant to the Deputy Director of Plans, Central Intelligence Agency, to Director of Central Intelligence Schlesinger[1]

Washington, February 7, 1973.

SUBJECT

The White House Group on Energy and the Middle East

1. A White House group delving into this general area is evolving; its size, make-up and function are thus far somewhat unclear but some

[1] Source: Central Intelligence Agency, Executive Registry Files, Job 80–M01048A, Box 4. Secret. A copy was sent to Helms, Karamessines, and Waller.

general observations can be made on the basis of developments the past two weeks:

a. Mr. Ehrlichman appears to be the central figure in at least the effort to organize something. Mr. Flanigan and Secretary Shultz are involved. Dr. Kissinger has thus far not played a role but Brent Scowcroft and Hal Saunders are members of the group.

b. Three or four different members of the Treasury Department have appeared thus far.

c. There has been no discussion in terms of departmental or agency representation as such. Jim Akins is temporarily on the White House staff working on the energy policy paper. I was simply invited by the White House to participate.

d. The original briefing given by Akins and me was for Ehrlichman, Kissinger, Shultz and Flanigan. Kissinger did not appear but sent Scowcroft. Hal Saunders organized it. The subject was broad—the world energy situation and the Middle East.[2]

e. The group that met on the morning of 6 February appears to be a "working group" concentrating on the short term problems of dealing with the Shah's recent proposals to the oil companies and the state of the mediation effort following Iraq's 1 June 1973 nationalization of IPC.

2. Attached is a February 5, 1973 NSC Memorandum from Hal Saunders which was discussed at a one and one-half hour meeting starting at 11:30 AM, February 6.[3] There was no "chairman;" Flanigan and Scowcroft provided what structuring there was. Generally, Flanigan was an advocate of early action to let the Shah know that his response to the President was unsatisfactory.[4] Scowcroft and Saunders, with my support, were advocates of delaying any action until we know what position the oil companies will offer the Shah; the American companies will have determined their position by next week and will meet with the other members of the Consortium a few days later. Jack Bennett of Treasury emphasized the need to protect the legal position of contracts in international relations. Saunders and I advanced the idea that the best approach to the Shah might be indirect, attempting to involve him in a discussion of Iran and U.S. longer range strategic objectives that would, in turn, provide a better framework within which to define our common interests in energy matters.

3. It was unanimously agreed that the U.S. companies (Exxon[5] and Mobil) should be asked to slow down the tempo of negotiations with

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[2] See Document 160.

[3] Attached but not printed is an "Issues Paper: Iran—Consortium Confrontation," written by Akins, February 5. The reference is to a second February 6 meeting on oil. No other record of this second meeting was found.

[4] See Document 152.

[5] Standard Oil of New Jersey changed the Esso brand name to Exxon on January 1, 1973.

the Iraqis. Viewpoints on the motives of the French, the Dutch and the British in the Iraq question and in the broader context of the Gulf region varied. Flanigan attached importance to lining up the British and the Dutch to support the U.S. position. Akins and I cited evidence suggesting that the French, with considerable support from the Dutch, might find it in the long range interest of France to precipitate a collapse of the existing international oil structure in the entire Gulf, including Saudi Arabia.

4. All agreed that the U.S. action must take place in advance of the next meeting between the Jamieson group and the Shah in late February.

5. Discussion of the seven items listed as requiring decisions[6] did not lead to many firm conclusions. There was no clear consensus on item 1, i.e. the effort to relate U.S. broad interests with the specific interests of the oil companies.

6. It was left that Flanigan would contact Mobil and Exxon to emphasize the linkage between the Iran and Iraq problems.

7. There is apparently a general tendency on the part of Flanigan to use the group to formulate very short term actions on the immediate problems in Iran; representatives from Dr. Kissinger's office appear inclined to start now in taking a longer term view of our Iran problems while putting them in a broader regional context. State was not represented although someone remarked that "Akins represents the State Department view."

8. Thus far there has been no effort to block out next steps for the senior group (Ehrlichman, Shultz, Kissinger and Flanigan); Saunders, Akins and I appear to be established members of this loosely organized arrangement.

James H. Critchfield[7]

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[6] As listed in the "Issues Paper" (see footnote 3 above), the seven items were: What interest does the United States have in maintaining the oil companies in their present form? Is the preservation of the current status quo a worthy objective and will the Shah's moves upset the status quo? What action should the United States take in Iran, a Presidential letter, or an envoy? In either case what would the President ask? Which of the two options proposed by the Shah is least objectionable to the United States? When should the United States take action? How does the United States coordinate positions with Britain, France, and the Netherlands?

[7] Printed from a copy that indicates Critchfield signed the original.

162. Memorandum From the Ambassador-Designate to Iran (Helms) to Secretary of State Rogers[1]

Washington, February 7, 1973.

1. Following our discussion Monday of the current seeming impasse between the Shah and the companies, I have spent some time talking to the CAS Tehran Station Chief, [*name not declassified*], who is here on TDY. This memorandum about his impressions is solely for your information.

2. [*name not declassified*] saw the Shah on [*less than 1 line not declassified*] to discuss a number of points related to the overall United States [*less than 1 line not declassified*] in Iran and to inform the Shah that he would be in Washington this week.

3. The Shah said that there was one point which he wished me, as Ambassador-designate, to understand very clearly: that he would not discuss his essential position on what would be done with Iran's oil with me or any other representative of the United States Government whose objective was to influence him to modify it. He said that this is not the proper role of government as has been recognized by the United Nations. The U.N. has also made clear that the way in which a nation handles and disposes of its natural resources is its business alone. After further conversation during which [*name not declassified*] sought to insure that he had as precise as possible an understanding of what the Shah meant, [*name not declassified*] asked whether the Shah's position as outlined in his speech to the National Congress[2] could accurately be characterized as "non-negotiable." The Shah replied affirmatively, adding that he was entirely unable to understand why both the companies and the United States Government did not recognize that the arrangement which he offered was one which would fulfill the major United States objective of insuring a free and predictable flow of oil to the West at reasonable prices and at the same time relieve the oil companies of the need to make substantial investments in physical plant and exploration. As he had said in his speech, good customers traditionally receive prices advantageous to them. As to compensation, his intention was not to confiscate—although he could if he wished—but to pay just and reasonable amounts to the companies in reimbursement

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 602, Country Files, Middle East, Iran, Vol. IV, 1 Sept 1971–Apr 73. Secret. In an attached February 9 note transmitting the memorandum to Scowcroft, Saunders stated that Helms' memorandum "is probably the best account you will see on the Shah's attitude toward the oil negotiations. It is also useful because it gives a picture of exactly what an emissary would face if he approached the Shah on behalf of the President."

[2] See footnote 3, Document 157.

for their investment. Also, the purchaser-seller relationship once established, would eliminate for all time the kind of crisis-type negotiations which have characterized the Iran-consortium relationship and have on occasion led to a serious erosion of the relationship of his country to its Western friends.

4. [*name not declassified*] asked the Shah whether he could identify what aspects of the purchaser-seller relationship were giving the companies trouble. The Shah said he thought it had something to do with taxes, at least in the case of the United States companies. If taxes were in fact a major problem, he could not see why appropriate modifications could not be made to the United States tax structure. After all, the energy problem of the United States and the world is clear enough. Iran can and will provide oil at reasonable cost and with greater predictability than most other producers. Iran cannot, however, take care of problems which are properly those of the United States Government.

5. The Shah went on to say that to equate Iran and Saudi Arabia in terms of their respective abilities to manage their oil resources is both absurd and confusing to a realistic assessment of his position. "Participation" is both appropriate and necessary to Saudi Arabia given her present stage of development. Certainly the Saudis recognize this. On the other hand, "participation" is neither appropriate nor necessary to Iran. Iran would retain some "technicians" presently employed by the consortium and perhaps hire others. However, the number required is in no way comparable to Saudi Arabia's requirements—to say nothing of the requirements of Kuwait and Abu Dhabi. To argue then that for the consortium to take advantage of his offer would be to risk upsetting agreements reached with Arab producers is, in his view, specious. So, too, he thought, would be any legalistic argument to the effect that he was arbitrarily abrogating a contractual agreement to which the other parties had rigorously adhered. He had frequently made the point to the companies that appropriate steps had to be taken to implement secondary recovery and other "conservation" measures. That they would do so was explicit in last year's agreement. To date they had not taken such steps, as he had "told his people" in his speech.

6. The Shah said that he had no intention of coming out second best to Dr. Yamani. He said that the companies had seriously misled him last year during discussions in St. Moritz when they "promised" him that they would not go above twenty percent participation. The Shah went on to say that he was convinced that his way—the purchaser-seller arrangement—is "the way of the world today." Existing contractual arrangements are already anachronistic in some instances and will become increasingly so.

7. It should be noted in connection with the Shah's sensitivity about his and Dr. Yamani's respective positions that the United States Government through Ambassador Farland has formally assured the Shah

that this would not be the case, i.e. that Iran would not come off second best.

8. It is perhaps worth noting at this point that in recent years, when the Shah intends to do something which he considers significant in terms of his (somewhat different) relationships with the United States and Britain, he has taken pains to make his intention clear and has on the whole done what he has said he would do. Not long before his occupation of the Tunbs and Abu Musa he remarked that he had made every effort to avoid a situation in which—after he had done what he said he would do—the British would say, "Why did you not tell us you were going to do that?"

9. [*name not declassified*] believes that since the Shah has stated his position to his people and both the Senate and Majlis have endorsed it (whether pro-forma or not is unimportant), it is very difficult to see how—or for that matter why—he could or should change it.

10. [*name not declassified*] concludes that the Shah is saying that while his basic position is not negotiable and he will find anything that savors of government intervention to change it intolerable, there are areas within the basic framework which are negotiable: for example, prices, the nature of price to world price index relationship, bases of reimbursement of investment, continuation of company personnel on contract to NIOC, amounts of capital to be contributed. There may be others. In any case, it is in these areas that productive discussions between the Shah and the companies appears possible.

11. Copies of this memorandum have been sent to Mr. John Ehrlichman, Assistant to the President for Domestic Affairs, Mr. Henry Kissinger, Assistant to the President for National Security Affairs, and Mr. Peter Flanigan, Assistant to the President for International Economic Affairs.

Richard Helms[3]

[3] Helms signed "Dick" above his typed signature.

163. Memorandum of Conversation[1]

Washington, February 8, 1973, 1:15 p.m.

PARTICIPANTS

President Nixon
George P. Shultz, Secretary of the Treasury
John D. Ehrlichman, Assistant to the President for Domestic Affairs
Charles J. DiBona, Special Consultant to the President
Major General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

SUBJECT

Energy Meeting

The President introduced Charles DiBona. The President spoke of the importance of the energy problem. Our national security said we should keep our oil in the ground and import what we need. But the unsettled nature of much of the oil-producing areas made this a problem.

Many interests were involved, the President continued: the needs of our security, industry, and the conservationists.

There were many spokesmen, and we must keep in touch with all of them. The Congress had many views. Connally was a good spokesman for compromise, but with also a good understanding of our security needs. Jackson had a very good grasp of the problem. There were also many bureaucratic interests involved: Departments like State, DOD, Interior, Commerce, Treasury, the NSC, the Domestic Council, and CIEP.

This issue cut across all lines and that is why we set up DiBona separate from any particular interest. It would be a very tough job.

People like Long[2] say we should spend our money here at home instead of giving it to the Arabs.

Mr. DiBona mentioned in fact that he had been in the Oval Office previously as Selective Service Director. The President agreed, but said that Mr. DiBona ended up outlasting Senator Smith.[3]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1026, Presidential/HAK Memcons, Memcons, Jan–Mar 1973. Confidential. The meeting took place in the White House Cabinet Room. Initially this meeting on energy issues was scheduled to take place in Ehrlichman's office. Backup material for the meeting includes Document 156 and a February 5 memorandum from DiBona to Ehrlichman commenting on an attached Energy Options Paper. (Ibid., Box 250, Agency Files, National Energy Office, Vol. I, March 1972–February 1973)

[2] Senator Russell B. Long (D–Louisiana).

[3] Senator Margaret Chase Smith (R–Maine).

Secretary Shultz agreed this was a very complex problem and we had varying degrees of knowledge about different parts of it. Probably we should package the things we felt confident about, and allude to the things we need to pursue farther before making recommendations to send to the Hill.

The President wished DiBona well, told him this was a tough job, and that the Selective Service was too easy for him. Curtis Tarr[4] had done well, but that this was more challenge.

In parting, he said DiBona shouldn't be captured by Shultz, Ehrlichman, and Scowcroft, because they were special interests. The President said there was an enormous national security aspect to the issue. The environmentalists were a problem. There were of course good ones, but the kooks would have us going back to rubbing two sticks together.

The President said that we must consult and keep in contact with all these groups. He hoped Russell Train[5] was aware of the situation. Train should be kept read in so he knew what was going on, but not so much that he could substantially interject himself or interfere.

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[4] Curtis W. Tarr was Director of Selective Service, April 6, 1970–May 1, 1972.

[5] Russell E. Train was then Under Secretary of the Interior and Chairman, Council on Environmental Quality. He would become the second Administrator of the Environmental Protection Agency (EPA) in May 1973. Nixon announced the formation of the EPA on July 9, 1970; it opened December 2, 1970, with William D. Ruckelshaus as the first Agency Administrator.

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164. Editorial Note

On February 15, 1973, the Oil Officer at the Canadian Embassy informed James Akins, Director of the Office of Fuels and Energy, currently working with the Council on International Economic Policy on the President's upcoming energy message, that the Canadian Government planned to impose restrictions on oil exports to the United States. The Canadian Government stated that the U.S. demand for oil threatened the domestic Canadian supply and demand situation. Akins told the Embassy Oil Officer and the Canadian Broadcasting Corporation in an interview that day that the United States would accept this decision provided the exports remained at current levels. (Memorandum from Mark Linton of the National Security Council Staff to Scowcroft, February 16; National Archives, Nixon Presidential Materials, NSC Files, Box 671, Country Files, Europe, Canada, Vol. IV, Jan 73) The new

levels, which were to go into effect March 1, were limited to crude oil, not refined oil products. The Canadian Government anticipated that such interim measures would become permanent. (Telegram 413 from Ottawa, February 17; ibid., RG 59, Central Files 1970–73, PET 17–1 CAN)

In an undated memorandum forwarded to the President's Assistant for National Security Affairs Henry Kissinger by Executive Secretary of the Department of State Theodore L. Eliot on March 1, Willis Armstrong, Assistant Secretary of State for Economic and Business Affairs, informed Deputy Secretary of the Treasury William Simon that some decline in the amount of oil immediately available for winter needs was possible, and anticipated some problems "meshing" Canadian export levels with the U.S. quota system. Armstrong concluded that Canadian production "is close to topping out. Thus, unless substantial new discoveries are made in Canada, we can anticipate little additional imports from Canada in the next few years and a sharply declining level in imports toward the end of the decade." (Ibid., Nixon Presidential Materials, NSC Files, Box 671, Country Files, Europe, Canada, Vol. IV)

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165. Paper Prepared by the National Security Council Staff[1]

Washington, February 16, 1973.

U.S. INTERESTS IN IRANIAN OIL

Present Situation—Shah's Proposal and Companies' Response

On January 23, the Shah announced that the consortium of oil companies operating in Iran faces two choices for the future:[2]

1. It can continue present operations until 1979, with some tax adjustments, after which it will enjoy no special privileges and receive no compensation.
2. It can turn over operations now to the Iranian national oil company, in return for which the companies will receive long-term purchasing contracts at discounted prices. The terms of compensation were not specified.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 137, Country Files, Middle East, Iran–Oil, 5 Feb 1973–7 Sep 1974. Secret. Transmitted to Scowcroft under a February 16 covering memorandum from Saunders.

[2] See footnote 3, Document 157.

On February 12 the members of the oil companies' consortium decided on a position that would be based on the Shah's sales-purchase contract option but would seek to preserve most of the present company privileges within the general context of the 1954 agreement.[3] They intend to propose to the Shah on February 22 a twenty-five year sales contract with the following provisions:

—The 1954 agreement would be preserved with the fewest possible changes.

—The companies would continue to operate in Iran under a management contract to NIOC.

—The companies would be allowed to invest in Iran in the interests of expanding production.

—The companies would be assured of profits at present rates—about 30 cents per barrel—over the life of the contract.

—The companies will insist on compensation at updated book value for their assets in Iran.

In essence, the companies are trying to preserve the advantages of both of the Shah's options in a framework that will minimize the chances of a negative reaction from the Shah and the prospects for undoing the participation agreements with Saudi Arabia. The Shah would be given the symbolic victory of taking full control of Iran's oil operations, but little else. By wrapping the new arrangement within the old 1954 agreement, the companies hope to reduce the impact of the change elsewhere, and particularly in Saudi Arabia.

The First Issue: Could the Shah Be Forced Back?

The first issue which the companies—and the USG—had to address was *whether to try to get the Shah to withdraw from his present position* and return to negotiations on a financial package to meet Iran's demands within the framework of the consortium, or whether to press for *modifications of the Shah's options to make them less disruptive to US interests.* There have been two schools of thought:

—A minority has argued for trying to reverse the Shah's unilateral actions of January 23, whereby he threatened to break the contract with the consortium on flimsy pretexts. The US companies believe they have an especially strong legal case based on their record of performance, the terms of the agreement, the relevant laws of Iran, international law and the US treaty of 1955 with Iran (Treaty of Amity, Economic Relations and Consular Rights). If a stand is to be made on the issue of confiscatory nationalization, some would argue that Iran is the place to make it. The consuming countries have substantial potential influence in Iran, and it is at least worth considering whether it

[3] The details of the companies' position were relayed in a February 13 memorandum from Saunders to Scowcroft; National Archives, Nixon Presidential Materials, NSC Files, Box 602, Country Files, Middle East, Iran, Vol. IV, 1 Sept 1971–Apr 73.

might be possible through concerted action to force the Shah to back down.

—A majority has argued that it would be better to accept the Shah's proposal as the starting place and to try to negotiate enough changes to preserve essential interests. This argument starts with the judgment that the Shah will be adamant in sticking with his two alternatives. A confrontation with the Shah which attempts to negate the framework he has set forth now seems undesirable on several grounds: it is clearly in the US national interest to avoid a confrontation with the Shah; he has told us his framework is non-negotiable; the British, Dutch and French will not support us in this; and the US companies have reached a decision to try to modify the sales contract option to protect their basic interests.

The *conclusion* reached in the discussion of this issue is that it is tactically necessary to approach the Shah within the framework he has established, not to try to force him to change his basic position. The overriding point for the USG is that this seems the best hope of avoiding a confrontation which would weaken the overall US-Iranian relationship. It is also true that this approach seems to have the greater chance of success. However, this approach is acceptable only if it is possible to preserve certain advantages of the present relationship between the consortium and Iran.

Working Toward a USG Position

If it is a valid conclusion that the companies should work within the framework established by the Shah rather than trying to force him from that position, the issue then becomes what kind of position the US Government can support. It is partly academic now that the companies have reached a position, but it is worth stopping for analytical purposes to examine basic US interests and to ask: If we are not to try to force the Shah to retreat, does one of his two options serve US interests better than the other? An added reason for posing this question is that the Shah could refuse the consortium's proposal and force the companies to choose between the options as he has presented them.

The *key issues* for the US are the following:

1. What is the US national interest in the operations of American oil companies as producers in Iran? This question is basic because the answer begins to identify those elements in the present arrangements which it is important to preserve and those on which concessions can be made.
2. How do the Shah's two options each affect those interests and other broader US interests?
3. Should the USG try to influence the position taken by the US companies?
4. What action, if any, is required of the USG?

Our Interest in US Oil Company Operations as Producers in Iran

In their heyday, US oil companies were seen as guarantors of oil supply to the Western world, as well as profitable business investments

abroad. Today, since the producer countries have increasingly gained power and sophistication, the companies have lost some of their role as independent counterweights to the governments in producing countries and have more and more been reduced to a technical role in production, exploration and distribution—principally the last two. The companies will continue to play an important role in assuring that large quantities of oil are available on the world market and will make a positive contribution to the US balance of payments, but the companies alone will be unable to guarantee supplies. Producers, consumers and companies will henceforth all play a role in setting reasonable prices and in securing supplies.

The primary interests of the USG in the operations of US companies in Iran can therefore be reduced to three:

1. A general interest in protecting US enterprises against confiscatory nationalization and in restoring confidence in international contracts. Actions against US companies in Iran will have an impact on US foreign investments elsewhere, for acquiescence in Iranian violation of contract will make it more difficult to hold to that principle elsewhere. In Saudi Arabia the principle of compensation at updated book value is also at stake. The Saudis have served notice that accession to the Shah's demands could cause them to reopen the recent participation agreements.
2. A profit margin for US companies in Iran that enhances their competitive position elsewhere abroad. US company profits from the sale of Iranian oil contribute positively to the US balance of payments. In 1972, this amounted to approximately $230 million, some of which could be lost under either of the Shah's two options.
3. An interest in the technical contribution the companies can make through investment and management to efficiency in production and to aggressive exploration. This will be a factor in Iran and all oil exporting countries in the Gulf because of the projected expansion in production needed to meet the energy requirements of the 1980s.

The Effects of the Shah's Options on US Interests

The consequences of the Shah's two alternatives as he has presented them are discussed in relation to the major US interests identified above. It seems unlikely for the moment that the companies will move away from their position based on the Shah's sales contract option, but it is instructive to look at their implications. If the Shah rejects the companies' current proposal, they may yet be faced with a choice between the two options as they are. Modifications of the options will be considered subsequently.

Option 1: Continue operations to 1979, then end special status.

Interest 1: Precedent of Confiscatory Nationalization

—No necessary short-term impact, provided that attention not focus on post-1979 arrangements. Time is gained to work on compensation

formula after 1979. By that time Iranian oil production may have begun to peak out and the Shah may be more prepared to negotiate reasonable compensation. Saudis unlikely to react immediately to revise participation agreement.

—*But* Shah has announced that in 1979 he will take over without any compensation. Unless this can be modified, precedent could be very damaging elsewhere, depending on world energy situation in 1980s.

Interest 2: Balance of Payments and the Repatriation of Profits

—Company profits through 1979 would continue on present basis. No short-term balance of payments loss anticipated.

—*But,* after 1979, if US companies lose favored position in Iran, balance of payments contribution from Iran oil operations will decline because there would be no opportunity to negotiate continuation of profits at anything like the present level.

—In view of uncertainties over future prices, however, it will be difficult to estimate b.o.p. effects precisely.

Interest 3: Technical Contribution of US Companies

—Reduced US company role in Iran and little new investment as 1979 takeover approaches.

—*But* possibility of working into agreement a formula for amortizing any new investment between now and 1979.

Option 2: Long-term Sales Contract at Discounted Prices

Interest 1: Precedent of Confiscatory Nationalization

—Serious problem if terms are bad. Might disrupt Saudi participation agreement. The Shah's two proposals if unchanged would violate existing agreements, including a treaty with the US.

—*But* Shah has indicated he may be willing to follow similar compensation formula to that used in Saudi Arabia. Saudis may simply renegotiate to insure their profits equal Iran's, without calling participation into question.

Interest 2: Balance of Payments and Repatriation of Profits

—Will depend on price advantage under long-term contracts. If profits per barrel remain close to 30 cents as at present, then no loss under this option.

—*But* the Shah will be reluctant to provide consortium with same profits they now receive under this option. Likely to allow higher discounts (25–30 cents per barrel through 1979) then reduce to lower level.

Interest 3: Technical Contribution of US Companies

—Less involvement in Iran, with possible adverse effects on availability of large quantities of Iranian oil on world market. Also less incentive for new exploration.

—*But* prospects for contract work with Iranian national oil company open possibility for companies to continue most of current operations.

Comment: With respect to each of these three interests, US companies have seriously weighed pros and cons in preparing the consortium response to the Shah. US national interests do not seem to diverge significantly from those of the US companies and thus we will want to include their judgment of costs and benefits in reaching our own conclusions. In short, the choice is between maintaining profits over the next six years with a sharp drop at that point and trying to maintain a position with probably diminishing profits over a twenty-five year period. Both options are equally bad in terms of damage to the principle of honoring contracts. In summary:

Advantages of Option 1 (Status quo to 1979)

—Less disruptive in short-run.

—Buys time to work for modifications after 1979, so that final option might include both compensation and future sales contract.

—Participation agreements less likely to be affected

Advantages of Option 2 (Sales Contract now)

—The Shah has made it clear that he prefers a long-term sales contract and will be quite angry if the companies reject this alternative.

—The Europeans prefer this option, with modifications. Their purpose may be quite divergent from ours in that they would probably like to see the special US position in Saudi Arabia—where the greatest reserves are located undercut. That there is advantage in an option which has their support rather than giving them an opening to take a separate course.

—The US companies, along with the European members of the consortium, have now chosen to build their position from this base. There is no point in fighting both the companies and the Iranian government.

—If the sales contract is respected and the discount prices are comparable to present ones, this option could provide good prospects for stable supply and reasonable prices.

What US Actions Are Appropriate?

The American companies have asked for USG support for the modified sales contract proposal that they intend to put to the Shah. They are particularly concerned by the prospects of being caught in a cross-fire between Iran and Saudi Arabia that might be set off by consortium acceptance of the sales contract idea. The consortium intends to present its proposal to the Shah on February 22–23. The USG has the following choices:

1. *Do nothing* before the companies present their proposal to the Shah. The argument for this approach is that the Shah is unlikely to be moved by a general approach now, and we should not engage our prestige until we can weigh in on concrete issues after we see how the Shah reacts to the companies' new proposal.

2. *Send a general message.* Such a message might concentrate on issues of broad interest to the US like the principle of honoring contracts and the need for Saudi-Iranian cooperation in the Persian Gulf. The argument for a general approach is that anything more now would create the appearance of direct collusion with the oil companies.

3. Although the Shah does not regard oil as an appropriate subject for the USG to address, there is the possibility of *a USG approach related to the response the companies intend to make to the Shah's proposals.* The choice is among these elements:

—Specific backing for the companies' proposal.
—General expression of preference for modifications of the Shah's sales contract option.
—A more generalized discussion of the principles that need to be preserved in any agreement (respect for contracts, adequate compensation, etc.).
—Ways of presenting the new agreement to insure that the chances of disruption of the participation agreements will be minimal.

In any approach to the Shah, the US will have to consider both form and timing. The choices seem to be:

—A high-level emissary, *or*
—A Presidential letter
—An approach before February 22, *or*
—An approach after the consortium has made its presentation.

In addition to talking with the Shah, the USG will want to consider ways of communicating the new agreements to the Saudis. The objective would be to preserve the general structure of the participation agreements by limiting any changes to financial adjustments rather than renegotiation of basic principles.[4]

[4] The NSC Staff prepared the following by February 17: a draft of a memorandum to Nixon explaining their preference for sending a letter to the Shah instead of an envoy; a draft of a letter to the Shah emphasizing Iran's role in world peace and the need for returns on investments contributing to world welfare and progress; and a draft of a letter to Heath informing him of the nature of the Presidential letter to the Shah. (Ibid., Kissinger Office Files, Box 137, Country Files, Middle East, Iran, Oil, 5 Feb 1973–7 Sept 1974) On February 18, Scowcroft informed Kissinger that the companies had asked for U.S. intervention with the Shah and submitted the drafts to him for review. (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 1, Chronological File A, February 16–20, 1973)

166. Memorandum From the Ambassador-Designate to Iran (Helms) to President Nixon[1]

Washington, February 22, 1973.

Attached is the analysis, requested in your letter to me,[2] of the Middle East and our interests there as they relate to the growing importance of Middle East energy resources to the United States.

I have not, in this paper, dwelled on the complexities of the Arab-Israeli problem, even as they relate to our energy interests in the region, because of my feeling that this issue too often clouds our thinking on other important issues such as importance of the Gulf and the Arabian Peninsula in an energy context.

Richard Helms[3]

Attachment

Washington, undated.

I. CONCLUSIONS

1. The energy crisis and developments in the Middle East since June 1967 have more clearly identified two separate subregions of the greater Middle East: (a) the Gulf Middle East and (b) the Mediterranean Middle East.

2. Oil reserves, US interests and US influence are greater in the Gulf than in the Mediterranean Middle East. Within the Gulf, US long-term economic interests are greatest in Saudi Arabia. Next to Saudi Arabia, Iran is the most important exporter of energy fuels but its oil reserves are more limited; it is estimated that its production will reach a plateau in 1976 and will begin to decline in the 1980s. In terms of the

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[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, President's Office Files, Box 20, President's Handwriting, Feb 16–28, 1973. Top Secret. A notation on the memorandum indicates that the President saw it. A handwritten notation from Nixon reads, "To E & DiBona—for *private* info only—not for general circulation." The attached paper is scheduled to be published in full in *Foreign Relations,* 1969–1976, volume E–9, Documents on Middle East Region; Arabian Peninsula; North Africa, 1973–1976.

[2] Document 149.

[3] Helms signed "Dick" above his typed signature.

existing equities of US oil companies in Saudi Arabia and Iran, the potential production in Saudi Arabia compared to that of US companies in Iran is estimated to be in the ratio of ten to one.

3. The Gulf Middle East is more stable, partially insulated from the Arab-Israeli conflict and somewhat removed from the immediate pressures of both the USSR and the EC on the Mediterranean Middle East.

4. Jordan plays a role in both the Mediterranean Middle East and the Gulf; a strong and pro-Western regime in Jordan is indispensable as a buffer between the Gulf and the Mediterranean Middle East and can play a highly constructive role in the Gulf.

5. Access to Gulf oil from the Western Indian Ocean is less dependent on Middle East infrastructure and stability.

6. The Mediterranean Middle East could play an expanding role as a transit area for Middle East oil and gas moving to Europe and as a commercial center for the entire region; the ability of the nations in this area to collectively assume greater responsibilities will depend on their willingness to enter the era of negotiations and peace.

7. Cooperation between Iran and Saudi Arabia in maintaining the stability of the Gulf offers the best guarantee for the maintenance of the favorable US economic and political position in the Gulf area.

8. There are internal contradictions in the concept of Saudi-Iran cooperation which can be exploited by those who see in the disruption of Saudi-Iranian relations a means of weakening the US position in the Gulf area. Making Saudi-Iranian cooperation a working reality requires the continuing attention of both governments and of the US.

9. Among the foreign powers with interests in the Gulf region, the US will be the principal beneficiary of a close and effective relationship between Teheran and Riyadh. The USSR, its proxy forces in the Arab world, the European Community, Japan and the Arab nationalists all may see in the erosion of the US position in the Gulf an opportunity to advance their respective but differing interests in the region.

10. The future of the American oil companies in the Gulf appears comparatively more promising than that of their major European partners because of American domination of Saudi Arabian production and the prospect that other Gulf producers will either peak and decline in the foreseeable future, i.e. in the 1980s, or will, to stretch out the period of reliance on oil revenues, institute production controls. While Saudi Arabia may, for political and economic reasons, institute production controls, the established limits of its reserves do not appear to dictate this course.

11. The British, because of their historical position in the Gulf, find themselves in an ambivalent position. On the one hand the US

commercial presence, including the American oil companies, is viewed by the British as the principal competitor in a region of immense economic importance. On the other hand, the UK and the US are the only two Western nations with any real capability to cooperate on the ground in containing the Soviet threat. British behavior in the area will reflect this ambivalence; British willingness to cooperate with the US will depend on the British estimate, at any moment, of the seriousness of the Soviet threat.

12. The USSR effort to gain a dominant position in the Middle East probably peaked in 1966–1967. The June 1967 war and subsequent events in the Middle East have weakened the Soviet position.

13. The USSR presence and influence in Syria and Iraq and its strategic foothold in Aden remain a threat to the Arabian Peninsula and the Gulf. Soviet actions in the past year indicate an intention to maintain an aggressive Cold War posture in the Gulf Middle East.

14. Moscow-supported Arab subversion in the Gulf and the Arabian Peninsula is concentrated in the former British colonial areas reaching from Aden to Bahrein. Organized subversion in Saudi Arabia and Iran is less evident; both countries are more stable than in the early 1960s.

15. Subversive Arab organizations in the Gulf are based in Iraq, Syria, Kuwait, Lebanon and Aden. They appear to enjoy considerable freedom of action in the new Union of Arab Emirates. Without the introduction of Soviet-supported proxy military forces, these subversive Arab organizations alone do not appear in the short term to be a serious threat to the stability of the Gulf region. If their activities in the smaller Gulf states become intolerable, Iran and Saudi Arabia may be provoked to intervene—separately or in concert.

16. Proxy forces of the USSR and the Free World have been engaged since September 1962 in a continuing armed struggle for control of the southern regions of the Peninsula. At stake is the control of the maritime passages at the southern exits of the Red Sea and the Gulf and ultimately the oil of the Peninsula and the Gulf. Moscow appears prepared to continue to support this classic "war of national liberation" and to escalate military pressures on Oman and the Yemen Arab Republic from Aden. The introduction of Cuban guerrilla and military specialists and more sophisticated Soviet arms is the most currently indication of Soviet intentions.

17. Israel has been a major influence on the developments in the Gulf region since June 1967. Israel views its maritime link to the Western Indian Ocean as a vital interest. Its position on the Canal and at Sharm el Sheikh are directly related to Israel's concern that the USSR and its proxy forces may maintain and expand a strategic foothold at the southern end of the Red Sea.

18. As the US becomes more dependent on oil imports from the Middle East, Israel is becoming more sensitive to the impact the energy crisis will have on US attitudes concerning Israel.

[Omitted here are the body of the paper and recommendations.]

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167. Memorandum From Acting Secretary of State Rush to President Nixon[1]

Washington, March 1, 1973.

SUBJECT

Shah of Iran and Oil Consortium Reach Agreement

Meetings in St. Moritz last week between the Shah and a negotiating team from the consortium of international oil companies in Iran produced agreement in principle on the general terms of a new long-term contractual relationship. The main points of this agreement, which will replace the 1954 agreement but retain many of its provisions, are as follows:

—The Iranians will be owners and operators of assets and activities in the oil concession area. They will contract to sell oil to the consortium for a twenty year period beginning March 21, 1973.

—The consortium will form an Iranian-chartered company to produce, process, and transport Iranian oil under a service contract with the National Iranian Oil Company (NIOC). The programs and budget of this company will be subject to NIOC approval.

—The companies will purchase oil at the wellhead, on a cost plus fee basis designed to give Iran the financial equivalent of the participation agreement recently signed with Arab producers of the Persian Gulf.

—NIOC will be responsible for securing necessary investment funds, but the consortium will have the option to provide these funds as advance payment on oil purchases.

—NIOC will receive oil to market directly increasing from 200,000 barrels per day this year to 1.5 million barrels a day in 1981.

At first blush both sides seem to have achieved their principal objectives under the new settlement. The companies retain assured access to Iranian offtake, management initiative if not control, and investment

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 602, Country Files, Middle East, Iran, Vol. IV, 1 Sept 71–Apr 73. Confidential.

rights in an overall formula which lends hope that participation agreements with Arab oil producers will not have to be renegotiated as a result of the Iranian agreement as the companies have feared. For his part, the Shah has achieved increased revenue and management control and direct access to oil in a format which ends the concessionary agreement of 1954 in favor of a sales contract such as he publicly had insisted upon. The Shah's overriding political objectives have been met. He can now proclaim that Iran is again second to none in protecting its sovereign interests and attaining its national aspirations.

Some difficult issues, such as the means and timing of periodic price renegotiations, appear to remain unresolved. Nevertheless, with the outlines of the new arrangement agreed to, prospects for a fully satisfactory settlement are promising. The need for USG intervention seems to have passed.

Kenneth Rush

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168. Memorandum From Robert D. Hormats and Helmut Sonnenfeldt of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, March 2, 1973.

SUBJECT

Agreement with Canada to Share Oil in Times of Emergency

The memo from State at Tab A[2] indicates that, following consultations with all appropriate U.S. agencies, Secretary Rogers has authorized "if the President has no objection" the negotiation and signature of a bilateral emergency oil-sharing agreement with Canada. The Government of Canada has proposed that a U.S. team visit Ottawa March 6 to discuss this agreement, and Peter Flanigan is expected to head the U.S. delegation.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 671, Country Files, Europe, Canada, Vol. IV, Jan 73. Confidential. Sent for urgent action.

[2] Attached but not printed at Tab A is a February 23 memorandum from Eliot to Kissinger.

The memorandum of understanding which has been discussed with Canada and which would constitute an agreement includes the following points:

—The United States and Canada shall each endeavor to increase its self-sufficiency in petroleum and petroleum products to the extent practicable and shall take such steps as are deemed appropriate to enhance the security of its supply of petroleum and petroleum products.

—If either Government notifies the other that an emergency exists with regard to the supply of petroleum from third countries, representatives of the two governments will meet to confirm the existence of an emergency and to establish means to ensure "effective and equitable sharing between the U.S. and Canada."

—Unless otherwise agreed in these consultations, each government will endeavor to share available imports of petroleum in the same proportion as imports of each from third countries during the year preceding the emergency.

—In the event of an emergency, "the Government of Canada shall endeavor to increase, and will not curtail, the pre-emergency levels of the delivery of petroleum and petroleum products to the United States." The United States in return "shall endeavor to divert petroleum and petroleum products to areas of Eastern Canada in which a shortage of supplies exist."

Such an agreement is in the interests of the United States, as well as of Canada. It would ensure that supples of Canadian oil to the Mid-West would not be diverted in an emergency to Eastern Canada, which is dependent on imports. It would aid in planning for our future energy needs, and would be helpful in developing contingency plans with other major oil consuming countries. Shultz concurs.

Recommendation

That you have Jeanne Davis inform State that the President has no objection to the proposed negotiations.[3]

(*Note:* State has also forwarded (Tab B)[4] copy of a memorandum from Armstrong to Simon dealing with Canada's recent export controls

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[3] Kissinger initialed the approval line. A handwritten notation by Scowcroft reads: "Flanigan informed by phone. B." Attached to another copy of this memorandum is an undated handwritten note from Scowcroft to Kissinger, which reads: "Henry, after you left last night, I told Flanigan his team could leave, because negotiations are scheduled to begin today in Ottawa. My only concern with the proposal is that if the phrase 'increase its self-sufficiency' means minimum imports, this could conflict with the conclusions the Energy NSSM may (should) come up with. Brent." (National Archives, Nixon Presidential Materials, NSC Files, Box 250, Agency Files, National Energy Office, Vol. II, March 73–July 73) Jeanne Davis informed Eliot, March 7, that the President had no objection to the negotiations. (Ibid., RG 59, Central Files 1970–73, PET 1 CAN–US)

[4] Tab B is a memorandum from Armstrong to Simon, March 1, summarized in Document 164.

on oil. This is forwarded for your information. We do not believe this Canadian action substantially affects the rationale for approving the above recommendation on emergency oil sharing.)[5]

[5] The minutes of the bilateral meeting, held in Ottawa, March 6, are in the National Archives, RG 429, Records of the Council on International Economic Policy 1971–77, Central File 1972–77, Box 16, 52429 Notes on Ottawa Oil Talks.

169. Memorandum From James H. Critchfield, Special Assistant to the Deputy Director of Operations, Central Intelligence Agency, to the Deputy Director of Operations (Colby)[1]

Washington, March 6, 1973.

SUBJECT

King Husayn's Interest in a Multinational Oil Consumers-Producers Group

1. Among the three principal parties in the international oil and gas trade, the consuming countries appear, at first glance, to be least organized. OPEC feels, of course, that the oil companies and the consumer nations are together the adversary of OPEC. Actually, the oil companies have acted quite independently but coordination between the oil companies and their governments is increasing.

2. OPEC has existed more than a decade; its action record is in pricing negotiations in 1971–72 and participation negotiations 1972–73. There are polycentric tendencies in OPEC. Its future as an action instrument is not assured.

3. The international oil companies are well organized. Since January 1971 a policy group in London has been in business on (a) pricing and (b) participation. This has required for US companies a Justice Department waiver on the anti-trust side.

[1] Source: Central Intelligence Agency, Executive Registry Files, Job 80–M01048A, Box 4. Secret. On an attached routing slip, the Director of the Near Eastern Division wrote Colby that "We think Critchfield has usefully categorized ways of thinking about forms of joint action in support of consuming countries' interests in Middle East oil. We have no difficulty with his analysis as far as it goes but think that divergent interests among the consumers would be a formidable obstacle. His comment on King Husayn's proposal in para. 14 closely parallels the piece I sent you yesterday."

4. The UN and all of its affiliated organizations interested in resources, sovereignty, "Law of the Sea," the human environment, labor, etc. are *indirect* forces only. There is no UN direct role in oil. A world regulatory agency is still not on the horizon but will come.

5. The OECD in Paris is the only existing and functioning international mechanism in energy affairs. All major importers are represented. The OECD energy committee is advanced as the center for research and analysis; it has some influence on policies of OECD nations; it has no *action* capability. The EC energy committee in Brussels is little more than a subordinate effort in the shadow of OECD. As Europe becomes more unified, it will be more effective.

6. OPEC and the London Policy Group have both demonstrated a capability for policy formulation, for making decisions and, through their members, for taking action.

7. Polycentrism is on the upswing in OPEC, in the London Policy Group and among the consuming nations. There are conflicting forces in each group—international interests holding all together and competitive national interests dividing them.

8. The US dominates the international oil industry because it had the power, the capital and the technology to develop the industry after World War II. The UK, because of its still formidable influence in the Middle East after World War II, maintained a strong foothold. Holland and France also acquired substantial concessions using their residual influence in colonial areas. Japan, Germany and Italy have been attempting belatedly to join the club. In Europe and Japan the tie between government and the oil companies is much closer than in the US. The UK, France, Italy and the Netherlands governments are major shareholders in their respective oil companies. We are moving into an era in which competition among oil companies and their governments for access to crude oil sources will be intense.

9. The options open to the US in considering collective action to protect its interests in international oil and gas affairs are:

a. To support the development of an international resources authority as a world organization, in or outside of the UN.
b. To support the development of the OECD as a forum for formulating policies representing the collective interests of the member nations in energy affairs and to seek collective action by interested nations within the framework of OECD.
c. To develop, in concert with the European Community and Japan, policies designed to protect common interests in the relationship with OPEC.
d. To develop a national US policy for protecting US energy interests abroad.

10. Option a. does not appear to offer a solution to our problems in the decade or two ahead. We cannot, however, neglect this area. The

control of energy resources, international maritime shipping, the "Law of the Sea," ecological considerations and the economic fate of the developing nations will all preoccupy the UN membership in the years ahead. While the US cannot neglect option a., it does not appear to be a realistic choice in terms of the question at hand.

11. Option b. offers the US a partial solution. The OECD will be a forum in which the basic requirement for a coordinated and regulated approach to the division of oil and gas from the exporting nations will be developed. At the same time, the pressures on the US, the EC and Japan to fiercely compete for access to energy resources will inhibit effort within OECD.

12. Option c. is a corollary to option b. and not necessarily in conflict with option d. It will almost certainly be necessary for the US to negotiate directly and separately with Japan and the EC to provide a framework of policy within which the OECD energy effort might be effective.

13. Under option d. the US has a great variety of choices of action. For example, the Gulf region, including the Arabian Peninsula and Iran, is where most of the world's oil reserves are located. Here the US has an opportunity to develop solutions that cut across the conceptual lines which divide the exporting nations, the importing nations and the oil companies into three unified elements. In the Gulf, competition among the oil companies is increasingly evident; oil companies (including the "majors," the "independents" and the national oil companies) are being forced into a closer association with their respective governments. Among its foreign policy options, the US has regional bilateral arrangements that will maintain US national interests without sacrificing US ability to participate in constructive programs under options a., b. and c.

14. King Husayn's proposal should be handled with some caution. It is possible that he is reacting, at least in part, to Senator Javits' proposal to him that an international group be organized to maintain control of the oil exporting areas to ensure that "another Qadhafi" does not emerge to add to the inherent instability in the oil-rich Middle East.[2] If King Husayn has in fact reported accurately on Senator Javits' proposal, Europe and the US might employ forces to control access to oil. We may come to that but it is not an attractive option and should not now be considered since the very consideration of it could, in the short term, prejudice other more attractive options.

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[2] Neither King Hussein's nor Senator Javits' proposal has been identified.

15. The question of an "Oil Consumers Group" is, of course, an issue that is receiving much attention. Walter Levy is publicly seized with it. Eugene Rostow is reportedly a main mover in the current debate in unofficial circles. Maurice Adelman, from a somewhat different vantage point, probably set off the current debate. Reportedly, this issue will top the agenda at the international seminar on energy in Amsterdam later this month.[3]

16. I do not recommend that the Agency inject itself into this issue at this time. The White House is well along in organizing itself on the energy problem. On a day-to-day basis the Agency will continue to make a contribution; also, the new NIE on energy[4] will be a timely contribution. One can ponder the logic of producing a great intelligence estimate and a great policy study concurrently and with limited coordination. With a little luck, the NIE may be published in advance of the unveiling of the energy study at the White House.[5]

James H. Critchfield[6]

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[3] Walter Levy was an oil analyst and strategist, author, and consultant on oil issues to the Department of State. Eugene Rostow was Under Secretary of State for Political Affairs 1966–1969, and was the President of the Atlantic Treaty Association in 1973. Maurice Adelman, a scholar on industrial organization at MIT, wrote an article in *Foreign Policy* (Fall 1972), stating that the oil companies were agents of foreign powers, that there was no scarcity in oil for the coming 15 years, and that talk of scarcity served the interests of the companies.

[4] Document 185.

[5] The study was being prepared in response to NSSM 174, Document 171.

[6] Printed from a copy that indicates Critchfield signed the original.

March 8–October 5, 1973

170. Memorandum of Conversation[1]

Washington, March 8, 1973.

SUBJECT

Oil Participation Negotiations

PARTICIPANTS

Mr. William Greenwald, Exxon
Mr. William Lindenmuth, Mobil
Mr. George M. Bennsky, EB/ORF/FSE
Mr. Francois Dickman, NEA/ARP
Mr. John Rouse, NEA/IRN
Mr. A. Tupper Brown, L/NEA
Mr. Charles Pittman, L/E
Mr. Gordon S. Brown, EB/ORF/FSE

Mr. Greenwald and Mr. Lindenmuth called, at our invitation, to brief us on the contents of the oil companies' recent agreements with Iraq and Iran, and the implications of those settlements for the stability of the participation agreements. They appeared to believe that the agreements which had just been reached could be defended, and that the major problem would be to convince Yamani that the new arrangements in Iran were not prejudicial to his participation agreement.

Iran Settlement Mr. Greenwald led off explaining the Iranian settlement, which he noted was still under negotiation. He said that Yamani had already been briefed on both the Iraq and Iran settlements by Aramco, and seemed to be most concerned over the Iranian settlement. Mr. Greenwald said that the companies would probably try to address Yamani's anxieties by arguing that the Iran settlement, though different in form, was no better for the GOI than participation; in fact the Shah would only get financial terms which made his arrangements equal to participation. A different form of settlement was necessary due to the different legal conditions in Iran following 1951 nationalization. The companies would tell Yamani, Mr. Greenwald said, that he could have the same arrangements as Iran if he wanted them—they believed, however, that he was generally satisfied with the participation agreement, and although he would argue with the companies over the terms of the Iran and Iraq settlements, he would eventually settle with perhaps a

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 4 IRAN–US. Limited Official Use. Drafted by Brown. A stamped notation reads: "19 Mar 1973."

small increase in the buy-back prices. Mr. Greenwald said they would try to address Yamani's probable objections to the Iran deal as follows:

—*Cash flow.* Mr. Greenwald noted that Yamani's prime concern was the comparative revenue generated by participation and the Iranian settlement. The fee at which the companies would buy the oil in their new Iranian arrangement was as a result the key element: it was the balancing mechanism which made sure that neither side came out ahead. It would be worked out by comparing, on an annual basis, the revenues Iran was actually receiving against the revenues which it might have obtained under the most profitable possible calculation of the participation terms applied to Iran's situation for the same year (there were nine variables involved in the analysis, he said). In this way, the financial arrangements would be fully comparable to participation at any time.

—*Form of agreement.* Mr. Greenwald said that Yamani might object to the fact that the companies had reached an entirely new agreement with Iran, whereas they had kept the old concessions intact with the participation states. The companies, he said, would point out that their old agreement in Iran was a sales contract in form anyway, and that they would expect to be bringing many of its terms into the new agreement under their understanding with the Shah.

—*Operating Responsibility.* Mr. Greenwald observed that hard negotiations with the Iranians remained on the degree of operational control which the companies would retain, but that he expected that, as a practical matter, they would retain about as much as in Saudi Arabia. He said that the companies would be able to argue to Yamani that they had not been reduced to simple purchasers, but that they would retain an important management role as service contractors and, even if the contract were ended after five years, they would still have an important consultative role in the management, stemming from their provision of capital.

—*Capital Requirements.* The companies would be able to tell Yamani, Mr. Greenwald said, that they would be required to put up even less capital under their Iranian arrangement than they would have needed under a participation settlement and still maintain necessary production levels. He indicated the companies would probably elect to commit themselves to about 40–45% of the capital requirements (though he expected that the GOI might in the end expect them to produce the rest as well).

—*Oil for Marketing.* Mr. Greenwald said the companies could point out to Yamani that Iran would have access to no more than about 20% of total production for its own marketing, while the participation countries would have access to 51%. (He mentioned that the Shah had deliberately kept the amount of oil available to NIOC low, saying that

he preferred the companies to move the bulk of it as NIOC couldn't do so efficiently.)

Iraq Settlement Mr. Greenwald said that, while the US companies were "not proud" of the IPC settlement, they felt it could be defended to Yamani and the Shah. Mr. Lindenmuth, who came in later (his plane having been delayed) said that the settlement was the best the companies could have gotten—he had come to feel while he was in Baghdad that the GOI would indeed have nationalized BPC had the negotiations failed.

Mr. Greenwald said that Mr. Jamieson had fully briefed the Shah on the Iraq negotiations as they stood in the last week of February, and thought the Shah would not react negatively.

Compensation was the key issue for Yamani, the two said. The total compensation received by IPC (including the shared CFP oil), would however exceed the updated book value, (and was over 25 times net book value) so that Yamani had no argument against what the companies had accepted. The companies would receive approximately $450–500 million total compensation (330–340 for value of the free oil; 150–160 for value of their share of CFP's preferential-price 10 year purchase contract). The total updated book value, on the other hand, was about $460 million (410 for Kirkuk, 40 for Law 80 nationalization, 8 for the IPC pipeline and terminal in Lebanon). On the settlement of past claims, the companies didn't come out too badly either, considering the size of Iraq's counterclaims.

Mr. Greenwald said that neither the Shah nor Yamani should be overly disturbed at the fact that the companies had been unable to contract for long-term major quantities of the nationalized Iraqi oil; they recognized that their situations were different and in fact wanted the companies to sell much or most of the oil. Lindenmuth pointed out that the companies had all but agreed with the GOI for some additional quantities of Kirkuk oil (4 million tons in '74, 12 in '75) through a Shell contract which they would share. The price had not been established because of the uncertainty concerning devaluation, etc, but negotiations would resume in September. The Iraqis had been unable to commit themselves to sales beyond 1975, but had not seemed prejudiced against the idea.

Mr. Greenwald said that the US companies were unhappy that they had not been able to secure a participation settlement as part of the general package; the Iraqis would give them trouble over the issue in future, he feared. Mr. Lindenmuth however, said that the GOI had been demanding terms which would have created an immediate leapfrogging situation with Yamani; the best the companies could do was shelve the issue for the time being. The Iraqis seemed in no hurry as they were aware that participation in BPC, with its important expansion program,

would be expensive. Perhaps the delay in dealing with the issue would allow time for new developments in participation negotiations elsewhere which would make eventual settlement easier.

Libyan Negotiations Mr. Greenwald said that the Libyan negotiations on participation were progressing slowly; the LARG had shown no intention of reducing their demands for 50% participation or their refusal to accept the Gulf buyback provisions, though they were showing some flexibility on compensation. He said that he, personally, feared that the independents would break away from the common front and make their own deal with the LARG. In answer to our questions, he said he did not know if the majors could in this event hold to the Gulf terms, but noted that the three best concessions (and consequently most inviting participation targets for the LARG) were almost entirely owned by the independents—Hunt, Oasis, and Oxy. He also said he did not know what Yamani would do if the independents made a more advantageous deal with the Libyans—he had once indicated a readiness to accept such a conclusion, but the companies had not tried to pin him down on it.

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171. National Security Study Memorandum 174[1]

Washington, March 8, 1973.

TO

The Secretary of State
The Secretary of Defense
The Secretary of the Treasury
The Director of Central Intelligence

SUBJECT

National Security and U.S. Energy Policy

The President has directed a study of the national security implications of world energy supply and distribution. The study should

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–197, National Security Study Memoranda, NSSM 174 (Response). Secret. A copy was sent to Ash, Ehrlichman, Flanigan, DiBona, and Moorer. On a March 5 memorandum from Odeen to Kissinger, transmitting an earlier draft of the NSSM, Kissinger had handwritten: "No—Do *not* want ad hoc group chaired by State—maybe by Odeen." (Ibid.) The final NSSM was altered accordingly. (Memorandum from Odeen to Kissinger, March 6; ibid.)

define and discuss the national security aspects of the projected situation and propose alternative policies to deal with problems that are identified. The study should cover the following broad subjects:

—The national security implications of the projected situation through 1985 including the foreign policy impacts of policies which involve maximum or minimum U.S. dependence on imported energy sources in peacetime. The study should consider, for example, alternative means of reducing the effect of boycotts by producer nations, other cut-offs or reductions in foreign supplies. The implications of foreign investment in U.S. energy development also should be considered in this context.

—The foreign policy and national security implications of the consortium of oil producing nations (OPEC). This assessment should consider the implications of U.S. efforts to offset any adverse impacts and/or weaken the cohesion of the producers' cartel. It should include unilateral U.S. actions and concerted actions by the major consuming nations and assess the likelihood of achieving coordinated action with other consuming nations. In addition, the role of the U.S. Government in negotiations should be assessed including the impact of more active government support and involvement in negotiations with the OPEC cartel.

—The implications of U.S. purchases of Soviet liquified natural gas viewed in the context of the projected energy situation.

—The role of the USSR as a supplier of other forms of energy and as a possible importer of oil. It should also consider ways the Soviets could influence producer nation policies, manipulate access to sources of energy supply and exploit pressures on our Allies.

The study should be conducted by an ad hoc committee chaired by a representative of the NSC staff and composed of representatives of the recipients of this memorandum. An initial report should be submitted by April 15, 1973, for consideration by the President's Special Committee on Energy.

Because of the sensitivity of the issues being investigated by this study and the adverse impact which an unauthorized leak could have on ongoing negotiations with OPEC countries, information should be closely held and distributed on a strictly need to know basis.[2]

Henry A. Kissinger

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[2] On the transmittal sheet attached to Moorer's copy, Admiral Daniel Murphy, Military Assistant to the Secretary of Defense, wrote: "Very important subject. All *major* future wars will be fought over, for and about energy sources (primarily oil)." Moorer placed a large check mark next to this comment. (Ibid., RG 218, Records of the Joint Chiefs of Staff, Papers of Admiral Thomas H. Moorer, Box 82, NSSM 174)

172. Memorandum From Philip A. Odeen of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, March 13, 1973.

SUBJECT

Meeting with Charles DiBona, Wednesday, March 14, 1973

DiBona has requested this meeting in order to discuss:

—The Presidential energy message due for publication in late March and the major issues that can be addressed by that message.

—General national security issues involved with the nation's energy problems, and the priorities for further work in these areas.[2]

The President's Message

As you know, Peter Flanigan prepared extensive analysis of several issues which could be addressed in the Presidential message.[3] Flanigan's analysis focused on the economic and political considerations with little treatment of national security concerns. DiBona recognizes this deficiency in the existing analysis.

However, because we are under some pressure from Congress and elsewhere to get the message out soon and to announce some clear initiatives to meet the nation's energy problems, he intends to discuss these issues with you and to get your agreement regarding which ones should be addressed in the President's Energy Message.

The key question is which of these issues have significant national security implications and which can be addressed now before we have adequate knowledge of the broad alternatives or their national security implications.

Since the options papers themselves are not sufficiently synthesized, I have summarized the major issues below and discussed each with respect to:

—implications for national security, and

—the effect of establishing a policy now in the President's Energy Message.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 250, Agency Files, National Energy Office, Vol. II, March 73–July 73. Secret. Sent for action.

[2] On March 14 at 10 a.m., Kissinger met with DiBona and Scowcroft to discuss energy. A very incomplete draft memorandum of conversation is in the Ford Library, National Security Adviser, Memoranda of Conversations, Box 1, March 14, 1973.

[3] A paper entitled "Summary of Flanigan Issues and Options Paper," undated, attached at Tab C, is not printed. Flanigan's paper was not attached and has not been found.

The General Problem and Relevant Issues

The major cause for concern is the projected sharp increase in the nation's dependence on foreign energy sources *under current policies.*

—Oil imports will double by 1980 and more than triple by 1985. About 25–30 percent of total energy supplies could be supplied from Middle Eastern sources.

—Some think world prices of oil will continue to increase because of the growing power of the OPEC cartel nations creating a drain on our balance of payments in 1985 (abut $16B or 30–40 percent of today's imports).

—Imports of natural gas will also increase sharply. Under today's constrained domestic prices, U.S. gas production is projected *to fall* resulting in a need for major imports of Soviet and Algerian natural gas (which costs about five to six times current U.S. prices).

Obviously, this increased dependence on foreign energy sources projected under current policies could be substantially reduced if we set out to do so. Our ability to control oil imports through a combination of measures designed to limit demand and increase domestic supply is significant as shown by the *maximum and minimum* import cases done for the Flanigan work:

Projected Oil Imports
(Millions Barrels Per Day)

	1970	*1975*	*1980*	*1985*
Current Policies (Maximum Imports)	3.4	9.7	16.4	19.2
Limited Imports (Minimum Imports)	3.4	7.2	5.2	3.6

Thus, over the near term (through 1975) little can be done to prevent major increases in imports but much can be done to reduce imports beyond 1980.

For example, under the minimum import case, imports as a percent of total U.S. oil consumption drop from today's 26 percent to 18 percent (compared with 65 percent if current policies remain unchanged).

The broad national security implication of this unavoidable near term increase in imports and of the alternatives we face has not yet been adequately addressed. Until this is done, we have an insufficient basis for making a firm policy decision on many of the issues that must be addressed in the President's Energy Message and the objective in the message will be to ensure options are kept open. With respect to other issues, policy can be made now with a full appreciation of the national security implication because:

—We know the national security implications are not significant, or
—Policies are consistent with a general attempt to increase national self-sufficiency and thus enhance national security without conflicting with economic, political, environmental, or other legitimate concerns.

1. Natural Gas

The natural gas analysis concludes that imports of foreign gas will increase because the supply of domestic gas will not keep pace with growth of demand. This results from government regulation that has kept the price of domestic gas at an artifically low level inflating demand and discouraging domestic supply.

The paper, therefore, recommends that we remove existing price controls and deregulate the price of natural gas. This will stimulate domestic gas exploration and domestic supplies, limit the growth of demand and could result in future imports close to zero.

According to the Flanigan analysis, domestic supply and demand would equalize at a price of about two to three times current prices but still far below the price of expensive Soviet or Algerian natural gas. Thus, the paper argues against importing Soviet or Algerian liquified natural gas at a cost of over $1.10 per MCF[4] while charging the current low price of only $0.20–0.70 for domestic gas.

The main issues here are economic and political. National security concerns would argue for deregulation and I believe this issue could be addressed in the President's statement. (Imports of Soviet and Algerian LNG can be analyzed separately.)

2. Outer Continental Shelf

The Flanigan work also recommended that exploration of the outer continental shelf be expanded to increase domestic supplies of both oil and gas. The shelf contains major deposits of both oil and gas and this policy also appears to be consistent with a general policy of limiting future imports.

This issue could, therefore, *probably be addressed by the President without further analysis on national security aspects.* However, we need to take into account the President's Oceans Policy which commits us to give revenues from exploration to an appropriate international development agency.

Another issue concerns the bidding scheme to be used in auctioning of the rights—an issue of purely economic interest which I assume does not concern you.

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[4] Million Cubic Feet. [Footnote in the original.]

3. Coal

Although the nation's most plentiful energy source, the use of coal is limited to supplying 18% of today's total energy needs largely because of environmental concerns centered around strip mining and the Clean Air Act passed by Congress last year. Most available coal has a high sulphur content and, therefore, contaminates the air when burned or can only be mined economically using strip mining.

Thus, the current recommendation is to expand the use of domestic coal by relaxing the enforcement of the Clean Air Act but without violating its provisions or making an attempt to go before Congress to change its standards. This act may limit the use of plentiful high sulphur coal.

You may want to press DiBona on the possibility of pressing for more initiatives which will increase the use of coal perhaps including an administration attempt to change the Clean Air Act or delaying enforcement of standards.

Specifically, you should question DiBona regarding the degree to which national security factors were taken into account in this early analysis and the need to do this kind of broad analysis before a final policy can be announced.

4. Energy Agreements with Venezuela and Canada

The Flanigan analysis recommends that we conclude energy agreements with Canada and Venezuela if the security of U.S. supplies in a crisis can be guaranteed. Progress is well underway with respect to Canada. However, the impact of pursuing such a policy on the other major producer countries or our Allies has not been explored.

The analysis does not consider the impact of such agreements on price, supplies, or the OPEC countries nor the impact of a potential scramble for special relationships with producer countries.

I would recommend that announcements in the President's message regarding special arrangements with producer nations be limited to general statements to the effect that options are being investigated pending more analysis that will be provided under the auspices of the NSSM you signed last week.[5]

5. Oil Import Quotas

The fifth major issue concerns the mandatory oil import program that was established in the 1950s to provide security of U.S. supplies by limiting imports and encouraging U.S. internal exploration.

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[5] Document 171.

Since domestic production is at a maximum, future growth in demand will be met only by increasing imports. The import program appears to be the only tool available to the government, short of rationing, which can deal with the immediate shortages we will face in the next several years and there is very little that can be done over the near term to prevent the needed increases in imports.

Thus, the key and as yet unanswered question is how we can ensure our national security concerns are protected despite these rising imports. These vital concerns should be addressed in the President's energy statement, if as recommended by the Flanigan analysis, a policy of expanding oil import quotas is to be announced. This is true even if the discussion is necessarily limited. You may want to question DiBona on this.

Other minor issues addressed by the Flanigan work, but only indirectly important in their implication for our national security, include: *Energy conservation*—which has a critical impact on overall imports; *deepwater ports and associated supertankers* that reduce the cost of importing large quantities of oil; and, *oil shale, energy R&D, nuclear power, and other longer term programs.*

All these programs would build long term domestic self-sufficiency and can be discussed in general terms by the President's statement even though we are not yet in a position to announce detailed policies.

Further Work

A major problem is that we are not yet prepared to treat purely national security concerns in the President's Energy Message. This will require substantial new work to look into factors such as:

—*The broad implications of unavoidable near term increases in oil imports* on (a) our Alliances, (b) the Soviets, and (c) other policies including Israel.

—*The implications of policies that would limit imports compared to continuation of current policies.*

—*The likely regional distribution of our future international oil supplies and ways to influence that distribution* so that adverse impacts on diplomatic and foreign policies are minimized.

—*The best way to limit control in national vulnerability to boycott or direct attack.* For example, under what conditions should we follow a strategy of (a) allowing imports to rise while storing sufficient quantities of domestic oil against the threat of a boycott, or (b) pursue the strategy recommended by the Flanigan analysis of making an all out attempt to limit imports by developing and depleting domestic resources. *If the price of imported oil is low, it may be best to import oil and pay for the storage.*

—*We need to investigate the likely future actions of the OPEC cartel and how we can best design policies to limit its power.* Previous work assumed

the OPEC cartel will remain effective and remain capable of keeping international oil prices at 10 to 15 times cost. Opinion is widely divided on the question of whether or not the cartel can continue and some believe as production expands, it could break down with competition leading towards lower world oil prices. *This unexamined possibility is critical to the formulation of a sensible energy strategy for the future.*

—*How does energy fit into our other diplomatic policies?* What can we retrieve in other areas as a result of concessions in this area?

—*Finally, we need to address the impact of Japanese and European energy needs on the Mid-East market and on our overall relations with our Allies.* There is no overall analysis of total demand or ways of limiting competition between the U.S. and our Allies for potentially scarce Middle Eastern oil.

The Energy NSSM

In addition to discussing these specific issues with DiBona, you could mention the Energy NSSM you signed last week which has recently been distributed to the agencies. After coordinating within the NSC, I intend to hold a working group meeting Friday[6] to consider a detailed outline and task the early analysis. You may want to tell DiBona that before doing so I plan to meet with him to get his views.

Finally, you may want to question DiBona on the feasibility of delaying the Energy Message until some of the NSSM analysis becomes available in April.

Attached also are:

—Detailed summary of the issues covered by the Flanigan work which DiBona plans to discuss, Tab C.
—A copy of the NSSM study directive, Tab B.
—A brief talking paper, Tab A.[7]

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[6] March 16.
[7] Tabs A and B are attached but not printed.

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173. Editorial Note

On March 16, 1973, officials from Continental and Marathon Oil Companies met with Department of State officials to discuss the Libyan Oil Sharing Agreement, first activated in 1971 when Libya nationalized British Petroleum. The Agreement required the issuance of Business Review Letters by the Anti-Trust Division of the Department of Justice.

These Letters, issued as needed for specific crises, exempted the oil companies from anti-trust restrictions, allowing them to pool production, determine price structure, and negotiate jointly. The Letters also required the companies to report to the Justice Department through their lawyer, John McCloy. The March 16 meeting was to discuss the repercussions of a suit brought by the Corporate Accountability Research Group against the Justice Department for release of documents pertaining to the Libyan Oil Sharing Agreement. A similar request by *The New York Times* in 1971 had been averted under the Freedom of Information Act. The Anti-Trust Division asked the Department of State to review the issue of whether the Letters and documents should be made public.

The basic principles of the Libyan Oil Sharing Agreement were that all Libyan producers pooled oil in order to lessen the effect of Libyan cutbacks against any one of the companies operating there. Companies operating in the Persian Gulf also supplied "makeup" oil to those independents operating in the Mediterranean suffering cutbacks, in order to bring their oil availability as close as possible to previous levels. The companies informed Department officials that the Sharing Agreement provided them a "form of insurance" during negotiations with Libya, and had allowed Bunker Hunt Oil Company to "stand firm" against Libyan demands. The oil executives did not recommend making the Sharing Agreement public out of concern for Libyan retaliation. (Memorandum of conversation, March 16; National Archives, RG 59, Central Files 1970–73, POL 33 PERSIAN GULF) Background information is attached to a March 30 memorandum from Bennsky to Katz; ibid., PET 3 OPEC; and a memorandum of conversation, October 12; ibid.

In a March 23 memorandum to Gordon Brown in the Office of Fuels and Energy of the Bureau of Economic Affairs, Warren Clark of the North African Office in the Bureau of African Affairs, argued that release of information on the Sharing Agreement would be "highly detrimental" to the companies because it would demonstrate to Libya that the companies had banded together to "denationalize" part of British Petroleum after it had been nationalized, would stiffen Libyan demands in negotiations, and could provoke punitive action. Although Clark did not feel that nationalization per se affected U.S. national security as long as the oil continued to flow, he stressed that the question was "very sensitive from a domestic political point of view. The State Department and the USG have sanctioned in these Business Review Letters a strengthening of the international cartel of seven Anglo-Saxon oil companies. A special subcommittee of the Senate Foreign Relations Committee has now started an investigation into the role of business in US foreign policy. It is starting with ITT, Chile, et al., but it will also be looking into the role of US oil companies in US foreign relations. This subcommittee will have the power to subpoena classified documents. I believe this group would *fry* the State Department if

it was revealed that we classified these documents in order to protect the 'cartel,' and that we had taken the position that what was good for the cartel was good for US national security."

The reference is to the Senate Subcommittee on Multinational Corporations' 1973 investigation into charges that International Telephone and Telegraph subsidized the opposition to Salvadore Allende's government during the 1970 elections in Chile. In this March 23 memorandum, Clark also wrote that the independent oil companies could not get crude because the "Seven Sisters" had most Middle East crude locked up for their own customers. Senators on the subcommittee would "be quick to pick this up, and accuse the State Department of being a patsy for the big companies and denying oil to the little fellows by keeping this information about the Agreement classified. For the State Department at this time to justify withholding this information because preservation of the interests of these seven companies, two of which are not even American, is vital to 'US national security' would be most unwise, I believe." Clark approved keeping the Sharing Agreement and the Business Review Letters classified on narrow grounds of proprietary interests. (Ibid., PET 3 OPEC)

John Countryman, Economic and Commercial Officer in the Embassy in Tripoli, wrote Clark on March 26 that the "rift between the majors and the independents over the relative importance of the Persian Gulf and Libyan holdings is deep." He also noted that while Libya was already aware of the Sharing Agreement and the Business Review Letters, publication would give Libya an opportunity to attack the companies. (Ibid.) In a March 30 memorandum, George Bennsky, Acting Director of the Office of Fuels and Energy, recommended to Acting Assistant Secretary of State for Economic and Business Affairs Julius Katz that the documents remain classified. (Ibid.) On March 30, Katz informed Thomas E. Kauper, Assistant Attorney General, Anti-Trust Division of the Department of Justice, that most of the documents on the Sharing Agreement and the Business Review Letters should remain classified:

"Maintenance of a stable and secure supply of oil from abroad for the years ahead is of vital interest to the United States and an important foreign policy objective of this Government. We believe that the international oil companies have an important role to play in assuring such a supply of oil and that their ability to do so could be seriously jeopardized if the documents contained in the files in question were to be disclosed. Moreover, disclosure of the documents for which we have advised classification could, in our judgment, damage the national security of the United States." (Ibid.)

The Department of State would maintain this position in October 1973, after Ralph Nader filed a request for copies of all Business Review Letters issued by the Justice Department. (Memorandum of conversation, October 12; ibid.)

174. Memorandum From the President's Special Consultant for Energy (DiBona) to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, March 19, 1973.

SUBJECT

Soviet LNG

Attached is a point paper on the Soviet LNG project "North Star." Also attached is a Memorandum for the Record of a discussion with Ex-Im Bank.[2]

For your information, Senator Jackson is opposed to the project. He questioned Nassikas, Chairman of Federal Power Commission, concerning the defense and economic aspects. Jackson has also focused on the issue of incremental pricing of gas imports. If the gas cannot be "rolled in" so that its price is averaged with domestic gas, the project would probably not fly. I've given a copy of Nassikas' answers to your staff.

In my meetings on the Hill, this issue has come up repeatedly, and unfavorably. I have responded by stating:

With rising U.S. costs, the price could well be competitive. The project sponsors believe there will be a shortage of gas, even with deregulation, so they feel they will be able to sell it. The amount involved is a small fraction of total U.S. projected consumption (2% or 3%).

Attachment

SOVIET LNG PROJECTS

There are two major long-term projects to import Soviet LNG to the U.S. currently under consideration:

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[1] Source: National Archives, Nixon Presidential Materials, White House Central Files, Staff Member and Office Files, Energy Policy Office, Box 22, Charles J. DiBona Subject Files, Committee Memos. No classification marking. Printed from an uninitialed copy.

[2] In the attached March 10 memorandum to DiBona, Schaefer informed him that Don Bostwick, Executive Vice President of the Ex-Im Bank, opposed the proposed LNG project "not so much because of the large size of the loan, but on the merits." Furthermore, Bostwick "believed that the American companies were responsible for initiating the idea and his information is that, initially at least, the Russians did not like the project." He also "strongly suggested" that an engineering feasibility study be a requirement prior to any endorsement of the project. Based on their conversation, Schaefer concluded: "Ex-Im has no requirements per se that could block consummation of the Soviet LNG project; however, Ex-Im financing will provide a vehicle for congressional debate of the merits and politics of the project."

1. From the Urengoye gas field in Western Siberia to the East Coast of the U.S. (Project North Star).
2. From the Yakutsk gas field in Eastern Siberia to Japan and the West Coast of the U.S.

The North Star Project is further along, but is still at the stage of exploratory negotiations between the companies involved and the Soviet Union. There have been no field studies made to date. (The project is summarized in Tab A.)[3]

Details such as ship subsidies (possibly totaling $250 million for the 10 U.S. ships in the North Star project), Soviet equity participation, and financing are still wholly speculative.

The sponsors of North Star will probably require government loan guarantees of at least $4 billion from the Export-Import Bank or through some new agency. If EX–IM financing is required, there are no legal impediments which preclude consummation of the Soviet LNG project. EX–IM's current legal limitations on the total loan and loan guarantee outstanding is $27.5 billion. The Soviet project could be accommodated by spreading the funding over five years. Although EX–IM does not utilize public funds, Congress does approve the annual business plan; this would provide a vehicle for congressional debate of the merits and politics of the project. The EX–IM staff currently is negative on the project, believing that extensive engineering studies should be performed prior to approval.

The question of deregulation of natural gas is directly related to the Soviet LNG project. An unfilled demand for natural gas under conditions less than economic equilibrium (equilibrium could be achieved in 1978 under deregulation) does not portend a need for additional supplies of gas or LNG per se. Rather, market forces will result in comparison of prices and their benefits for all alternative fuels. Estimates of representative city gate prices of alternative fuels are in Tab B,[4] including supplemental gases and specifically including Soviet LNG.

If the consortium and the Soviets maintain a constant price of $1.25 to $1.40 throughout the life of the contract, eventually the Soviet LNG will be comparable and possibly lower cost than domestic alternatives. Assuming a base price in 1973 of $50/MCF for domestic gas and assuming that exploration and development will continue until the year 2000, but at inflated costs, prices in the future would increase as shown below. Transportation costs are held constant at $.25/MCF as it is improbable that major new pipelines would be built after 1980.

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[3] Attached but not printed at Tab A is "Summary of North Star," itemizing the costs associated with the project.

[4] Tab B is attached but not printed.

	At 3% Inflation	*At 5% Inflation*
1973	$0.75	$0.75
1990	1.08	1.40
2000	1.36	2.10

There are a number of distinct political risks with an overt policy of promoting the Soviet LNG projects. First, to date the press has focused on the comparative costs of $1.40 Soviet gas versus the average current domestic cost of $0.20 per MCF. Simple multiplication indicates that this apparent seven-fold increase will cost some of the American gas buyers $876 million per year for the North Star Project alone for apparently less secure fuel supplies plus a pro-rata share of a $250 million ship construction program.

The consortium must sell the gasified LNG to distribution companies and/or industrial sales. Unless new legislation is passed which removes approval of LNG imports from the Federal Power Commission, approval of future LNG projects, including the Soviet projects, will be subject to FPC approval. The FPC's opinions on LNG projects to date have indicated a keen interest in minimizing costs. The El Paso/Algeria project, the only baseload project approved to date, involved prices of $.77 to $.83 per MCF. The FPC's opinion allowed distribution companies to "roll in" the costs of higher priced supplemental fuels to the consumer, including LNG, but required that the pipelines incrementally price these supplemental fuels to the distribution companies. FPC approval of projects estimated at $1.25 to $1.50/MCF is considered by knowledgeable observers as highly questionable.

Representatives of Tenneco state that the consortium is prepared to proceed as soon as possible. They believe deregulation will probably be delayed on the Hill and that there will always be inadequate supplies of domestic natural gas. They plan to get long-term contracts from distributors and utilities as early as possible (during the period of uncertainty), believing that rolling in at the city gate will make the $1.25–$1.40 price acceptable. It is expected that the U.S. gasification facilities, as well as any additional pipelines will be added to the pipeline company's rate base and thus provide for additional profits.

175. Paper Prepared in the Office of Economic Research, Central Intelligence Agency[1]

Washington, March 30, 1973.

Middle East: Some Implications of Increasing Oil Revenues

Summary and Conclusions

The demand for oil throughout the rest of this decade will be met only by massive increases in output of Middle East oil which is expected to rise from the 20 million b/d produced last year to at least 40 million b/d in 1980. Most of this increase will come from Saudi Arabia, Iran, Abu Dhabi, and Kuwait. The resulting revenues, in constant April 1973 dollars, are expected to reach $20 billion in 1975 and between $30 and $50 billion in 1980. While some important Middle East producers—Iran, Iraq, Libya and Algeria—should be able to spend the bulk of these earnings on military and economic programs others clearly cannot.[2]

Saudi Arabia, Abu Dhabi, and Kuwait, limited by small populations, inadequate numbers of technically capable people and a dearth of non-oil resources, will not be able to increase spending on imports as fast as oil revenues mount. Nor could their gifts to other Middle Eastern nations even on a generous scale, greatly reduce this surplus of receipts over current expenditures.[3] Thus the foreign assets of the Middle East countries could amount to between $50–$80 billion by 1980 in constant 1973 dollars. At the upper limit these assets would be equal to about 60% of the world's gold and foreign exchange reserves in 1972.

The trends already in motion, if continued through 1985, would result in the Middle East oil producing states accumulating foreign

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[1] Source: Central Intelligence Agency, Office of Economic Research, Job 80–T01315A, Box 33. Secret; No Foreign Disem. A copy was sent to Odeen, CEA, and the Departments of Treasury and Commerce.

[2] In paragraph 12 of the paper (omitted here), OER stated: "Middle East oil states will expand their capacity to spend foreign exchange for consumption, military expansion and economic development. Iran and Algeria may even borrow additional funds to support domestic programs. Most other oil nations will just about break even."

[3] In paragraph 16 of the paper, OER stated: "The Saudi Government will be in a position of spending a diminishing share of its current oil earnings. Saudi officials acknowledge that imports for defense and domestic development, together with aid disbursement to other Arab states, will fall far short of absorbing future annual revenue increments." In paragraph 23, OER added: "Even if military expenditures develop a momentum in the late 1970s, they still will represent only a fraction of Saudi Arabia's income. A lack of technical capacity to maintain and operate the large amounts of equipment involved would not necessarily deter the Saudis from large expenditures on military equipment."

assets that would be truly astronomical. Their assets would range from a low of $100 billion to as much as $180 billion by 1985, comparable to total gross U.S. foreign assets and to more than double net U.S. foreign assets.

Foreign assets of such enormous magnitude would inevitably be held in relatively liquid forms, such as securities and short-term instruments. The Middle East countries lack the industries and managers to make direct investments abroad on a really massive scale. Moreover, their buying up existing foreign companies would cause strong policy reactions.

In any case the Middle East oil producers would have unprecedented financial power. Discretionary use of such vast assets obviously has enormous potential for disruption of financial markets. Attempts to neutralize these assets through capital controls in producing countries might induce the producers to curtail output. If the consuming countries consider such a situation as unacceptable they have little choice but to markedly slow the growth of their consumption of Middle East oil by developing other means of satisfying energy demands.

[Omitted here is material supporting the Summary and Conclusions.]

176. Memorandum of Conversation[1]

Washington, April 17, 1973, 5 p.m.

PARTICIPANTS

Zaki Yamani, Minister of Petroleum, Saudi Arabia
Prince Saud Faisal, Deputy Minister of Petroleum
Henry A. Kissinger, Assistant to the President
Harold H. Saunders, NSC Staff

Dr. Kissinger expressed his pleasure in seeing Minister Yamani. Recalling a conversation last summer,[2] he asked Prince Faisal how his back was doing. [Dr. Kissinger had then referred the Prince to the osteopath who works with the President.] Turning back to Minister Yamani, Dr. Kissinger said with a smile that he had heard last year from the oil companies that Yamani had been a very difficult negotiator.

Minister Yamani said he was sure that the oil executives had changed their mind now in the light of settlements that had been reached since last summer. He said that "we" had worked out a good solution which might last in the right atmosphere until the end of the concession era. There are always problems in the oil industry, and now is no exception. Now oil is a problem for the whole world.

Dr. Kissinger noted that there are always "unemployed intellectuals" who find it fashionable to write dramatically about whatever subject is fashionable at the moment. This year the subject is oil.

Minister Yamani asked Dr. Kissinger whether he meant to imply that he felt problems would not develop.

Dr. Kissinger replied, "Oh, we'll have problems." It is necessary to see the problem, however, in a wider perspective. But it is a problem, and it has to be handled in a statesmanlike manner.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1027, Presidential/HAK Memcons, Memcons, April–November 1973. Secret. Sent for information. Drafted by Saunders. The meeting took place in Kissinger's office. All brackets are in the original. In an April 17 briefing memorandum, Saunders and Quandt reminded Kissinger of Yamani's proposal for a special relationship with the United States (see Document 140), the "real purpose" of which was to develop closer strategic ties by binding the United States to Saudi oil, offsetting a short-term U.S. balance-of-payments problem by investing in the United States, and thus guaranteeing that the Saudis would not cut off the flow of oil. They thought this purpose had now become a Saudi desire to invest in their own development and industrialization. Beside this paragraph Kissinger wrote: "Important." (National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. III)

[2] See Document 134.

Minister Yamani, commenting on his talks in Washington, said that US officials seem to recognize the problem. The problem is there not only for the US but for the whole world.

Dr. Kissinger said there is no question about that. Saudi Arabia will be central to solutions to the problem because it has the largest reserves.

Minister Yamani agreed that Saudi Arabia has the largest reserves. It is a Saudi obligation to preserve them for the most productive possible use. Saudi Arabia does not want to dissipate its reserves in a short period. The Saudi interest—if Saudi Arabia looked to its own interests alone—is to produce only what it needs for its own development. However, if Saudi Arabia did not increase production to meet rising demand in Europe, the US and Japan, that would aggravate shortages for the rest of the world in the near term, and prices would double.

Dr. Kissinger asked what the solution is.

Minister Yamani said that, "being a friend," Saudi Arabia has a sense of responsibility—"a moral obligation"—to increase production beyond Saudi Arabia's own needs in order to meet Free World requirements. He hoped that the "political atmosphere" would enable Saudi Arabia to continue this policy. Saudi Arabia is very much embarrassed by the "present situation." Saudi Arabia is "lonely." It is under heavy pressure from the rest of the Arab world. How long it could withstand that pressure he did not know. He hoped the pressure could be removed so that Saudi Arabia could do as much as anyone to solve the oil problem. That problem is not only a matter of supplying crude oil, but also an issue for management of balance of payments.

Dr. Kissinger asked how Saudi Arabia could help limit the drain on the US balance of payments.

Minister Yamani said that the US would have huge import requirements. He was prepared to discuss possible means of alleviating the drain on the US balance of payments.

Dr. Kissinger said that we place great importance on friendly relations with Saudi Arabia and on its stability and progress. At a national level we feel a very close bond to Saudi Arabia. On the general proposition that Mr. Yamani had advanced, we are certainly anxious to work with Saudi Arabia to meet its problems and to bring about helpful conditions. Dr. Kissinger asked whether Minister Yamani had any specific ideas.

Minister Yamani said that the most important issue to be dealt with is a settlement of the Arab-Israeli problem.

Dr. Kissinger said that the US problem with respect to a settlement is that in principle we are willing to be helpful and we have even taken

exploratory steps with which Minister Yamani is familiar. However, most Arab leaders exaggerate the degree of pressure which the US can exert on Israel. In principle, Dr. Kissinger said that he would be willing to get involved in a solution to the problem. But others have to realize that it had taken two and a half years to set up the China trip and four years to reach a Vietnam settlement. Patience is not a Middle Eastern trait. He said that every time he talked to anyone, he gets distorted reports back about what he had said.

Dr. Kissinger said that, in his view, what had aborted previous efforts at a settlement was that everyone ended up discussing abstract plans in public with everybody wanting to pick them apart. It is difficult to find a structure in which to operate. To put it quite tactlessly, there has to be more discipline and patience on the Arab side.

Dr. Kissinger continued, noting that Minister Yamani as a negotiator well knew that if one had to play all his cards at once and to explain publicly each play, he would never get anywhere in a negotiation. He said it was like trying to play a half a dozen different chess matches at the same time while having to explain each move to the audience and to his opponent as it was made.

In principle, Dr. Kissinger concluded, the US has no interest in perpetuating unsettled conditions in the Middle East. Only the Soviet Union could profit from that situation.

Prince Saud acknowledged that a settlement would take time. But for friends of the US, the present appearance of US policy is not comforting. The continued flow of aid and arms to Israel gives the impression of an unbreakable bond between the US and Israel.[3]

Dr. Kissinger said he understood that. He said that he was not one who believed that arms deliveries would help produce flexibility; he did not believe that they would produce rigidity either. What is lacking, Dr. Kissinger felt, is a coherent strategy on all sides. If you don't know where you are going, any road will get you there. If the US applies pressure on Israel before there is anything to negotiate, the Ad-

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[3] According to an April 17 backchannel information report, Prince Saud was "officially empowered" to convey King Faisal's "acute anxiety" over the danger to American oil interests in the Middle East posed by growing extremist Arab pressure, much of it coming from Sadat, to use the area's energy resources as a political weapon in the "inevitable" war with Israel. Faisal now believed that war might force him, against his better judgment, to join an Arab oil boycott. Faisal was also "tired" of writing letters to Nixon. The message also reported Faisal's policy of unlimited oil production, his continuing desire to support the United States, and his stated belief in the mutual nature of the U.S.-Saudi relationship. The message concluded that the implied threat from Faisal, and from Sadat through Faisal, was designed to press the United States into resolving the Middle East "impasse." (Ibid., Box 1298, Saunders Files, Saudi Arabia, 1/1/73–5/31/73)

ministration gets into a domestic uproar without any opportunity to make progress on the Arab-Israeli front. We held up sending aircraft to Israel for more than half a year, and it did not get us anywhere because there was no negotiating framework. In the American system, there is always some election in the near future and the US cannot sustain pressure without some framework or objective.

Prince Saud said that other Arabs—even Europeans talking to Saudi Arabians—asked why Saudi Arabia should only talk with the US and only invest its oil revenues in the US.

Dr. Kissinger said he understood the Saudi problem. He felt that there had been too much rhetoric about the Middle East problem. He said if one had watched what the White House has achieved in negotiations, it would be clear that the negotiators had moved quietly until a situation had crystallized, and then they had moved very rapidly. The White House is not staffed to conduct a negotiation in the conventional diplomatic way. We cannot be involved in an extensive exchange of diplomatic notes and formal negotiations. What the White House has is authority. What we need is a concrete situation in which to use it.

Minister Yamani acknowledged his understanding of what Dr. Kissinger had said.

Dr. Kissinger said that he was not assessing blame. He said he recognized and the President recognized the problem that faces our Arab friends.

Minister Yamani recalled that Dr. Kissinger had said that the US has no interest in the continued absence of a settlement. Minister Yamani said he would put the proposition the other way around—that the US has a vital interest in bringing the parties together.

Dr. Kissinger said that is true. But once this has been said, then the questions rise: What sort of settlement should it be; how can it be achieved; how can the parties bring it about? It would never be possible to get a settlement without a strategy for achieving it.

Minister Yamani recalled that Jordan and Egypt had moved a good distance and made "so many" concessions and yet Israel had not moved a bit. In contrast, Israel's position had hardened. Most of the obstacles on the Arab side had been removed—the Soviets have left Egypt and Egypt has signified its willingness to sign a treaty with Israel. There is great frustration on the Arab side. The situation puts friends of the US in a very embarrassing position. Those friends want to cooperate with the US as much as necessary, and they want to help others take the same avenue. They want obstacles to cooperation to be removed.

Dr. Kissinger said that the US is certainly willing, as we have told Egypt, to make a serious effort to achieve peace. We can always make

a general diplomatic effort. If one is talking about a White House effort, however, it is necessary to work out a strategy and to build confidence in working with each other.

Minister Yamani said he thought there had been efforts in the past to develop confidence and the Arabs had placed their confidence in the US.

Dr. Kissinger said that "we" [in the White House] were not involved. He said that he was simply stating the facts. As a government we are willing to be helpful and we want to see progress.

Prince Saud said an effort should be made in the Middle East to show the US as a party interested in a settlement.

Dr. Kissinger noted that the US always gets caught between the two sides.

Prince Saud said that if everyone is mad at the US, then it is okay.

Dr. Kissinger asked Minister Yamani if he agreed, and he said, "Yes."

Minister Yamani asked who is going to take the first step if not the US. The Saudis feel Israel has no interest in a settlement. The US must have an interest for many reasons—not just energy. The US is the only power who can take the first step.

Dr. Kissinger asked whom Minister Yamani had seen here.

Minister Yamani noted that he had seen Secretaries Shultz and Rogers.[4] He had discussed energy matters with them and Saudi Arabia's ambition to industrialize. He had also stated his political concerns but not at this same length or with this degree of frankness. He had felt that Dr. Kissinger was the one to whom he should talk frankly about this subject.

Dr. Kissinger thanked the Minister and said he understood. He noted that this is a new problem for "us here." In negotiations with China, Vietnam and the USSR, we controlled some of the assets in the negotiation. In the Middle East, we do not control all the assets. The pace of events is something that we cannot control. Nor do we control any of the principal actors. In negotiations with China, Vietnam and the USSR, the White House had tight control over the negotiations

[4] No record of the meeting with Shultz has been found. A memorandum of conversation of Yamani's meeting with Rogers, April 16, is ibid., RG 59, Central Files 1970–73, POL 7 SAUD. He also met with Casey that same day. (Memorandum of conversation, April 16; ibid., PET 12 SAUD) In an April 27 letter to Shultz, Rogers wrote that as a result of Yamani's visit and his obvious desire to invest Saudi oil revenue in domestic industrial development, the United States should "show enough interest in these aspirations" to send a small group to make a preliminary assessment of the possibilities. He thought Simon and Casey should lead the team. (Ibid., FN 9 SAUD)

and could determine when to apply pressure and when to make concessions.

Dr. Kissinger said, "You have to understand the problem." He said he believed it is fruitless to make a public proposal. UNSC resolution 242[5] was deliberately designed to permit two different interpretations of the basis for negotiation. Therefore, if one is to go from Resolution 242 to a settlement, one must give it very concrete meaning. This is what has to be done now, and it is difficult to do this in public.

Minister Yamani said that even a long journey begins with one step.

Dr. Kissinger replied that we have to know where we are going. We recognize the problem.

Prince Saud said that even before concrete involvement in producing a solution, the US could portray a general image of greater balance. For instance, if the US vetoed the resolution then in the Security Council [condemning Israel's raid on Beirut][6] this would create a very bad image of the US in the Middle East.

Dr. Kissinger said he heard what the Prince was saying. He knew that the Saudis are friends of the US.

Dr. Kissinger indicated that he had found it very difficult to keep secrets about conversations. He was not eager to have his visitors talk to too many people about this conversation although he assumed that there would be a full report to King Faisal.

Minister Yamani replied that he did not talk very much with other Arab leaders. "We are too embarrassed." He said that is why they had come to see Dr. Kissinger.

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[5] UN Security Council Resolution 242 was adopted November 22, 1967, following the Arab-Israeli war in June. It called for the "withdrawal of Israeli armed forces from territories occupied in the recent conflict," and for the "termination of all claims or states of belligerency and respect for and acknowledgement of the sovereignty, territorial integrity, and political independence of every state in the area and their right to live in peace within secure and recognized boundaries free from threats or acts of force." (*Yearbook of the United Nations, 1967,* pp. 257–258) The resolution is printed in full in *Foreign Relations,* 1964–1968, volume XIX, Arab-Israeli Crisis and War, 1967, Document 542.

[6] A reference to the Israeli commando raid on Beirut on April 9–10, named Operation Spring of Youth. Among those killed were three leaders closely tied to Yassir Arafat regarded by Israel as having played a role in the Munich massacre of September 5, 1972. The massacre occurred during the 1972 Olympic games when members of Black September invaded the Olympic quarters of the Israeli team, killing two and taking nine hostage. Their negotiations with West German authorities for the release of 200 Arab commandos held by Israel ended September 6 when a West German rescue attempt resulted in the death of the nine Israeli hostages, five Arab guerrillas, and one German policeman. Three of the guerrillas were captured. Eight weeks later two Palestinians hijacked a Lufthansa plane in Beirut and demanded their release; the West German Government complied.

Dr. Kissinger said he felt it was premature now for them to talk to very many other Arab leaders. At some point, however, it would be useful for them to do so.

Minister Yamani said he hoped that his point had been made clearly.

Dr. Kissinger replied, "You have made an impression."

Minister Yamani thanked Dr. Kissinger very much for the opportunity to talk. He said it had been a real pleasure.

Dr. Kissinger asked Minister Yamani to let him know when he next came to the United States. He hoped it would be possible to report some progress by then.

Minister Yamani noted that he would be coming in September.

Dr. Kissinger said that maybe some progress could be reported by then. The US will make a major effort.

[*Note:* Yamani and Saud throughout spoke unemotionally in soft-spoken tones. The tone was one of Saudis presenting their dilemma in close association with the US.]

Harold H. Saunders[7]

[7] Printed from a copy with this typed signature.

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177. Editorial Note

In the spring and early summer of 1973, President Richard Nixon and Henry Kissinger, the President's Assistant for National Security Affairs, delivered major addresses on energy issues. On April 18, President Nixon delivered a broad-ranging special message to the Congress on U.S. energy policy. He stated that in determining how the United States should expand and develop its resources in natural gas, coal and oil, and in nuclear power, "we must take into account not only our economic goals, but also our environmental goals and our national security goals. Each of these areas is profoundly affected by our decisions concerning energy. If we are to maintain the vigor of our economy, the health of our environment, and the security of our energy resources, we must strike the right balance among these priorities." After listing the accomplishments since his first Presidential address in 1971 (see Document 90), Nixon addressed domestic and foreign oil issues.

In the domestic section of this special message, Nixon noted that the Alaska pipeline, which had been delayed due to outmoded legal

restrictions on the width of the right of way for the proposed pipeline, could provide two millions barrels a day, an amount equal to one-third of U.S. import levels. He urged Congress to move on the Alaska pipeline. He also argued that nuclear energy was "the major alternative to fossil fuel energy for the remainder of this century" and required sustained congressional and private support.

In the section on foreign oil, Nixon stated that to avert a short-term fuel shortage and keep fuel costs as low as possible, "it will be necessary for us to increase fuel imports." But to reduce long-term reliance on imports, he wanted to encourage the exploration and development of U.S. domestic oil and refineries. To accomplish these goals, Nixon abandoned the Mandatory Oil Import Program, which he said was "of virtually no benefit any longer." Rather, it aggravated the U.S. supply problem, denied the United States flexibility in import requirements, and depressed new drilling and refinery construction. To redress these issues, Nixon removed all existing tariffs on imported crude oil and products and suspended control over the quantity of crude and refined products imported into the United States. He stated that this new system would "contribute to our national security."

Nixon also embarked on an energy conservation program, and reorganized the federal bureaucracy to better handle energy issues. Because Congress had not approved his recommendation for a new Department of Natural Resources, Nixon strengthened the role of the Department of the Interior in policy coordination, placed the Oil Policy Committee within the Department of the Treasury, appointed a special consultant to head an energy staff in the Office of the President, established a new energy division within the Office of Management and Budget, and proposed legislation to establish a Department of Energy and Natural Resources for "leadership across the entire range of national energy." The full texts of the President's special message and his remarks on transmitting the message to Congress are in *Public Papers: Nixon, 1973,* pages 301–319.

On April 23, Kissinger delivered "The Year of Europe" speech, calling for a revitalized Atlantic partnership. In the summation, Kissinger specifically noted that such a partnership needed to work cooperatively on new common problems, such as energy. Energy, Kissinger stated, "raises the challenging issues of assurance of supply, impact of oil revenues on international currency stability, the nature of common political and strategic interests, and long-range relations of oil-consuming to oil-producing countries. This could be an area of competition; it should be an area of collaboration." (Department of State *Bulletin,* May 14, 1973, pages 593–599)

President Nixon supplemented his April 18 energy message with a statement on June 29, which announced the following additional

measures: 1) the creation of the Energy Policy Office within the White House, to be headed by Colorado Governor John A. Love, responsible for the formulation and coordination of energy policies at the Presidential level; 2) the consolidation and transference of agencies dealing with natural resources into the Department of the Interior to facilitate the creation of the Cabinet-level Department of Energy and Natural Resources; and 3) greater emphasis on research and development and conservation. No new international initiatives were announced. However, Nixon did state: "The Department of State is taking steps to consult with the major oil-producing nations to develop the cooperative arrangements needed to ensure adequate and stable sources of oil in the future. We are also working closely with the other major oil-consuming nations in studying ways of meeting growing world demand for energy supplies. These include emergency sharing arrangements, as well as stockpile and rationing programs which might lead to more coordinated policies for meeting oil supply shortages should they occur in the future." The full text of President Nixon's statement is in *Public Papers: Nixon, 1973,* pages 623–630.

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178. Memorandum From Director of Central Intelligence Schlesinger to President Nixon[1]

Washington, April 20, 1973.

SUBJECT

Intelligence Précis

Saudi Arabia

The Saudis are raising the prospect of a cutoff in oil supplies in an effort to induce the US to push harder for a peace settlement in the Middle East. Rising Saudi concern over Middle East tensions is evident in Oil Minister Yamani's statements this week, as well as in other reporting.[2]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 51, Presidential Daily Briefings. Eyes Only For the President.

[2] A reference to Yamani's meetings with administration officials. See Document 176. He also gave an interview to *The Washington Post* on April 18, which was reported the next day; see "Saudis Tie Oil to U.S. Policy on Israel, *The Washington Post,* April 19, 1973, p. A1.

A [*less than 1 line not declassified*] source reports that King Faysal was recently impressed with the "logic" of Sadat's argument that Egypt must initiate hostilities with Israel.

—Sadat told a Faysal emissary in late March that fighting must begin "sometime within the next few months."

—Faysal responded, the source reports, with a message of firm support for Egypt. The King explained to his aides that he now feels—for the first time—war is necessary to "restore Arab self-respect."

—Faysal went on to say that he feels more and more that, if war comes, he will be unable to resist Arab demands for joint action against US oil interests.

This implied threat does not mean the Saudis have a contingency plan to cut off the petroleum flow. Nonetheless, it shows the strain that Middle East tensions are imposing on Faysal's long-time policy of cooperation with the US and the acute need Faysal feels for some movement toward an Arab-Israeli settlement.

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179. Action Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Armstrong) to the Under Secretary of State for Economic Affairs (Casey)[1]

Washington, April 20, 1973.

Your Participation in the Next Meeting of the OECD High Level Group of the Oil Committee—Paris, June 12, 1973

You are already aware of our interest in you heading the United States delegation to the next meeting of the OECD High Level Group of the Oil Committee. As you also know we are seeking to reschedule this meeting so that it takes place on June 12 following the OECD Ministerial session which you will attend June 6 to 8. The President's energy policy message[2] will have been out one and a half months by that time. Also there will have been sufficient time to formulate USG positions and proposals for cooperation, including seeking support for them in a few key bilateral conversations. Your presence at both the Ministerial (where energy is a likely topic) and the High Level Oil Group (HLG) meetings will clearly demonstrate that our government

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[1] Source: National Archives, RG 59, Central Files 1970–73, OECD 3. Confidential. Drafted by Bennsky and Mau; and concurred in by EB/ORF, EUR/RPE, L/EB, and SCI.

[2] See Document 177.

is serious in its efforts to keep competition for petroleum from becoming a dangerous, divisive international issue.

The OECD Oil Committee and especially its restricted-membership High Level Group have long been the main forums for consultations and action on oil matters by the major consumer nations—i.e., US, EEC countries, Japan and Canada. The June OECD HLG meeting will be the most suitable time following the President's Message for specific multilateral consultations on the energy situation. The OECD members expect and hope that specific proposals and ideas for cooperation on oil and other energy matters will be floated by the U.S. at this meeting. If we fail on this occasion to give concrete evidence that we are willing to take the lead in proposing and advancing cooperative efforts, this could well lead other major consumers to interpret the President's message and the new oil import arrangements as a purely national response by the US to its worsening energy supply problem. This interpretation can be expected to lead them to intensify their own individual (or EEC group) efforts to meet their needs through unilateral and bilateral efforts. There is no need to describe the adverse price, investment and political repercussions likely from such unrestrained competition.

Either I and/or George Bennsky would remain on in Paris following the High Level meeting to chair the U.S. delegation at the subsequent two days of sessions of the Oil Committee proper.

Attached is a summary of the positions of other governments on cooperation as they have so far expressed them and suggested proposals that might be put before the OECD membership for discussion and consideration. This material will be the basis from which we seek inputs and clearance from the large number of USG agencies and offices with interest in the international aspects of the energy problem. Leadership (including memoranda from you and/or the Secretary) will be required to further this process. State must continue to represent the US at these meetings and we must respect the restricted nature of the HLG by limiting the size of the delegation.

Recommendation

That you review the attached suggestions as possible U.S. proposals for presentation at the OECD HLG and Oil Committee (Tab A).[3] If they meet your approval we will begin preparing the position papers and statement for your use as head of the U.S. delegation to the High Level Group of the Oil Committee.[4]

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[3] Undated; attached but not printed.

[4] Casey initialed his approval on April 26. Casey addressed the HLG on June 12; see footnote 9, Document 187.

Tab B[5]

VIEWS OF OTHER COUNTRIES

Some generalized conclusions may be drawn from the various country and group priorities summarized below. All major consumer nations in the West favor some form of increased cooperation among themselves. The nature and limits of this generalized desire for cooperation vary when specific alternatives are considered.

The highest degree of consensus exists for two concepts: cooperation on development of new sources of energy and increased protective security measures. Most major consumers favor expanding the range of energy supplies through the development of alternative sources. Japan prefers bilateral arrangements on research and development with the US rather than a multilateral framework. France wants to focus primarily on long-run aspects of this type of cooperation and can be expected to press for a united EEC front in dealing with the U.S. Increased security measures, such as emergency oil sharing arrangements and enhanced storage capacity, have wide support. Discussions are now underway to consider expanding, along the lines of the existing OECD European oil apportionment plan for time of emergency, an apportionment plan to include the US and other non-European members.

A policy of avoiding actions that would unduly provoke OPEC is a clear and common position of all major consumers. The continuum of specific positions ranges from extreme sensitivity on the part of the Japanese to reasonable concern by the US. The generally accepted position of avoiding confrontation with oil producing countries and the sensitivity of this subject are based on the potential threats of radical producing governments to use oil as a political or economic weapon. More responsible OPEC governments have recognized that producers and consumers alike must work toward some kind of accommodation. Saudi Arabia has though Yamani, its Petroleum Minister, suggested a special oil relationship with the United States.[6] In advancing this proposal, Yamani made clear he sought, in part, to ensure that country's future security as it becomes more and more a dominant and controversial force in the supply of world oil requirements. More recently Yamani, reflecting differences in thinking among Saudi decision makers, has been emphasizing the investment rather than special oil marketing arrangements of his proposal.

There is a growing body of opinion in Europe and Japan that consumer governments must have or will by events be forced to have a

[5] No classification marking.

[6] See Document 140.

voice in future negotiations with the producing countries, either directly or through the oil companies, by advising on options and on the extent of commitments the companies should, or should not, make. This general desire for a greater government role varies in degree by country. Some countries favor greater government support for companies in future negotiations with OPEC. The bureaucracy of the EEC has come up with ideas that would put the companies under considerable common market government direction. No major country, except Japan has suggested immediate direct government-to-government contacts. Japan has suggested informally that it may be desirable for the consuming countries, through the OECD or other mechanisms, to enter into direct negotiations with OPEC nations to ensure the future availability of oil in the quantities required and at assured prices.

Recent conversations in Washington with visiting energy officials at the EEC and British Government[7] has revealed a desire to see some not too formal arrangement fashioned in which consumer government energy policies, especially as they relate to competition for crude imports, could be synchronized.

Growing concern is also evident in Europe and Japan about the ability and willingness of the United States to continue to supply nuclear fuel to other nations at reasonable costs. Other major consumers welcome the expressed willingness of the US to share enrichment technology, subject to adequate safe-guards. However, progress in cooperation and the development of nuclear power has been slow indeed and a major effort will be required if atomic energy is to become a meaningful source of energy within the next ten years.

1) *European Community.* The Commission of the European Community's attempts to develop a common energy policy has been consistently delayed and a common policy does not presently exist. Considerable weight must be given to the national policies of the major member states, which play the decisive role on energy matters. The Commission favors, in principle, cooperation among petroleum consuming and producing states. The Commission is also favorably inclined towards specific consumer cooperative measures dealing with security and stock building, more rational use of energy resources and the development of alternative sources of energy. The Commission has not adopted a position on a consumer-country organization of a "cartel" type, but hopes to avoid bilateral relations between consumer and producer governments. A concern exists that the formation of a consumer country bloc could lead to solidifying a common front by the producers.

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[7] Not further identified.

We have learned that a draft document prepared by the Commission currently is being circulated among member governments. It proposes much closer future cooperation on and tighter joint control of energy among European nations and may be designed to counter what the Commission fears will be US and Japanese efforts to unilaterally seek assured oil supplies.

2) *Japan.* Japan is the most sensitive OECD member to reductions in oil supplies and would oppose any joint consumer bloc designed to confront OPEC. The Japanese continue to stress that their complete dependence on imports makes them unique and does not permit them to offend anyone. They oppose bilateral deals between producer and consumer governments that involve preferential treatment (such as the recent Saudi proposal to the US), but consider deals by companies for the purchase of crude or participation in a concession to be acceptable. Many Japanese Government and private sources favor "in principle" some joint producer-consumer organization, but reaction is not uniform. Closer consultation with the US and EC are sought, but on a bilateral basis. Japan probably would welcome a cooperative arrangement with the US, involving the OECD countries, for apportioning oil in an emergency, but only if a basis for burden sharing it considers equitable can be agreed upon. The Japanese would probably be very much interested in participating with the US in joint research and development projects for new forms of energy if this would lead to a privileged position for them.

3) *United Kingdom.* The UK is the most cooperative-minded of the major Community countries and might take the initiative on cooperative venture if the US does not. Thinking on the subject has reached the ministerial level. The UK supports efforts to expand energy supplies and to develop alternative energy forms. In the UK view oil has become too important to be left entirely to the companies and producer governments. At the same time, it wishes to avoid the appearance of confrontation with OPEC or introduce government-to-government arrangements supplanting the companies as negotiators or marketers. The UK would like to improve relations with OPEC producers, but sees some type of producer-consumer institutional relationship as far in the future.[8]

4) *France.* The French are interested in consumer cooperation, but place a much higher priority on cooperation in the long-run development of alternative sources of energy than on short-run defensive cooperation. They feel the scope for action in the short-run is very

[8] The views of the United Kingdom are in telegram 2929 from London, March 13; National Archives, RG 59, Central Foreign Policy Files.

limited and the risks of provoking OPEC quite high. In addition, a precondition for French cooperation is the development of a common European energy policy along French lines. France does not want Community members to negotiate individually with the US and Japan. These policies seriously reduce the chance that France would be willing to join in cooperative ventures with other consumer bloc countries that could be considered as provacative to OPEC.

5) *Germany.* German officials have repeatedly stated their general support for expanded consumer cooperation, but they oppose the formation of a consumer's bloc which they fear would lead to a strengthening of and confrontation with OPEC. Germany would be very cautious on cooperative proposals aimed at holding down prices, supporting major international oil companies or pressuring key countries to increase production. German officials do favor intensified consumer country consultations, cooperation on new energy sources and increased security measures such as emergency sharing arrangements and enhanced storage capacity.

6) *Other European Countries.* Other European countries have been less specific and less vocal in spelling out the extent or type of cooperation they would be willing to support. As a group they generally favor consumer cooperation, but seek restraint and avoidance of any confrontation with oil producing countries. Some industry sources believe that Italy is advocating cooperation while at the same time seeking a privileged position in Libya, Iraq and other producing countries.

7) *Canada.* The Canadians appear to favor cooperation with other consumer countries, but they would wish to proceed cautiously and on a multilateral basis. They are sensitive to insuring that Canadian interests be served and that adequate voice be given to smaller countries in any sort of cooperative arrangement.

8) *Developing Nations.* The oil importing LDCs have until recently regarded the "energy crisis" as a developed country problem. There are, however, some advanced developing nations, such as India, that are beginning to feel the economic pinch of increasing oil prices. In India's case, the response has had to be curtailment of consumption and hence development. Brazil is another of the alerted LDC's and is actively seeking world petroleum sources as both buyer and producer. While most LDCs have not yet felt the energy problem in a significant way, there is an awakening concern about the present burden of payments for oil imports and the costs they will have to pay in the future. This concern can be expected to mount as both their oil needs and oil prices move upward. These pressures provide a significant and exploitable force to complement developed country opposition to increased oil prices forced by OPEC on all oil buyers. The LDCs have, on occasion, through the U.N. and elsewhere sought special treatment of their needs by the oil producing countries.

9) *Communist Nations.* The USSR, Eastern European countries and the Peoples Republic of China generally are not considered part of the consumer country group. The Soviet Union is a net exporter of over one million barrels of oil per day, to both Communist and non-Communist nations. The PRC is not presently a significant importer or exporter of oil. As a group, the three areas play a modest role in the consumer equation. However, the possibility of incorporating some or all of them into planning a solution to the energy problem should not be discarded.

10) *OPEC.* All OPEC spokesmen have publicly opposed the formation of a consumer bloc as contrary to OPEC interests. Privately, many appear bemused at the failure of the consuming countries to join together to defend their interests. More responsible OPEC governments have recognized that producers and consumers alike must work towards some kind of accommodation. The former Secretary General of OPEC has indicated privately to U.S. officials that consumer country cooperation would only be "normal." Failure of the U.S. and other major consuming countries to make clear their intentions towards OPEC and individual producing countries is a major source of preoccupation among the oil producing countries. The OPEC countries will be carefully watching U.S. and Western initiatives and can be expected to react promptly to signs of a "bloc approach." They also are concerned by the alleged failure of the U.S. to take a more helpful and forthcoming "attitude" towards producer country problems and aspirations. There are certainly legitimate security, financial and development concerns on the part of Saudi Arabia and Iran that deserve serious attention by the U.S. and its allies.

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180. Conversation Between President Nixon and Members of the Cabinet[1]

Washington, April 20, 1973, 8:39–10:35 a.m.

Shultz: And, of course, the reason why it's so dramatic, as far as Finance Ministers are concerned, is that while we have in dollar

[1] Source: National Archives, Nixon Presidential Materials, White House Tapes, Conversation 123–2. No classification marking. The meeting occurred in the White House Cabinet Room and the tape recording begins after the meeting commenced. This transcript was prepared in the Office of the Historian specifically for this volume.

reserves of the oil producing company—countries, now, about $10 billion, which is not an unmanageable sum at all. We—when we get to 1980, as present trends can be extrapolated, take varying assumptions about the price of oil, but you can very readily see the flow of revenues to the oil producing countries on the order of $60 billion of 1973 dollars. And you can see net reserves, that is after they have exported and received money, and then they've imported things that they want, because we've set out of, say, $20 billion per year accumulated in their hands in the form of reserves for investment or other purposes. And it's startling to realize that half of that is likely to flow into the hands of Saudi Arabia. With that much concentration of resources in that one country, which has a relatively small population and a limited, in a sense, need for this money, as they bring out to us.

Unidentified speaker: It means they can all afford more wives [unclear]—[Laughter]

Unidentified speaker: 30 wives.

[Unclear exchange]

Nixon: They'll have to import more women. [Unclear exchange] I wouldn't want to take them to Saudi Arabia.

Unidentified speaker: That sum they can't afford paying. [Laughter]

Shultz: There're all sorts of uncertainties built into these projections, and I think when you project numbers like that, you say to yourself: "Well that is a projection that we have to avoid. We have to do something about it. We have to have some policies that are going to make sense of that problem." We have to turn it around, and this is, I think, where the President's energy message[2] hits and basically has another strategy. It says, "Let us do things that will build up our ability to use the domestic resources we have through an integrated set of policies involving prices, or et cetera, involving how we go about the environmental problems, and involving our upholding research and development." So we do that. And then, second, we meet our immediate needs, and the only way they can do that thing is through imports. There's no other way. So, that necessitates examining the conditions of import, so that we can bring the flow in that we want, but also to construct our import system in such a way that it encourages our ability to develop ourselves domestically. So, we work those two things together. And this basically aims toward a much greater element of self-sufficiency in our picture, which, as it emerges, and as we are able to, makes that possibility credible through our R&D or other efforts. That, I think, puts tremendous bargaining leverage in our hands against the prices of oil,

[2] See Document 177.

which have been going up very rapidly, but which are not going up on the basis of cost. Cost is minimal for most of this oil. There's a gigantic economic rent, or profit, or whatever you want to call it that has been captured by the oil companies in the past, and is now being captured by these countries, but which represents something that can be gotten out of the system under the proper kinds of conditions.

Well, so, the energy message treats with the problem of imports of oil. It eliminates the quantitative restrictions on imports.[3] I think it's a fair statement that the alterations in this program, and the annual realignments of the program, led to a sort of a patchwork quality, and to a sense of uncertainty about what, what would happen, and provides the underpinning for making—the rationale for making changes. So, what has been done is to eliminate quantitative restrictions, to move toward a license-fee system—and we call it a license-fee system rather than a tariff. It can be described either way, but for legal reasons, apparently, it's better to describe it as a license-fee system, which has fees in two tiers. That is, a fee for crude, and a fee for product. And the reason for having the two is to encourage the development of refining capacity in the U.S. from the standpoint of our own balance of payments, from the standpoint of our own jobs, and from the standpoint of our own control over as much of the total energy flow as we can get. Now, we have transition problems that we have tried to take care of in developing the system. We have the immediate price problem; that is, we don't want to do anything that raises prices unnecessarily. So, that has been handled. I didn't work this out. Bill Simon worked it out, and his associates, and I think they did a clever job. The way that's been handled is that the present tariff that affects all oil imports has been removed, and the license fee is applied only to imports that take place without a quota ticket. Now, we have lots of quota tickets out under the old system. There are more tickets, probably, than there is need to import, which means that this year, and the excess use of these tickets, we will have tariff-free oil, in effect. But, as time moves along, and as we gradually phase the quota tickets out of the picture, the tariffs will take hold and will be producing the incentives that we seek for the development of oil here and for the development of refining capacity, and so on. So, there's a time transition involved in how this all works. And for those of you who are students of this, yes, there are special arrangements worked with petrochemical problems, and so on, and so on, and so on. We know about it. I think, as a connected matter, suggesting sort of the integrative nature of the President's message here, it's important to get these deep-water ports that we don't have, which are necessary, if

[3] A reference to the Mandatory Oil Import Program.

we're going to import oil in the cheapest possible way and in the environmentally most considerate way.

[Omitted here is conversation unrelated to U.S. foreign policy and energy.]

Shultz: It's a big move, a big change in a system when I think it is important to notice that the oil companies were very strong for the Mandatory Oil Import Program. Now, they have swung—many of them—against it. Exxon, for example, came out for the total abolition of it. Our posture here is a change in it to suit the conditions of the future as we see it, but not abandon it, though, because we think that the concept can still be useful in encouraging domestic production and exploration, and encouraging the developing—development of refining capacity here. It may also be a useful agreement as we move down the road in dealing with other countries, because it gives us an element of control over the situation that we wouldn't have if we just abandoned it.

Well, going on to the subject of developing our own resources, 40 percent of our estimated reserves are in the outer continental shelf, and we are developing there, but slowly. And in the message, the President sets a goal of tripling the annual leases by 1979, which involves expanding the leasing beyond the 200-meter depth in the Gulf, resuming leasing in the vicinities beyond the Channel Islands based on individual environmental assessments, by studying in the Atlantic and the Alaska Gulf, forming the Council on Environment Quality, a one-year study that we hope will show us how to, how to exploit resources in those areas.

Also, we have gigantic reserves in Alaska. The proven reserves are already such that they would supply a third of our current imports, if we had access to them. And I have yet to run into a knowledgeable person in the oil industry who doesn't think that there's a lot more oil there than the so-called "proven reserves" where we've checked, particularly if one were to consider the naval petroleum reserve there. There's a gigantic amount of oil and gas in Alaska, so, we must have that pipeline. And it has been delayed, and delayed, and delayed. The capacity of the courts, and the environmentalists, and so forth, to delay, makes this astounding. And the latest is this right-of-way problem, which a statute is addressed to, and which the President is supporting.

[Omitted here is conversation unrelated to U.S. foreign policy and energy.]

Nixon: We come to the situation here, now, on the coal. Now, the coal situation is that, frankly, if we're really interested in the environment we would never have done coal at all. Never. Why not? I mean, it's such beautiful country where you'd have it to spoil it at all. And then, yet, if you look at nature in the raw—I've seen an awful lot of it in Africa, and I sure don't want to live there. I'd like to see it [coal] de-

veloped just a little bit. And so, the point is: are we going to have the coal that allows us to develop the other things we have? Are we going to develop it, and develop it in a sensible way which protects the environment? Or, are we gonna to do without it? We've got to make the choice.

You come, too, to the whole question of nuclear power. Now, here, you really have a mess. You have a combination of nuts involved. First, you've got the science—scientists who have a guilt feeling about ever letting the genie out of the bottle, and they don't want to develop the nuclear power. I mean the fears with it and all that. And they create fears among many people that if you got a nuclear power plant nearby that it might blow up one day and atomize the place. Incidentally, I live within one mile of one in San Clemente in case any of you are planning to stay there. [Laughter]

[Omitted here is conversation unrelated to U.S. foreign policy and energy.]

Nixon: It is the kind of thing that will give—will provide a lot of ammunition for the loudest and nosiest people, the environmentalists. And that's what the Alaskan pipeline is about. "The Alaskan pipeline," they say, "don't build the bastard." Now, why? "Because, well, the caribou or something can't live, or something happens to the ice up there." I don't know. [Unclear] Well, anyway [coughs], I don't see how they could spoil the landscape there, but whatever the case might be, they say, "Now, don't go that route through Canada. We ought to be concerned about that, folks." Now, here you get into foreign policy. So, you're going to build that through Canada? First, it costs a lot more. Second, the Canadians may not want it. Third, the Canadians, even though they are supposed to be a relatively friendly government, they would have us right by the throat in terms of our future supplies running through Canada, and we can't allow any nation to be in that position. It's bad enough to have to have the Mid-East, where not much, but about 3 percent of our present supply comes from. I just throw in these points here, as George goes through the numbers, to indicate how this cuts across the whole, the whole—the mix of the policies.

[Omitted here is conversation unrelated to U.S. foreign policy and energy.]

Nixon: And, also, in addition to that, there's nuclear energy. We're in the lead in nuclear energy in developing it. We're the people that started it all. And now, who's ahead in the development of nuclear power plants, in terms of actually having 'em on stream? The Soviet Union! Even the British. Why? Why are they ahead of us? Because, we have so many—I mean in terms of getting one done, and so forth and so on—because, of all of the—all of the whole wrap of red tape that is required to get one through, and, again, our environmentalist friends.

So, what we're trying, what we're saying to the American people, "Look, we are the most creative, inventive people in the world, but now, and as far as we're concerned, whether it's in coal, whether it's in oil, whether it's in nuclear, we're going to go out and get it, and we're going to develop it, and we're going to grasp these problems, and we're going to—and if it's going to cause problems to some, let's debate it out, but let people take their choice as to which they want."

One final thing that should be said before we go to the other subject is the effect, why foreign policy has always been important in here. To many in the Mid-East—Mid-Eastern oil, of course, is absolutely essential for Japan; 90 percent of their oil comes from the Mid-East. It's—it's absolutely essential for Europe; 80 percent of theirs comes from the Mid-East. And, of course, as you know, the Europeans are furious in developing the North Sea. That's where they're pumping for that gas out there, exploring for it. For us it's important, but a very—a relatively small amount comes from us, because we get ours from Venezuela, and from the United States. [Unclear] It's important, but could be, very soon, very essential, because it's—you can't really separate the United States from Europe and Japan, the great industrial nations. Now, the point is that here the need for a foreign policy that will be such that those countries upon whom we depend for imports will not be able to, first, blackmail us—in effect, play one against the other, is important. To have relations so that we don't have that happen, and also the need to recognize that in dealing, for example, with the Soviet Union on that great pipeline that they're talking about, that we have to make that decision based not only on our energy needs, but, also, on the effect that that may have on the total relationship with the Soviet Union at this time. So, it isn't all we need to know. All I'm gonna say is, "Look, we need them on gas and so forth."

Now, that brings me to another point that has to do, Dick, with your field. At the present time, in the international field, the United States is a giant, practically eminent, dealing with a bunch of pygmies. And the reason we are is that we are a—in the international field, have a number of great, large oil and gas companies, and when we go out and deal with the Mid-East, or when we deal with the Soviet Union, and so forth, all of our companies that have—go out and compete with each other. And so what happens? Take the Soviet: they play one off against the other, with the result was that we, we have a pretty hard time then. And the anti-trust laws they're, they're connected. You take, for example—you take, for example, the Mid-East. Let's suppose—let's take a deal with Iraq. The Iraqis—the Iraqis toss out the British, and what happens there? The French walk in. That shows you what's happened there. Each of these European companies, and Japan, is in business for itself. But only, each of the American companies is in business for itself. I mean, when they talk about Exxon, Exxon coming in and

saying, "We're for—we bought this whole bid through, because the interest of the nation must be served, rather than the interest of the selfish concern, because we believe that the oil import quota should be lifted." Baloney! [Laughter] Let me tell you why. I mean, I like the Exxon people, great people [unclear], and I like the people from [unclear]. All these guys sit down, they say, "How much do we get? Do we need imports abroad? How much in the interest do we have abroad? How much do we have at home? What's in it for us?" And that is the basis of their decisions. And it should be. We wouldn't want it any other way. But, what we come down to is that the United States in this area will not in the future be able to deal effectively, unless there is significant change in the antitrust laws.

Kleindienst: Correct.

Nixon: Do you agree?

Kleindienst: I've said that publicly, and it couldn't have shocked the traditional anti-trust people in this country—

Nixon: Because—because we, you know, otherwise they—we, via Kissinger, for example, called them down to something where they said, "And, well, we will have to call—we'll have to meet me informally and sort of behind—sort of as a top secret thing, or something like that." That's just nonsense. I mean, if we're trying to make a—at the present time—at the present time you have a situation with the Mid-Eastern countries. Take the crazy Libyans: they've got a lot of oil underneath 'em, but the Libyans—the Libyans are playing one off against the other and it's just, just madness for the United States to have one of our companies go in, have its throat cut, and another go in and pick up the pieces. More madness for the United States in foreign policy, Bill, for us to go in to Algeria, after the Algerians throw the French out, and then [unclear] pass the natural gas bill and pick up the chips for 'em. That's wrong too. The attitude of all of the free nations for expropriation, and the rest—in fact, you need the free nations together in a combine to deal with it. That's what we're really talking about here. Well, I mention this to—

Kleindienst: If you look at it, though, it's easier to defend the National Labor Relations Act[4] than it is the anti-trust laws, but it's impossible to amend [laughing] the national labor laws. [Laughter; unclear exchange]

Casey: This issue will become very clear [unclear], in my opinion, when the Europeans bring out their energy policy.

Nixon: Yeah.

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[4] The National Labor Relations Act, adopted in 1935, protected the right of workers to organize into labor unions and engage in collective bargaining.

Casey: They're going to require the companies [unclear] ask the companies to come in, submit five year plans, report the [unclear]—

Nixon: To whom? To the European—to the whole European thing? [Unclear exchange] So, the European Community will speak as one voice—?

Casey: Yes.

Nixon: Now, where's that leave Japan?

Casey: Well—

Nixon: It'll be outside?

Casey: [Unclear]—

Nixon: That's rough.

[Omitted here is a largely unclear segment on the Japanese energy policy.]

Nixon: Listen, let me just say the purpose of all this is not to indicate to you that we have terrible problems [unclear]. The purpose of this is to indicate this is a very exciting problem that is solvable because there is oil out there, and there is gas out there, and there is coal that can be used, and there is nuclear energy that we ought to get going on and fast.

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181. Message From King Faisal of Saudi Arabia to President Nixon[1]

Jidda, April 24, 1973.

[Omitted here is material unrelated to oil.]

I want to discuss a subject that has been very much in the news over the past four days—the declarations allegedly made by Ahmad Zaki Yamani, Saudi Arabian Minister of Petroleum and Mineral Wealth, in Washington.[2] I understand Zaki has returned to the Kingdom, but I have not yet seen him myself and have therefore not had the benefit of his explanation of exactly what took place. I suspect that he may have been misquoted by the newspaper, but at the moment I am simply not sure.

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[1] Source: Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 2, Chronological File A, May 16–20, 1973. Secret; Sensitive. The message was received from Prince Fahd in Jidda on April 24 and transmitted to Kissinger on April 26.

[2] See footnote 2, Document 178.

[*3 lines not declassified*] Saudi Arabia's policy is to cooperate fully with the United States by producing as much oil as we can and by increasing production as quickly as possible. There is no change in that policy, and there never will be. It is permanent and unchanging, just as is our friendship with the United States.

Speaking for myself personally, I would also like to say that I would never expect the United States to modify its commitments to Israel; I would never expect you to discontinue your provision of armament and war materials to Israel, or your political and diplomatic support; that would be completely unrealistic [*1½ lines not declassified*].

However, I would like you, as our friend, to understand that we need from you ammunition with which to defend our friendship with America in these dangerous times. For example, we completely understood why the United States felt it imperative to condemn publicly and strongly the Khartoum and Munich incidents.[3] These were criminal acts. But I would hope that the American Government and people, who are generous and open-minded, would appreciate how much it would help us in Saudi Arabia if we could show our Arab friends that the American Government regards the recent Israeli action in Beirut[4] as a crime of the same genus, especially since it was an official act of a legitimate government carried out on the soil of a peaceful neighbor who is also a traditional friend of America.

[Omitted here is material unrelated to oil.]

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[3] On March 1, members of Black September captured the Saudi Embassy in Khartoum, taking hostages and demanding the release of Palestinian militants. The hostages included Saudi, Belgian, Jordanian, and two American diplomats who were later killed along with the Belgian diplomat. The guerrillas surrendered 60 hours later, releasing the remaining hostages. A Sudanese court sentenced them to life in prison, later commuted to seven years, in June 1974. They were subsequently sent to Cairo where three of them disappeared and the others served out their sentence. Regarding the Munich incident, see footnote 6, Document 176.

[4] See footnote 6, Document 176.

182. Memorandum From James H. Critchfield, Special Assistant to the Deputy Director of Operations, Central Intelligence Agency, to Director of Central Intelligence Schlesinger[1]

Washington, May 3, 1973.

SUBJECT

White House Concern with the Foreign Policy Implications of the Energy Crisis

1. Early last week I met with Ken Dam to give him an appraisal of where relations stand among the producing countries, the oil companies and the consuming countries. He has said that the scope of his responsibilities are such that he cannot follow in any detail the continuing negotiations between the oil companies and OPEC but he does require periodic updating.

2. Later in the week I met with Charles DiBona and Hal Saunders of Dr. Kissinger's office. Our discussions focused on the status of the effort within the administration to formulate policy concerning international energy problems. DiBona said that on the one hand he has a clear-cut responsibility in this field but on the other has a newly-assembled staff of six and an array of problems. On the domestic side the energy message had until now absorbed his entire effort.[2]

3. Saunders observed that we thus far had no well-defined mechanism for dealing with the many complicated energy problems that are before us.

4. Both Dam and DiBona are generally informed of the role that I play in energy affairs. Dam expressed the view that DiBona's office and the NSC staff would have to carry the main burden in the foreign field. Until now the presence of James Akins from State at the White House has helped to keep State tied into this. Also, Deputy Under Secretary Casey has increasingly become involved in foreign energy problems.

5. I gave both DiBona and Saunders copies of a proposal developed by a Saudi entrepreneur named Adnan Kashoggi[3] which has separately found its way to the President's office through his secretary and through Bebe Rebozo, both of whom are known to Mr. Kashoggi. This is an imaginative proposal for marketing Saudi participation crude in

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[1] Source: Central Intelligence Agency, Executive Registry Files, Job 80–M01048A, Box 4. Secret; Sensitive. Sent through the Acting Deputy Director for Operations.

[2] See Document 177. On March 27, DiBona also complained of his staffing problems and the ambiguity of his position in a memorandum to Ehrlichman, Kissinger, and Shultz. (National Archives, Nixon Presidential Materials, NSC Files, Box 250, Agency Files, National Energy Office, Vol. II, March 73–July 73)

[3] Not found.

the U.S. and for investing Saudi surplus oil money in the U.S. economy. We all agreed that it is illustrative of the kind of problem that must be followed by someone.

6. *Comment:* It was my impression that Mr. Ehrlichman was charged by the President sometime before the inauguration with pulling together a mechanism for examining the related problems of energy and our policies for dealing with the producing countries. I was initially told that the group would consist of Mr. Ehrlichman, Secretary Shultz and Dr. Kissinger. James Akins, Harold Saunders and I were identified as working members. Under Ehrlichman's guidance we went through a briefing exercise which brought in Bill Simon from Treasury, Ken Dam, Peter Flanigan and several more junior aides. About the same time Mr. Ehrlichman established an ad hoc group for dealing with the transient crisis that followed the Shah's announcement on 23 January that he was assuming full control of the oil operations in Iran.[4] Since that time this arrangement has been dormant. In the meantime Dr. Kissinger has launched an NSSM[5] focusing on the problem.

7. I have continued to keep both Secretary Shultz and Dr. Kissinger's office generally informed on oil negotiations. The detailed material, however, has gone only to the NSC staff and, of course, the appropriate analysts in the Agency. The material sent to the NSC staff has been available to Jim Akins who continues to maintain an office in the Executive Office Building.

8. Late in December the President asked Ambassador designate Helms to submit to him an analysis of the Middle East in the context of our energy interests.[6] This paper was given to DiBona by the President. Dr. Kissinger's office also has the document. Neither has to my knowledge taken any action on the basis of it. It is my impression that there are people within the NSC staff who are following international energy developments in some detail. For this reason I am making a point in seeing that everything relevant that comes into my hands goes directly to them. It is now my impression that the NSC staff will carry the principal burden for formulating foreign policy relating to energy matters and that Ken Dam and Charles DiBona will play principal roles in pulling other interests in Treasury and the White House together. Presumably Casey, supported by Akins' replacement George Bennsky and where applicable the regional offices, will be the focal point in State for energy affairs.

James H. Critchfield

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[4] See Documents 152 and 161.

[5] Document 171.

[6] See Documents 149 and 166.

183. Paper Prepared by Harold H. Saunders and William B. Quandt of the National Security Council Staff[1]

Washington, May 9, 1973.

PRESIDENT'S THURSDAY BRIEFING

For President

Oil and Politics in Saudi Arabia: King Faysal's reassuring views on Saudi oil policy were reported yesterday. [*less than 1 line not declassified*] has added his personal views on the growing pressures on the Saudis to use their oil for political purposes, despite the declared policy of King Faysal to the contrary.

There is a very strong popular tide in the Arab world that favors using oil as a weapon against the United States. While the Saudi ruling group appears to be cohesive and the chances of a coup are small, [*less than 1 line not declassified*] emphasizes that pressures could build up if the royal family falls out of step with the Arab mainstream, which is increasingly insistent upon exploiting the "energy crisis" to Arab advantage. The regime could become increasingly isolated, and to overcome this the Saudis might capitulate and impose oil production limitations. The sincerity of present assurances by Saudi leaders of their desire for full cooperation is not in doubt; rather, it is the weakness of the leadership in the face of a trend toward militancy on oil issues that is of concern.

Reflecting a sensitivity to public opinion, King Faysal recently told the President of Aramco that the US must do something soon to change the course of events in the Middle East;[2] America's friends are being isolated. The King stressed that it would be increasingly difficult to hold off the tide of opinion that was now running so heavily against the United States. He asked the oil companies to try to help bring about a change in US policy. The Saudi chief of intelligence added that the Saudis would find it particularly difficult to stand alone in the event of a renewal of Egyptian-Israeli hostilities, an event they fear is likely.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1298, Saunders Files, Saudi Arabia, 1/1–5/30/73. Secret; Sensitive. Incorporated into the President's May 11 daily briefing as part of a memorandum from Kissinger to Nixon, May 11. (Ibid., Box 51, Presidential Daily Briefings, May 1–15, 1973)

[2] King Faisal reiterated this position in a meeting with ARAMCO officials the week of May 20 in Geneva. Faisal warned the oil executives if U.S. policies in the Middle East remained unchanged, Saudi Arabia would be increasingly isolated in the Arab world. Since the Saudis did not intend this to happen, American interests in the area could no longer be preserved. (Memorandum of conversation, May 30; ibid., RG 59, Central Files 1970–73, POL 15–1 SAUD)

Sources:[3]

Jidda 1891, 080853Z May 73
Jidda 1909, 081427Z May 73
Critchfield to Saunders memo, 5/8/73
Waller to Saunders memo, 5/8/73

[3] None is attached. Telegram 1891 from Jidda, May 8 is ibid., Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV. Two almost identical memoranda from Critchfield to Saunders, May 8, are ibid. Telegram 1909 from Jidda, May 8, is ibid., RG 59, Central Files 1970–73, PET 6 SAUD. The memorandum from Waller to Saunders was not found.

184. Memorandum of Conversation[1]

Washington, May 9, 1973, 2:30–3:15 p.m.

MEETING ON U.S.-SAUDI ARABIAN ECONOMIC RELATIONS

SUBJECT

U.S.-Saudi Arabian Economic Relations

PARTICIPANTS

Chairman
B/Gen. Brent Scowcroft

State
William J. Casey
Rodger P. Davies
Francois Dickman
George Bennsky
Claus Ruser

Treasury
William E. Simon
William A. Johnson

CIA
James Critchfield
Samuel Hoskinson

CIEP
Deane R. Hinton

Energy Consultant
Charles DiBona

CEP
Kenneth W. Dam

NSC
Harold H. Saunders
Robert Hormats
John A. Knubel
Dennis N. Sachs
William Quandt
James Hackett

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1298, Saunders Files, Saudi Arabia, 1/1/73–5/31/73. Confidential. The meeting was held in the Roosevelt Room. Submitted to Scowcroft under a May 9 covering memorandum and a copy was sent to Saunders, Odeen, Hormats.

SUMMARY OF CONCLUSIONS

It was agreed that:

—An inter-agency working group will be established under the chairmanship of Charles DiBona to consider this issue.[2]

—The working group will prepare the following papers for the next meeting:[3]

a. A review of the issues involved in the visit of the EC energy representative and the OECD meeting.
b. Lists of high energy use industries and potential investment opportunities in Saudi Arabia.
c. A review of the financial and monetary issues.
d. A review of the political issues influencing Saudi policy and attitudes.

Gen. Scowcroft: The purpose of this meeting is to focus on two issues of importance to our foreign policy interests. We have to give more attention to our economic relationship with the Saudis, particularly with regard to oil production, and we also have to consider the impact any step we take with them will have on our relations with Europe and Japan. We want to discuss the possibility of sending a team to Saudi Arabia to hold discussions with the Saudis, while keeping in mind the upcoming OECD meeting and the visit of the European Community's energy representative. Part of the problem we face is that a lot of people are involved in these matters; energy is an issue that cuts across agency lines. I would like to put the issues on the table and discuss them in this forum, so that we can give them full consideration, after which the government will be able to speak with a single voice. I think we can all agree that we don't have to discuss the unique position that Saudi Arabia occupies in the world oil picture. The question is, how should we respond to the oil problem as it relates to Saudi Arabia? What can we do that will give the Saudis some incentives, and make it in their interest, to expand their oil production? I believe you all have a copy of the agenda;[4] does anyone have any problems with its general approach?

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[2] See footnote 3, Document 187.

[3] The meeting was held June 20. The participants determined that the NSC Staff would seek a decision on the goals, timing, and sequence of the mission to Saudi Arabia, that the Department of State would determine the mission's visiting schedule, and that preparatory work for the mission would begin. The participants also determined that a small working group would work on OECD related energy issues. (National Archives, RG 429, Records of the Council on International Economic Policy 1971–77, Central File 1972–77, Box 19, 52501 (Odeen).

[4] Not attached.

Mr. Simon: You stated the situation very well here (in the agenda). I think a basic question is whether we should just consider Saudi Arabia in these meetings or instead consider the entire Persian Gulf area. I may add that George (Shultz) will be heading our delegation to the OECD meetings in June.[5]

Mr. DiBona: Actually, we will be having three separate meetings with the Europeans; first with the EC energy representative, then the OECD ministerial-level meetings and finally the high-level oil talks. In all of these meetings we will have to be careful how we describe what we will be doing in Saudi Arabia.

Mr. Simon: We don't want to talk about negotiating with the Saudis.

Mr. DiBona: That's right. What we want to do is discuss with the Saudis how they can best increase their production to help meet our needs. The team shouldn't get involved in details or prices.

Mr. Simon: It should be a fact-finding, or exploratory mission.

Mr. Hinton: That's a good word for it—exploratory. That's what we should call it. There is a lot of activity on the oil front right now. Nakasone[6] is going around seeing people, the French are trying to apply pressure, but we're in pretty good shape so long as U.S. companies maintain control of Mid-East oil. We shouldn't forget that.

Mr. Casey: We have to know what the preferential arrangements are that the Europeans have.

Mr. Hinton: Simonet's instincts go the wrong way, so far as we are concerned. While he is here we should try to turn him around. (Simonet is the EC energy representative)

Mr. Simon: I don't want us to get into a long study of the situation while the market is taken away from us by the Europeans and Japanese.

Gen. Scowcroft: It seems to me that we should relate the timing of the fact-finding trip to the meetings with the Europeans.

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[5] The OECD Ministerial Council meeting was held June 6–8. (Telegram 16015 from USOECD Paris, June 8; National Archives, RG 59, Central Foreign Policy Files) The Ministers discussed energy on June 7. (Telegram 16028 from USOECD Paris, June 9; ibid.) The OECD Oil Committee meeting, held June 13–14, was characterized by a general willingness to move past discussion and intensify work on the practical aspects of international cooperation. (Telegram 17222 from USOECD Paris, June 22; ibid.) The HLG met on the evening of June 12; see footnote 9, Document 187.

[6] Yoshiro Nakasone became the Japanese Minister of International Trade and Industry in 1972.

Mr. Casey: They are unrelated. The fact-finding mission is one thing and the European meetings are another thing.

Gen. Scowcroft: I meant the timing of the preliminary meeting only.

Mr. Simon: They can't go off and just discuss generalities with the Saudis.

Gen. Scowcroft: That's right, they have to do more than that.

Mr. Simon: I don't know how much the Israeli situation is the key to all of this, but it certainly is an important factor. It can't be ignored in any discussions with the Saudis.

Mr. Casey: The Saudis feel very strongly about it.

Mr. Simon: This should be strictly an economic discussion, but our people should be aware of the political factors.

Mr. Casey: We want the Saudis to increase oil production and we want to discuss with them means to achieve that result. We should stay out of the political issues.

Gen. Scowcroft: The Saudis may not want to stay out of it.

Mr. Davies: (Ambassador) Thacher wants to go see the King. It may be worth giving him some guidance on how to handle the issue.

Mr. DiBona: Would an announcement of the mission to Saudi Arabia be useful before the OECD meeting in June?

Mr. Simon: No, I think it could have a deleterious effect. I recommend against a public announcement.

Mr. Hinton: In our discussions with the Europeans and Japanese, it would be worth reminding them that the U.S. has other options and that we are prepared to play those options.

Mr. Davies: With regard to the timing, I would just remind you that Jidda is one of the most unpleasant places on earth in July. The Saudis themselves go up in the hills during July and August. The end of June is just about the latest it is wise to plan to stay there.

Gen. Scowcroft: Now that's a very practical consideration.

Mr. Simon: We can be ready by then.

Mr. Davies: I don't want to over-organize this effort. We should try to keep it exploratory. They want advice on the development of their infrastructure in Saudi Arabia, and also on their reserves.

Mr. Simon: An executive of Dow Chemical was in last week telling us they are prepared to put a petrochemical plant in there. Can we define some responsibilities for members of this group to start working on? Perhaps we should have some initial reports by next week.

Gen. Scowcroft: There are several routes we can take. At present, we have a NSSM study underway on the international aspects of the

energy problem.[7] We have a ready-made working group there that is already working on aspects of this problem. Or we could use you, Charlie (DiBona), and your group.

Mr. DiBona: If I were to do it, I would like to have some of the people here who have been working on this to work with me. As a matter of fact, I have a list here, which includes Claus Ruser, John Knubel, Bill Johnson and Sam Hoskinson. Can you all do it? (all concurred)

Mr. Casey: Is anyone here from Commerce? (no response) We need a list of the petrochemical industries that have a stake in this effort. We should have a list of the high energy users. That's one paper that should be prepared for the next meeting. Are there any others?

Mr. Simon: That information can be put together without much trouble. We can also do an investment and monetary paper.

Mr. Critchfield: The Saudis have a great deal of anxiety about their relationship with Iran, and also on a number of other issues. We may want to do a paper on the Saudi views on some of these points.

Mr. Simon: The most productive thing we can do right now is send a high level group to Saudi Arabia to discuss these issues. That's the whole idea, to send a team to discuss the issues, not to study them.

Mr. Critchfield: Perhaps we should take some action to clear the air with King Faisal beforehand. There are a number of issues adversely affecting relations between the U.S. and the Saudis. If we could take some action to improve the atmosphere before the mission gets underway, it would be a big help.

Mr. Hinton: The situation you are referring to has existed for thirty years. We've always had disagreements with the Saudis. We can't wait for an improvement in the atmosphere before starting these discussions. The mission itself will improve the atmosphere.

Mr. Davies: Actually, we're in fairly good shape in our relations with the Saudis right now. We are being particularly helpful to them on the military side.

Gen. Scowcroft: One of our objectives is to be responsive to their interests and initiatives, and not just to our own interests.

Mr. Hoskinson: In Saudi eyes, the political and economic issues are the same and our team should be prepared to cope with that. I think we need an issues paper, to help us separate these things for the team.

Mr. Casey: We have one.

Mr. Critchfield: The King will have been in Cairo and also in France by the time our team gets there. His state of mind will be important. There is a myth that is current in the Middle East that things have

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[7] See Document 192.

changed dramatically in the last six to nine months. According to this view, we have given additional aid to the Israelis and the Palestine situation persists without improvement. So Faisal sits and listens to word that there is a U.S.-Israeli conspiracy in the Middle East and that the Saudis should keep their oil out of U.S. hands. We should try to dispose of this unhelpful atmosphere before we start talking with them about economic matters.

Mr. Davies: I don't think it's all that bad. We are being helpful to the Saudis in Yemen, where it's very important to them, and also with our military posture. Sure, we can improve our political posture toward them, but the situation as a whole isn't so bad.

Mr. Casey: We have to be prepared to respond to whatever the Saudis may raise.

Gen. Scowcroft: I agree, we have to be prepared to respond to them. Are we all agreed that DiBona should go ahead with the working group? (there was no objection) We want to leave you (DiBona) the flexibility you need to do what is necessary, so I don't think we should schedule the next meeting until you're ready for one.

Mr. DiBona: We have the OECD meeting early next month.

Mr. Hinton: We have to be sure that we have a position for that meeting. The Europeans are talking about sharing all continental oil, avoiding competitive bidding and other things that we don't like. You should take a look at the policy statement recently issued by the European Commission. Some parts of it are very disturbing.

Mr. Simon: Do you have a copy?

Mr. Hinton: It's in Brussels 2173[8] It's an unclassified cable. The Commission has been trying to establish a common energy policy for ten years and they are no closer now than ever. But we have to consider these issues before the OECD meeting. Some of the stuff in the EC policy statement is right out of our bible, while other aspects of it are pure socialism.

Mr. Casey: Will the NSSM working group address the issues to be considered at the OECD meeting?

Mr. Hinton: I doubt it. I think it will be a long time before they are ready to make any decisions.

Mr. Casey: The EC wants to manage the oil and establish tight control of industry in Europe.

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[8] Not found. The text of the April 19 EC paper entitled "Guidelines and Priority Activities Under the Community Energy Policy," is in telegram 2504 from USEC Brussels, May 7, which is partially garbled. (National Archives, RG 59, Central Foreign Policy Files) Additional information on the paper is in telegram 2198 from USEC Brussels, April 20. (Ibid.)

Mr. Hinton: They are talking of special arrangements with the Middle Eastern producers. We want to watch this and make sure it comes out right for us.

Mr. Critchfield: I don't think this EC paper is so bad. The draft was very tough, while the paper actually issued has backed off considerably from the draft. The Nine are nowhere near an energy agreement.

Mr. Hinton: That's right. The trend is in the right direction and we want to keep it that way.

Mr. DiBona: Our only involvement with the EC at this time is the Simonet mission to Washington.

Mr. Hinton: But we consult regularly with Brussels concerning EC policy.

Gen. Scowcroft: I assume the NSSM working group is involved in this.

Mr. Knubel: We are considering it, but the cable that Hinton is referring to is new. We'll have to take a look at it.

Gen. Scowcroft: O.K., is that it?

Mr. Casey: O.K.[9]

[9] In a June 25 memorandum, Odeen and Saunders wrote Kissinger that one or two missions to Saudi Arabia were necessary, but the actual configuration and intent of the mission was unclear. They suggested that the proposed mission(s) should discuss Saudi security concerns, the Arab-Israeli problem, and Saudi oil policy, the latter aimed at increasing Saudi production over the next five to ten years to meet U.S. and world needs. The copy does not bear any indication that Kissinger initialed a decision. (Ibid., Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. III)

185. National Intelligence Analytical Memorandum[1]

NIAM 3–73 Washington, May 11, 1973.

[Omitted here are the title page and table of contents.]

INTERNATIONAL PETROLEUM PROSPECTS

Précis

A. Energy requirements will increase by about six percent a year world-wide through 1980. Demand for oil, which fills half the energy need, will keep pace, reaching about 88 million barrels per day. One-third of the non-communist world's oil supply will come from Saudi Arabia and Iran combined and another third from other members of the Organization of Petroleum Exporting Countries (OPEC).[2] (*Paragraphs 2–5*).

B. Saudi Arabia has the world's largest reserves of oil, is already the largest exporter, and soon will be the largest producer. King Faisal or another member of the Saud family will probably rule through the decade. *While it now seems likely that Saudi oil will remain available in growing quantity through the decade, internal developments or a further deterioration of Arab-Western relations could alter this favorable outlook.* (*Paragraphs 18–24, 67*)

C. *Iran will have no interest in interrupting supply.* Oil revenue is necessary to fund the Shah's increasingly expensive industrialization program. Either he or a successor government will seek maximum oil revenues. (*Paragraphs 16–17*)

D. *There probably will be some small interruptions of oil supply during the 1970s.* Those most likely to occur involve such states as Libya and Iraq; each will be producing less than five percent of world oil supplies. Oil shortages of this magnitude could be managed, albeit with substantial inconvenience. *A major and sustained embargo on oil shipments by the Arab states working in concert is highly unlikely.* (*Paragraphs 25–29*)

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[1] Source: Central Intelligence Agency, National Intelligence Council Files, Job 79–R01012A, Box 448. Confidential. The Central Intelligence Agency and the intelligence organizations of the Departments of State, Defense, and Treasury, the AEC, and NSA participated in the preparation of this memorandum. The Director of CIA submitted this memorandum with the concurrence of all members of the USIB with the exception of the FBI, which abstained on the grounds that it was outside its jurisdiction. In a March 13 memorandum to Deputy Director of Intelligence Edward W. Proctor, the Director of the Office of Economic Research, Maurice C. Ernst, recommended that given the overlap between this NIAM and NSSM 174, the NIAM be suspended and focus placed instead on NSSM 174. (Ibid., Job 82–M00587R, Box 5) All attached annexes, tables, and figures are not printed.

[2] Saudi Arabia, Iran, Kuwait, Iraq, Abu Dhabi, Qatar, Indonesia, Venezuela, Nigeria, Algeria and Libya. [Footnote in the original.]

E. *The USSR is not likely to become a key participant in the international oil trade.* By 1980 total Soviet oil sales—from domestic production and from foreign procurement—probably will amount to only three to five percent of that trade. The USSR's interest in extended economic relations with Western Europe and the US, as well as its recognition of the risk of confrontation with the US, *make a Soviet attempt to interfere with international oil supplies highly unlikely. The USSR might in certain circumstances, including support of other foreign policy objectives, be prepared to play on Western uneasiness about the security of oil supplies.* (*Paragraphs 35–46*)

F. *The cost of oil imports will be huge.* Even if prices remained constant, the world's aggregate oil import bill would reach $55 billion (in 1973 dollars)[3] in 1980; the US, Western Europe, and Japan combined would be paying $45 billion of this. The cost could be much more, depending on the increases in oil payments that OPEC states manage to get and the rate of inflation. If the price reached $5 per barrel, the 1980 bill would come to $90 billion for the world. (*Paragraph 48*)

G. The producers, in the aggregate, will get much more revenue than they spend or give away to client states. *This surplus will mount to at least $27 billion by 1980 (at today's prices) and two or three times as much if per barrel revenues rise rapidly.* (*Paragraphs 54, 59*)

H. Most of the accumulation will be in Saudi Arabia, Kuwait, and Abu Dhabi. They probably will invest the bulk of it abroad. *So far as investment is concerned, the large and flexible markets of the US will prove very attractive.* Oil producing states with large liquid balances will have considerable potential for aggravating unsettled monetary conditions, but they will also have a strong interest in maintaining world monetary stability. (*Paragraphs 56–60*)

I. *The oil consuming countries as a group cannot break even on current account transactions with oil producers. The US, deriving large profits from overseas oil operations and importing only half its oil requirements, can—if oil prices do not rise too rapidly and if US exports maintain or increase their share of producer-country markets.* Western Europe will run a deficit on oil-related transactions, but not necessarily one of staggering proportions. Japan will have a deficit on oil transactions that will be a burden even to an otherwise strong payments position. (*Paragraphs 51–53*)

J. *Intensified rivalry among the US, the West European countries and Japan for (1) oil, (2) extended export markets to pay for oil and (3) investments from oil producers will run serious risk of causing deteriorating terms*

[3] Throughout this paper, 1973 dollars are used. In those instances where the distinction is relevant, the dollars are post-February 1973 devaluation dollars. [Footnote in the original.]

of trade for all consumers and also of embittering political relations among major industrial countries. And bad political relations would in turn intensify economic rivalry. (*Paragraphs 62–65*)

[Omitted here is Section I, World Energy and Oil in 1980.]

II. The Producing States: Factors Affecting Reliability of Supply

[Omitted here are subsections A and B.]

C. Collective Arab Action—A Political Embargo

26. The Arab countries have long been aware that their collective importance to world oil supplies is a potential source of leverage over the industrialized West. Arab leaders, including Sadat of Egypt and Qadhafi of Libya, frequently discuss the possibility of collective action designed to deprive the West of oil in order to bring pressure on Israel. In years to come, threats of embargo no doubt will be repeated frequently. The fact remains, however, that the Arab world has never undertaken an embargo on all oil shipments or a sustained embargo on any large share of them.

27. In the absence of renewed or imminent Arab-Israeli hostilities, a collective Arab embargo aimed at forcing the Great Powers to impose a settlement is highly improbable. Saudi participation, vital to an effective embargo, would be virtually out of the question in this set of circumstances certainly while Faisal is actively in charge, and probably under his designated successor. (In the event of a more radical regime, the prospects would be more uncertain.) The mutual trust necessary to bring about an embargo does not exist among the Arab states; nor would they be able to agree on the objectives of any such action.

28. However, the Arab-Israeli situation is volatile, subject to change because of developments in Israel, in Egypt, in Jordan, in Saudi Arabia, or in the policies of the Great Powers. It would be imprudent to assume that the decade will pass without some kind of crisis, involving hostilities or a level of tensions so high that some Arab governments would seek ways to strike at the US. It is possible that the cycle of terrorism and reprisal, sustained over time, could lead to interruptions of the flow of Arab oil. And in circumstances of Arab-Israeli hostility, certain governments would almost certainly act unilaterally to suspend shipments to the US and in addition attempt to organize an Arab-wide embargo. Only as the 1980s approach, and non-Arab exporting countries reach their limits of producing capability, would an Arab boycott of the US alone, coupled with an equivalent decrease in output, be sustainable. In these circumstances, the oil withheld from the market could not be readily replaced and not only would

the Arabs have substantial financial reserves, but they would continue to export enough oil to cover their current expenditures.

29. Before then, an Arab-wide embargo of oil shipments extensive enough to bring *effective* pressure on consuming countries, even in highly charged circumstances, is unlikely. To mount an effective embargo, the Arabs would have to suspend shipments to Europe as well as the US, harming many countries that have helped the Arabs with political support, arms sales, and economic aid and injuring their own economic interest. Many Arab leaders would be reluctant to do this. Despite the ability of the Arab oil producing states to continue paying the import bills of the entire Arab world, while doing without oil income in whole or in part for an extended period, the Arab states would fear that consumers could freeze their assets and deny them needed imports. Finally, although the animosities and suspicions that hamper joint Arab action in normal times tend to subside when the Arabs believe that they are being humiliated by—or on behalf of—the Israelis, they do not disappear. In sum, an Arab-wide embargo of oil shipments to Western Europe and the US could happen, but it is only a slim possibility.

30. Were all the necessary triggering events to occur and bring on an Arab-wide embargo of all oil shipments, the impact on consuming countries would be serious. A total Arab suspension of shipments would cut off roughly half of the oil normally moving in world trade at present and about 60 percent of what is expected to be moving in 1980. The effects would vary widely, depending on timing (year and season), tanker availability, stockpiles in consuming countries, ability to increase production in non-Arab producing countries and the rapidity with which Arab unanimity began eroding. In a purely theoretical *worst* case—complete embargo of all Arab exports and a poor stockpile situation—the industrialized countries as a group would be able to maintain *normal* oil consumption for only about three months.

31. But an Arab decision to treat Japan and the smaller consumers on the same footing with the US appears very unlikely; if the Arabs were stung into declaring a sweeping embargo, they would at most cut off shipments to the US and West Europe. And, when realistic assumptions about US, West European and oil company reactions to an embargo are taken into account, it becomes clear that energy consumption can be reduced and oil supplies can be stretched out, although not without severe dislocations in some embargoed countries and very considerable difficulties in all of them. Output of operating oil fields can almost always be increased by five to 10 percent by making adjustments in techniques and in maintenance schedules. Certain steps to reduce oil consumption and increase the energy produced from other fuels can be taken fairly quickly. The US, for example, probably

could save a million barrels a day by cutting oil-fueled transportation by 10 percent. A portion of US generating and industrial facilities are equipped to burn either oil or other fuels or can be converted readily; a million bpd or so could be saved over a few months by switching them from oil. Relaxation of pollution controls would yield more final energy from inputs of either oil or coal.

32. After taking such initial measures, the embargoed nations as a group would find themselves with about 85 to 90 percent of the *energy* needed to maintain their essential activities, and they could do somewhat better if oil shipments were diverted from other customers.[4] The US, with greater flexibility in its choice of energy sources, would be somewhat better off than Europe, even while sharing Western Hemisphere oil with Europe to spread the impact. To cope with the remaining shortfall (amounting to about 10 million bpd of oil in 1980), the US and West Europe would have other options—notably rationing—and stocks of about 3.6 billion barrels of oil to draw on. The consequences—in unemployment, pollution, money costs and other disruptions of normal life—would be very severe, but they would be manageable. (If Western Hemisphere oil were not made available to Europe or if the US alone were embargoed, the US would at worst retain about 90 percent of its normal energy supplies *before* making any of the adjustments in production, consumption, or fuel sources cited in paragraph 31.)[5]

33. The support of non-Arab producers for any Arab-led embargo designed to punish the West for its policies toward Israel is virtually inconceivable. Each producing country has its own interests and desires; the Shah of Iran, for example, has in the past been eager to increase Iranian oil production in order to make up for shortfalls in Arab oil caused by politically inspired cutbacks. Venezuela, Indonesia, Nigeria and other West African states are not at all likely to sacrifice vitally needed oil revenues to promote the political goals of Arab governments. In short, non-Arab producers would see considerable opportunity in such circumstances both for increasing their income and for enhancing their position as suppliers.

34. *In sum,* the producing countries' appreciation of the need for revenue to run their governments and develop their economies will insure that most oil will flow to market most of the time. But there can be no guarantee that all oil needed will flow all the time. Interruptions

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[4] The details of this calculation are shown in Annex D. [Footnote in the original. Annex D, "Approximate Dimensions of an Arab Embargo on Oil Shipments to the United States and West Europe," is not printed.]

[5] These cases are discussed in greater detail in Paragraph 4 of Annex D, page 52. [Footnote in the original.]

to the flow of oil from the smaller suppliers are almost certain to occur—they are quite likely in some (e.g., Libya and Iraq) and possible in all. Hence those who produce, market and transport oil will probably have to cope with shortfalls of something like two to four million bpd (up to five percent of normal world demand) on a few occasions in the 1970s. The system can cope with shortfalls of this magnitude, albeit with considerable inconvenience.

[Omitted here is the remainder of the paper, including Section II, subsection D, Multiple Roles of the Soviet Union, Section III, The Consuming Side, Section IV, Concluding Observations, tables, figures, and annexes. See Appendix B for Figure 5: Major Oil Trade Routes.]

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186. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, May 17, 1973, 1030Z.

2047. Subject: Energy: US Views on Oil-Consuming Countries' Cooperation Presented to Yamani. Ref: A. State 74563; B. State 85246; C. State 88651.[2]

Summary: Amb informed Yamani we were concerned with some public statements creating impression USG seeking establish a kind of consumers' cartel for "confronting" producing governments. This was not at all our idea. Rather, we were aiming encourage cooperation among consumers as well as cooperation between consumers' groups and OPEC. There could be difficult problems of supply in years ahead and countries should not find themselves suddenly short of petroleum. We were still feeling our way in this sphere but there would be further talks next month with other consumers. Cooperation of this type not entirely new as we had worked with other governments before to pool

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[1] Source: National Archives, RG 59, Central Foreign Policy Files. Confidential. Repeated to The Hague, Kuwait, Tripoli, London, Tehran, USOECD, and Tokyo.

[2] In telegram 74563 to Amman and other posts, April 20, the Department relayed information to Sisco on Yamani's visit to the United States April 16–18. (Ibid., Central Files 1970–73, ORG 7 D) Telegram 85246 to Tehran, May 4, reaffirmed that U.S. policy was not to promote a consumers' cartel, and this should be made clear in order to counter Japanese comments to the contrary, whether intentional or not. (Ibid., FSE 1 US) In telegram 88651, May 9, the Embassies in Jidda and Kuwait were instructed to repeat the message contained in telegram 85246. (Ibid.)

knowledge in R&D matters. Yamani feared some of the more aggressive OPEC members might welcome a confrontation with consumers' organization. He feared also there were powerful elements in US who sought formation consumers' group as means to combat OPEC. Yamani said he had been misquoted in *Washington Post* article and he wondered if type of thinking in *Post* editorial few days later[3] represented views of those who sought organize consumer group for hostile political reasons. Ambassador pointed out any injection of politics into efforts for consumers' cooperation would be their death knell and promised send Yamani excerpts from recent USG public statements which made clear our goals. Yamani seemed partially convinced but further efforts may be necessary allay his suspicions. *End summary.*

1. In call May 16 on Petroleum Minister Yamani, I told him Dept had asked me elucidate US views and intentions regarding possible cooperation between govts of petroleum-consuming countries. We were stimulated to make some comments on this subject by reports of public statements, some coming from officials of Japanese Govt who, intentionally or unintentionally, had seemed create impression USG seeking draw together a kind of consumers' cartel with objective of "confronting" producing govts. I said I wanted, if I could, to allay any such misapprehensions and provide clearer understanding of what we trying to do. Certainly it was not at all our idea to work toward any kind of confrontation or contest between consuming and producing groups.

2. On contrary I told Yamani, we were aiming encourage cooperation among consumers as well as cooperation between consumers group and OPEC. With prospect that petroleum supply and demand curves would move closer to each other in years just ahead, and with less shut-in capacity around world, it seemed desirable there should be some kind of arrangement so that any particular consuming country would not find itself suddenly without adequate supplies. However, we are still feeling our way in this sphere and I remarked that we could not say precisely at this stage what forms consumer cooperation might take. We were looking forward to further talks next month with European and other consumers in which Under Secretary Casey, with

[3] For Yamani's interview, see footnote 2, Document 178. The editorial, which appeared in *The Washington Post* April 20, p. A22, stated that Yamani's threats were an attempt "to placate at least for a while, those Palestinians and other Arabs" who would like to use Arab oil to "bring down Israel." The editorial stated that the Saudis had three props to their regime: giving money to the Palestinians and Egyptians, maintaining a large military force, and issuing threats against Israel and "more carefully" against the United States. The editorial added that the United States could not "yield to hysteria" in responding to such threats not least because in return for "a measure of protection" the United States gave the Saudis access to the largest oil market in the world.

whom Yamani had met in Washington,[4] would probably lead US side. In a sense this kind of cooperation was not entirely new, since we had worked for several years with other govts to pool knowledge and resources for research and development in energy matters. I emphasized again we were not seeking form any kind of aggressive cartel but that there were quite legitimate reasons for cooperation among consumer governments and that such an approach could well improve prospects for useful consultation and cooperation with producing nations.

3. Yamani responded by remarking that several of the more aggressive OPEC members would be inclined to see formation of a consumers organization as in fact an invitation to a confrontation. Such producers might even welcome this development. They would try to inject political considerations. Saudi Arabia thought such a course should be avoided.

4. In fact, Yamani thought, there were some powerful groups in US who from consumers' side might see things in much same light. He had read statements by such oil experts as Adelman and Walter Levy,[5] who seemed to conceive of a consumers group as an instrument for combatting OPEC and defeating its objectives.

5. Yamani referred to *Washington Post* news story of April 19 reporting his views on oil and Middle East situation. It was not at all his idea that politics should be introduced into oil affairs. He felt he had been misquoted by *Post* and he had been much concerned by quite hostile interpretation put on his comments in *Post* editorial few days later. Was this the kind of political thinking and motivation that lay behind moves to organize consumer states? People with this type of outlook were known to carry considerable wieght in US.

6. I told Yamani I thought it quite incredible anyone should think that US administration would try to introduce a political element into considerations supporting the idea of consumer cooperation. It seemed to me that if any consumer govt were to suspect they were being asked to take part in some kind of political endeavor, they would almost certainly retreat very rapidly. A suspicion of political motivation could kill cooperative efforts before they could get started.

7. Yamani commented that it is perhaps a fine line between, on the one hand, cooperation and reasonable motives of common interest, and, on the other, collaboration to oppose and contest the rights and positions of producing govts. Perhaps USG could arrange some public statements which could reaffirm position I had just stated, since

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[4] See footnote 4, Document 176.

[5] See footnote 3, Document 169.

representatives of "some other govts" had seemed to have same misgivings that he himself had harbored. I promised to send Yamani key excerpts from recent testimony of Under Secretary Casey and President's Energy Message,[6] which I hoped would help him understand what we are really seeking to do. Yamani said he would welcome these. I left him also short written summary of principal points of our position as stated reftel B.

8. *Comment:* Yamani appeared partially but not wholly convinced as to reasonableness of our motives. Prospects for consumer–producer cooperation will no doubt be improved if we can further allay the kind of suspicions Yamani has voiced publicly in the last few months and which he described more fully at this meeting. As consumer cooperation develops, it may prove desirable to keep him informed on what we are aiming to do.

9. Yamani's comment on *Washington Post's* interview with him and its subsequent editorial reflected genuine concern at the impression that may have been created as to the aggressiveness of Saudi intentions with regard to possible management of its oil policy for political purposes. His more allusive comments on this sensitive topic in his recent conversation with the Secretary[7] (reftel A) are more characteristic of the line which we believe both Yamani and others in the government prefer to take: i.e. the continuing unresolved character of the Middle East problem may cause Saudi Arabia increasing difficulties in its efforts to cooperate with the US in petroleum and other matters.

Thacher

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[6] Casey testified before the Senate Committee on Interior and Insular Affairs, May 1. His prepared statement on the international ramifications of the energy situation is in the Department of State *Bulletin,* May 28, 1973, pp. 702–706. For the President's Energy Message, see Document 177.

[7] See footnote 4, Document 176.

187. Memorandum From Philip A. Odeen of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, June 6, 1973.

SUBJECT

Energy and the Atlantic Alliance

Our work is pointing to several areas where energy related issues can play an important part in efforts to develop a new basis for our relationship with Europe and Japan. In addition to the work on the energy NSSM,[2] these issues have been developed during preparation for the OECD meetings by the ad hoc committee on international aspects of energy.[3]

This memo summarizes the results of our studies and discussions that impact on the "Year of Europe."

Areas of Cooperation

Cooperation was the dominant theme of the international side of the President's Energy Message.[4] Specific areas for cooperation were to be subsequently defined. Our work to date shows three areas where specific cooperative efforts could be focused:

—*Emergency sharing schemes* and coordinated emergency stockpile arrangements.

—*Cooperation in research and development.*

—*Cooperation among consumer nations* to provide a counter to the OPEC cartel.

In each of these areas, our relative strength could provide leverage to be exploited in your "Year of Europe" effort. Policy coordination is an obvious necessity if this leverage is to be exploited.

U.S. Leverage on Energy

Our leverage in energy matters results from several factors:

First, we have considerable economic and political influence with the two richest oil nations—Saudi Arabia and Iran, which must make very large

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–197, National Security Study Memoranda, NSSM 174 (Response). Confidential. Urgent; Sent for information. Kissinger initialed the memorandum. All brackets are in the original.

[2] Document 171.

[3] Members: Casey, Simon, Dam, DiBona, Flanigan, Hoskinson, Odeen (Chairman). [Footnote in the original.]

[4] See Document 177.

production increases if worldwide oil needs are to be met through 1980.[5] Although projections differ, all agree that substantial increases will be required.

Principal Suppliers of World Oil
(millions of barrels per day)

	1972	*1975*	*1980*
Saudi Arabia	4	7–10	11–20
Iran	3	5–7	7–10
Iraq	1	2–3	3
Libya	3	3	3
Other Middle East	6	8	12
Total	17	25–31	36–48

Without U.S. participation, it is doubtful that the proper economic environment can be created that will bring about these increases. Particularly, if the Saudis are to meet required levels of production, they will need investment opportunities for their earnings and a general economic environment in which they feel secure. Kuwait has already held production back because they do not need oil earnings to meet domestic objectives and they believe it safer to keep oil in the ground for future generations than sell it and run the risk of losing invested revenues. The Saudis could make a similar decision and our help in providing the needed investment opportunities and economic institutions will help reduce the likelihood of this happening.

U.S. identification with Israel is an obvious political hindrance to our efforts in this regard, but without our economic and political support it is unlikely that the needed expansion will occur.

[*Note:* To begin developing investment opportunities and improving the economic climate with the Saudis, the ad hoc international energy group is considering a joint Simon/Casey mission to Saudi Arabia in August or September. An issue paper on this trip is being prepared. When it is complete, we will be asking for your guidance.][6]

Second, our technological advantages also give us leverage. We lead in most fields of energy-related technology, especially new energy sources. (R&D is discussed in more detail later in this memo.)

A final factor is that the U.S. is the only major consumer nation with sufficient domestic resources to have the option of reducing our future demand for oil imports (almost complete self-sufficiency is a possibility by the

[5] Saudi Arabia and Iran account for over 30 percent of the world's cheapest reserves. [Footnote in the original.]

[6] See footnote 9, Document 184.

early 1980s). Development of our more costly domestic alternatives could substantially relieve future tight oil markets and without U.S. demand (about 30–40 percent of the total) the OPEC countries could find it difficult to maintain prices at the current level of 10 to 15 times cost.[7]

On the other hand, if we decide to compete for foreign oil rather than develop domestic alternatives, the Allies will find it hard to meet their own needs and will pay a higher cost. Thus, our efforts to develop domestic energy resources and other alternatives to Middle East oil provide the other consuming countries with influence they would not otherwise have in counter to the OPEC countries. This fact has not been sufficiently stressed in our discussions with the Allies.

These general sources of strength in energy matters translate into specific sources of leverage in issues under discussion within the OECD and elsewhere. An example is cooperative emergency sharing and stockpile schemes.

Emergency Sharing Schemes

Because of our comparatively large domestic oil reserves and access to Canadian and Venezuelan supplies, the U.S. will be far less dependent on imported oil than European countries or Japan. It is projected that in 1980 we will import about 30 percent of our oil from Middle East sources compared to 60 and 85 percent for Western Europe and Japan. This means that under most circumstances we are net contributors to import sharing schemes as shown below:

Cuts in U.S. Oil Consumption
(Percent in 1975)

		Embargo by		
	All-Arab	*Libya*	*Iran/Iraq*	*Saudi Arabia*
No Agreement	18	Negl	6	13
Agreement to Equalize Cuts in Imports	24	5	10	3

The only situation in which we would gain from a sharing agreement are: (a) under a Saudi Arabian embargo, (b) an Arab embargo of oil sales to the U.S. *only*—perhaps in the context of an Arab/Israeli conflict.

Finally, these calculations do not address the prime objectives of a sharing scheme—*to deter* a politically motivated cut off by limiting the attractiveness of an embargo focussed against one country. An agreement would, therefore, reduce the likelihood of oil being used for political purposes by increasing the production cuts that must be made

[7] A handwritten notation by Kissinger next to this paragraph reads: "How?"

to hurt any one country. The Europeans are aware of this and want U.S. participation.

Without U.S. participation, the deterrent value of any sharing arrangements would be severely reduced. Thus, we should probably expect some concessions in other areas in exchange for U.S. participation in an import-sharing scheme.

However, certain factors do tend to weaken U.S. leverage with respect to emergency sharing agreements:

—The Europeans may not believe that a formal import sharing scheme is essential—if a cutoff occurred they could rely on political pressures and the normal reactions of the oil companies to bring about a roughly equitable sharing of remaining supplies.

—U.S. oil stockpiles are somewhat less than Europe and Japan.[8] Thus, in a coordinated arrangement we might be required to build up our stockpiles at a significant cost ($3–5B).

—If the U.S. were selected out as the sole target of an embargo, (perhaps the most likely case) we would, of course, benefit from an import sharing scheme *and the Allies would suffer.*

At the OECD meeting, Under Secretary Casey will propose that an OECD working group be created to analyze options and implications for import sharing and coordinated stockpile programs.[9] In the meantime, our working group is studying the various alternative approaches to develop a preferred U.S. proposal.

Research and Development

The U.S. is well ahead in most areas of energy technology (e.g., nuclear power) although there are some areas such as conversion of coal into gas where the Europeans have an advantage.

Our technological lead plus our large and varied research and technical resources are essential to any major coordinated effort to develop nuclear energy, coal, and other non-petroleum energy sources. We have much more to offer than to gain from such an effort. Thus, our cooperation should earn some "quid" from the Allies.

At the OECD meeting we will propose establishing an information "clearing house" aimed at inventorying each country's basic research ef-

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[8] 40–50 days for U.S. reserves, 75–80 for Europe and Japan. [Footnote in the original.]

[9] At its June 12 meeting, the High Level Group of the OECD Oil Committee accepted the U.S. suggestion to establish an informal working group to develop and evaluate the various options for extending and adapting the OECD mechanism for apportionment of oil supplies in an emergency. A report was to be circulated no later than October 15. (Telegram 16689 from USOECD Paris, June 18; National Archives, RG 59, Central Foreign Policy Files) Casey's address to the HLG on the evening of June 12 was entitled "Possible Areas for Cooperation Between Member Countries on Oil Questions." (Telegram 16178 from USOECD Paris, June 15; ibid., Central Files 1970–73, OECD 3)

forts. Actual technology sharing would be based on subsequent bilateral negotiations which will yield real but probably modest results.

There may well be much more that can be done in joint R&D, but we do not yet have the data needed to be specific. U.S. funding of energy R&D is modest to say the least but some promising areas (geothermal and solar energy, for example) could fruitfully be funded at twice the current level (or more). Joint ventures may be a promising way to bring more resources to bear and we may wish to take a bold initiative at some point; e.g., a major multi-nation effort to develop solar power.

Multilateral R&D, however, has pitfalls also. It is often slow and cumbersome and frequently results in technology transfer from the U.S. to the other partners. Thus, we should proceed with some care and consider these issues on a case by case basis.

Consumer Country Cooperation

The most critical area of political cooperation with Europe is in joint efforts aimed at improving consumer country market position vis-à-vis the producers—primarily the OPEC cartel. A number of observers are calling for a strong consumer country organization as a counter to the market power of the producers. They point out that in today's tight market situation, unless the consumers work together, they will be played off one against the other, pushing prices even higher. A critical time for these negotiations on price will be late 1974 and 1975, as the expiration date of the current agreement with the OPEC nears.

It is hard to fault the general concept of consumer nation cooperation. *The real issue is the nature of the cooperative effort and the feasibility of getting the major consumers to agree to work closely together* particularly in planning how scarce oil might be allocated. A range of cooperative efforts have been suggested including:

—Exchange of information on individual energy needs and policies regarding prices, etc., to aid in general market planning and negotiations.

—Explicit government support for the international oil companies in their dealings with the OPEC—through government to government dealings in non-oil areas such as arms and economic cooperation. These would be a direct quid for an informal agreement to meet production and other energy related goals.

—Developing a tight consumers organization to negotiate with the OPEC cartel in matters of price and production.

There are wide differences over the wisdom and feasibility of the various cooperative approaches. In Europe, the French are dragging their feet and have thus far prevented the European Community from developing a firm position on cooperation. The French, Italians, and Germans are each going their separate ways seeking their own sources and the British are hoping North Sea oil will solve their problem. The Japanese, who are 100 percent dependent on foreign oil, have a strong interest in cooperation, yet feel very vulnerable and are deeply concerned over the risks.

The most obvious concern is that efforts to develop a "counter cartel" will harden producer country attempts to break up the cooperative arrangement and make it less likely production requirements will be met. Even if a cooperative agreement is created, the first oil crisis or price negotiation will create pressure for each country to make separate deals. This is especially true for countries like Japan which are almost totally dependent on foreign oil.

Greater government backing for the international oil companies and perhaps a direct government role in negotiations has also been widely suggested. Just what the government's role would be and how it would work is unclear. To be effective, it would require deep involvement in company affairs which may not be acceptable to the U.S. owned firms and indeed may not even be legally feasible. But the rapid growth of producer country participatory arrangements argues for some steps by the consumer countries to improve the bargaining position of the oil companies.

Despite the above problems, if any cooperative effort is going to be successful, the U.S. must play a key role. This provides us considerable leverage with the Allies who are aware of the need for cooperation but sorely need U.S. leadership.

These problems of general consumer market cooperation will be under discussion in future meetings of our working group. I will also stress the need to factor energy matters into relations with the Allies in other areas. I have taken steps to ensure that Casey's speech at the OECD emphasizes energy as another opportunity for enhanced U.S./Allied cooperation that should be pursued to revitalize relations in the broader context of the President's Year of Europe.

188. Paper Prepared in the Department of State[1]

Washington, July 6, 1973.

The Libyan Oil Industry

I. Structure and Ownership

The Libyan oil industry is dominated by American companies, which account for approximately 80% of present production. The only important non-American concession holder is Italy's ENI, which signed a 50–50 participation agreement with the LARG in 1972 in order to begin production from fields discovered earlier. Both major and independent US oil companies are represented in Libya, with a larger share of total production coming from the concessions of the independents. The relatively large number of competing concessionaires, and the rapid tempo with which the Libyan oil fields were developed in the 1960's, led to installation of multiple facilities including six major pipeline networks and oil export terminals.

The LARG has played an increasingly significant role in the oil industry since the 1969 coup, first through supervision and direction of the companies and more recently through direct management of nationally-owned properties. With its latest nationalization of Bunker Hunt's interests,[2] the LARG now controls the entire output of that important concession, giving it direct control and ownership of approximately 15% of oil production. Two state oil companies—the Libyan National Oil Company (LNOC) and its subsidiary, the Arab Gulf Exploration Company (AGEC)—have been organized to run the nationally held concessions, but they suffer (as does the oil ministry) from

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–200, National Security Study Memoranda, NSSM 185. Confidential. The paper was prepared by an ad hoc interdepartmental group under the chairmanship of Claude G. Ross, Assist-ant Secretary of State for African Affairs. It is Appendix A of the July 6 response to NSSM 185, entitled "U.S. Policy Toward Libya." The NSC Staff also prepared a paper on Libyan oil negotiations for Love on August 22. (Ibid., Box 739, Country Files, Africa, Libya, Vol. II) Additional information on Libyan developments is in INR Intelligence Note RECN–58, "Current Oil Developments: Libya and the Persian Gulf." (Ibid., RG 59, Central Files 1970–73, PET 6 US)

[2] Libya nationalized Bunker Hunt on June 11, and its portion of the concession was taken over by the Arabian Gulf Exploration Company, the operating company of the Libyan Government. According to a June 11 memorandum from Newsom to Rush, U.S. policy was to "recognize the right of any country to nationalize foreign investments but expect prompt, adequate, and effective compensation to be paid." (Ibid., PET 15–2 LIBYA) This information was passed to Kissinger in a June 14 memorandum from Eliot. (Ibid., Nixon Presidential Materials, NSC Files, Box 739, Country Files, Africa, Libya, Vol. II)

a lack of technically trained manpower. The Libyans are reportedly having troubles running their presently-owned properties efficiently, and almost surely could not manage any other concessions (which they might obtain through nationalization or "participation"), without extensive expatriate help. Expatriate assistance would also be indispensable for any new exploration program such as the Libyans would like to mount. In the absence of legal disputes arising from present or further nationalizations, however, the Libyans should not have difficulty in marketing their highly-valued oil.

II. Strategic Importance of Libyan Oil

The relative strategic importance of Libyan oil has declined since 1969, when it filled over a quarter of West Europe's oil imports. Production restrictions in Libya, coupled with rapidly growing production in the Persian Gulf and Nigeria, have since reduced the crucially important role which Libyan oil plays. Nevertheless, a number of European countries remain heavily dependent on Libyan oil—for Germany they represent 25 percent, for Italy 22 percent, the UK 13 percent, and France 11 percent of total 1972 imports—while OECD Europe in general remained 14 percent reliant on Libyan oil imports.

US dependence on Libyan oil is relatively small—under 3% of total crude and products imports in 1972 came directly from Libya, and a further 1% can be estimated to have entered indirectly as product from Caribbean refineries. The figures however mask the greater importance of Libyan oil as a blendstock needed to reduce the overall sulfur content of oil products in order to meet air emission standards. There are few easily available substitutes for Libyan oil in this respect, which is increasingly important in Europe as well.

Present Libyan oil production of approximately 2.3 million barrels per day could be replaced by the oil industry only with considerable difficulty, expense, and some drawdown in reserve stocks. Relaxation of air pollution standards would also be necessary; oil of Libyan quality is in particularly high demand and little of the replacement oil would be of equally low sulfur content. A maximum of perhaps 2 million barrels per day of excess oil productive capacity currently exists worldwide, most of it in the Persian Gulf. The longer tanker routes necessary to transport such oil would also create a severe transport problem in view of the current tight tanker market, although combined carrier or laid up ships could be brought into service over a medium-term disruption (which would also see important new additions to the tanker fleet). The dislocations and expense of any prolonged loss of Libyan production, plus the still important degree of reliance of certain European countries on Libyan supplies, would indicate strong pressures on those countries' governments to reach terms with Libya which would enable a resumption of shipping.

III. Importance to US

The US is not significantly dependent on Libyan oil imports, which approximate only one percent of demand. While Libyan oil is highly desirable because of its low sulfur content, its supply is not of such importance to present the Libyans with important leverage for potential use against the US. (Conversely, suspension of air quality standards in the US would be unlikely to have much effect on Libyan oil policies.) Libyan oil is, however, important to the US for two reasons: the balance of payments benefits we derive, and the impact of developments in Libya on the stability and profitability of oil arrangements elsewhere.

Our balance of payments benefitted by $409 million in profits repatriated by US oil companies from their Libyan holdings in 1972. This flowed from an investment, figured at net book value, of only $1.044 billion. Since net book assessment may be an inaccurate measurement of the importance of the US investment, another measure of the apparent earnings of US companies in Libya is to compare their repatriated profits against oil production, which would give a figure of approximately 50¢ per barrel. It is this profit flow which the companies seek to preserve, and from which our balance of payments benefits. If American companies were nationalized and the oil production subsequently sold in non-American channels, these profits would be lost to us. To the extent that oil marketing, even after a nationalization, remained under US company control, however, the loss of equity and direct profit would to some degree be offset by marketing and downstream profits, and the potential balance of payments loss reduced.

Libyan oil industry developments are also important because of their potential impact on arrangements reached elsewhere between the international oil companies and OPEC countries, particularly in the Persian Gulf. The recent "participation" and analogous agreements reached with oil producing governments give promise of stable and gradual transition to new forms of ownership and control of oil production—important if the large and continual increments in investments and production necessary to meet growing world demand are to be made. Because of inter-OPEC and inter-Arab rivalries, however, Libyan nationalizations or other dramatic steps taken by the LARG against the companies would probably have to be echoed or matched by other governments. This could destroy the hopes for a relatively stable transitional period now embodied in the "participation" agreements, and make more tenuous Western, and particularly US, access to relatively stable supplies of oil on advantageous terms from Persian Gulf suppliers.

IV. Current Negotiations

American interests, both in Libya and in other oil producing areas, will be directly affected by the outcome of the current negotiations

in Tripoli. The goals of the LARG in those negotiations are to gain national control of the oil concessions and retain its claim to a leadership role in oil affairs, while at the same time maintaining its oil revenues and developing its prospective new reserves to the extent possible. The dichotomy of this position often makes the LARG's negotiating posture uncertain and erratic. Combined with the government's apparently deliberately unsettling negotiating tactics, this has the effect of keeping the oil companies uneasy and off balance much of the time.

The oil companies, in spite of the common front they have so far maintained successfully throughout the negotiations, are far from united in their basic outlook. The major oil companies are fundamentally concerned that they not set precedents in Libya which would affect the terms of their access to oil in the Persian Gulf; in view of the strategic importance of Persian Gulf oil supplies and reasonable access to them, the USG has supported the majors in their efforts to keep the Libyan negotiations directed toward a conclusion which would not prejudice the Persian Gulf settlements. The independents, on the other hand, having a great deal at stake in Libya and little in the Persian Gulf, are more inclined to try to strike a deal with the LARG even if it means negotiating from the basis of demands (net book value compensation, repurchase of the oil at market price) which they consider next to confiscation. To date, however, the extreme Libyan demands have kept the independents in line with the majors as much as the more positive aspects of the various joint negotiating proposals which the industry has advanced.

The LARG and the industry still remain far apart on the basic terms of a settlement. A prolonged confrontation is possible, and could be accompanied by further nationalization or production cutbacks, either selective or total. (The recent nationalization of Bunker Hunt was probably taken in large part in the interest of bringing pressure on the other, vulnerable, independent companies to break ranks.)

189. Memorandum of Conversation[1]

Jidda, July 26, 1973.

[*1 paragraph (1 line) not declassified*]

Summary: In a conversation [*1 line not declassified*] on 1 July 1973, Saudi Minister of Interior Prince Fahd stated that he was currently giving his personal attention to strengthening U.S.-Saudi relations and wanted to provide his assurance that Saudi Arabia's petroleum resources would never be cut off or curtailed to the detriment of the U.S., Western Europe, or Japan. In a subsequent conversation [*less than 1 line not declassified*] on 17 July 1973, Saudi Defense Minister Sultan also stressed the special relationship between the U.S. and Saudi Arabia and called for greater understanding of certain Saudi actions. In assessing the situation, [*less than 1 line not declassified*] points out the problems caused by King Faysal's increasing irascibility, citing this as one of the reasons for the private démarches by Princes Fahd and Sultan.

1. On 1 July 1973 [*1 line not declassified*] met with Saudi Minister of Interior and Second Deputy Prime Minister, Prince Fahd ibn 'Abd-al-'Aziz al-Sa'ud, in Jidda. As you know Prince Fahd is considered to be the de facto successor to King Faysal ibn 'Abd-al'Aziz al-Sa'ud and is chairman of the Supreme Petroleum Council of Saudi Arabia. During the cordial discussion with [*less than 1 line not declassified*], Prince Fahd said that King Faysal had delegated specifically to him the task of overseeing and strengthening U.S.-Saudi relations. The Prince stated that he was now giving this matter his full and enthusiastic attention and that within this mandate he wanted to provide his solemn assurance that the problem resources of his country would never be cut off or curtailed to the detriment of the "United States, Western Europe, or Japan."

2. Prince Fahd further indicated that Saudi Arabia has "declared and undeclared" policies in several areas, including petroleum. Although Saudi officials may make certain statements in the context of Saudi Arabia's public posture, his country's undeclared policy will be to continue to provide the United States with the petroleum it requires. At the same time, the Prince added, the Saudis will look to the U.S. for help with their area concerns such as a settlement of Arab-Israeli dispute, and the threats posed to Saudi Arabia by Iraq and the People's Democratic Republic of Yemen. Prince Fahd appeared particularly concerned with Iraqi intentions toward his country.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV. Secret; Sensitive. Transmitted to Kissinger on July 26.

3. Although King Faysal alone finally will decide Saudi policy, Prince Fahd's remarks are consistent with those [*less than 1 line not declassified*] in which the King and the Prince assured President Nixon that Saudi Arabia would continue to cooperate fully with the United States by providing as much oil as it could.[2] Prince Fahd realized that he was going on record for the highest policy level of the U.S. Government and his position as heir apparent and head of the Supreme Petroleum Council gives further significance to his words. The specific inclusion of Western Europe and Japan, although not surprising, represents somewhat of an expansion of the assurances provided in our previous memorandum.[3]

4. In a subsequent private conversation [*less than 1 line not declassified*] on 17 July 1973, Saudi Defense Minister Prince Sultan ibn Abd-al-'Aziz al-Sa'ud provided further insight on current thinking within the royal family regarding U.S.-Saudi relations. Prince Sultan was aware his remarks would reach high-level officials in the U.S. Government. As reconstructed [*less than 1 line not declassified*] Prince Sultan's remarks were as follows:

"The Americans know, because we have repeatedly made representations to them on the subject, that certain aspects of American policy cause serious embarrassment to Saudi Arabia from time to time. A recent example would be the assurances that American officials have given publicly to the effect that Phantom aircraft provided to Saudi Arabia will never be used against Israel, and so forth. We basically understand why you have to make these statements, and in the end we live with them because we know that your reasons for giving us large-scale military assistance can only be that you want Saudi Arabia to be strong; this we appreciate and do not want to change.

"At the same time, we hope that the U.S. Government realizes that we are constantly under attack, sometimes in very subtle ways, because of our relationship with you. Our enemies say that our oil income will be invested primarily in the United States or will be used to buy American goods instead of serving the welfare of our own people or the Arabs in general; they say our military assets will never be contributed to the common cause against Zionism, but will be employed only to establish a Saudi sphere of influence, with Washington's blessing, over our small neighbors. There are many other examples that could be cited. To combat these and other similar charges, we must

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[2] See Document 181.

[3] This July 25 memorandum summarized a July 22 meeting with Adham. (National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV)

make statements or adopt positions from time to time that show that we are independent of American control.

"It should be a jointly-accepted condition of our partnership, therefore, that each side must make generous allowances for the different set of political realities under which the other party functions. The highest levels of leadership on both sides must cooperate in this, because we understand the whole situation as lower levels of government cannot. [*6 lines not declassified*]"

5. In assessing the current situation in Saudi Arabia in light of these conversations, [*less than 1 line not declassified*] has provided the following comments to which we in Washington fully subscribe:

"It is my view that King Faysal's closest advisors and brothers, especially Princes Fahd and Sultan, are anxiously concerned that in his increasing senility and irascibility, King Faysal is going to make public statements which will antagonize the United States and prejudice the special Saudi-American relationship which Fahd and Sultan, in particular, believe is critical to the long-term survival of the Sa'udi regime. Princes Fahd and Sultan are worried as well that some of the King's more prominent advisors, such as Oil Minister Ahmad Zaki-al-Yamani and Minister of State for Foreign Affairs Sayyid Umar Saqqaf, will take advantage of the King's emotional and psychological vulnerabilities and adopt public postures with respect to the Saudi-American relationship which serve their personal ambitions as opposed to the interests of King Faysal's brothers and heirs apparent. Rather than taking these concerns in full candor straight to the King, which they apparently fear to do in the old man's present state of mind, Princes Fahd and Sultan have, we believe, decided that the only other course open to them is to make sure that the United States government is thoroughly persuaded of the steadfastness of their personal commitments to a 'special relationship' with the U.S. Then, even if the King is tactless and indiscreet in his public attitudes, the American reaction will be tempered by the knowledge that the next generation of Saudi leadership is going to be more cooperative."

[*3 lines not declassified*]

190. Memorandum of Conversation[1]

Washington, August 8, 1973, 12:08–1:05 p.m.

PARTICIPANTS

Walter Levy
Dr. Henry A. Kissinger, Assistant to the President for National Security Affairs
Philip Odeen, NSC Senior Staff
William Quandt, NSC Staff
Kathleen Anne Ryan, NSC Staff Notetaker

Dr. Kissinger: I have not seen you in a long time.

Mr. Levy: Yes, I hate to impose on your time.

Dr. Kissinger: No, on the contrary, you are doing me a favor. I know nothing about the subject.

Mr. Levy: I doubt that.

Dr. Kissinger: Humility is not a problem of mine. [Laughter]

Mr. Levy: There are two reasons. The problem is overwhelming. Secondly, this is a time that you are entitled to whatever I can give you.

Dr. Kissinger: I am not entitled, but I need it.

Mr. Levy: We are obligated at this point to work with you. I am a consultant at State. I don't use it though.

Dr. Kissinger: Why?

Mr. Levy: It is hard for certain problems. I am also, as you know, a consultant to the Common Market. Can I say something?

Dr. Kissinger: Nothing you say will ever leave this office.

Mr. Levy: I will never say anything that I am not entitled to say. If I do, you may ask yourself why am I talking to this man. I spent a considerable amount of time with Heath.

Dr. Kissinger: On the energy problem?

Mr. Levy: And also on other things.

Dr. Kissinger: What happened?

Mr. Levy: He was quite confident just before the problem of the labor union.[2]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 251, Agency Files, National Energy Office, Vol. III. Top Secret; Sensitive; Exclusively Eyes Only. The meeting took place in Kissinger's office. Brackets are in the original.

[2] On May 1, approximately 1.6 million British workers joined the Trades Union Congress' call for a one-day strike to protest the government's policy of limiting wage increases to control rising inflation. The worst affected industries were the railways, car manufacturing, newspaper production, mining, and docks. The strikes were accompanied by huge protest rallies in London, Birmingham, Manchester, Liverpool, and Glasgow.

I am also a close friend of Victor Rothschild and consultant to many companies.[3]

Dr. Kissinger: I know what you are doing. You did an outstanding paper at the Bilderberg Conference.[4] I could have learned a lot.

Mr. Levy: I think in the time at our disposal there are a few major issues. First there are the problems of international companies in terms of formulating policy and negotiating.

Dr. Kissinger: I am convinced most of the companies are idiots.

Mr. Levy: You confirm my judgment.

Dr. Kissinger: Last year Standard Oil or whoever it was working with the Saudis—Jamieson. . . .

Mr. Levy: Jamieson is Exxon.

Dr. Kissinger: They are interested in the principle of compensation. It was the first time in ten years that the U.S. government brought relative pressure on the Saudis to pick up a nickel. They used my intervention for chicken feed. I would never have done it for a one to two year contract.[5]

Mr. Levy: What happened of course was that the participation agreements affected equity interests. But the profits on foreign oil have never been as large as before; they are unbelievably high. Secondly, the main interest in participation is to keep control of the oil. Even the oil that now belongs to the Saudi government they have bought and they resold it to them. The way they in fact started pricing it to consider the profit margin was the same as that on the old oil. There is some compensation, they buy back, obtain twenty-five percent and sell most of the oil that belongs to the other party as a profit as if it was their own oil.

Dr. Kissinger: They have put themselves into hock on an escalating ladder.

Mr. Levy: The agreements won't last another year. The buy-back price has become so large that before the year is out the Saudis will ask that the buy-back price be revised.

Dr. Kissinger: That is technical.

Mr. Levy: Yes. Later on I will talk about the settlement on devaluation and inflation. You have a situation where after profits are made

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[3] Victor Rothschild was head of the British Central Policy Review Staff from 1970 to 1972.

[4] The Bilderberg Conference is an annual three-day conference for European and North American bankers, economists, politicians, and government officials, conducted in great secrecy to provide a forum for open discussion of common problems. The conference takes its name from the Bilderberg Hotel in The Netherlands where the first meeting occurred in May 1954.

[5] See Documents 133, 135, and 137.

in foreign countries, you have little profit made anywhere else. You cannot expect the companies to stand up to King Faisal. The crux of the problem is that the companies cannot play an advisory role for you. Their profit interests might not be the same as U.S. national interests.

Secondly, the oil companies will agree to most price increases as long as they are sure they can pass them on to the customers. Their basic position on foreign policy is that they want you to stay out, unless their equity position is threatened. We have right now in Libya an example of concessions obtained by corrupt means. There are many examples of individuals associated with the U.S. government who have used corrupt means.

Dr. Kissinger: Let's talk about the concessions in the Soviet Union.

Mr. Levy: They will cost us plenty. Whatever deals are now made will involve government credits. It could be a political problem.

We have a problem of who speaks for whom in terms of oil; it is a serious problem. Let me add that there are two negotiations coming up. Just a few weeks ago there was the devaluation negotiation. The oil companies negotiated on devaluation. It will affect twenty-five percent of world trade by 1980. They made a settlement on devaluation so that price increases are based on an arithmetical average of eleven currencies. It is a crazy definition. In any movement of devaluation, if the dollar goes down eleven percent it doesn't mean the purchasing power is down, but the price is up by eleven percent. If Austrian currency goes up eleven percent the price of oil is up one percent more. If the Danish currency goes up eleven percent the price of oil goes up one percent.

Dr. Kissinger: In other words it is cumulative, whenever one country goes up it is pegged on to the others.

Mr. Levy: Yes, when one goes down it works the opposite way. The principle is crazy. It works to protect the purchasing power of producing countries. It was negotiated on an added inflation factor. The producing countries get a two percent increase now and will ask for a six to eight percent increase in price shortly.

Heath asked who gives directions to the companies. I answered that nobody does.

Dr. Kissinger: How could it be done?

Mr. Levy: If for instance you would form with the British, French and the Germans a reasonably permanent group which would study the problem and make recommendations. Casey is not able to do it.

Dr. Kissinger: Is it the fault of Casey?

Mr. Levy: No, the problem is too large and the big companies won't listen.

I discussed a problem with Irwin when he was Under Secretary. This was when the companies made a six cent increase to Libya and eighteen–twenty cents was justified. Six cents was an insult. They said six cents is all we can afford. I then went to Irwin. He agreed with me but asked me to talk with the companies.

Dr. Kissinger: Was this in 1970?

Mr. Levy: Yes, in 1970.

Dr. Kissinger: But then Qadhafi was already in office.

Mr. Levy: Yes. But Libya would have accepted it. Irwin said, "You are right, couldn't you tell the companies to do it?" I told him, "I don't have the power to do it. You have the power as Under Secretary," I said. I felt it was up to State. They said it was up to private industry.

Faisal has indicated that he might not produce more oil. This is when everyone wants to induce the Saudis to produce more to cover any possible occurrences. First, I believe that the only leverage which we have with the producing countries is that they are dependent on the power position of the United States and the Western World. We don't have anything else.

Dr. Kissinger: What do you mean?

Mr. Levy: For both internal and external security.

Dr. Kissinger: What producing countries, even Libya?

Mr. Levy: Forget Libya, but include Saudi Arabia, Iran, Kuwait.

Dr. Kissinger: Iraq?

Mr. Levy: Iraq maybe. We could work that out with deals with the Soviets in Iraq rather than in the Soviet Union. And that would be a tremendous factor in the whole area. It would take the wind out of the Saudis.

If things go the way I project, by 1980 the Saudis will have to produce 18–20 million barrels per day. I don't think they will. They will have accumulated 100 to 120 billion dollars. You know our whole investment is less than that worldwide. Our total foreign investment is 86 billion dollars. Stocks and bonds are another 20 billion. This amount cannot be replicated.

Some say it is difficult but manageable, and I believe that it is difficult and unmanageable.

Dr. Kissinger: Who says manageable?

Mr. Levy: The oil companies.

Dr. Kissinger: How is it manageable?

Mr. Levy: All real estate and oil will net 100 million dollars in new investments, they say. The Arabs will not go into investments of that sort. And they are assuming that the Arabs will be satisfied with a four

percent return a year. They can keep the oil in the ground, because the oil value will go up much more than that.

The irony is that the less the Saudis produce, the more money they will make. They are the predominate supplier.

Dr. Kissinger: In the 19th century it should have been taken over and carved up.

Mr. Levy: What happened in the 19th century won't happen in the 20th. But we shouldn't remove this fear entirely. Take away the fears and uncertainty and the oil will stay in the ground. I don't see any other factor to use as leverage.

The Japanese are bidding up the oil price. They are panicky. I talked to the Japanese Foreign Minister. Did you talk to him? He said if we are in an emergency and if your country is only willing to share the oil supplies passing over international waters, it is no good. If you talk about genuine sharing. . . .

Dr. Kissinger: What is that?

Mr. Levy: We produce 60 to 70 percent and import about 25 percent. The Japanese import 100 percent. The country that will be the best off is Great Britain.

Dr. Kissinger: Because of the North Sea?

Mr. Levy: Yes, the North Sea.

Dr. Kissinger: How did they get a stranglehold on the North Sea?

Mr. Levy: Division of territory and a large part fell in their area. Norway will export a large part of that.

In my view if there is to be a crisis in international oil affairs, the sooner the better. I would rather have a crisis when our imports are limited. We can count on Iran. I have had dealings with the Shah.

Dr. Kissinger: Then the oil consuming countries ought to get together. What do you mean by crisis.

Mr. Levy: Miller fears a cutback because of the Arab-Israeli dispute.

Dr. Kissinger: If we say that, it will happen. It is insane to tell the Saudis that. What does Jamieson say?

Mr. Levy: Miller's approach could have the effect that Faisal feels he should support Miller.

Dr. Kissinger: We can convince the Saudis that it is suicide to get in the Arab-Israeli dispute. It is absolutely necessary to make sure any peace agreement is signed by the radical Arab countries, not by the conservative ones. It will not be a favorable settlement, if you look at the Israeli position.

Mr. Levy: One thing I believe strongly is that maybe there should be a settlement with the UAR.

Dr. Kissinger: That is fine, we have to keep the Saudis out.

Mr. Levy: Once you have a settlement, the Saudis' political position will collapse.

Dr. Kissinger: Concerning the producing nations and cooperation, what should we do?

Mr. Levy: In the consuming nations there should be an international commission. Like the OECD with new rules of reference. It should be established because anything that consuming countries do is a confrontation. But confrontation by OPEC is bad. If the consuming countries show any desire to cooperate it would be beneficial. To show a minimum desire would be considered by the oil companies as interference. My position is that this is the largest international problem. We haven't even looked at the problem of developing countries and the balance of payments.

Dr. Kissinger: What can the Saudis do with their money?

Mr. Levy: Place it in international organizations.

Dr. Kissinger: But what would they get out of that?

Mr. Levy: Bonds. There was a proposal and the Foreign Minister (of Saudi Arabia) said nobody can tell us what to do with our money.

Dr. Kissinger: Why is there a shortage?

Mr. Levy: Partly because of the Libyan and Kuwaiti cutback. A large part is the lack of refining capacity at home. Our companies, each one in the last four or five years, have not added one barrel of refining capacity. Not necessarily because of collusion but rather because of a conscious parallelism. As long as there was spare refining capacity, they didn't want to build new refineries. They have been selling at three times the price to independent companies. They said they were not going to build any new capacity.

Dr. Kissinger: Are we now building any?

Mr. Levy: Yes, now we are. The international companies are financing them. We are heavily dependent on gasoline and fuel oil. We have driven up the price in Europe from 30 cents to one dollar for gasoline. We have practically forced the Europeans to introduce domestic price controls. Maybe export controls, too. Balance of payments will occur because of the dramatic cost of these imports.

I talked to Simonet and asked if he has considered international consultation. He said we are transferring our refining capacity. It could result in a very distorted price system.

Dr. Kissinger: The French Foreign Minister, Jobert, told me there is no shortage.

Mr. Levy: Except for the United Kingdom, Europe is sufficiently supplied. But they fear that the U.S. companies would first take care of the United States. As a matter of fact, the problem of a shortage is more serious here than abroad, as they can more easily handle the

problem. The companies are not afraid that the consuming nations will not pay. They are afraid the producing countries will become difficult if they do not agree. You cannot assume that American companies talk with one voice. The companies have to act as negotiators but they can't.

Dr. Kissinger: What do you do with the Japanese?

Mr. Levy: With the Japanese there is really an emergency. It goes further than sharing of supplies over international waters. That is a key issue.

If we want to work with the Soviets, let's do it in Iraq. The Japanese bought into Abu Dhabi. Maybe they should go into Oman.

The point is that in any case no agreement concluded now will last more than a year or two. To allow an agreement that has been concluded to be cancelled by legislation has whet their appetite. The only counterprevailing force is the oil companies.

As Yamani says, there are three factors: the consuming countries, the oil companies and the producing countries. The only problem is with the consuming countries. The oil companies make their profit. If the consuming countries organize, this is war. That is war and in a confrontation we will show them.

Dr. Kissinger: How can you have an organization of consuming countries? Will they stick together in a crisis?

Mr. Levy: It has to be tried. I, too, am sceptical.

Dr. Kissinger: I am not sceptical. Odeen is.[6]

Mr. Levy: Jamieson has made a statement that consuming countries should not get together offensively. He wants an interdependence of interests where good will and good sense will work it out. I told him, "You cannot conduct a Billy Graham prayer meeting."

The meeting could be operated through OECD and set up with new terms of reference which could have an effect on the bureaucracy.

[Dr. Kissinger leaves the room for a moment. Mr. Odeen, Mr. Quandt and Mr. Levy talk. Mr. Odeen says that Mr. Levy should give his views on the Soviet oil deals. They then talk about Mr. Levy's speech and the Japanese. Then Dr. Kissinger reenters.]

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[6] In an August 8 memorandum to Kissinger, Odeen noted that Levy's advice for extensive consumer cooperation to counter higher oil prices would be difficult because the Japanese "recoil" at any hint that cooperation might lead to a confrontation with the producers, the Europeans are "not much more interested," and the French take "almost as negative a view as the Japanese." Even cooperation for emergencies, the sharing of R&D information, and stockpiling seemed "beyond the level of acceptability to the consumer nations." He concluded that a "far reaching cooperative effort (e.g., control over price and production negotiations) would require considerable interference with the operations of the major multi-national companies" and was "almost totally alien to the Administration's economic philosophy." (National Archives, Nixon Presidential Materials, NSC Files, Box 251, Agency Files, National Energy Office, Vol. III)

Mr. Levy: Let me conclude. I have some serious misgivings about our Soviet gas deal. It might be extremely helpful politically. I do not address myself to that aspect. On gas supply I have worked closely with Peterson. I don't know if he has told you.

Dr. Kissinger: No. [He then leaves the room again, and returns.]

Mr. Levy: On the Soviet gas deal, what we really do is finance a huge Soviet natural oil deal. We will see a return in Soviet gas of three to four to five percent. A relatively high price in 1980 may leave them with a great deficit in the internal Soviet economy. It is a deal where the Soviets will benefit until 1978 then we draw some of the gas, at a relatively high price. Will the deal be lived up to? I doubt it. It is bound to be broken.

The second thing is that after the loans are repaid they assume what our consumers pay will be timed better now than in 1995.

Dr. Kissinger: Will you do three things for me? Could you give me your analysis of the nature of the so-called energy crisis, your idea on how the consuming countries, in a crisis, can get together? I need that to beat my staff down. [Laughter]

Mr. Levy: I disagree with myself on that issue.

Dr. Kissinger: I would like to know how to do it. Be precise.

Mr. Levy: When I saw Heath about two months ago and Peter Walker, Heath was on the point of calling a summit meeting of four or five countries to deal with the oil problem. It was then interfered with by the Common Market initiative. You could call tomorrow, Heath, Brandt, Pompidou, and Tanaka, to try to work something out.

Dr. Kissinger: Before calling them I want to know what to say. It is dangerous to call heads of state together. How do we organize it?

Thirdly, I would like your observation on the Soviet gas deal.

Mr. Levy: On the gas deal I may not have enough concrete data.

Dr. Kissinger: Odeen can give it to you.

Mr. Levy: If the Soviets are so keen on joint deals, maybe we can tie up a joint oil deal in Iraq.

Dr. Kissinger: Maybe you better tell me what that means.

Mr. Levy: I will now have to think it through.

Dr. Kissinger: If I am hard to reach you can deal with these two. [Odeen and Quandt.]

[The meeting then ends.]

191. Memorandum of Conversation[1]

Washington, August 10, 1973, 10:35–11:42 a.m.

PARTICIPANTS

Governor John A. Love, Director of Enery Policy Office
Dr. Henry A. Kissinger, Assistant to the President for National Security Affairs
Mr. John A. Knubel, NSC Staff

Meeting Between Governor Love and Dr. Kissinger
August 10, 1973 (10:30 a.m.)

Governor Love: Henry, what I wanted to meet with you to discuss is the Saudi Arabian problem in the context of energy and oil. This week I met with several Aramco company representatives who just returned from Saudi Arabia and they urged that I go out to Saudi Arabia soon.[2] The purpose would be to demonstrate concern for recent Saudi political statements regarding the use of oil for political means. Mine, however, would be a fact finding mission. The Aramco representatives felt that in view of Yamani's visit scheduled for mid-September it would be most beneficial if I would go prior to that time.

Dr. Kissinger: What would you tell them?

Governor Love: I would make no explicit policy statements. It would be a fact-finding mission aimed at investigating their problems so that we would be in a better position to respond later on.

Dr. Kissinger: I've become convinced that the oil companies are politically irresponsible and, in fact, idiots. They are concerned only with profits, to get along with the producer-countries and they, therefore, pass along price increases. A couple of years ago, for example, I got myself into a very difficult position by agreeing to go to bat for them during some of their negotiations with the oil producer countries. After I intervened in their support, the companies cut me out of the negotiation and gave in quickly. They only got peanuts from the negotiations—a few percentage points on price. The overriding concern then as now is not to rock the boat, to maintain their access to oil at almost any price. The overriding concern of the USG in its dealings with Saudi Arabia must be to prevent its fall to the control of another Quadaffi. We must prevent Saudi Arabia from becoming radicalized

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 251, Agency Files, National Energy Office, Vol. III. Top Secret; Sensitive; Exclusively Eyes Only. The meeting took place in Kissinger's office. On August 13, Odeen forwarded a copy to Scowcroft. (Ibid.)

[2] No other record of Love's meetings has been found.

for surely then our oil interests would be in jeopardy. If Faisal allows himself to be pushed into this political face front on the Israeli issue, he runs an increasing risk of this occurring. No Arab nation has benefitted from deep political involvement of this sort.

Governor Love: But even the existing Saudi Arabian government has, from their point of view, good reasons not to increase production. In fact, they have, as you know, been talking increasingly of using oil for political purposes—specifically to bring pressure through us on Israel.

Dr. Kissinger: Yes, I'm aware of that. We are considering both the economic and political questions in our NSSM currently underway. What is the state of the NSSM?

Mr. Knubel: We will have a copy of the Executive Summary[3] to you by the weekend which will ask for your decision on how you want to proceed with regards to meetings.

Governor Love: Can we have a copy?

Mr. Knubel: Yes, you are on the distribution list and your staff has been given one.

Dr. Kissinger: The Saudi Arabians are less equipped [*less than 1 line not declassified*] to deal with the Israeli problem than any of the other Arab nations. Their leadership continually talks of the Moscow/Jewish conspiracy [*3 lines not declassified*]. It would do them no good to thrust themselves into the forefront of the political confrontation or become involved in negotiations. It is, therefore, not in the U.S. interest for them to do so. We shouldn't encourage it. The Arab-Israeli problem is today almost insoluble. Any Arab government that would sign a settlement acceptable to the Israelis would be out in two years. Therefore, it is not in the U.S. interests to push the Saudis. Let the Arab radicals continue to suffer. They are in the forefront now and it is in our interest not to allow the Saudis to be sucked in. I've covered this frequently with both Yamani and with King Hussain of Jordan who agrees with me. However, the Saudis are just not sophisticated enough to understand it and they are, therefore, more dangerous. When Yamani comes over in September I would like to tell him this and will stress the undersirability of Saudi Arabia pushing themselves into the forefront of the political problem.

Governor Love: Of course from the U.S. point of view we will be extremely dependent on Saudi Arabian oil over the next years. We have no alternative over the short term but to import. The allies are in the same position. If we can't get the oil, then we must quickly implement

[3] Document 192.

a new domestic strategy to both cut down demand and expand domestic supplies. Even then I'm not sure it's possible to avoid the sharp increases in Saudi Arabian oil production which would be needed to meet remaining U.S. demand and those of the other consumer nations.

Dr. Kissinger: I'm not against your going to Saudi Arabia on a fact-finding mission, but I think it is extremely important that we steer clear of political discussions. We simply have nothing to say. Perhaps you could go with Under Secretary Simon who plans an economic mission sometime in November.

Governor Love: The purpose would be to have a fact-finding mission. I would specifically steer clear of Arab/Israeli questions. I don't see that anything could be gained from an early discussion of Arab/Israeli political problems. I don't see that anything could be gained from addressing this complex issue. I could also make the point that it would be against long-run Saudi Arabian interests for them to allow themselves to be put into the forefront of political discussions on the Israeli question. On the other hand, it seems that the Israelis understand that as time goes on, their situation will deteriorate. Principally because of increased world dependence on Arab oil, but also for other reasons.

Dr. Kissinger: I don't agree. The Israelis tend to see time as improving their position. Principally because their claim for continued occupation of the disputed territory becomes more credible as their actual occupation lengthens. In the past, the U.S. government position has amounted to State floating proposals which have been shot at from both sides and only worsened the depth of enmity between both sides—opened old wounds. We must not be active in this regard for every initiative has tended to flare up feelings again. We could actually start a war. We need to have an idea of what a feasible proposal would look like before we begin to bring pressure on either side to negotiate. The situation is very analogous to Vietnam. In the early years, people continually asked me to bring pressure on Thieu to negotiate but I resisted it until I had a good idea of the specifics which a Vietnam settlement would incorporate. The same situation applies to the Arab/Israeli problem now. The two sides are very far apart and I cannot conceive of their existing positions being translated into a feasible agreement. For example, the Arab position is that before the state of belligerency ends and prior to the start of negotiations, the Israelis would have to return to the 1967 frontiers. They'd have to return Gaza.

Governor Love: Would they have to return Jerusalem as well?

Dr. Kissinger: Jerusalem as well, and the Israelis would rather die before they would do that. Therefore, it seems to me the Arabs are the ones that need to modify their position. They need to present a position which conceivably could be accepted by the Israelis. Our hope is

that we could get both sides together and start negotiations without addressing the parameters of a peace agreement. We would start out on the basis of incremental discussions and leave aside the problem of the basis for an ultimate agreement. This approach seems to me to be the only possible hope in view of the existing position of both sides.

Governor Love: To change our Israeli policy now would create major problems with our domestic American-Jewish population.

Dr. Kissinger: Yes, and with the weakened state of the Presidency it would be almost impossible to deliver on such a major change in our foreign policy at this stage.

Governor Love: Yes, I'm aware of the concern on the Hill which I ran into in my early testimonies. Both Senator Jackson and Senator Javits were very concerned that the energy problem would cause us to give up on our Israeli policy.

Dr. Kissinger: In their current position, the Arabs are asking for a miracle.

Governor Love: Getting back to the idea of some special trip to Saudi Arabia. I understand you have no objection but do you honestly think it would be helpful. I don't want to make an empty gesture.

Dr. Kissinger: Let me think about that. Perhaps it could be helpful if scheduled some time in late fall as as a fact-finding attempt to investigate Saudi problems. You'd have to steer clear of political problems. Let me ask you now about what we're doing with the other consumer nations. For example, the Japs. Notice I didn't say "little Japs."

Governor Love: One of our major initiatives in that area is focused on a study which Bill Casey is heading up for me on joint R&D cooperation. As you know we discussed with them and we agreed in principle to embark on a major program aimed at sharing technology and cooperation in the research and development areas. I'm also considering making a personal trip out to Japan in response to a Japanese invitation voiced at the economic meetings in Japan.

Dr. Kissinger: That would seem to me to be a very good idea. I think you should go perhaps in October. We would, of course, want to coordinate it with a Presidential trip to Japan which is also being considered for later this year.

Governor Love: Our overall approach to both the Common Market and the Japanese is to focus on cooperation. Cooperation not only in research and development and technology sharing but also in import sharing and other emergency arrangements for meeting shortfalls in supply.

Dr. Kissinger: Cooperation is useful and we should pursue it with regard to both Europe and Japan but we must be certain that we get

something for what we give. We don't want to give away for nothing and we want to ensure that our initiatives in the energy area fit in with our other political objectives. For example, right now the Europeans won't talk to us on the Year of Europe. They claim that prior to talking on a bilateral basis, they want to develop their own common position. They want to deal with us as a bloc. This is unacceptable and we should not be forthcoming in areas where they need our cooperation, particularly energy emergency sharing and research and development until they are more forthcoming with regard to the vital issues of the Year of Europe. We want to get our toes into the discussions of import sharing but we certainly don't want to agree to anything until we are certain that its consistent with our other foreign policy.

Governor Love: Yes, I agree with the need to coordinate energy matters with the remainder of our foreign policies.

Dr. Kissinger: Can you keep control of our negotiations with respect to the emergency sharing and ensure that it's paced so that we are coordinated with our other negotiations as part of the Year of Europe?

Governor Love: Certainly.

Dr. Kissinger: Will you do the negotiation?

(To Mr. Knubel): How will the negotiations proceed, on a bilateral or multilateral basis?

Mr. Knubel: As a result of Secretary Casey's initiative and suggestion, the OECD secretariat is preparing an issues paper on import sharing which will lay out the various elements of a potential agreement.[4] This should be done by the middle or late September and will serve as a basis for negotiating.

Dr. Kissinger: How can we insure that the OECD paper does not commit ourselves to a bad agreement?

Mr. Knubel: The report is being prepared by the U.S. representative and the tasking of the OECD working group is to present an options paper, not develop negotiating positions. Negotiations certainly will not start until it is completed. The U.S. position will be developed by the interagency group on international aspects of energy.

Dr. Kissinger: Yes, we need to keep control of the pace of the negotiation. Don't let them run away with it and be sure it's integrated into the rest of our foreign policy.

Governor Love: You should commit ourselves to agree to share and proceed on a deliberate basis. We should probably avoid going be-

[4] See Document 187.

yond R&D cooperation and emergency situations and avoid appearance of confrontation which could be non-productive.

Dr. Kissinger: Why do you think it would be non-productive?

Governor Love: For one thing, it could force prices up and could perhaps lead to further cutoffs in our supply.

Dr. Kissinger: Prices would go up in any event. If the producer countries can develop a cartel and confront the consumers, why not vice versa? I know the oil companies are afraid of this sort of policy but the oil companies are politically inept. In fact, I sometimes doubt if they are competent in oil matters. Only three years ago they were pleading with us to help limit the Shah in his desire to increase production and sell to us more oil at a dollar a barrel

Governor Love: What we'd give for oil at a dollar a barrel now. Why we could have a major reserve had we accepted.

Dr. Kissinger: Yes, I don't have any confidence in the companies' market projection ability and I'm sorry now that I went along with the request.

Governor Love: Let's now turn to the particular problem of the Japanese who are the most vulnerable of all. They are very anxious to nail down sources of supply in the Middle East. They have neither the international oil companies to rely on and their projected imports will equal that of the U.S.

Dr. Kissinger: We're treating this on a systematic basis in the NSSM. I want to have a meeting on that NSSM by the end of next week.

Mr. Knubel: Nods agreement.

Dr. Kissinger: I think it would be very useful for you to go into Japan in early October or November.

Mr. Knubel: At the Econcom meetings, the Japanese proposed a meeting of experts and Governor Love would presumably be the representative. We should respond quickly to the Japanese initiative.

Dr. Kissinger and Governor Love: Nod agreement.

Governor Love: Henry, you realize that my role will be in a sense that of an advocate for energy.

Dr. Kissinger: Of course. All I ask is that you pace your efforts in the energy area to fit in with our overall broad policy objectives.

Governor Love: I will.[5]

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[5] Love subsequently determined to visit Japan in early October. (Memorandum from Odeen to Kissinger, August 17; National Archives, Nixon Presidential Materials, NSC Files, Box 251, Agency Files, National Energy Office, Vol. III)

Dr. Kissinger: In the meantime, we've got to get on with a convincing R&D program to develop domestic sources of supply. That first energy message just didn't emphasize energy enough.[6] Have you got any leads on where the primary emphasis should go in development of domestic options?

Governor Love: Yes, it seems to me coal is the area that should be developed first. We should stress development of coal gasification technology and sulphur scrubbing technology so that high sulphur coal can be burned with minimum effect on our environment. In fact, a good deal of the hundred million dollar increase in our research and development was allocated to coal-oriented research. Coal is our most plentiful domestic resource. We have almost 300 years' supply. Next year's R&D effort will total almost $2 billion and will again be focused on coal to a large extent.

Dr. Kissinger: Yes, we need to get considering the whole thrust of the energy problem and all its components. I want to have a NSSM meeting on this next week. We should also limit the membership. I see no reason why Interior should be represented.

Governor Love: I agree.

Dr. Kissinger: We should also push with the Japanese and get our policy going in the area of R&D and technology sharing. I also again think it would be a good idea for you to plan a trip there as soon as possible. With regard to Europe, we should also show progress but we don't want to get ahead of ourselves in our approach to the Europeans and we want to be sure it's coordinated with our other policies.

Governor Love: I agree and look forward to working closely with you on these matters.

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[6] See Document 90.

192. Memorandum From Philip A. Odeen of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, August 11, 1973.

SUBJECT

NSSM 174 Executive Summary

Attached for your information is the penultimate draft of the Executive Summary of the Energy NSSM (174).[2] The changes in the final version are likely to be minor and I recommend that you read this version.

The paper defines the major national security and diplomatic issues arising from the energy problem and summarizes the relevant data and analysis. It sets our broad goals relating to the national security aspects of energy and specific tasks for attaining those goals.

The study addresses the following *major issues:*

—*How greater dependence on oil imports will affect our vulnerability to suply cutoffs* (e.g., Arab boycotts, or oil stoppage due to an Arab-Israeli war) and what measures will be available to deter and cope with such cutoffs.

—*How greater dependence on oil imports will affect our vulnerability to supply shortfalls* (e.g., caused by a Saudi decision to limit production) and what measures will be available to deter and cope with such shortfalls.

—*The importance of energy in our relations with the Japanese and Western Europeans, the leverage we have with them in the energy field, and how we could enhance cooperation with them in this field.*

—The *impact of the Arab-Israeli problem* on the energy situation.

—Problems arising from *American participation in the Soviet LNG projects.*

The Changing Energy Situation

As background to the substantive discussion of these issues, Section II (pp 3–14) gives a comprehensive but brief summary of the major changes expected in the energy situation through the mid 1980s:

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–197, National Security Study Memoranda, NSSM 174 (Response). Confidential. Sent for urgent action. Concurred in by Kennedy. Kissinger initialed the memorandum.

[2] Attached but not printed is the 60-page response to NSSM 174, dated August 14, entitled "Executive Summary." A full response to NSSM 174, other than the Executive Summary, has not been found. NSSM 174 is Document 171.

—*An increasing U.S. dependence on imported energy sources, especially oil.* Today we import almost a third of our oil. By 1985 we may be importing almost 60 percent.

—*Very large increases in total world oil demand.* Most of our Allies are almost totally dependent on oil imports. Japanese oil imports will increase by a factor of five by 1985 while Western European imports increase by 50 percent. Among our Allies, only the UK and Norway will enjoy an increasing self-sufficiency, as North Sea deposits go into production.

—*These major increases in world oil demand can only be met by rapidly expanding Middle East production.* By 1985 the necessary increase in Saudi Arabia, the key producer for the U.S. is projected to be a factor of four over current oil production.

—*Increasing oil imports will strain consumer nations' balance of payments.* Balance of payments deficits are not unavoidable for the U.S., however, and would depend to a large extent upon the extent we can attract producer country spending into the U.S. and on the extent of repatriated profits of American oil companies.

—*Increasing oil production will provide producer countries with unprecedented earning potential.* For Saudi Arabia, Abu Dhabi and Kuwait, domestic needs will not absorb these revenues, which by 1980 could exceed $20B annually for the three states. This could lead to a decision to limit production, causing a shortfall in world oil supplies.

—*The role of the oil companies will be changing from their current position of control over oil production to one of providing technical expertise* (for exploration and production) under oil purchase arrangements with producer governments. Their negotiating positions will be weakened by the tight supply situation and the participation arrangements already agreed to with producer governments. In this context, *an expanded role for consumer country governments may be necessary to provide needed support and control in negotiations* between companies and producer governments if excessive price increases and destructive competition for scarce oil supplies are to be avoided. Developing the mechanism for providing this support and control and adjusting to the implied new government-company relations, is a major challenge for the future.

Vulnerability to Supply Cutoffs and Shortfalls

Pages 15 through 39 discuss our vulnerability to supply cutoffs and production shortfalls as well as feasible preventive or remedial actions.

As imports increases from today's 30 percent of total oil consumption to the projected 60 percent in 1985, we will clearly become increasingly vulnerable to cutoffs and production slow-downs. However, this vulnerability will not affect our capability to meet basic military needs. Throughout the time period military needs could be met even if all imports were cut off since they account for only ten percent

of domestic production. *The real danger is, therefore, the economic disruption that would accompany cutoffs in oil imports either because of a Middle East conflict or a politically motivated boycott by a producer country.*[3]

To meet these contingencies, the study finds that voluntary and mandatory rationing plans, enlarged oil stockpiles, import sharing plans, and the like would give us a significant hold out capability against even a total cutoff of all oil imports well into the 1980s. For example, the stocks normally held by the oil companies in theory provide adequate quantities of oil to maintain consumption levels for about three months if we encountered an all-Arab boycott in the 1980s. Rationing and surged domestic oil production could also significantly enhance our hold out capabilities.

Major real world problems, however, would be encountered in effectively utilizing the stored oil and ensuring refining capacity is fully utilized. There are major differences between the dependence of various regions of the country on imports and current stocks are not situated geographically to meet these differential needs. Getting a better understanding of the national oil distribution system is given a high priority for further study.

To counter a shortfall caused by a producer country decision to limit production, the study considers several remedial steps which could be taken including voluntary energy conservation and mandatory rationing. The study finds that these measures could be relatively effective, reducing demand by as much as 10 percent and providing time to begin shifting to other supply sources. Our capability to diversify to other countries or develop their sources of energy is a major unknown. A study effort aimed at seeking ways of diversifying oil supplies is also recommended as a high priority follow-on study effort.

Possible Self-Sufficiency

In addressing the *basic issue of whether we should eventually aim at drastically reducing our future oil imports and vulnerability by developing complete self-sufficiency,* the study concludes (pp 50 bottom–52) that:

—*Over the next five years or so we have essentially no alternative to increasing oil imports;* and that

—During this period, *we should take specified steps to develop options for minimizing future imports* and should continue on-going efforts to create domestic alternatives.

Whether or not these domestic resources should actually be exploited (at increased economic cost) would depend upon the future situation as it develops politically and economically. Large imports are

[3] In the margin next to the last sentence of this paragraph, Kissinger wrote: "What is it?"

not necessarily incompatible with maintaining our national security, as vulnerability could be reduced through storage, rationing, and other pre-planning. However, we are not yet in a position to make such a choice and, in fact, could not choose until the political and economic situation is known.

Energy and U.S.-Allied Relations

Pages 40 through 43 address the energy-related factors which will influence our relations with the Allies.

The growth of Japanese oil imports will be double that of Western Europe and be equal to that of the U.S. *Japan is essentially without any domestic production or the benefit of international oil companies and is, therefore, extremely concerned that her needs will not be met.* As a result she has been aggressive in bidding for oil as it comes under the control of producer governments and has taken advantage of the close government-industry relationship to offer package investment/oil purchase deals aimed at helping with Saudi economic diversification.

France, Italy, and Germany also appear to be adopting to go it alone policy. Germany has recently created a government-backed oil firm for this purpose.

The need to avoid the potential competition is acute. The study finds that, without U.S. leadership, the possibility of attaining needed cooperation is low. *The Allies need U.S. leverage provided by:*

—Our domestic energy resources;

—Our special relation with Iran and Saudi Arabia, who hold over 30 percent of the world's oil reserves;

—Our economic and military influence.

There are also factors which would tend to push in the other direction and undermine U.S. leadership. Our Israeli policy is an example, as is the likelihood that we would be singled out in an Arab oil boycott.

Finally, there is the danger that overt consumer cooperation will be interpreted as confrontation by OPEC and work to further erode the position of the consuming countries. This is a major Japanese concern.[4]

As first steps in building cooperation, the study concludes that focus should be given to areas to which OPEC countries should not object:

—*Import and emergency sharing.* We would strongly prefer to share imports only while our Allies would prefer sharing on the basis of con-

[4] In the margin Kissinger wrote: "Nonsense."

sumption, which could result in diversion of some U.S. domestic production.[5] Since the most likely threat may be a boycott directed solely against the U.S., we may be willing to compromise on the terms of an agreement in order to obtain the deterrent associated with having an agreement. The elements of such an agreement are being developed in the OECD, while associated U.S. policy is developed by the Committee on International Aspects of Energy. We should work to ensure these negotiations are coordinated with the other elements of our policies with the Allies.

—*R&D cooperation.* We are proceeding, both in the OECD and in independent talks with the Japanese, on cooperation in energy R&D.

The more fundamental questions of coordinating our energy policies—comparing and coordinating our national needs and sources of supply, determining acceptable rules for competition, and perhaps ultimately developing a union of consumer countries—might be attempted as an outgrowth of these on-going efforts with our Allies.

Arab-Israeli Problem

The effect of the Arab-Israeli problem on the energy situation is treated, although inadequately, on page 44. We will improve this section in the final version. It concludes that U.S. policy must seek to avoid a situation where the moderate Arabs use oil as a means to pressure the U.S. on its policies with respect to the Arab-Israseli problem. The essential of such a policy could be to:

—"Show some movement" on the Arab-Israeli problem (the standard State position).

—Enhance the stake of moderate Arabs in continued cooperation with the U.S. by creating policies to accommodate their security needs and economic concerns.

—Have a policy of supply diversification towards Iran.

—Build domestic energy supply alternatives.

We will revise this section to note that the overriding concern in this area is to prevent our key supplier, Saudi Arabia, from becoming radicalized or falling under the control of a Quaddafi. For this, we will have to keep them out of the forefront of the Arab-Israeli problem.

U.S.-Soviet Relations in Energy

On pages 44–49, the study addresses energy in the U.S.-Soviet context. It stresses the Soviet need to get access to U.S. capital for

[5] In the margin next to this sentence, Kissinger wrote: "Means what?"

development of their natural gas resources and raises major issues concerning American participation in the two proposed Soviet LNG projects:

—Will U.S. national security interests be jeopardized by either of the LNG projects?

—Should major amounts of U.S. capital and technical expertise be directed to developing Soviet energy resources, thereby diversifying future U.S. supplies somewhat?

—Will the domestic demand for the LNG at its projected high price be large enough to justify its being imported?

The study deals only tentatively with these complex issues. Accordingly, I am proposing by separate memorandum to you that we undertake a much more extensive analysis of the issues involved in the Soviet LNG projects.

Next Steps

The study sets out broad goals and specific tasks for dealing with the international aspects of the energy situation. Pages 50–56, which deal with these goals and tasks for the future, are worth your while reading. The four goals are (1) ensure that adequate and stable supplies of oil and gas are available from foreign sources, at the lowest feasible prices; (2) make provisions to protect against interruption of foreign supplies; (3) develop the option to reduce our dependence on foreign supplies as quickly as feasible; and, (4) cooperate with other major consumers to achieve the above goals. Specific tasks are then prescribed for attaining each goal.

We will issue the final draft of the Executive Summary early next week. Based on your discussion with Governor Love, we can schedule a meeting of principals for late next week. It would be held under the umbrella of the SRG, and we will keep to a minimum the number of agencies represented.

Recommendation

You already have a SALT VP scheduled for Wednesday and a DPRC meeting set for Thursday. Both meetings should be held. Therefore, I recommend that you schedule an SRG meeting for Friday, August 17, to discuss the NSSM 174. If a meeting is not feasible, I will schedule a meeting of the Interagency Committee on the International Aspects of Energy, which I chair, to discuss the NSSM report and follow-on tasks.

Schedule a meeting for Friday.[6]

Odeen hold meeting of his committee.

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[6] Kissinger initialed his approval of a Friday SRG meeting; see Document 194.

193. Memorandum From Philip A. Odeen of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, August 15, 1973.

SUBJECT

Energy-related Foreign Policy Objectives

An SRG meeting on Energy (NSSM 174)[2] is scheduled for Thursday, August 16, 1973.

The purpose of the study is to:

—Provide a broad overview of the current and projected energy situation through 1985 with special attention to those aspects affecting national security.

—Define the national security and foreign policy issues that flow from the energy situation.

—Inventory the government's knowledge on these issues and specify where more work needs to be done before we can make policy judgments.

A. Background Considerations and our Objectives

Energy and, in particular, oil is a critical new element in the security equation. It will be a prime determinant of relations between major countries for at least the next five years. The introduction of U.S. oil demand onto the world market, combined with the sharp growth in other consumer nations' demand has thrust the Middle East producer nations (and, in particular, Saudi Arabia) into a unique position in the forefront of relations between the industrialized nations.

In this unique position, key Arab producers will accumulate considerable power and leverage over the relations between industrialized nations. They are in a position to play off one industrialized

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–68, Senior Review Group Meetings, SRG Meeting, Energy NSSM 174 8/16/73. Confidential. Sent for action. A handwritten notation by Kissinger at the top of the page reads: "total/partial cooperation." This memorandum served as the analytical summary of the response to NSSM 174 and reflected Kissinger's comments on an earlier draft, Document 192.

[2] See Document 194. NSSM 174 is Document 171.

nation against another. Their economic power will grow rapidly, and they could seriously disrupt the world's monetary system, for example. Without oil, industrialized economies cannot function, and this, of course, raises the specter of a competitive scramble for Middle East energy that could disrupt our Alliances (as well as Common Market).

They also are being placed in a uniquely vulnerable position. *Since sufficient reserves exist to meet world needs, strong pressure could be created to force production should the Saudis overplay their hand.*

Obviously, the Soviets will be aiming to utilize oil to their own advantage, both to emphasize divisive influences and break up our alliances and also to gain a source of hard currency to support their own economy's development. In fact, whoever can capitalize on the increasing world dependence on Middle East (e.g., Saudi) oil will enjoy a position of strength and leverage in the coming five years. The major problem is, of course, to develop an understanding of this leverage, how it will operate and the measures needed to minimize divisive impact on our alliances and prevent the Soviets from using it against us.

Against this background, certain critical aspects of our national approach to energy should be addressed at the meeting. Briefly, *these six broad national objectives provide the conceptual basis for our approach to energy:*

—to ensure adequate and stable world oil production to meet U.S. and allied needs;

—to keep world oil prices as low as possible and to minimize the potential disruption to the world monetary systems which large accumulated Arab reserves could cause;

—to limit the impact of our growing oil needs on our other Middle East foreign policy goals—in particular, our approach to the Arab-Israeli conflict;

—to capitalize on any leverage which energy-related factors can contribute in our total relationships with the allies while preventing energy from being a divisive force in U.S.-allied relations;

—to capitalize on energy in our relations with the Soviets and to keep the Soviets from using energy to their advantage; and,

—to reduce the economic and military vulnerability that will accompany increased dependence on imported oil.

B. Domestic Energy Policy

The international aspects of the energy problem are closely linked to our domestic policies—especially in the period beyond 1978. In the next five years there are few alternatives to sharp increases in imports. Beyond the late 1970s, however, projected levels of imports differ greatly and depend critically upon the rate at which we develop domestic energy alternatives.

Alternative U. S. Levels of Imports[3]
(millions of barrels per day)

	1975	*1980*	*1985*
Hi Projection	10	16	19
Mid-range Projection	8	11	15
Lo Projection	7	6	4

To the degree that domestic policies slow the rate of growth of imports at acceptable cost, they will contribute greatly towards the accomplishment of foreign policy/national security objectives.

Broadly, the components of enhancing self-sufficiency include:

—Developing existing domestic resources more fully (natural gas and offshore oil resources).

—Development of alternative non-fossil fuels, such as nuclear power.

—Development of fuel substitutes for oil or gas (e.g., coal liquification and gasification) and removal of environmental inhibitions to the use of coal—our most plentiful domestic resource.[4]

—Energy conservation, which has a magnified impact on import needs (e.g., a 10 percent reduction in demand could reduce imports 20 percent in 1980).

Progress is being made on all these. A $10B, five-year R&D program has been started and conservation is getting a new (but late) push. Deregulation of natural gas has run into difficulties on the Hill, however.[5]

C. Ensuring Adequate World Oil Production

Saudi Arabia will hold the key to meeting world production needs through 1980. She accounts for 24 percent of the world's reserves and it is Saudi production which will fill out world oil production to meet total world needs.

However, by 1980 the Middle East producer countries could be earning as much as $40B annually and these revenues could grow to 8 to 10 thousand dollars per capita. Without an economic incentive (given the social disincentive), there is considerable doubt that Saudi production will expand sufficiently.

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[3] Based on estimate made by the National Petroleum Council, for hi and lo. [Footnote in the original.]

[4] Domestic reserves of coal could provide over 350 years supply if environmentally acceptable. [Footnote in the original.]

[5] Congress is not convinced that an actual shortage exists—some members believe it is solely caused by the actions of gas companies withholding gas from market in anticipation of a price increase. [Footnote in the original.]

To address this production problem, several initiatives could be pursued:

—We should strive to widen our relations with Saudi Arabia and to make oil one component of broader U.S.-Saudi relations. Insofar as possible, *we should seek a relationship in which oil is one component of a mutually beneficial political and economic relationship in which U.S. (and Allied) oil needs are met. We should convince the Saudis that oil production levels cannot be allowed to fall short of U.S.-Allied needs without disrupting other elements of our relations they value.*[6]

—We should seek to improve economic ties, consider economic policy changes which accord to Saudi needs and generally seek a better understanding of Saudi economic desires as their production expands. These questions are being addressed in preparation for the Saudi economic mission.[7]

—We should seek closer military ties with the Saudis and be responsive to the growing Saudis' vulnerability to attack from Arab guerrillas, Iraq, and greater Soviet Union influence.

—We should develop (with our Allies) a comprehensive analysis of our projected oil needs and discuss them with the Saudis and other producers. I question the advisability of relying on the oil companies to do this.

—*We should seek to diversify away from Middle East sources and away from Saudi Arabia.* Western Hemisphere sources (Canada and Venezuela) do not look promising but some relief might be gained by pressing for increasing Iranian output. Another possibility for diversification is Iraq, which some believe could have reserves almost half the Saudis'. For political reasons, these reserves have not been developed nor fully explored, however.

—In addition, *we should seek an understanding with Iran that in the event of a selective Arab boycott of the U.S., Iranian production would be shifted to meet U.S. needs* leaving Arab oil for Europe and Japan to replace Iranian oil.[8]

—Insofar as possible, *we should try to disassociate oil from our* Israeli policy and dampen the growing Saudi tendency to consider oil for political ends. (Further discussed below.)

Development of this broader relationship requires initiatives in several areas, economic and military. We should continue to be forthcoming in meeting Saudi arms and other security needs. The economic mission planned by Treasury for November is one component of de-

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[6] A handwritten notation by Kissinger in the margin next to this paragraph reads: "such as?"

[7] The Japanese enjoy a competitive advantage since the GOJ can offer package deals combining sales agreements with industrial diversification in Saudi Arabia. Because of historical USG-business relations, we are somewhat limited in this regard. [Footnote in the original.]

[8] Kissinger placed a checkmark in the margin next to this paragraph.

veloping closer economic relations. (A copy of the draft agenda currently being developing by the working group is enclosed.)[9]

D. Controlling World Oil Prices

The selling price of a barrel of Middle East oil is 15 to 20 times production cost and has increased since January almost 30 percent largely because of the tight world oil market, the united front of the OPEC cartel and other factors such as the participation agreements that have severely weakened the companies' negotiating position. *Some believe (e.g., Adelman) that future price rises might be dampened in a rush to bring new oil to market as the OPEC cohesion weakens* under the strain of differences in economic and political objectives of the member countries.

However, there is no sign of this occurring and I seriously doubt future price increases will be controlled without more active government intervention by consumer governments. Faced with a choice between the possibility of losing supplies and accepting an increase in price, the companies will continue to accept price increases (profits are largely insensitive to price increases but profits disappear if oil is not available). Since a one dollar increase in the price of a barrel of oil will add about $5.0B annually to our import bill, there is a wide divergence between the companies' interests in countries and our national interest.[10]

Some of the initiatives we could pursue to hold down rising prices include:

—*Forming an organization of consumer countries* which could discuss and agree on ways to control unnecessary competition and bidding up of oil prices.

—*Controlling the companies' negotiations* with the producer countries

Some form of consumer cooperation will be needed as a minimum to help avoid the potential for competition between consumers. Agreements should be pursued first to create an environment of confidence between the consumer nations and to establish an understanding that competition for oil should not be allowed to disrupt our relations. Once established, this confidence could support a confrontation with OPEC.

The key problem is to avoid the appearance of confrontation until the arrangements have been successfully formed. The risk is that certain key consumer nations like the Japanese will be scared off or we

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[9] Attached but not printed at Tab A is "Economic Mission to Saudi Arabia, Suggested Agenda for Discussions," undated.

[10] This is illustrated by the formula recently agreed to by the companies for adjusting the price of oil after currency devaluations. Currently, prices are raised if any one of 11 major currencies is devalued—no account is taken of the relative importance of the currency in world trade. In addition, the producers are now seeking to include an "inflation factor" that would perk up prices each year regardless. [Footnote in the original.]

will encounter producer retaliation before we are ready to deal with it. The Japanese feel especially vulnerable because of their 100 percent dependence on oil imports and the major projected increase in their import needs. The major oil companies would also shy away from a confrontation and the risk of a supply cutoff even if there is a possibility of price reductions.

As an alternative to consumer cooperation, we could limit ourselves to purely defensive measures aimed at controlling prices. In fact, these should be pursued regardless of our success in forming a union of consumer nations. For example:

—*We should consider divergencies in the economic and political objectives of OPEC nations and seek ways of driving wedges in its cohesion.* CIA is developing an improved information network which will help.

—*We should stress to the Saudis that price (as well as political relations) will determine whether or not we exploit domestic alternatives* which will become available in the late 1970s. If domestic alternatives are exploited, demand for this oil will be lost. The time may be limited during which they can earn dollars and diversify their economy.

—*We should stress the upper limit on price which these alternatives set for international oil prices in the future.* Oil shale, tar sands, etc., might cost about $5 per barrel and with very substantial reserves available, this would be adequate to greatly reduce our future import needs.

—We should otherwise press for ways to increase the competitiveness of the oil market.

E. The Israeli Problem

Although there are significant economic problems which could hinder Saudi expansion of production, political problems are emerging as the most immediate reason for cutbacks. Our overriding concern must be to discourage Saudi Arabia from placing herself politically in the forefront of the Arab-Israeli problem. A political strategy aimed at accomplishing this would be partially composed of personal discussions with Saudi leaders stressing the danger of such a course and would also include enhancing the position of the responsible elements of the Saudi political power structure (Fahd and Sultan).

The Saudis could be reminded of their delicate position and the need to chart a moderate course. If it becomes clear that Saudi oil and pressure are disrupting U.S. support for Israel, the Israelis might consider overt military action. On the other hand, the Saudis must avoid too close identification with the U.S. (and Israel) because of their vulnerability to guerrilla attack. We should stress to the Arabs that none of the Arab countries have benefitted from being in the forefront of the Israeli problem.

Since State and others seem to feel we should press on the Israeli problem to encourage Saudi cooperation, you may want to describe your general approach to keeping oil and Arab-Israeli problems as separate as possible.

F. Energy and Relations with the Allies

Energy is an area in which the U.S. has significant leverage and the Allies need our cooperation. Our leverage in energy matters results from several factors:

—*We have considerable economic and political influence with the two richest oil nations*—Saudi Arabia and Iran. Without U.S. participation, it is doubtful that the proper economic environment can be created that will bring about these increases.

—*Our technological advantages also give us leverage.* We lead in most fields of energy-related technology, especially new nuclear energy sources. (R&D is discussed below.) The Japanese are extremely interested, for example, in gaining access to our uranium enrichment technology and a project in which the Japanese would finance a plant located in the U.S. is under detailed study. The key problem is maintaining control over this sharing so adequate diplomatic compensation is made.

—*A final factor is large domestic resources which could reduce our future demand for oil imports.* Development of our more costly domestic alternatives could substantially relieve future tight oil markets and without U.S. demand (about 30–40 percent of the total) the OPEC countries will find it difficult to maintain prices at the current level 15 to 20 times cost. On the other hand, if we decide to compete for foreign oil rather than develop domestic alternatives, the allies will find it hard to meet their own needs and will pay a higher cost.

These general sources of strength in energy matters translate into specific sources of leverage in issues currently being discussed within the OECD and elsewhere. Examples are cooperative emergency sharing schemes, research and development, and consumer country cooperation.

(1) Emergency Sharing Schemes

It is projected that in 1980 we will import about 30 percent of our oil from Middle East sources compared to 60 and 85 percent for Western Europe and Japan. This means that under most circumstances we are net contributors to import sharing arrangements.

Cuts in U.S. Oil Consumption
(Percent in 1975)

	Embargo by			
	All-Arab	*Libya*	*Iran/Iraq*	*Saudi Arabia*
No Agreement	18	Negl	6	13
Agreement to Equalize Cuts in Imports	24	5	10	3

In addition, without U.S. participation, the deterrent value of any sharing arrangements would be severely reduced. Thus, we should probably expect some concessions in other areas in exchange for U.S. participation in an import-sharing scheme.

However, certain factors do tend to weaken U.S. leverage with respect to emergency sharing agreements:

—The Europeans may not believe that a formal import sharing scheme is essential—if a cutoff occurred they could rely on political pressures and the normal reactions of the oil companies.

—If the U.S. were selected out as the sole target of an embargo (perhaps the most likely case), we would, of course, benefit from an import sharing scheme and *the allies would suffer.*

The OECD is preparing a paper on sharing which will be completed in October and negotiations will then be started.[11]

(2) Research and Development

The U.S. is well ahead in most areas of energy technology (e.g., nuclear power) although there are some areas, such as conversion of coal into gas, where the Europeans have an advantage.[12]

Our technological lead plus our large and varied research and technical resources are essential to any major coordinated effort to develop nuclear energy, coal, and other non-petroleum energy sources. We have much more to offer than to gain from such an effort. Thus, our cooperation should earn some "quid" from the allies.

We are about to sign an "umbrella" agreement with the Japanese which would allow detailed projects to be agreed to on a case-by-case basis. State is heading up a study effort aimed at developing specific projects—the key problem will be maintaining control and ensuring adequate compensation is received (the uranium enrichment project is a good example).

(3) Consumer Country Cooperation

As discussed above, some form of cooperation is needed to provide the confidence needed to avoid competition. The real issue is the nature of the cooperative effort and the feasibility of getting the major consumers to agree to work closely together.

There are wide differences between consumer nations over the wisdom and feasibility of the various cooperative approaches. In Europe, the French are dragging their feet and have thus far prevented the European community from developing a firm position on cooperation. The French, Italians, and Germans[13] are each going their separate ways seeking their own sources and the British are hoping North Sea oil will solve

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[11] A handwritten notation by Kissinger in the margin next to this paragraph reads, "reduced pol. leverage."

[12] Kissinger placed a checkmark in the margin next to this paragraph.

[13] The Germans recently formed their own government backed oil company. [Footnote in the original.]

their problem. The Japanese have a strong interest in cooperation but are deeply concerned over the risks.

Greater government backing is needed for the international oil companies and perhaps a direct government role in negotiations should be aimed at. To be effective, it would require deep involvement in company affairs which may not be acceptable to the U.S.-owned firms. But the rapid growth of producer country participatory arrangements argues for some new steps to improve the bargaining position of the oil companies.

If any cooperative effort is going to be successful, the U.S. must play a key role. This provides some leverage with the allies who are aware of the need for cooperation and need U.S. leadership.

G. Vulnerability to Supply Cutoffs

If imports increase from today's 30 percent of total oil consumption to the projected 60 percent in 1985, we will clearly become more vulnerable to cutoffs and production slowdown. This will not have a major impact directly on our military requirements which make up only about ten percent of domestic production—*the real danger is the economic disruption that would result from a supply cutoff.*

To meet these contingencies, we could develop voluntary and mandatory rationing plans, enlarged oil stockpiles, import sharing plans, and the like.[14]

This would give us a significant hold out capability against even a total cutoff of all oil imports well into the 1980s. For example, the stocks normally held by the oil companies provide (in theory) adequate quantities of oil to maintain consumption levels for about three months against an all-Arab boycott in the 1980s. Rationing and surged domestic oil production could also significantly enhance our hold out capabilities.

Major real world problems, however, would be encountered in effectively utilizing the stored oil, ensuring refining capacity is fully utilized and distributing the stored oil throughout the country. Companies now hold stocks because it is in their economic interest to do so (we have no formal stockpile plan) and there would be major difficulties getting them to part with them in an emergency. Getting a better understanding of the national oil distribution system is a high priority problem for further study.

To counter a shortfall caused by a producer country limitation of production, several remedial steps could be taken including voluntary energy conservation and mandatory rationing. These measures could be relatively effective, reducing demand by as much as 10 percent and

[14] A handwritten notation by Kissinger in the margin next to this paragraph reads, "How."

providing some time to begin shifting to other supply sources. As mentioned above, our capability to diversify to other countries or develop their sources of energy is a major unknown. A study effort aimed at seeking ways of diversifying oil supplies is also recommended as a high priority follow-on study effort.

H. The Soviet Union

A potential supplier of major quantities of oil and gas, the Soviet Union lacks the technical expertise and capital to develop her resources.

Our objective with respect to the Soviets should be to utilize this leverage in the broader context of U.S.-Soviet relations. This requires that we keep control over the several large LNG and oil projects currently under consideration by U.S. companies and the Soviets. We do not know now the areas where USG cooperation is needed and this is one reason I have proposed a systematic study of the projects. My previous memo describing the projects in more detail is in your book.[15]

In addition to these specific projects, we should prevent the Soviets from using energy against our interests. For example, the Soviets are now buying oil from Iraq and reexporting it to Germany. The Soviets would obviously like to expand their role as a middleman in handling Middle East oil.

I. The Meeting

As you know, the government is still inadequately organized to effectively handle the energy problem. Our approach is haphazard and uncoordinated with each agency pushing its pet project.

Thus, in addition, leading a general discussion of the issues, you should focus the discussion towards the areas where coordination of our policies is needed and emphasize your broad views on how these issues should be addressed. In particular:

—Insulating our oil and energy policies from the Israeli problem.

—Developing a coherent political, military and economic approach to the Middle Eastern producer countries, designed to provide continued stability and adequate oil production to meet world needs.

—The need to fully integrate energy into our diplomatic approach to the Europeans and Japanese in areas such as R&D cooperation, import sharing, and general questions of consumer cooperation.

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[15] Attached but not printed is an August 1 memorandum from Odeen and Sonnenfeldt to Kissinger, on the Yakutsk and North Star LNG Projects. The memorandum noted that because of the potential problems, such as Congressional hearings to clear Ex-Im Bank financing and Maritime Administration guarantees for construction of LNG tankers, and potential Congressional opposition, a study was needed. On another copy of this memorandum Kissinger approved this suggestion and handwrote: "Can Sonnenfeldt or Odeen chair?" (National Archives, Nixon Presidential Materials, NSC Files, Box 251, Agency Files, National Energy Office, Vol. III)

—The importance of getting some control over the oil companies in their negotiations with producing states.
—The importance of coordinating our approach to the Soviets and, in particular, controlling the progress on the LNG project.

Talking points in your book are written to aid you in accomplishing these objectives. Also in your book are:

—A copy of the NSSM 174 Executive Summary.[16]
—A previous memo on energy and the Atlantic Alliance.[17]
—A covering memo to the NSSM 174 Executive Summary outlining other major issues.
—Saudi economic mission agenda.
—A memo on a proposed study of the Soviet LNG projects.

[16] See Document 192 and footnote 2 thereto.
[17] Document 187.

194. Memorandum From the Under Secretary of State for Political Affairs (Porter) to Secretary of State Rogers[1]

Washington, August 17, 1973.

SRG Meeting on NSSM 174:
International Aspects of Energy

Henry Kissinger yesterday afternoon held an SRG meeting to discuss the international aspects of the energy problem.[2] In addition to the regular SRG members, Governor Love and Bill Simon from Treasury participated. Willis Armstrong and I represented the Department.

There was general agreement that there should be a major national effort to expand domestic supplies of energy, sufficient to reverse our

[1] Source: National Archives, RG 59, S/S–NSC Files: Lot 80 D 212, NSSM 174. Secret; Exdis. Drafted by Claus W. Ruser (S/PC) and concurred in by Armstrong.

[2] Handwritten (but basically indecipherable) minutes of the meeting are ibid., Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–113, Senior Review Group, SRG Minutes (Originals) 1972–1973. Other information on the meeting include the Talking Points prepared for Kissinger, an August 16 memorandum from Odeen to Kissinger providing a listing of additional issues Kissinger might want to cover in the meeting, and a CIA brief prepared for the meeting. (Ibid., Box H–68, Senior Review Group Meetings, SRG Meeting, Energy NSSM 174 8/16/73)

increasing dependence on Arab oil by 1980. Without this, imports from all sources could account, by the early 80s, for more than half of total US consumption.

There was also agreement that present activities are insufficient to accomplish this. Nuclear technology will provide a long-term solution but will have little effect on the situation before the mid-80s at the earliest. A shift back to coal for electric power is technically feasible in the near term—plenty of coal is available—but entails massive environmental problems. The two Presidential energy messages of April and June[3] have emphasized the right actions and funds are in sight for research and development in coal and oil shale. Governor Love is organizing his approach to all this work, but it will be some time before effective new measures can be taken.

The Governor said that a major conservation program would be needed to reduce the growth in consumption if the trend in imports were to be reversed.

As for our public posture, I said that the United States needed to take a more positive, confident stance to convince foreign producers that we were determined to solve this problem through a strong national program in this decade. If producer governments became convinced of this—which they are not today—it would influence their attitudes and demands during the next three to five years, the critical period during which there was little we could do, aside from conservation measures, to limit the growth of imports.

In the course of the meeting, Henry Kissinger expressed reservations on a mission to producing countries, such as the proposed investment advisory mission to Saudi Arabia,[4] until our ideas have been further clarified. Kissinger also questioned our policy in favor of multilateral R&D in energy with other consuming countries. He felt we should look closely at the question of whether sharing our technology was justified and how joint R&D could be used as an incentive to tie

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[3] See Document 177.

[4] In an August 13 memorandum to Kissinger, Shultz recommended that Simon head an economic mission to Saudi Arabia and other Arabian peninsula oil-producing states to discuss increased oil production, and to promote U.S. exports and bilateral investments. (National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV) On September 4, Kissinger replied that the Senior Review Group had decided at the August 16 meeting "that our approach to oil consumer and producer countries should be carefully reviewed. When this review is completed and a general strategy has been adopted, we will be prepared to address the question of an economic mission to Saudi Arabia and approve Deputy Secretary Simon's trip." (Ibid.)

other industrialized countries more closely to us. It was also observed that the U.S. has something to learn from other countries.

Toward the close of the meeting, there was considerable discussion of the possible usefulness of an approach by the USG to the governments of producer countries with a view to achieving bilateral arrangements for the supply of petroleum to the U.S. on a long-term basis. Mr. Kissinger requested that a working group produce a paper discussing the pros and cons of such arrangements for consideration at a mid-September meeting on energy.[5]

In view of the sensitive aspects of this matter (bilateral arrangements), Mr. Kissinger said the next meeting would be limited to principals.

William J. Porter

[5] Document 208.

195. Editorial Note

By August 1973 the accumulation of foreign exchange reserves by Arab oil producing states sparked debates within the U.S. Government on the impact of these reserves on the international monetary system, U.S. foreign policy in the Middle East, oil production levels, and investment policies by the oil producing states. As the largest oil producer, this issue was critical to Saudi Arabia where, according to Executive Secretary of the Department of State Thomas R. Pickering, "important talks" were underway between ARAMCO and Saudi Minister of Oil Ahmad Zaki Yamani on production levels. At issue were: 1) "the accumulation of excess foreign exchange reserves and the inflationary impact of rising revenues with quantum jumps in Saudi oil production;" 2) conservation; and 3) Saudi dissatisfaction with U.S. policies in the Middle East, which might "make it difficult for the Saudis to cooperate with the U.S. in increasing production." Pickering concluded that Saudi Arabia was the "only" country capable of meeting the "continued rapid growth in the Free World's demand for oil." Pressure on the Saudis to reduce production reflected political issues and the fact that "Saudi income from oil now well in excess of the Kingdom's absorptive capacity." (Memorandum from Pickering to Kissinger, August 4; National Archives, RG 59, Central Files 1970–73, PET 12 SAUD)

In an August 13 meeting with Ambassador Nicholas Thacher, Yamani stated that the Saudi Supreme Petroleum Council was so concerned that the United States favored "some assertion of international authority over oil-producing governments' investment policies," that it determined to "at once put ceiling on oil production" if such action were taken. Yamani suggested that Thacher stress to Prince Fahd the vital importance of developing a long-range production policy that would meet Saudi requirements and give full weight to the needs of consuming countries. Ambassador Thacher urged the Department of State to carefully formulate his approach to Fahd with "four or five simply stated points of nature such that following their presentation piece of paper could be handed him containing points made orally." (Telegram 3444 from Jidda, August 13; ibid., Central Foreign Policy Files)

Thacher's arguments became the basis for a letter from Secretary of State William Rogers to Prince Fahd (telegram 167505 to Jidda, August 23; ibid.), which was subsequently given to Fahd in a meeting between him and Thacher; see Document 197. According to an August 17 covering memorandum to Secretary Rogers from Assistant Secretary of State for Near Eastern and South Asian Affairs Joseph Sisco, the letter to Fahd was part of a three-pronged approach to "deepen our dialogue with the Saudis and to make King Faisal and other Saudi officials feel that their political and economic concerns relating to oil and to Saudi Arabia's overall relationship with the U.S. are being heard." The letter was to draw Fahd's attention to U.S. proposals before the International Monetary Fund's Committee of 20, whose task was to develop proposals for international monetary reform, and to stress "the importance of developing policies relating to future oil production which will meet Saudi objectives of using surplus revenues wisely and productively for the Kingdom's own development and at the same time give full weight to the growing needs of consuming countries for Saudi oil."

An August 20 attachment to Sisco's August 17 memorandum states the U.S. position on investment funds as follows:

"In the framework of U.S. proposals for adjustments based on reserve changes for countries with persistent balance of payments surpluses, we recognize that exceptions have to be made for certain oil exporters where oil is virtually the only export. Otherwise, these countries can adjust their payments surplus by cutting back on oil production. We have suggested to the Committee of 20 Deputies that these countries put some of their payments surplus in 'investment funds' which they would administer. These 'investment funds' would then not be a part of the country's foreign exchange reserves. They would not be subject to international control except that these funds would have to be consistent with and not disrupt a new international monetary system. The IMF might also determine which countries could appropriately be authorized to establish such investment funds and might require quarterly statistics on the 'investment funds' quantity and makeup."

The other two initiatives Sisco noted were a letter to Faisal from President Nixon (see Document 198) and a proposed mission to Saudi Arabia that was to evaluate Saudi investment opportunities. (National Archives, RG 59, Central Files 1970–73, POL SAUD–US)

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196. Memorandum by Philip A. Odeen of the National Security Council Staff[1]

Washington, August 20, 1973.

MEMORANDUM FOR

The Honorable William J. Casey
The Honorable William E. Simon
Mr. Kenneth Dam
Mr. Charles DiBona
Mr. Peter Flanigan
Mr. Samuel Hoskinson
Mr. Stephen Wakefield
Mr. John Sawhill
Mr. Stan Katz

SUBJECT

Yakutsk and North Star LNG Projects

Dr. Kissinger has asked the Committee on International Aspects of Energy to conduct a study of the national security, economic and foreign policy aspects of the proposed Yakutsk and North Star LNG projects.

The study should assess the current status and likely future development of these projects. Special attention should be given to the role the U.S. government may be asked to play by the companies and to resultant issues that would have to be decided.

The study should examine the general national security and foreign policy issues involved and, where applicable, the options. For example, the study should address:

—The national vulnerability arising from dependence on the projected quantities of Soviet LNG.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 251, Agency Files, National Energy Office, Vol. III. Confidential. Attached was the August 15 memorandum from Odeen and Sonnenfeldt to Kissinger; see footnote 15, Document 193.

—The effect the projects could have on U.S.-Soviet and U.S.-Japanese relations, with particular emphasis on the implications for U.S.-Japanese relations of various participation arrangements currently under consideration.

—Technical issues, including questions of technology transfer.

—Economic issues, including the balance of payments and cost implications and the effect of domestic deregulation. Insofar as possible, the likely economic feasibility of the prospect should be included in terms of probable future gas prices and demand levels;

—Financial questions, including those relating to possible Export-Import Bank credits and loan guarantees, LNG tanker ownership and possible Maritime Administration financing and guarantees; and,

—Likely Congressional attitudes toward the projects and toward alternative USG actions on the above issues.

This study should be undertaken by an ad hoc committee composed of your representatives and chaired by a representative of the NSC staff. An initial report should be submitted by September 15, 1973.

Philip A. Odeen[2]
Director, Program Analysis

[2] Odeen signed "Phil Odeen" above his typed signature.

197. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, August 26, 1973, 1010Z.

3644. Subj: Saudi Govt Oil Policy and Related Financial Aspects. Ref: State 167505.[2]

Summary: Ambassador presented Prince Fahd copy of our C–20 paper re Arab financial reserves[3] explaining it intended make clear

[1] Source: National Archives, RG 59, Central Foreign Policy Files. Secret; Exdis. Repeated to Dhahran.

[2] See Document 195.

[3] The July 17 U.S. proposal to the C–20 is in telegram 157536 to posts in Arab countries, August 9. The Department noted that "nothing in the U.S. position precludes or is intended to preclude investments in Arab world or anywhere else." The telegram also contains a partial text of Shultz's June 6 speech at the OECD Ministerial Council meeting in Paris on monetary reform. (National Archives, RG 59, Central Foreign Policy Files)

our conviction freedom of action oil producing states must be preserved with regard investment their accumulated funds without encumbrance by restrictions of any new monetary system. Amb presented message from Secretary to Fahd noting it also addressed this aspect, and that it urged in addition our strong hope careful consideration would be given to Saudi Arabia's important role in meeting rapidly rising petroleum demand, implying strong mutuality of interest between SAG, US and free world. Fahd interjected long discourse on Saudi desire be positive force and "center of reasonableness" among Arab countries, but SAG must be able make clear its viewpoints in way convincing other Arab states that it has Arab interests at heart. SAG continues active study means how best utilize growing revenue and how it might continue increase oil production to US and Western Europe. He hoped USG and US companies be prepared assist in development of joint projects for Saudi industrial growth. DCM then gave Fahd oral résumé in Arabic of central thoughts in Secretary's message. Fahd responded favorably and commented Hisham Nazer would be under strict instructions take constructive line during his Washington talks. Amb concluded by saying we anxious maintain dialogue with His Highness these important subjects. Such talks could be carried on much more successfully without limiting atmosphere of restriction on oil production levels. As usual, Fahd exuded good will and amiable intentions, stressing goals of cooperation and mutual benefit. Unfortunately we cannot assume his effusive affirmations of cooperative intent are dominant element present Saudi deliberations. Secretary's good letter and US paper for C–20 provide Fahd with ammunition to take helpful line in SAG discussions, and we must consider how we can continue capitalize on his positive instincts. Amb will follow up near future with Yamani determine, if possible, tenor of ongoing discussions in Supreme Petroleum Council. *End summary.*

1. Called with DCM August 25 on Prince Fahd to present Secretary's message and paper giving US statement on our ideas for dealing with Arab financial reserves drawn up for Committee of Twenty. Began by saying that we had understood there was considerable apprehension and some misunderstanding among some oil producing Arab govts regarding US views on management of large financial reserves which these govts were accumulating as their petroleum output continues to mount. In explaining origins and purposes of paper stressed it aimed making clear one particularly important point: our conviction freedom of action of oil producing states must be preserved with regard investment of their accumulated funds without encumbrance through restrictions of any new monetary system. Thus, we supported idea of special position for oil producing countries in recognition of their special needs and requirements.

2. I noted we were aware also of relationship between levels of oil production and rate of accumulation of reserves. Secretary's letter addressed this aspect and made clear our strong hope that careful consideration would be given to Saudi Arabia's important role in meeting rapidly rising petroleum demand and to strong mutuality of interest in this respect between Saudi Arabia, US and free world countries.

3. Fahd broke in with reference to excellent relations existing between US and Saudi Arabia, affirming latter was anxious to be "positive force" in world affairs and "center of reasonableness" among Arab countries. Prince said that perhaps I had noticed recent statements of His Majesty reflecting Saudi desire to avoid restrictions on petroleum production provided proper political circumstances could prevail. King, Fahd said, is anxious to deflect and blunt endeavors of leftist Arabs who desire to see oil become difficult and contentious issue between Saudi Arabia and its friends in West. Saudi Arabia can only succeed, however, if it can make clear its viewpoint in way that convinces other Arabs that indeed it has at heart interests of Arab world generally. Prince indicated it is his own strong personal intention do everything possible to see that course of events move in manner that Arab petroleum will not be cut off from US and West.

4. Indeed, he said, SAG at present is studying ways in which it might continue increase production to US and Western Europe and is also studying means see how best revenue so engendered can be utilized beneficially for Saudi Arabia's development. Fahd mentioned without much detail existence of "plan now before Council of Ministers." This would envisage further contacts with foreign companies or govts to assist in Saudi implementation of development plans, whose goals had three important aspects: first, to augment the well-being and contentment of Saudi people through economic development—roads, electricity, better health facilities, industry, etc.; secondly, silence those who "speak of US with critical tongues," and lastly, make it possible to help our foreign friends (oil consumers) meet their needs. He hoped USG and US companies would be prepared to assist in development of joint projects which would enhance Saudi industrial development. ("Plan" Fahd referred to is probably guidelines for second five-year plan now under active consideration within govt.)

5. I said I was pleased that from what His Highness had remarked to me it appeared our ideas were running very much in same track. DCM then gave Fahd oral résumé in Arabic of central thoughts contained in Secretary's message. Fahd was grateful for these helpful ideas and promised study letter. (Almost certainly he will show it to King.)

6. As to Hisham Nazer's visit to US, he wished me understand Nazer would be instructed take constructive line in his talks in Wash-

ington and to say nothing that might heighten American concerns but rather pursue same line His Highness had outlined to me as intended enhance opportunities for further cooperation.

7. I concluded discussion by saying that we would be looking for further opportunities to continue high-level discussions with His Highness and other senior reps of SAG on specific features of Saudi investment plans, including tax issues. Most progress could be made if such talks were not carried on in limiting atmosphere of restriction on oil production levels. Fahd assured me he understood my point and indicated he would be happy to talk about these matters further.

8. In closing I asked about His Highness' reference to statement by His Majesty regarding right political circumstances required to avoid restrictions on petroleum production. Could Fahd identify statement more precisely for me? Fahd responded that he had in mind remarks made by King to *Washington Post* reporter who was here recently.

9. *Comment:* Fahd exuded good will and amiable intentions along with warm desire for cooperation which are so much his trademark. He gave no hint that anything unpalatable to oil consuming countries may now be under active consideration within Council of Ministers or Supreme Petroleum Council. He wanted us most earnestly and sincerely, no doubt, to believe that Saudi Arabia's goals with regard to oil and investments are collaboration and mutual benefit. While we gained little in knowledge of real contest that may be going on within govt on levels of production, excellent letter from Secretary and US paper presented to C–20 certainly provide Fahd with grounds for encouraging restraint and moderation within SAG's inner circles.

10. Knowing Fahd as well as we do, we cannot, unfortunately, take his effusive affirmations of cooperative intent as being dominant guiding consideration of present Saudi deliberations. Prince touched on political aspect by referring to King's quite negative comments to Hoagland and Cooley[4] but in context that these comments were only simple affirmation intended to blunt arguments of radical Arabs and to let world know there was "minor" problem of political circumstances to be considered. To hear Fahd tell it, latter would be, of course, simple matter to dispose of.

11. Nevertheless, it seems to us he clearly desires to be an ally and we must keep under constant review how we can best capitalize on his positive instincts. I intend in next few days have follow-up meeting with Yamani, let him know we have gone to Fahd with strong,

[4] Presumably *Washington Post* correspondent Jim Hoagland and ABC correspondent John K. Cooley.

positive presentation and obtain from him some further notion how discussions are progressing within Supreme Petroleum Council.[5]

Thacher

[5] In their meeting on September 4, after Thacher informed Yamani of his meeting with Fahd, Yamani said that other issues, such as buy-back prices, and possible changes in the participation agreement, would temporarily displace Saudi "preoccupation" with the relationship between rising financial reserves and levels of production, at least until October or November. He also did not think oil would be a big issue at the Algiers Non-Aligned Conference. In his comment, Thacher noted that the good news of reduced Saudi preoccupation with the relationship of rising financial reserves to levels of production, and Rogers' letter to Fahd (see Document 195) "had augmented mood of caution" within the Supreme Petroleum Council, of which Yamani was the most influential member. The bad news was that Yamani's remarks seemed to forecast a renewed period of bargaining and uncertainty in company-government relations. (Telegram 3084 from Jidda, September 4; National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV)

198. Editorial Note

On August 31, 1973, President Richard Nixon wrote King Faisal of Saudi Arabia following Nixon's discussions with Soviet General Secretary Leonid Brezhnev and Shah of Iran Mohammed Reza Pahlavi, June 18–26 and July 24–26, respectively. President Nixon reassured King Faisal that the United States regarded a "strong, stable and secure Saudi Arabia" as essential to the "stability of the Arabian Peninsula area" and to U.S. interests in promoting peace in the Middle East. Nixon also wrote that the United States was "interested in cooperating with the oil-producing states of your region to assure a reliable flow of energy to oil-importing countries. We are aware of your concern, first conveyed by Your Majesty's Petroleum Minister, Shaykh Ahmad Zaki Yamani, that continued tensions in the Middle East could affect Saudi Arabia's ability to fulfill its unique role in meeting world energy needs. We are also fully aware of Saudi Arabia's desire to use its growing oil income to diversify its economy and to find productive investments.

"We see Saudi Arabia on the threshold of a period of great economic growth and development and I believe American technical and managerial experience could make a significant contribution to your objectives. It is vital for the stability of Saudi Arabia and of the region that economic progress proceed uninterrupted, and I am pleased that a number of American firms are studying possible joint ventures which

would help diversify Saudi Arabia's economy and make use of available energy and other resources. We are giving these companies every appropriate encouragement." (National Archives, RG 59, Central Files 1970–73, POL 15–1 US)

This letter had been the subject of considerable discussion since May 30 when Eliot submitted an early draft to Kissinger. (Ibid.) Rogers transmitted a second draft to Nixon on July 31, on the grounds that the King should be reassured of American interest in working toward an Arab-Israeli settlement. (Ibid., POL SAUD–US) In an August 7 memorandum to Kissinger, Saunders and Quandt supported the letter, but wanted it to reflect regional issues as part of a revitalization of America's relationship with the Saudis. (Ibid., Nixon Presidential Materials, NSC Files, Box 761, Presidential Correspondence, Saudi Arabia, Faisal, 1972) Scowcroft wrote on the Saunders and Quandt memorandum, "No letter right now. BS." On August 22, Saunders reiterated to Kissinger the need for a letter to Faisal to reduce his frustration with U.S. foreign policy and perceived "unresponsiveness." A handwritten notation on this memorandum reads, "8–31 per RTK [Kennedy], Saunders will have State send letter telegraphically—pgd. green will follow. Memo to Pres was revised in SC [*NSC*]." (Ibid.) The revised memorandum to Nixon, dated September 4, which explains the rationale behind the August 31 letter to King Faisal, is printed as Document 199.

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199. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon[1]

Washington, September 4, 1973.

SUBJECT

Letter to King Faisal

King Faisal has recently shown increasing concern over US policy toward the Middle East and a growing tendency to involve himself and Saudi oil in the Arab-Israeli problem. He feels that we are making

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 761, Presidential Correspondence, Saudi Arabia, Faisal, 1972. Secret. Sent for action. A notation on the memorandum indicates the President saw it. The memorandum is marked "(Revised)"; see Document 198. Brackets are in the original.

Iran and Israel our chosen instruments in the area and have been unresponsive to security problems in the Arabian Peninsula.

The US interests are to make Saudi Arabia as effective as possible in maintaining security in the Peninsula and to keep the Saudis away from the Arab-Israeli problem to the extent possible. For one thing, it will not serve our interests to have their oil production tied to progress on an Arab-Israeli settlement. For another, it would increase Faisal's vulnerability were he to make himself responsible for producing an Arab-Israeli settlement by using oil as leverage. Any settlement that one can see Israel accepting will be unpopular with the Arabs. Our objective, it seems to me, should be to make the radical Arabs responsible for that settlement and not let Faisal be blamed for it.

We are trying to get this message to key Saudis since Faisal is emotional about Zionism and difficult to talk to on this one subject. However, Faisal's more general frustrations over US policy cannot be ignored, and he continues to attach great importance to communicating directly with you. On the eve of his departure for the non-aligned conference in Algiers[2] on September 4 where he will be under pressure to commit himself to use oil as a political weapon, it would seem an appropriate time to send him a personal letter which would address three substantive points:

—Our belief that regional cooperation offers the best prospect for insuring the security of Saudi Arabia and the stability and progress of the states in the Arabian Peninsula–Persian Gulf region. This is part of the line we took with the Shah, and the Saudis understand it. The purpose is mainly to remind Faisal that this regional cooperation and a strong US association with it are his main interests.

—Our desire to work with the Saudis as they seek productive outlet for the revenue generated by oil production. Faisal feels his oil people have not had adequate answers from us on these complicated questions. We hope to begin filling this gap when his oil minister and his deputy planning minister come here in September.

—Our preferred approach in working toward an Arab-Israeli settlement. We would remind him that we are making quiet diplomatic efforts and feel they need time to mature. Indirectly, the purpose is to restore his faith that we are in earnest so he can feel justified in staying away from the problem.

Recommendation: That you sign the attached letter to King Faisal.[3] [Text cleared with Mr. Gergen's office.]

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[2] The 4th Summit Meeting of the Non-Aligned States was held in Algiers September 5–9, 1973.

[3] See Document 198.

200. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, September 4, 1973, 1153Z.

3796. Subj: Factors With Regard to Financial Impact of Expanding Oil Production. Ref: State 172015; Beirut 10346.[2]

Summary. Saudi petrodollars continue to grow though SAG current income now actually being re-positioned more than 50 percent into European or other currencies. Reserves are expected to exceed slightly last January's estimate by Embassy of 5.2 billion dollars at end of year. Growth in production continues but doubling in Aramco shipments to U.S. is in real terms only small percentage of increase in shipments to other markets. Saudi concern continues over upcoming monetary system and need to work out special petroleum country investment fund insulated both against penalties by international monetary institutions and against loss through inflation.[3] Spending rate up sharply for domestic needs. *End summary.*

1. Continued concern of Saudis with economics of burgeoning oil production as expressed in several public and private interviews recently led us to inquire of Saudi Arabian Monetary Agency Adviser Said Ahmad (protect carefully) as to actual state of financial reserves. Reserves, even after paying half-billion dollars for SAG share in Aramco, as of early August exceeded four billion dollars and are growing at rate of seven to eight million dollars a day. By end of 1973 SAG will have reserves of about $5.4 billion, approximating Embassy projection of last January. Aramco program of rapid production increases continues uninterrupted despite public and private discussions of possible limitations, due to political and/or economic reasons. As reserves grow, we see various signs of increased Saudi inclination to expand

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1298, Saunders Files, Saudi Arabia, 9/1–12/31/73. Confidential. Repeated to Cairo, Algiers, London, Dhahran, Beirut, Tehran, and Tripoli.

[2] Telegram 172015 has not been found. In telegram 10346 from Beirut, August 31, the Embassy summarized interviews given to an independent Beirut weekly, *Al Hawadith,* on August 30, in which King Faisal and Prince Saud emphasized Saudi reluctance to use oil as a weapon against Israel; Faisal also stated that he and Sadat had agreed on a formula whereby Saudi Arabia would finance half of Egyptian arms expenditures from oil revenue. (Ibid., RG 59, Central Foreign Policy Files)

[3] Saunders underscored this sentence and wrote in the margin: "how seriously is US considering meeting Saudis' concerns on this—if we want their coop. on oil. Who is handling in USG?"

foreign aid both for economic and military purposes (Beirut reftel describing *al-Hawadith* interview).[4]

3. Dhahran informs us that Saudi Central Planning President Hisham Nazer requested figures on Aramco exports to U.S. over past five years in preparation for meeting of Supreme Petroleum Council on August 27. Following is a breakdown, in millions of barrels, of the information provided to Nazer by Aramco (protect source):

Year	*Crude Oil*	*Productions*	*Total*
1968	27	.379	27
1969	20	.073	20
1970	6	.082	6
1971	45	2.500	47
1972	66	5.400	71
1973–Jan	7	.05	7
Feb	8	.69	9
Mar	8	1.00	9
Apr	11	.561	12
May	11	.707	11
June	13	.44	13
1973 Total (6 mos)	58	3.44	61

Crude oil includes Aramco exports from the Arabian Gulf terminals and from Sidon, Lebanon. Nazir request indicates Saudi interest in knowing degree of U.S. dependence on Saudi oil. U.S. off-take still very minor part (four percent) of whole Saudi output.[5]

4. Saudi Monetary Agency sources indicate that for every barrel of oil exported, SAG is now receiving an average of $2.00 and is trying to place a maximum of new funds immediately into other than dollar currencies, with some limited success. Perhaps a bit more than 50 percent of the total daily gain of $7–8 million a day is going into currencies other than dollars through a variety of devices. Little long-term portfolio or other investment activity so far, but Council of Ministers expected to approve new three-man international advisory board (including one American) for such activities and private banking proposals continue to be put before Saudis in this field. We foresee a gradual increase of sophistication in placement of the approximately 50 percent of earnings that will go into reserves during the next year.

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[4] Saunders wrote "Saud Faisal?" in the margin.

[5] Saunders wrote in the margin next to this paragraph: "thus Saud Faisal statements ? (that oil better to buy arms than to hurt US)."

5. On spending, the rate for the last Saudi fiscal year reached $2.5 billion equivalent, and the rate for coming year is likely to exceed $3 billion.

6. Saudi advisers and SAG officials are following closely development of new international monetary system and parallel U.S. proposals designed to answer special needs of oil producing states. Two questions will be degree of freedom to be allowed oil states for transfer of reserves from one currency to another as investment opportunities change, and the insulation of these oil-spun funds from rampant inflationary pressures.

7. Interesting sidelight on sudden popularity of SAG as oil marketer is number of countries such as Korea, India and Brazil who are sending delegations here seeking tie down long-term supplies. These visitors are received with great politeness, but Saudis point out that under terms of participation agreements they do not yet have available crude for sale in quantity.[6]

8. *Comment:* From foregoing we conclude Saudis still struggling to come up with a more comprehensive policy for managing their rapidly expanding riches. Augmentation of foreign aid will help, through additional sums we have heard mentioned so far for this purpose will not make significant inroads on Saudi reserves. From our limited knowledge of existing international monetary system we suspect efforts to place funds in currencies other than dollars or euro-dollars may soon encounter resistance from, for example, managers of yen and Mark, who are not anxious see their currencies utilized extensively as international medium of exchange. Similarly, Saudi signals regarding oil production levels are conveying no clear-cut message—beyond one of general warning aimed keep U.S., Europe and Japan uneasy.

Thacher

[6] Saunders wrote in the margin at the end of this sentence: "maybe this leading them to want to better their agreements."

201. Memorandum From John Knubel of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, September 5, 1973.

SUBJECT

Meeting between John McCloy and Under Secretary Casey

I have received an informal rundown on the Libyan aspects of this morning's McCloy/Casey meeting.[2] The following information may be useful in preparation for your meeting with McCloy this afternoon.[3]

McCloy made the following points:

—(1) The compensation terms are totally inadequate. They were determined by government committees and are less than the Bunker Hunt proposal.

—(2) By continuing to pump oil, the companies are being backed into de facto acceptance of the company demands.

—(3) *Thus, their choice is to cease lifting or finding some legal way of avoiding de facto acceptance of Libyan demands. McCloy believes that the companies will choose to stop pumping oil.*

—(4) If company operations cease, they will proceed with an orderly withdrawal. One complication is under the Libyan law, the oil workers could be prosecuted.

—(5) If the major oil companies cease operation, some of the resulting shortfalls will be made up by expanding output on other fields operated by the independents which have already yielded to demands. The net shortfall to the U. S. this winter would be about 50,000 barrels per day—a manageable amount (according to McCloy).

What the Companies Want from the USG

At the State meeting, McCloy made the following requests:

—That a strong note be sent regarding the illegality of the Libyan action, the refusal of the Libyans to concede to arbitration, etc.

—That a message be sent to the Libyans stating USG confidence that withdrawal of foreign nationals will proceed quickly should pumping stop.

—That the USG work with the Europeans to "make the Libyan expropriation attempt fail." This would entail getting an agreement from the Europeans not to buy oil from the fields operated by the majors.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 251, Agency Files, National Energy Office, Vol. III, Aug 73. No classification marking. Urgent; Sent for information.

[2] A memorandum of conversation of the McCloy-Casey meeting is ibid., RG 59, Central Files 1970–73, PET 6 LIBYA.

[3] No other record of either meeting was found.

—That we lift the environmental sulphur restriction (Libyan low sulphur oil is needed to keep many refineries in operation under current law). This was requested as a demonstration of political determination to back the companies if a decision is made to stop pumping oil.

McCloy added that these actions would also be timely in view of the Algiers Conference in which Faisal will be receiving pressure to increase his use of oil for political purposes.

There would be major difficulties with implementing a comprehensive embargo and I recommend you carefully avoid a commitment until we have had time to investigate the implications on the tight oil situation projected for this winter. Even a 50,000 barrel per day shortfall might require mandatory rationing this winter.

Moreover, the request to lift sulphur restrictions will have to be investigated in cooperation with Governor Love's office and the Committee on International Aspects of Energy.

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202. Editorial Note

At his September 5, 1973, press conference, President Richard Nixon announced that he was sending Congress a second State of the Union message that would focus on energy issues as one of four main concerns facing the United States. If Congress did not act on the proposals he had laid out previously (see Document 177) he warned, the prospects for the future "could be very dangerous," adding "we will be at the mercy of the producers of oil in the Mideast." During the course of questioning by the press, Nixon pointed to two problems relating to oil: the Arab countries involved were "tied up" with the Arab-Israeli dispute, and the ascendancy of radical elements. The first could be handled through negotiations, the second could be influenced. Nixon stated:

"Oil without a market, as Mr. Mossadeq learned many, many years ago, does not do a country much good. We and Europe are the market, and I think that the responsible Arab leaders will see to it that if they continue to up the price, if they continue to expropriate, if they do expropriate without fair compensation, the inevitable result is that they will lose their markets, and other sources will be developed."

The full text of Nixon's press conference is in *Public Papers: Nixon, 1973,* pages 732–743. Mohammed Mossadeq was Prime Minister of Iran 1951–1953 until overthrown.

Three days later, on September 8, in remarks in the Briefing Room at the White House, President Nixon stated that while there was a

short-term energy "problem" there was not an energy "crisis." In fact, in the long run, he felt America's prospects for adequate energy were "excellent," provided Congress passed legislation on the Alaska pipeline, deepwater ports, the deregulation of gas, and strip mining. "Failing to act," he stated, "means that we could have very serious problems, not just this year but, particularly in the years ahead." He also mentioned the administrative actions of his administration, including the relaxation of emission standards, the development of the Elk Hills Reserves, "a sharp step-up in the development of peaceful uses of nuclear energy," and increased research in the use of coal. In his concluding remarks, President Nixon stated, "The United States would prefer to continue to import oil, petroleum products from the Mideast, from Venezuela, from Canada, from other countries, but also we are keenly aware of the fact that no nation, and particularly no industrial nation, must be in a position of being at the mercy of any other nation by having its energy supplies suddenly cut off."

The United States "must be in a position and must develop the capacity so that no other nation in the world that might, for some reason or another, take an unfriendly attitude toward the United States, has us, frankly, in a position where they can cut off our oil or, basically more important, cut off our energy." The full text of Nixon's remarks is ibid., pages 752–756.

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203. Memorandum From Philip A. Odeen and David Elliott of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, September 14, 1973.

SUBJECT

Energy R&D

In response to your request, this memorandum gives the status of the U.S. Government's energy R&D effort.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 251, Agency Files, National Energy Office, Vol. III, Aug 73. Confidential. Sent for information. Kissinger initialed the memorandum.

Budgetary Status

The President's budget for fiscal year 1974 originally provided for a 20 percent increase in funding for energy R&D, from $642 million in FY 73 to $772 million in FY 74. Within this budget, greatest emphasis is to be given to the continued development of the liquid metal fast breeder reactor ($323 million), followed in priority by an expanded effort to produce more efficient and cleaner energy from coal ($120 million).

In terms of general categories, the $772 million was split as follows:

Nuclear fission (e.g., breeder reactors)	$475 million
Controlled thermonuclear fusion	89
Coal	120
Oil and Gas	9
Solar Energy	12
Geothermal Energy	4
Electrical Generation, Transmission and Storage	4
Pollution Control	48
Miscellaneous	11

In his energy statement of June 29,[2] the President announced that an additional $100 million would be devoted to new or accelerated high priority energy R&D projects in FY 1974. Half of this $100 million is to be used for coal R&D, and AEC Chairman Dixie Lee Ray has submitted to Governor Love a detailed proposal for spending these funds.

The President also announced his intention to allocate $10 billion for energy R&D over the 5 fiscal years beginning FY 75. This represents roughly a 70% increase over the previously projected spending. Dixie Lee Ray is to come up with recommended longer range energy R&D programs by December 1, so that these can be reflected in the FY 75 budget. Again, Love is primarily responsible for overseeing this effort but OMB, Interior and others will also be involved in its review.

There are many skeptics who doubt that we can effectively spend some $2 billion annually on energy R&D, especially in FY 75. However, it may well be that a radical approach which admittedly wastes money is necessary if we are to achieve major breakthroughs.

The management of the governmental R&D programs is to be vested in the proposed new Energy Research and Technology Administration (ERDA). Since, initially, nuclear research will be the largest part by far of ERDA's activities, it will be necessary to avoid underattention to the

[2] See Document 177.

other energy areas. For example, it would be inadvisable though tempting to move the AEC management over as a body to fill most of the ERDA leadership positions. The plans for ERDA's organization and management structure are being honed with this concern in mind.

In addition to federally funded energy R&D programs, there are significant amounts of privately funded energy R&D by large industrial concerns. This is an important difference from the situation that existed with the space program or in the early stages of the nuclear program.

When Could the R&D Pay Off?

There are a number of specific areas of energy R&D which, if they were to pay off, could contribute significantly to meeting our increasing energy needs and, thereby, to reducing our dependence on oil and gas imports. The specific areas of energy R&D can best be considered in terms of time required to begin contributing significantly to our energy needs. They can be grouped in four "pay off periods":

1. *The short run—the 1970's.* There is little alternative during this period to meet our energy needs except with conventional fuels. By relaxing air quality standards—or alternatively, by developing the technology to remove sulfur, the major air pollutant in coal—domestic coal utilization could increase late in the decade, with significant impact in the 1980s. Some $30 million is being spent in FY 74 on research related to reducing air pollution from sulfur.

An energy conservation program, however, could have great short run benefit by significantly reducing domestic consumption. An Office of Emergency Preparedness study has estimated that vigorous conservation measures could reduce U.S. energy demand by as much as the equivalent of 7.3 million barrels (MMB/D) per day by 1980, cutting forecasted imports by about 60 percent and holding them to about 25 percent of total oil consumption (the 1972 level).

These conservation measures would include expansion of: mass transit systems; smaller more efficient automobiles; better insulation for homes and offices; more energy efficient appliances; increased recycling and reuse of materials; and smoothing out the daily electricity demand cycle to reduce the use of inefficient generating equipment.

To accomplish this conservation some stringent governmental measures would have to be instituted, many having important socioeconomic implications. We should not, therefore, be too sanguine about the prospects of achieving a significant portion of these energy savings.

2. *The mid range—the early to the mid 1980's.* Payoffs in this period are expected to come from developing technologies to extract and utilize existing fossil and nuclear fuel sources in a way compatible with environmental concerns. The chief areas of interest in the mid-range are coal and nuclear fission:

—*Coal* is the most plentiful domestic source of fuel and the most promising source for future development. The United States has approximately 150 billion tons of easily recoverable coal that could fill many needs well into the next century. But increased utilization of coal depends upon future air quality standards and the technology to remove the sulfur and to make strip mining more acceptable. The National Petroleum Council estimates that with a maximum development effort and some relaxation of environmental standards we could increase the use of coal as an energy source by about 50 percent in 1985 over current projections. If this were done, we could reduce oil imports by 7 MMB/D.

—*Nuclear fission* reactors are expected to increase sharply as a major source of energy, rising from today's level of generating less than two percent of our total energy supply to about 15 percent in 1985 (about half of our electrical power generation). The technical capability exists to make even further increases in nuclear power generation. However, there are major non-technical problems associated with sharply increasing the contribution of nuclear power. For example, the processing of siting applications for nuclear power plants adds two to four years to the six or seven years needed to construct a nuclear plant. In addition, the number of sites appropriate for nuclear plant construction are limited. Nevertheless, the National Petroleum Council and AEC believe nuclear power could be expanded sharply by 1985, contributing the equivalent of about 15 MMB/D of oil. This expansion could reduce oil imports by some 5 MMB/D. An effort of this magnitude would require an immediate decision and major government support with the highest priority given to its further development.

3. *The longer-range—the mid 1980's through the 1990's.* R&D efforts which could pay off in this period include increased development of existing fossil fuel resources and full development of the liquid metal fast breeder reactor. Utilization of solar and geothermal energy may occur, though these two sources together will never be more than a minor source (perhaps 5% of total energy by the year 2000). This is the pay off time-frame at which most of the FY 74 energy R&D is aimed, with emphasis on the more expensive nuclear R&D.

The fast breeder reactor is seen as a necessary development to solve the problem of the depletion of our scarce uranium supply. However, the possibility of laser separation of uranium may stretch our supply for several years—perhaps to the point where we could transition directly from the thermal reactors of today into controlled fusion, thereby avoiding the severe safety problems of the breeder. The R&D on the breeder must of course continue since laser separation and controlled fusion may not work out.

4. *The very long-range—beyond the year 2000.* Current R&D efforts which *could* begin to offer significant payoffs in the very long term include nuclear fusion, a potential source of virtually unlimited supplies of clean energy. Nuclear fusion R&D is funded at $89 million in FY 74.

For all of the four periods discussed above, price will be an important determinant in the implementation of new energy technologies. For example, in the area of conventional fuels, as oil exceeds about $3 per barrel (the present price range is $3–5) desulfurized coal becomes competitive at the *present* level of technology. At $7–8 per barrel coal gasification would be a competitive source and, at $7–10, domestic oil shale extraction might be economically substituted. R&D programs would be designed to bring these prices down, to facilitate some currently difficult conversions (e.g., coal into oil), to ameliorate environmental impact and, of course, to develop new sources.

International Cooperation

Some active research is being carried out in the USSR on breeder reactors and controlled fusion, and the FRG has fairly well developed programs in the use of coal. We are attempting to tap these R&D sources, and others elsewhere, through energy R&D bilateral agreements. However, in the majority of cases our activities are better funded and more advanced and thus the net information flow will be outward. As new technologies are evolved we may find commercial developers unwilling for proprietary reasons to continue to be a party to international programs and joint ventures.

Next Steps

Given the fact that Dixie Lee Ray has been asked to come up with recommendations for the accelerated energy R&D programs, it is important that coal R&D—which has greater shorter term payoff than nuclear power—does not get short changed. We are discussing with Governor Love's Office the criteria by which the increased funding is determined. We will ensure that a decreased dependence on imported energy sources—as quickly as feasible—is an important determinant of our accelerated energy R&D efforts.

204. Information Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Armstrong) to Acting Secretary of State Rush[1]

Washington, September 17, 1973.

Middle East Oil Nationalization Trends, Their Context and USG Responses

The Problem

An acceleration is underway in the trend toward producer governments' control of their oil production levels and sales. This threatens to shatter the hopes of the international oil companies and of oil consuming countries that such majority control would be assumed in a gradual and orderly manner. In addition, the crude oil price arrangements, negotiated between OPEC and the companies in Tehran in 1971,[2] will be reopened this year rather than in 1975 as originally scheduled. Finally the prospect grows that Saudi Arabia will not expand its output at the rates called for by the world's demand curves.

The recent Libyan seizures of 51 percent of the production of foreign (mostly U.S.) companies operating in its territory, while being discounted somewhat by the resistance of the major companies, are leading the trend to greater producer country control. The more moderate producers in the Persian Gulf become very uncomfortable when the radical Libyans get out in front of them, especially when they feel that the tight supply situation will allow the Libyans to succeed.

It is Kuwait, however, that can upset the Persian Gulf participation accords most quickly. Its National Assembly, an important political force in this rare city-state, was unenthusiastic about the 25 percent participation agreement negotiated last year by Yamani, the Saudi Petroleum Minister.[3] Ateegi, the Kuwaiti Minister of Finance and Oil, told our Ambassador last week that Kuwait will ask Gulf and BP for 100 percent control of production in return for compensation at net book value, guaranteed supplies to present customers and crude at dis-

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 15–2 NEAR E. Secret; Exdis. Drafted by Bennsky and concurred in by NEA/ARP, AF/N, L, EB/OIA, EB/ORF, and S/PC. A copy was sent to Casey. Rush asked for this analysis in a September 12 memorandum to Armstrong. He based his request on the information contained in telegram 3270 from Kuwait, September 10, which he attached. The telegram relayed the views of Atiqi that Kuwait would ask for 100 percent participation and offer compensation at net book value. (Ibid.)

[2] See Document 86.

[3] See Document 141.

counted prices to the two companies. We had understood that these companies and Yamani were interpreting Kuwait's desires as 51 percent control and some cosmetic Kuwaitization of the agreement respectively. The reasoning behind the Kuwaiti move appears to be that operation of Kuwait's fields, unlike Saudi Arabia's, is relatively simple and there is likewise no requirement for investment in exploration and expansion since production is being held constant at 3 million barrels per day (b/d). So Kuwait should be able to go now to the Iranian complete control formula with Gulf and BP becoming service contractors in production and marketing. Gulf tells us that it is as vulnerable and dependent as the independents were in Libya—i.e., its one-half share of Kuwait production, 1.5 million b/d, represents 60 percent of its 2.5 million b/d total oil output worldwide. Should Kuwait gain 51 to 100 percent control, there will undoubtedly be matching changes in the participation agreements of Saudi Arabia, the smaller Gulf states, Libya and Nigeria. A discussion today with Gulf's President reveals that talks between the companies and Ateegi have been underway since late July, with the latter holding out for 100 percent, etc., as indicated above. Ateegi has said that January 1 is his deadline, with a first company proposal to be on the bargaining table by November 1. Gulf is giving serious consideration to the implications of going to the recent Iranian type settlement—i.e., 100 percent production ownership to Kuwait in return for long-term crude purchase arrangements.[4]

There are two related developments that compound the problem faced by the oil companies and their customers alike. Yamani told our Embassy recently that the Tehran agreement is "either dead or dying" and must be revised to (1) include a sizeable increase in posted prices and a mechanism to keep these above realized (market) prices and (2) provide for a more realistic inflation rate factor. He is dissatisfied with the fact that he can sell the small portion of his 25 percent share of production that he markets directly at between 50 and 60 cents a barrel more than ARAMCO pays in buying back the majority of his share under terms of the participation agreement. Renegotiation of this is already underway. The OPEC meetings of September 15 and 16 focused on getting underway renegotiation of the current 2.5 percent inflation

[4] In telegram 3371 from Kuwait, September 17, Stoltzfus wrote that Kuwait was mindful of its role in international oil and would "ask for" not "demand" 100 percent participation. (National Archives, Nixon Presidential Materials, NSC Files, Box 620, Country Files, Middle East, Kuwait, Vol. I) Bennsky subsequently noted that reports from Kuwait indicated that Atiqi had pulled back from his "strong demands" because Faisal and Yamani had prevailed on the Sheikh and Atiqi "to not upset the applecart" in the Gulf, "at least not so soon." (Memorandum of conversation, September 17; ibid., RG 59, Central Files 1970–73, PET 15–2 KUW)

escalator to bring it close to the actual annual rate of inflation of 8 percent. Of more concern to the U.S. and other consumers, however, is the grim prospect that Saudi Arabia's own political-economic national interests and not the demands of world consumers may increasingly govern the rate of growth of Saudi oil production. While a decision appears several months away, the matter is of current central concern to King Faisal and his government.

The Context

Before considering our responses to the problem, it would be well to focus on the context in which the problem arises. This is necessary if we are to have the right perspective and the degree of realism required to judge our alternatives.

The developments described above are not new; they are very much connected with a past that reaches back to the Mossadegh nationalization effort. Throughout the 1950s and 1960s the oil producer governments (in the Middle East and elsewhere—e.g., Venezuela) harbored the desire to control their prime, and often only, foreign exchange earning resource. But, the buyer's market that prevailed over those two decades effectively prevented achievement of these national desires. It even stymied OPEC, which had been created at the beginning of the 60s to reverse the decline in crude oil prices. With the advent of the 70s, this situation has been quickly reversed by the peaking out and decline of U.S. domestic production and the consequent strong addition of our large and growing demand, to likewise burgeoning world demand, on a limited number of oil exporters, without surplus supplies but with ample financial reserves. It is on the basis of an all pervasive seller's market that these exporter governments are now making their national desires effective.

These few major oil exporters see their opportunities in the possession of today's key energy resource. They want to make the most of it. As a number of their officials have expressed it, the availability of adequate supplies to the consumers must be related (1) to equating the price of oil to the prices of the food and finished goods required by the exporters' economies and (2) to the relative advantages of acquiring surplus funds for accelerated development at home and investment abroad against allowing more of the oil to appreciate in the ground. There is general concern among them regarding the worldwide price spiral and its depreciating effects on their earnings from oil. Therefore, they all want something more than top prices for their oil—i.e., the technology, organizational knowhow, markets and cooperation that only the developed consumers can provide to rapidly develop their national economies and their assets abroad. All this is enveloped in a feeling that it is only just and right that they get back from those who have exploited their weaknesses over the past years. There are also

serious complicating factors, such as past concession agreements with and the producers' need of the international oil companies and the major foreign relations problem of the Arab producers—i.e., Israel and its relationship with the U.S.

The major consumers of Western Europe and Japan have all along been heavily dependent on oil imports, especially from the Persian Gulf area. The difference these days is the added weight of our demand on the same limited supplies on which they draw. They are less secure than in the previous two decades when they could anticipate our supplies in times of emergency. With the possible exception of the U.K., they are more interested in establishing new energy policies and structures that will mesh with the desires of the producers than with protecting the positions of the international oil companies. Because of concerns over the adverse effects of unrestrained competition for limited amounts of oil, they do desire to cooperate with us in ways that are likely to be constructive and effective.

As for the U.S., two of its major strengths of the past are now gone—i.e., shut-in domestic oil production and a strong, relatively unchallenged international economic position.

Responses

All of the evidence available to us indicates we are witnessing the end of an era during which a few very large international oil companies managed the growth of the oil production, processing and marketing that allowed for the great world economic growth of the postwar years. How our country responds to this will have far reaching consequences that go beyond simply the supply of oil.

It is perhaps easier to indicate how not to respond than vice versa. We can make strong statements with emotional words impugning the motives of the oil exporters. These may have some domestic value, but they produce nothing constructive in our relations with the realists that govern the major importing and exporting countries. We can press for national embargoes against oil purchases from expropriated properties and for the formation of a counteracting organization of oil importing countries, but, given the established fact of a tight seller's market in the hands of a few well-heeled exporters, such proposals will be considered dangerous and harmful to their interests by our consumer allies. There would be no support from them, or from many here at home, for any military action on our part, which would also undoubtedly result in extensive sabotage cutting the world's oil supplies drastically for a considerable time period, with consequent significant damage and hardship to the economies and peoples of the world.

In these circumstances, we also find that our strong negative responses to nationalization, dependent as they are on our ability to hold up financing for development, are less than meaningful with govern-

ments whose problem is how to usefully dispose of all the money they already have. Also the legal aspects of these oil nationalizations are none too clear. There is considerable doubt in Europe that courts will sustain efforts to block the purchases of hot oil. The complexities of international oil company accounting and marketing and the differences between concessions can raise real questions of interpreting what is prompt, adequate and effective compensation. These limitations do not mean, however, that we should discontinue our practice of protesting uncompensated or otherwise "illegal" nationalizations publicly and by diplomatic note and of supporting through diplomatic representations, as appropriate, the legal efforts of our companies. We should continue to go on record and seek to use our persuasion in ways that will not be counter productive, even though we recognize the limits of their likely effectiveness.

To get at the problem raised by the changing oil situation, it is necessary to search for and achieve meaningful cooperation on the multilateral and bilateral levels with consumers and producers. This is our mandate from the President's energy policy messages of recent months. And we are currently engaged in activities to further this mandate.

On the consuming country side we are members of a working party of the OECD that is seeking to determine the prospects and limits of an arrangement between Europe, Japan and the U.S. to share oil in times of critical supply conditions. All the governments concerned say they want to see this accomplished. If this can be done prior to a number of these governments determining, perhaps in early 1974, that their national security interests cannot wait and they must make the best bilateral accommodations they can with the producers, then we could establish a basis for orderly accommodation to and resolution of the tight and changing energy situation of the current decade. The working party is at a critical juncture in its work and requires, within the next two to three weeks, an effort on our government's part to seek a compromise between the U.S. position of sharing based on losses suffered in overseas oil trade and the Japanese approach based on the effects of the oil shortfalls on total energy consumption. The Japanese have told us they want this matter included in bilateral energy talks at the Under Secretary level which they hope will take place soon. Any other effective multilateral and bilateral consumer country cooperation to keep the energy problem from becoming a divisive, disruptive element is dependent on our success in finding an agreed way to equitably share our oil shortages. This has a direct bearing on our efforts to gain some moderating control over the nationalization trend.

On the producer government side there are also useful responses to be made and work is underway on some of them. For several months now a sub-group of the NSC chaired Committee on the International Aspects of the Energy Problem has been engaged in the paper work for a proposed U.S. economic mission to Saudi Arabia. The purpose of

this mission would be to encourage expanded Saudi oil production in exchange for U.S. assistance in economic and industrial development and in foreign investments. An NSC study is underway of possible approaches to cooperation with oil producer countries, following-up on the SRG consideration of NSSM 174—National Security and the U.S. Energy Policy.[5] While we need to move forward with more dispatch in the area of bilateral relations with the major exporting producers, especially Saudi Arabia, we must consider the following with care. Neither we nor Israel can escape from the changing circumstances. Any proposals we make must recognize the new realities of producers' strength in a seller's market and their national self-interests in decision-making on production and marketing. These proposals must also reckon with likely opposition at home to the exportation of jobs, increased importation of sensitive foreign manufactures and expanded foreign ownership in important areas of our economy that will be inherent in many ideas for the industrial development and foreign investments of oil producer countries. Moreover, we must be aware that offers of special security or economic relations with the U.S. are double-edged swords to the Arabs. Iraq and the Baghdad Pact[6] are still part of the memory of Arab leaders.

As for Kuwait, at an appropriate time when we are more sure of the substance of the participation renegotiations between Gulf and BP and the Kuwaiti Government, we could seek to persuade the Kuwaitis, through representations, that their larger national interests require that they take into account the mutual interests of consuming and producing countries in orderly change of the structure of the vital international oil market. We have no particular leverage on the Kuwaitis in terms of close past relations (the British are strongest here) or in the economic and financial spheres. In these circumstances and others described previously, we must exercise care not to take a stand on the private property ownership and compensation aspects of the problem that will be seen by one and all to be untenable.

Although they will not produce meaningful new supplies in less than five years or help us meet ownership and compensation problems such as are in the making in Kuwait, our efforts at consumer and producer cooperation will be greatly strengthened by the degree to which we are able to implement our domestic program for increasing U.S. oil, gas, coal and nuclear energy supplies and for reducing energy demand through conservation and more effective conversion. There would be substantial psychological gains from clear evidence of a sense of purpose and direction on the part of the American people. Therefore, the Department has a great

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[5] See Document 194.

[6] The Baghdad Pact was formed in 1955, composed of Iraq, Turkey, Pakistan, Iran, and the United Kingdom. The United States joined in 1958, and Iraq withdrew in 1959. After the Iraqi withdrawal, the Baghdad Pact was reformed as CENTO.

interest in the success of the domestic program and should follow it more closely. This will depend on more open and regular functioning of the Oil Policy Committee than has been the case in past months. With the chairmanship of this committee moving from Treasury to Interior we can seek to return to a larger role in its deliberations.

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205. Memorandum From the Under Secretary of State for Economic Affairs (Casey) to Acting Secretary of State Rush[1]

Washington, September 19, 1973.

SUBJECT

Meeting of the NSC Committee on International Aspects of Energy

The NSC Committee on the International Aspects of Energy met on Monday, September 17, to review ongoing work related to emergency oil sharing and the Soviet LNG projects. Phil Odeen chaired the meeting.

Emergency Oil Sharing

Work on a possible emergency oil sharing formula is going forward in the OECD. So far there is little agreement. While the US would limit sharing to overseas imports (thereby excluding indigenous production and imports from Canada) Japan is holding out for a formula based on total consumption. The French have come forward with a new "vital needs" approach that would allocate oil supplies on a sliding scale by sectors; their proposal is unacceptable to us because in its present form it gives insufficient weight to the role of the private automobile in US transportation. Except for Canada and Australia, there is little support for the US position from other countries.

The Japanese have suggested bilateral talks with us, possibly before the next meeting of the OECD Working Group (now scheduled for October 11–12), and have spoken in general terms about a possible compromise.

I noted that the Working Group's mandate very explicitly was to develop options rather than to work out an agreement, which should be settled at a political level, presumably in the High Level Group of the OECD Oil Committee.

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[1] Source: National Archives, RG 59, S/S–NSC Files: Lot Files 80 D 212, NSSMs etc., 1/1/69–1/1/80. Secret. Drafted by Ruser.

There was consensus that the OECD Working Group will reach an impasse at its next meeting unless the US offers a new approach, but that the reasons for seeking a sharing arrangement among consumers remain valid. There is pressure in the OECD High-Level Group to reach an agreement on sharing before the end of the year. A study group, consisting of Interior, State, Treasury and CIA, is analyzing the entire range of issues, including possible compromises such as an adaptation of the French "vital needs" formula.

Soviet LNG Projects

The meeting then considered the draft interim report on the Soviet LNG projects.[2]

Present studies seem to indicate that the two gas projects—North Star and Yakutsk—may be marginally attractive, but could also be very expensive in relation to other alternatives. The question of price, therefore, is central. All the present information is based on US company data, and there remains considerable uncertainty about the economic aspects of these projects. (The companies will be assured of a reasonable return as long as high cost Soviet gas can be folded into lower priced domestic gas by local distributors.) Critical also is what kind of assurances the Soviets are willing to provide, that a given price would be maintained.

Some concern was expressed that the negotiations have developed considerable momentum; a critical point will be reached in six to nine months when the consortium for North Star requests a preliminary commitment for ExIm financing. The House Ways and Means Committee appears to have strong reservations about the projects, in view of the very large amounts of ExIm financing involved.

Secretary Shultz and I plan to visit Moscow after the Nairobi meeting. It was agreed that a revised draft of the study should be prepared in time to be available for briefing purposes during our visit there.[3]

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[2] Not attached. A copy of the draft, entitled "Study of Soviet LNG Projects Interim Report," September 14, is appended to a September 19 memorandum from Scowcroft to Kissinger, which itemized issues for Kissinger to discuss with Shultz in their luncheon meeting that day. (Ibid., Nixon Presidential Materials, NSC Files, Box 290, Agency Files, US Treasury, Vol. IV, Sept 19, 1973–December 1973)

[3] On February 7, 1974, Flanigan submitted to Kissinger a February 4 study, "Economic Review of Soviet North Star Liquefied Natural Gas Project." According to Flanigan, the study concluded that it was not economically sensible to continue North Star discussions. Among the reasons cited was that investments in Soviet energy as a "secure" source of supply or in the context of Project Independence could not be justified, and that the United States had cheaper sources of domestic energy. (Ibid., RG 56, Records of Secretary of the Treasury George P. Shultz 1971–74, Box 3, GPS Council on International Economic Policy C–1974) For Project Independence, see Document 237.

206. Paper Prepared in the Office of Economic Research, Central Intelligence Agency[1]

Washington, September 1973.

Probability of Events Resulting in a Reduction of Middle East Oil Supplies to the United States

It is not possible to predict the exact complex of events that might result in a cut-off of Middle Eastern oil to the United States. The death of a leader, an unexpected turn for the worse in the Arab-Israeli conflict, arms deliveries, pressures from outside the area, personality clashes, the unlikely combination of any of these or other elements could trigger events which ended in an oil stoppage. From among the variety of possible events, we have selected six to examine more closely. None can be rated as likely to occur, but in the order of their probability of occurrence during the next two to three years, they are:

(1) A Libyan embargo of the US alone,
(2) An all-Arab embargo of the US alone,
(3) An all-Arab embargo of the US and Western Europe,
(4) An all-Arab embargo of the US, Western Europe, and Japan,
(5) An Iran/Iraq war with partial oil cut-off,
(6) An Iran/Iraq war with total oil cut-off.

Libyan Embargo of the US Alone

Colonel Qadhafi's rule of Libya has been characterized by a mixture of emotion and tactical shrewdness—with the latter often disguised as the former. At some point in the next few years, his determination to set an example for other Arabs—and Muslims—to follow could lead him to establish a total embargo of Libyan oil to the United States. Such a move would seriously affect neither US supply nor Libyan revenues. It would seem to be a relatively safe symbolic card for Qadhafi to play, especially useful at a time when his domestic or inter-Arab popularity needed a boost. Such an embargo, if it came about, could be extremely long lasting, because neither side would be losing enough to make concessions necessary and nationalist rhetoric and "positions" would make it difficult for Libya to climb down once the step had been taken.

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[1] Source: Central Intelligence Agency, Office of Economic Research, Job 80–T01315A, Box 35. Confidential. Transmitted to Knubel under a September 24 covering memorandum from Walter J. McDonald, Acting Deputy Director of the Office of Economic Research. McDonald noted that the estimates had been discussed within the CIA but not vetted with any other agency, and they were "in support of the White House Committee on the International Aspects of Energy."

We believe this to be the most likely of the six illustrative events. However, we consider that the odds of its happening during the next few years are less than fifty-fifty.

An All-Arab Embargo of the US Alone

An all-Arab embargo of the US alone is extremely unlikely except in the context of a new Arab-Israeli war. Should such a war come about—an event which we do not expect during the next two or three years—the Arab states as a group would be much more likely than in the past to try to enforce an anti-US embargo.

An embargo against the US alone would be somewhat of a cosmetic affair unless the Arab exporting countries significantly extend their influence on the destination and end use of exported crude. Sharing agreements with Europe and Japan and a continuing domination of the world oil industry by the US majors would limit the effectiveness of an embargo against the US alone. An embargo against the US alone, following an Arab-Israeli war in which heavy US support to Israel were a factor, could extend a year or longer.

An All-Arab Embargo of the US and Western Europe

If the Arab states are serious about using oil as a weapon in the event of a new Arab-Israeli war, they will have to decide whether an embargo that will hurt the US must not include at least Western Europe. This would entail considerable hardship for the poorer oil-producing countries and would punish European countries, most of which are pro-Arab or neutral on the issue of Israel. For these reasons, we consider it much less likely than an embargo against the US alone.

Such an embargo would hold up well only during the war itself—probably a few weeks at most. Thereafter, the Arab states whose development plans depend on steady income from oil would be under increasing domestic pressure to reestablish their main revenue source. Within a few months we would expect countries such as Iraq and Algeria to resume trading with the more pro-Arab Western European nations. Very shortly the embargo would degenerate into an embargo against the United States alone. Saudi Arabia, despite its history of moderation, could, because of its financial resources, be the last country to abandon the embargo. Such a course might be attractive to the Saudis as a means of asserting moral and even political leadership in the Arab world. This development is less unlikely the farther we move ahead in time.

An Iran/Iraq War with a Partial Oil Cutoff

Although the heavily armed Iranian and Iraqi governments will continue to rattle their sabers at each other, we do not expect a war that would involve attacks on oil production facilities during the next

few years. A border incident could escalate, but in this case the probable area of fighting would not be near most oil installations, and we would not expect either nation to try to destroy the petroleum facilities of the other since both are vulnerable. Under such conditions, Iraqi oil would continue to flow to the Mediterranean but would be blocked from its Persian Gulf outlets. Iranian oil flows would be limited by the reluctance of shippers to risk their tankers in a war area. We would expect oil production and exports to reach normal levels very quickly after the end of the fighting.

An Iran/Iraq War with Total Oil Cutoff

There is a slight possibility that larger-scale warfare between Iran and Iraq could bring oilfields, refineries, pipelines, and loading facilities under attack. Third country shipping would avoid the upper reaches of the Persian Gulf. Oil exports from the warring nations—and perhaps from other Persian Gulf states as well—could be sharply reduced or eliminated for the duration of the fighting.

"Total" war world by definition be more bitterly fought—and its consequences would be more long-lasting—than a limited war. After initial victories by one side (probably Iran), conventional military activity might be replaced by guerrilla warfare while the losing side (probably Iraq) petitioned local allies or major powers for help. Even if help was not forthcoming, sabotage and small operations could seriously disrupt the oil industry of the two states.

Other Scenarios

There are many other scenarios that we could have examined. Among the more likely of these are restrictions in output growth by one or more of the major producers. This prospect, however, is extremely complex; it is the subject of a National Intelligence Estimate now in production.

207. Transcript of a Telephone Conversation Between Secretary of State Kissinger and Senator Henry Jackson[1]

Washington, October 1, 1973, 7:15 p.m.

[Omitted here is discussion not related to oil issues.]

J: Two quick things I wish you would give some thought to. I mentioned it to the President. I have had the Canadians in because I have this energy problem with the pipeline coming down. You need to get someone on top of this thing on the international thing. You have to find an individual. This thing is a mess. Love does not know what is going on.

K: I could not agree with you more.

J: He is going to get the Administration in deep trouble. He has fooled around for two months on this mandatory thing. It will be one snafu after another. Someone needs to do this job for you on the international side.

K: I have a man. I cannot talk to you about it now. I completely agree. I have tried for six months to do it out of the White House and I will do it out of State now. Can you and I get together sometime in the next week?

J: I will get back to you when we can find the time. We are having nine to ten roll calls a day up here. I will get word to your secretary.

K: I will be able to tell you what we are going to do concretely in the energy field within three days. I mean organizationally.

J: I understand.

[Omitted here is discussion not related to oil issues.]

J: Right. If you get hot on this energy thing—all of a sudden hell is going to break loose.

K: It is among the top three things I am going to do here. You can be sure of it.

J: The impact domestically. I have some ideas on the Quadafi problem.

K: I am anxious just to discuss that. It is an absurd idea for us to be financing revolutions all [over] Africa.

J: It is setting a precedent. The blue-eyed Arabs in the North are in trouble. We will go over this the first break I get here.

[Omitted here is discussion not related to oil issues.]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 22, Chronological Files. Unclassified.

208. Paper Prepared by the National Security Council Staff[1]

Washington, October 5, 1973.

OIL SUPPLY ARRANGEMENTS:
ALTERNATIVE APPROACHES TO THE MAJOR PRODUCER
AND CONSUMER STATES

Section I. Introduction

Several factors would support an expanded U.S. government role in international oil markets in the future: (1) the rapid growth of U.S. and allied demand for Middle Eastern oil, which could lead to competition by the major importers to tie down supplies; (2) the companies' diminishing control over oil, caused by the expansion of participation agreements; (3) the asymmetry of the current negotiating process in which companies deal directly with sovereign producer governments having a unilateral power to legislate; (4) the recent rapid increase in oil prices; and, (5) the growing power of the producer states that will accompany their strengthened financial position. These same factors support the need for rethinking our strategy for dealing with both the major producer and major consumer states.

The purpose of this paper is to examine in some detail alternative USG roles and associated approaches to the major Middle Eastern producer governments and to the major consumer states.

Section II presents background data and discusses the broad issues for decision. Sections III and IV, respectively, discuss multilateral and bilateral aspects of possible approaches. Section V discusses alternative strategies which combine elements of both the bilateral and multilateral approaches.

Section II. General Discussion

Saudi Arabia and Iran are the two key producer nations. Together they possess about 35 percent of the world's proven oil reserves and, based on current forecasts, will account for between 50 and 90 percent of the projected increases in world oil production between now and 1980.

Of the two, Saudi Arabia is more important since it alone has sufficient spare productive capacity to expand to meet the rapid growth

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–197, National Security Study Memoranda, NSSM 174 (Response). Secret. Sent to Kissinger, Schlesinger, Shultz, Colby, and Moorer under a covering October 5 memorandum. A copy was sent to Flanigan and Love. The paper was to be discussed at the Senior Review Group meeting scheduled for October 12. That meeting was not held.

in world demand. Based on mid-range demand projections, a four-fold increase in Saudi Arabian production and a doubling of Iranian production will be needed to meet world needs in 1985. However, Saudi willingness to allow sufficient production is in doubt for both economic and political reasons.

Since Saudi Arabia is key, any consideration of alternative strategies must focus on this country. However, our strategy cannot focus solely on Saudi Arabia at the expense of the other producers, particularly Iran. Indeed, it might be easier and safer to focus our efforts on Iran—rather than Saudi Arabia in order to meet U.S. needs. Nonetheless, Saudi Arabia would still occupy the central position in terms of meeting the world's oil demands and thus our overall strategy must be designed to encourage adequate Saudi production, if not primarily for us then for our allies.

Our approach should be developed in the total context of interrelations between all the Persian Gulf producer countries. For example, within the area itself, complicating factors such as the following deep-seated conflicts must be taken into account: Iran versus Iraq; Iraq versus Kuwait; Saudi Arabia versus Abu Dhabi; Libya versus the traditional Arab states; and the Arab-Israeli conflict. We will especially need to take into account the likely effects on the Saudi-Iran relationship, on which we are counting to insure stability in the Gulf.[2]

Primary Objectives

Our primary objectives in developing and implementing a strategy for dealing with the producer nations would be to:

(1) Ensure production is expanded to meet U.S. and allied needs.
(2) Enhance the reliability of future supplies.
(3) Keep oil prices as low as possible by reducing competition for participation oil as it comes increasingly under the marketing control of producer governments.
(4) Soften the strain on balance of payments accompanying the inevitable growth in U.S. oil imports.
(5) To use energy to the U.S. advantage in relations with other consumers and, insofar as possible, make it a source of leverage in U.S. diplomatic policy.
(6) Contain the divisive potential for disrupting our relations with Western Europe and Japan which could result from the future uncoordinated development of the world oil market.
(7) Develop policies for managing the rapidly growing foreign exchange of producing countries.

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[2] It is beyond the scope of this paper, however, to address in detail all the relevant political considerations in the total context of Middle East relationships. [Footnote in the original.]

The Broad Elements of a Strategy

U.S. approaches to the oil supply problems are proceeding on three tracks, and our future strategy will result from decisions on the relative emphasis we will place on each:

(1) We could develop further a number of *multilateral measures.* These would aim at coordinating policies of the various consumer nations and presenting as united a front as possible to the OPEC cartel.

(2) We could focus on establishing some bilateral *agreements with the producer nations.* The principal target would be Saudi Arabia and, although U.S. needs would be our primary concern, allied needs must also be part of such an approach.

(3) Finally, whatever we do on the multilateral and bilateral tracks, we will presumably be taking *urgent unilateral steps toward U.S. self-sufficiency in energy as early as possible.*

This paper discusses how these elements might be combined to produce the maximum incentives or pressures to achieve our objectives.

The unilateral, bilateral, and multilateral elements are not inconsistent with each other. However, they are interrelated. For example, if the USG moved toward developing a direct bilateral deal with the Saudi Arabians, other consumer nations might be stimulated to enlist our cooperation on a multilateral basis or they might instead intensify their efforts to make bilateral deals on their own. On the other hand, effective multilateral or unilateral steps could have a moderating effect on the policies of producing governments.

Our planning must also take into account the fact that although the role of the international oil companies is rapidly changing, they will remain the major source of technical expertise for both oil exploration and production throughout the foreseeable future. They will also be the primary diversified source of international oil and the chief marketing agents for the producer nations. This capability cannot immediately be replaced.

Issues for Decision

This paper assumes that the U.S. will continue urgent efforts to decrease its own dependence on imported energy and insofar as possible coordinate with other consumers. The issues for decision now are:

—What degree of *multilateral coordination* should we try to achieve? Is it realistic to try to achieve a formal consumers' union? Would the prospect of coordination be effective in moderating producers' policies or would it provoke confrontation? Short of that, should we try to develop new consultative machinery or simply spur our efforts within the OECD?

—*On what additional issues is improved coodination most urgent?* Should some of these be raised to a political level to force them toward decision?

—*What kinds of bilateral arrangements* might the U.S. now make with Saudi Arabia and perhaps Iran that would improve our own supply situation enough to spur other consumer countries to greater coordination of policy without provoking them to cutthroat pursuit of their own bilateral deals?

—*To what extent are we prepared to introduce political, strategic, and security aspects of our relationships into these bilateral negotiations?* To what extent is this feasible unless there is coordination on these subjects among all major consumer governments?

[Omitted here are Section III on Multilateral Consumer Arrangements and Section IV on bilateral arrangements.]

Section V. Strategy Choices

Assuming that the U.S. will continue to urgently develop domestic alternatives to oil imports, our strategic program is to find the right combination of bilateral and multilateral initiatives which will:

(1) Maximize pressures and incentives for the producer countries to produce adequate amounts of oil at reasonable prices, and

(2) Maximize the potential leverage which oil gives to the U.S. in our relations with Europe and Japan. As a minimum, we should seek to reduce the potentially divisive impact on relations between the U.S. and other major consumers.

A strategy emphasizing solely the bilateral arrangements or the multilateral arrangements is conceivable. However, neither strategy is likely to be successful by itself in attaining these objectives. A *bilateral strategy* alone would run the risk of triggering a scramble for oil supplies that would unnecessarily bid up prices, with no assurance that adequate supplies of oil would be obtained. Moreover, the intensified competition would run the risk of sharply dividing our existing alliances.

A multilateral strategy alone would likely either never attain our goals or take too long in achieving them.

A Combined Strategy

A *combined strategy* would involve drawing elements from both the bilateral and multilateral approaches in order to reduce the obstacles inherent in each approach and build on the advantages of each.

Currently, our policy has been focused on gaining cooperation between consumers through oil allocation arrangements and cooperation in research and development. We have relied on the major oil companies to deal with the producer countries and—except for interventions such as the current Libyan situation—have not made approaches to the producer nations on a bilateral government-to-government basis in matters of oil.

Since we are already embarked on these low level multilateral initiatives, the key policy decision is:

(1) Whether the USG should, on a bilateral basis, approach the producer nations and establish an agreement that sets oil production and perhaps price levels. It would also include, on the U.S. side, some of the economic and security concessions listed above; or,

(2) Continue on the current multilateral approach and rely on the OECD and other negotiations between consumers to meet our objectives. Alternatively, we could expand our efforts with respect to import sharing, etc., placing them on a higher political level but still not pursuing the bilateral approach.

Our objective in starting the bilateral initiative would be to spur the other consumers towards cooperation. We would bank on our political and economic leverage to demonstrate to the other consumers that cooperation was in their best interest because in all out competition with the U.S. they could not prevail.

Specifically, the strategy would be designed to:

(1) Create an incentive towards cooperation between consumers that goes beyond the cooperative arrangements currently under consideration on the basis that they are not, in themselves, sufficient to avoid divisiveness and create the needed level of confidence between consumers.

(2) Based on this incentive, we would strive to get agreement between consumer nations on critical issues such as (a) ways to support the international oil companies in their dealings with producer countries, (b) agreement to avoid bidding for participation oil, and (c) ways to develop economic and political incentives on a multilateral basis in order to get adequate production levels.

(3) At the same time, we would be hedging against a shortfall in production and break out of competition by casting a bilateral relationship that would ensure U.S. needs are met first and that U.S. leverage is maximized with respect to the other consumer nations. Emergency sharing arrangements would also provide a hedge.

A combined strategy could thus involve the following steps:

(1) As a first step in the multilateral area and to build confidence among the consumers, we would continue with our efforts to negotiate a strong emergency sharing arrangement. We might agree to an arrangement which favors the allies rather than the U.S. in exchange for an agreement regarding handling of participation oil or ways of backing the oil companies on a coordinated basis. The issue is at what political level should this be carried out.

(2) We would combine this with broader high level discussion and negotiations with the other consumers regarding several critical issues such as:

(a) common objectives we share in relations with the producer nations;
(b) control of price competition for participation oil;
(c) definition of acceptable bilateral arrangements;
(d) possibilities for producer country economic diversification;
(e) the government role in oil company negotiations; and,
(f) the broad parameters which governments could set to govern company negotiations.

To make these more palatable to countries like Japan, these multilateral initiatives could include a heavy emphasis on cooperation with the producer countries as well. For example, they could concentrate on ways of contributing, on a multilateral basis, to producer country economic diversification and other economic needs.

(3) To spur such agreement—we would proceed on a bilateral basis to pursue economic talks with Saudi Arabia (and perhaps Iran) aimed at broadening the base of our relations with these two countries in the national security and economic spheres. We could emphasize more heavily the tie between the incentives we offer to the meeting of U.S. oil needs. We could continue to develop a package of tariff and other economic concessions and perhaps work out arrangements in which U.S. oil imports were perhaps tied to the export of food and other commodities to the producer countries. Although we would not seek to make these moves public, we would soften our public stance against bilateral arrangements as a signal of our changed attitude.

(4) Based on the results of the bilateral and multilateral talks, a framework agreement—assuring adequate oil supplies at reasonable prices—could be negotiated bilaterally (e.g., U.S. with Saudi Arabia; France with Iraq)—or it could be negotiated on a multilateral basis by the major consumers as a group direct with the major producers (or OPEC). The international oil companies are predominately American and make a positive contribution to our balance of payments and the agreements should, therefore, preserve as much of their role as possible. This argues for fairly broad multilateral framework agreements rather than detailed export-import arrangements with individual country quotas.

(5) If no such framework agreement is worked out, we would, as a minimum, seek tighter coordination among the consumers. Assuming adequate confidence and proper framework agreements had been achieved, this could eventually lead to creation of a solid united front for any further negotiations with the major producers.

Next Steps

The required next steps for development of a combined strategy would include further definition of the various bilateral and multilateral components.

On-going analysis will cover the development of a policy covering emergency sharing. Work also should be continued on the specified economic components of bilateral elements including incentives the U.S. might be willing to provide. Finally, we should address more fully the legal implications of a greater government role in oil company negotiations.

October 6, 1973–March 22, 1974

209. Editorial Note

On October 6, 1973, war began in the Middle East when Egypt and Syria launched a concerted surprise attack on Israel, coinciding with the Jewish Yom Kippur holiday. The war ended October 26 when the U.S.-Soviet sponsored UN Security Council Resolution 338 calling for a cease-fire was accepted by all parties. U.S. policy toward the Yom Kippur war and in the immediate postwar period is documented in *Foreign Relations,* 1969–1976, volume XXV, Arab-Israeli Crisis and War, 1973. Documentation on continuing American diplomatic efforts in the postwar period, and the Arab-Israeli crisis is ibid., volume XXVI, Arab-Israeli Dispute, 1974–1976.

Once the war began, the Washington Special Actions Group (WSAG) held a series of meetings on war-related issues, including the potential for an Arab oil embargo. Records of these WSAG meetings are ibid., volume XXV, Arab-Israeli Crisis and War, 1973.

At the first of these WSAG meetings, held at 9 a.m. on October 6, without Secretary of State and the President's Assistant for National Security Affairs Henry Kissinger present, Secretary of Defense James Schlesinger asked about the possibility of an oil embargo. Alfred Atherton, Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs, thought it "very high." There was consensus that Saudi Arabia was "the key to the oil problem," and that relations with the Europeans could become difficult in the event of an embargo. Deputy Secretary of State Kenneth Rush mentioned that the United States had no plans in the event of an embargo, and should there be an embargo the United States would be "in a helluva fix," as would the Europeans and the Japanese. The WSAG requested the Central Intelligence Agency to prepare a paper estimating the possibility and impact of an oil embargo. (National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–117, Washington Special Action Group, WSAG Minutes (Originals) 10/2/73–7/22/74) This paper was discussed at the October 15 WSAG meeting; see Document 215.

Secretary of State Kissinger chaired a second WSAG meeting the evening of October 6, at 7:22 p.m., during which information from the morning meeting was reviewed and the group discussed the possibility that the United States might have to ration energy supplies. The WSAG asked the Departments of State and Treasury and the National Security Council to develop a contingency study on the impact of an oil cut-off. (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 129, Country Files, Middle East, Middle East,

1971–74) This paper, "Oil Contingency Paper," October 7, is Tab B of the papers discussed at the October 7 WSAG meeting.

The October 7 WSAG meeting, at 6:06 p.m., focused on rationing and the need for a Presidential announcement. Secretary Kissinger told WSAG members that the United States did not want a European "panic," and needed an emergency program to deal with a potential oil cutoff. He noted that the Arabs "have to learn what the limits are or they will nibble us to death. But this is a helluva time to teach them the limits." The meeting concluded with the decision that the Department of the Treasury would prepare a contingency plan for U.S. action in the event of a cutoff, and that Secretary Kissinger would handle any attendant bureaucratic issues with Governor John A. Love, the President's Assistant for Energy. (Ibid., NSC Institutional Files (H-Files), Box H–117, Washington Special Action Group, WSAG Minutes (Originals) 10-2-73–7-22-74) The requested contingency plan was discussed at the October 14 WSAG meeting; see Document 214.

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210. Memorandum From William B. Quandt of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Scowcroft)[1]

Washington, October 10, 1973.

SUBJECT

Middle East Oil

Jim Critchfield called this afternoon with the following information on the oil situation:

—Negotiations that had been going on in Vienna over price increases have resulted in demands for a doubling of prices, which the companies have not accepted.[2]

—The Arab oil ministers in Vienna are on the verge of leaving for an OAPEC meeting in Kuwait to develop a "war oil policy."

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 664, Country Files, Middle East, Middle East–General, Vol. II, Oct 69–Jan 70. Secret; Sensitive. Sent for urgent information. A handwritten notation by Scowcroft at the top of the page reads: "Thanks."

[2] Critchfield sent similar information in an October 10 memorandum to Saunders. (Ibid., Box 1174, Saunders Files, Middle East Negotiations Files, 1973 Middle East War, 10 Oct 1973)

—Yamani this morning told a source that he would try to avoid a confrontation, but that King Faisal was very angry at the US position of ceasefire status quo ante. He said that the separation of economics and politics is no longer possible.[3]

—According to Yamani, Faisal has a plan ready to cut oil production back to 7.2 million b.p.d. and then to reduce it by 5% each month until Israel withdraws from the occupied territories.

—Egypt, in contrast to the other Arab oil producers, has given a very strong signal of its interest in signing a new agreement with Mobil for offshore exploration. Unusual steps are being taken to conclude the agreement immediately.

—Libya has taken no action.

Critchfield judges that if Israel begins to score major victories over the Arabs and if the US is actively resupplying Israel, our oil interests in the Arab world "have had it."

Tomorrow is likely to be the decisive day in the Arab decision to use oil as a weapon against us.

[3] At a meeting on October 10, Dorsey of Gulf and Jamieson of Exxon "strongly urged" Rush and Casey to "avoid actions or statements on Mideast situation that might trigger Kuwaiti or Saudi actions against U.S. oil interests." Both men reiterated that Faisal was "absolutely infuriated" with the United States. (Telegram 202689 to Algiers and other Middle East posts, October 12; ibid., Box 661, Country Files, Middle East, Computer Cables, Mideast War, Oct 1973)

211. Memorandum of Conversation[1]

Washington, October 11, 1973, 11:30 a.m.

SUBJECT

The Secretary's Conversation with French Foreign Minister Jobert

PARTICIPANTS

France
Michel Jobert, Foreign Minister
Jacques Kosciusko-Morizet, Ambassador to the U.S.
Francois de La Gorce, Minister, Embassy of France

U.S.
The Secretary
Walter J. Stoessel, Jr.
Helmut Sonnenfeldt
Robert J. McCloskey

[Omitted here is discussion unrelated to oil.]

[Mr. Jobert:] Now, I see that the Arabs are proposing to double the price of oil.

The Secretary: But this is not a result of the war.

Mr. Jobert: Will you agree to discuss the question of price with them?

The Secretary: One basic law is that the stupidity of our oil companies is unlimited. They will always want to pass on the price increase to the consumers.

Mr. Jobert: I am told that you would be willing to accept this price increase.

The Secretary: Our problem on oil is that we do not have a strategy.

Mr. Jobert: You have had reports from the State Department for two years about this.

The Secretary: That's the trouble. But we really have no strategy on this question and we will have to devise one. First, we must get the oil companies together and bring home to them the facts of foreign policy.

The instinct of the companies is always to come to us to get us to pressure the other governments for them. Then, they make deals and come back to us two years later and ask for more. This must end, and I will do that.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 679, Country Files, Europe, France, Vol. XI, April 73–31 Dec 73. Secret. Drafted by Stoessel. The meeting was held in the Secretary's office.

Mr. Jobert: Can you do that—do you have the power?

The Secretary: I don't know, but I will give it a good try. I can do it with the companies. They do not understand politics. But whether I can bring our government into line is something else again. I don't know.

Thereafter, there is the question of relations with the other consuming countries.

There really is a kind of madness. You are nationalized in Algeria, and then our companies go in to take your place. We might be nationalized somewhere else, and we are replaced by others. We should discuss all of this with the consuming nations.

[Omitted here is discussion unrelated to oil.]

Mr. Jobert: From what you said about oil, I conclude that, this afternoon at 1700 hours in Vienna you will say "Yes" to the oil countries.

The Secretary: I really don't know about this. The matter has not been deemed sufficiently important to be brought to my attention. However, I don't believe that the financial policy of these Arab countries is directly linked to the Middle Eastern war. It is an illusion to think that, once the war is settled, then there would be no problem about oil. However, the present method of dealing with the question is suicidal.

First, we must get our own house in order. We are prepared to talk with you about this on a very confidential basis. If you wish to send someone over to see us, we will welcome that.

[Omitted here is discussion unrelated to oil.]

212. Memorandum by the Chairmen of Exxon Corporation (Jamieson), Mobil Oil Corporation (Warner), Texaco, Inc. (Granville), and Standard Oil Company of California (Miller)[1]

New York, October 12, 1973.

1. The oil industry in the Free World is now operating "wide open," with essentially no spare capacity.

2. The terms demanded by OPEC at Vienna[2] are of such a magnitude that their impact could produce a serious disruption in the balance of payments position of the Western world.

3. The demands, if acceded to or imposed, could increase the Free World oil cost from the Persian Gulf alone by $15 billion per year.

4. Market forces have pushed crude prices up substantially. A significant increase in posted prices and in the revenues of the producing countries appear justified under these circumstances; but the magnitude of the increase demanded by OPEC, which is in the order of a 100 percent increase, is unacceptable. Any increase should be one which allows the parties an opportunity to adjust to the situation in an orderly fashion. Accordingly, the companies are resisting the OPEC demands and they are seeking an adjustment of them which can be fair to all the parties concerned.

5. In the midst of pressing these demands vigorously, the Arab negotiators in Vienna have stated that their governments were angered by the speech of Ambassador Scali before the United Nations[3] which they interpreted as a clear expression of support of the Israeli position by reason of its specification of the October 6 boundaries. They also report that a request from the United States to King Faisal that he urge Arab combatants to retire to this ceasefire line produced great

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 251, Agency Files, National Energy Office, Vol. III. No classification marking. The memorandum was delivered under an October 12 covering memorandum from McCloy to Haig, which stated that the "chief ARAMCO shareholders" wished this "placed in the President's hands as soon as possible," and that Kissinger should receive a copy. In his covering summary memorandum to Nixon, November 3, Kissinger wrote that as programs for alternative energy sources were at least three years away, "if we are to hold down prices over the shorter term it will probably be necessary to take some new government initiatives aimed at backing the companies in their weakened negotiating position." A notation on Kissinger's memorandum indicates the President saw it. (Ibid.)

[2] See Document 210.

[3] Ambassador John Scali's October 8 speech is printed in the Department of State *Bulletin,* November 12, 1973, pp. 598–599.

irritation.[4] We have been told that the Saudis will impose some cutback in crude oil production as a result of the United States position taken thus far. A further and much more substantial move will be taken by Saudi Arabia and Kuwait in the event of further evidence of increased U.S. support of the Israeli position.

6. We are convinced of the seriousness of the intentions of the Saudis and Kuwaitis and that any actions of the U.S. Government at this time in terms of increased military aid to Israel will have a critical and adverse effect on our relations with the moderate Arab producing countries.

7. In the present highly charged climate in the Middle East, there is a high probability that a single action taken by one producer government against the United States would have a snowballing effect that would produce a major petroleum supply crisis.

8. The bulk of the oil produced in the Persian Gulf goes to Japan and Western Europe. These countries cannot face a serious shut-in. Regardless of what happens to United States interests in the Middle East, we believe they will of necessity continue to seek Middle East oil and that they may be forced to expand their Middle East supply positions at our expense.

9. Much more than our commercial interests in the area is now at hazard. The whole position of the United States in the Middle East is on the way to being seriously impaired, with Japanese, European, and perhaps Russian interests largely supplanting United States presence in the area, to the detriment of both our economy and our security.

J. K. Jamieson **Rawleigh Warner, Jr.**

Maurice F. Granville **Otto N. Miller**

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[4] Transmitted in telegram 199583 to Amman and Jidda, October 6, printed in *Foreign Relations*, 1969–1976, volume XXIV, Arab-Israeli Crisis and War, 1973, Document 102. In a public reply, Faisal responded that this was an act of aggression against the Arab states and that the attack was a link in the "Israeli chain to execute its expansion policy which it has planned to enforce its policy of aggression against the Arab states." (FBIS 113, October 6; National Archives, Nixon Presidential Materials, NSC Files, Box 1173, Saunders Files, Middle East Negotiations Files, 1973 Middle East War, 6 October 1973–)

213. Memorandum From Charles A. Cooper of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, October 13, 1973.

SUBJECT

Oil Sharing

We would consider trying to negotiate on an urgent basis a joint public statement with major European countries, Japan and Canada that there was mutual agreement among us that no country or countries should suffer a disproportionate hardship as a result of any disruption of normal supplies of Middle Eastern oil associated with the renewal of fighting in the Middle East. The statement could also announce that a special meeting of the OECD high level energy committee was being called for later in the week to work out cooperative arrangements to implement this principle.

Such a statement could be extremely helpful: in deterring Arab cutbacks by indicating that they were facing a united front among consuming countries;

—evidencing publicly that there is real substance in the Western alliance;

—providing a political framework for the very difficult position of negotiating a cooperative approach to the threatening crisis.

The simple arithmetic is interesting. For example, a nondiscriminatory 20% cutback in deliveries of Mideast oil if fully passed on in consumption cutbacks would reduce European consumption by 14%, Japanese consumption by 8%, and U.S. consumption by only 1.8%. The same aggregate cut-back if distributed so as to hold consumption cutbacks to the same percentage would reduce U.S., European and Japanese consumption by 6%.

It is unrealistic to expect that a significant cutback in Arab oil deliveries could be managed so as to reduce U.S. consumption only nominally, while forcing Europe and Japan to cut their consumption very significantly. Although the technical problems involved would be extremely complicated because of product mix, U.S. surge capacity, definition and measurement of consumption, differing stock positions, reflows, imports from other areas and differing defense requirements, nevertheless the principle of equal hardship would provide a more

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–92, Washington Special Action Group Meetings, WSAG Meeting Middle East, 10/16/73. Confidential.

solid basis for working out cooperative measures than any other measure. It is ultimately easy to understand and ultimately equitable.

Both we and the Europeans and Japan should be willing to accept such a principle, both because some basis for cooperation is needed in order to preserve our mutual relations, and because we would all do worse if we try to go it alone. We would fare worse under a discriminatory Arab cutback (unless it were extremely deep) and Europe and Japan would fare worse under a non-discriminatory cutback. If we are willing to accept less than the best possible outcome, but risk less than the worst, the principle of equal hardship ought to be acceptable. Any public statement should set forth this principle in broad enough terms to provide adequate flexibility if and when it actually has to be implemented.

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214. Memorandum of Conversation of Washington Special Actions Group Meeting[1]

Washington, October 14, 1973, 9:16–11 a.m.

PARTICIPANTS

Secretary of State Henry A. Kissinger, Chairman, WSAG
Deputy Secretary of State, Kenneth Rush
Assistant Secretary of State for Near Eastern and South Asian Affairs, Joseph Sisco
Ambassador Robert McCloskey
Secretary of Defense, James Schlesinger
Deputy Secretary of Defense, William Clements
Chairman, Joint Chiefs of Staff, Admiral Thomas H. Moorer
Director, Central Intelligence, William Colby
Assistant to the President for Energy, Governor John Love
Consultant to the President for Energy, Charles DiBona
Assistant to the President, General Alexander M. Haig, Jr.
Deputy Assistant to the President for National Security Affairs, Major General Brent Scowcroft
Commander Jonathan T. Howe, NSC Staff

SUBJECT

WSAG Meeting—Middle East

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–117, Washington Special Action Group, WSAG Minutes (Originals) 7/27/72–9/20/73. Top Secret; Sensitive. The meeting occurred in the White House Situation Room. All brackets are in the original with the exception of those that indicate omitted material. Printed in full in *Foreign Relations,* 1969–1976, volume XXV, Arab-Israeli Crisis and War, 1973, Document 181.

[Omitted here is discussion unrelated to oil.]

[Dr. Kissinger:] What do we do if the oil is cut off? What kinds of problems will we have?

[Governor Love distributed a draft contingency paper on the oil problem.] (Tab B)[2]

Governor Love: There are a number of ways to cut off the supply. First of all, we have to consider direct imports and then indirect imports.

Dr. Kissinger: What assumptions are you making when you talk about a total cutoff?

Governor Love: We are not talking about Iranian oil, but we are assuming the rest of the Persian Gulf states, Libya and Algeria join in the cutoff. (Reading from paper), we figure a 100,000 barrels a day indirect with an anticipated growth all the way up to 500,000. Over a six-month period we might be able to save the following amounts. We would be able to surge our own oil production and get 100,000 to 200,000 barrels a day,[3] From coal we could get 200,000 to 300,000 more barrels a day but this would take a major effort which has legal constraints. By cutting demand we could save from 150,000 to 300,000 barrels a day. By changing the speed limit we could get another 100,000 barrels a day and reduce the level further by gasoline tax. That would require drastic action and we would have to take immediate and affirmative action. (Explains summary table of paper.)

Dr. Kissinger: What is low-low and high-high (referring to table)?

Mr. DiBona: The principal factor is weather—that is whether it is cold or hot.

Dr. Kissinger: But what does the phrase low-low mean?

Mr. DiBona: That means low estimate, low demand.

Secretary Schlesinger: How much could the Iranians increase? Five-and-a-half to eight million?

Mr. DiBona: Our calculations are for this winter.

Governor Love: Iran could perhaps get 200,000 barrels a day more but they have already kicked it up.

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[2] Tab B is attached but not printed. Among the documents at Tab B is an October 14 memorandum from Love to Kissinger on an Emergency Oil Contingency Program, requested by Kissinger at the October 7 WSAG meeting summarized in Document 209. Love assumed a supply shortfall of 10 to 12 percent of the total U.S. consumption, that no U.S. non-Arab oil imports would be diverted to compensate for European and Japanese losses, and that there was not one single action the United States could take to meet the effects of a cutoff. Love then suggested a wide array of feasible options, and noted he was taking steps to create several standby task forces in various agencies to implement the full contingency program.

[3] and also get 100,000 barrels per day our Elk Hills naval reserve. [Footnote in the original.]

Dr. Kissinger: Do you assume a cutoff to the US or Europe?

Governor Love: If Japan and Europe are thrown into the balance, that gives it a different dimension. We have looked at the effect on import levels. It is not realistic to consider the US alone. We also have to look at the effect of the US emergency surplus. We have limited refinery capacity and that is why we have to import.

Secretary Rush: Do we import?

Dr. Kissinger: If it happens, it will happen next week. We are going to need a plan. It should consider a cutoff in the US and a cutoff to Japan and Europe as well.

Governor Love: To do so, we also have to consider consultations on the Hill, putting the President on TV, and the timing of what we do now. We have to be ready.

Dr. Kissinger: We don't want to push the button now and cause a panic. We need to have the program ready for the day when they do it.

Governor Love: Faisal is talking about a cut of five percent a month.

Dr. Kissinger: What about the long term? Suppose the Egyptians are badly defeated. I don't think they will be, but it is not beyond the realm of the possible. We might lose all outlets and get cut off. What if they limit production over the long term and we can't handle it with diplomacy and other pressures?

Governor Love: We can identify areas to increase supply and limit demand but we would have to make some statutory changes. If it happened now, by Tuesday or Wednesday[4] I would expect the President to say and do something.

Secretary Clements: I think the prediction of picking up 100,000 barrels a day in the southwest is questionable. They think they are at capacity now. It is also questionable whether we should count on Elk Hills. It is not a matter of just turning the tap on. We may get there in time but it is not a significant amount. This is a mega problem in which we must measure in millions.

Governor Love: They have two million.

Director Colby: Our estimate on how sharply the oil would be cut has to be related to the Arab position on the ground. If the Israelis move slower, then the Arabs should be equally slower in their reaction.

Secretary Schlesinger: On timing we must weigh the advantage of getting something out on the problem. If it is indicated this will happen, we will want to consider the deterrent impact.

Dr. Kissinger: So far no one has threatened us, but we have no program.

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[4] October 16 or 17.

Governor Love: We could announce something quickly.

Secretary Kissinger: I wouldn't provoke it or threaten them. An oil cutoff was not mentioned in any of the conversations I have had in the last three weeks. All I have received are hysterical calls from oil companies. The Saudis have been better than any. We have good commercial relations. Some idiot says we shouldn't have said that but I don't want to challenge the Arabs to a test of their manhood.

Secretary Rush: When we resupply to Israel at that point we will have a problem.

Secretary Schlesinger: The Saudis don't care about the Syrians. The Egyptians could urge the Saudis to be prudent.

Secretary Clements: It will cause restrictions on the domestic economy.

Governor Love: We would have to make some shifts and close down some factories.

Secretary Clements: There are no other short-term answers.

Dr. Kissinger: I have no preconceived ideas on this.

Secretary Rush: The industrial aspect bears watching.

Dr. Kissinger: We need a task force to begin today to study this problem. John (to Love) and Bill (to Clements) will you work with State on this.

Secretary Sisco: We can get George Benson and one member of the NSC staff.

Dr. Kissinger: We need concrete programs. We need to pin point this for the President. Here are the two or three major things that you can do. He has got to know what he can do if the oil is cut off. We also need to know what to do with regard to Europe and Japan.[5]

Governor Love: The cut in Europe will be 75 percent and Japan gets 50 percent of its oil from Arab countries.

Secretary Schlesinger: They have sixty days of stocks.

Dr. Kissinger: How much do we have?

Secretary Clements: I don't know.

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[5] An interagency group composed of representatives from the Departments of State and Defense, the CIA, and NSC, submitted a paper entitled "Actions in the Event of an Arab Oil Embargo Against the United States, Western Europe and Japan," to Kissinger on October 14. The paper concluded that the United States had two principal means of getting the Europeans and Japanese to cooperate in united action: 1) to make clear a willingness to share any shortfalls, and if they did not cooperate, then "make clear our determination to use all our power to scramble for available oil," and 2) to convince Europeans that the political cost to them of a split in the alliance would be "more serious to their national interests than the damage they may perceive united action would do to their Mid-East or Eastern European policies." (National Archives, RG 59, Central Files 1970–73, PET 17–2 EUR)

Dr. Kissinger: Is it sixty days of key things or of everything.

Mr. DiBona: Europe has sixty days of everything.

Dr. Kissinger: And the U.S.?

Mr. DiBona: We have a few weeks of total consumption or 200 days of European consumption.

Secretary Rush: There is a great difference between the two.

Governor Love: In a short time there would be shortages in everything—perhaps a month.

Dr. Kissinger: Let's have a meeting tomorrow at 9:00 or 11:00 and get a detailed program on the oil cutoff. Would we share with the Europeans?

Mr. DiBona: It is not clear that they can cut off the US. We are having trouble, for example, following Libyan oil production.

Dr. Kissinger: Would they have to cut off all oil production?

Secretary Schlesinger: That is right, to be effective.

Dr. Kissinger: (to Secretary Rush): Can we have another group at State and Defense look at what would be the political impact?

Secretary Schlesinger: If we Americanize El Al the Arabs will note it.

Dr. Kissinger: It would be tough enough to go through this for a worthy cause. We should make approaches all over the world. We will need a working group. (To Scowcroft) Is Sonnenfeldt working?

General Scowcroft: Yes.

Dr. Kissinger: We will get Sonnenfeldt working on this with Stoessel and we will need a DOD representative as well. So when we meet tomorrow we will need two things:

—a technical program on what the President has to do, and secondly,

—a political program on what we face with regard to Western Europe and Japan.

Secretary Sisco: I will try my hand at a Presidential statement.[6]

Dr. Kissinger: Let's see the program first.

Secretary Rush: The world can't live with it.

Dr. Kissinger: Let's not talk about consequences. We don't want to make it happen. We should be low key.

Mr. Dibona: Who should get involved with regard to the legal questions?

Dr. Kissinger: Just tell us what we need to get done.

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[6] A draft Presidential statement is ibid., Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–93, Washington Special Action Group Meetings, WSAG Meeting Middle East 10/14/73.

Secretary Schlesinger: The mood of the House is not very forthcoming. The House is as opposed as the Senate, and it extends from "doves" to "hawks."

Governor Love: There will be a hearing before the Albert Committee.[7] They will open it for 12 months for 160,000 barrels a day, if we can guarantee that will take care of the problem.

Secretary Sisco: I detect the opposite view. Some 203 House members signed the petition.[8] Because of the Israeli aspect, there is a certain ambivalence.

Dr. Kissinger: We don't want to provoke it. If there is a fait accompli, we want to know what to do.

Governor Love: We will have to move on an allocation program.

Dr. Kissinger: Consider that on Tuesday or Wednesday or Thursday the Arabs announce a cutoff. What do we do? The President has to know what he would do and announce it. If Europe and Japan are included, we have to know what we can do in concert.

Secretary Clements: I agree, it is a problem both internationally and domestically.

Dr. Kissinger: Yes, we would move with contacts that day or the next day. We need to get a list of what our needs would be and our alternatives if we can't get oil. The question is whether we think it through now or then. Assuming an oil cutoff, John (to Love), I would like you to chart it. Perhaps we can get together later today. We will get together later today.

[Governor Love and Mr. DiBona left the meeting.]

[Omitted here is discussion unrelated to oil.]

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[7] Speaker of the House Albert was Chairman of the Democratic Steering and Policy Committee.

[8] Not further identified.

215. Minutes of Washington Special Actions Group Meeting[1]

Washington, October 15, 1973, 10:08–11:08 a.m.

SUBJECT

Middle East

PARTICIPANTS

Chairman—Henry A. Kissinger

State
Kenneth Rush
Joseph Sisco
Robert McCloskey

Defense
James Schlesinger
William P. Clements, Jr.

JCS
Adm. Thomas H. Moorer
V/Adm. John Weinel

CIA
William Colby
Sam Hoskinson

Special Assistant to the President for Energy
Gov. John Love
Charles DiBona

NSC
Gen. Brent Scowcroft
William Quandt
Jeanne W. Davis

SUMMARY OF CONCLUSIONS

It was agreed that:

[Omitted here is discussion unrelated to oil.]

2) Governor Love, in cooperation with Deputy Secretary Clements, will prepare by tomorrow a detailed implementing scenario for U.S. actions in the event of an Arab cut-off of oil from the U.S., to include public statements.[2]

[Omitted here is discussion unrelated to oil.]

Mr. Colby briefed on the paper at Tab B.[3]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–117, Washington Special Action Group, WSAG Meeting Minutes (Originals) 10/2/73–7/22/74. Top Secret; Nodis; Codeword. The meeting occurred in the White House Situation Room. The minutes are printed in full in *Foreign Relations,* 1969–1976, volume XXV, Arab-Israeli Crisis and War, 1973, Document 186.

[2] Love submitted an Emergency Oil Contingency Action Plan in an October 15 memorandum to Kissinger. The plan included a proposed Presidential announcement of the plan. (Ibid., Box H–93, Washington Special Action Group Meetings, WSAG Meeting Middle East 10/14/73)

[3] Attached but not printed at Tab B are an undated paper entitled "Task Forces on Domestic Oil Contingency and Impact of Relations with the Allies," Love's October 14 memorandum to Kissinger (see footnote 2, Document 214), and an undated CIA paper entitled "The Arab-Israeli War and Oil" that had been requested at the October 6 morning WSAG meeting (see Document 209). This paper stated that "the major oil producers may be moving to a decision to cut oil production as a means of pressuring Israel's Western supporters," and that this would "have a serious effect on the economies of Western Europe, Japan, and—to a somewhat less extent—the United States." Details on the oil situation followed, alongside a lengthy look back at the preparations taken by the United States during the 1967 Arab-Israeli war. Tab B also contained documents held in the file from previous WSAG meetings.

Secretary Kissinger: (commenting on the slow-down of oil flow through Tapline) Was this a decision of the companies?

Mr. Clements: No, the Israelis requested it.

Secretary Kissinger: Why?

Mr. Sisco: They were fearful that damage to the pipeline from the fighting might be such that a lot of their oil would be lost.

Mr. Clements: That was a valid point.

Mr. Kissinger: I don't question it.

Mr. Schlesinger: Are there any tankers going through the Gulf of Aqaba?

Mr. Colby: We don't know.

Adm. Moorer: No, there's an Egyptian submarine there.

Mr. Colby: Yes, it fired three torpedos at a tanker in the first days of the war and missed.

Secretary Kissinger: It's a good thing Governor Love has all of these problems solved.

Governor Love briefed from the paper at Tab C.[4]

Secretary Kissinger: (referring to Governor Love's comment that a rationing program need not be announced at the time the other US actions are announced) But an announcement of what we are doing might induce the Arabs to call off any cut-off of oil. If we were licking the problem, they might have an incentive to resume shipments.

Gov. Love: There may be a trade-off. But an announcement of rationing might bring on hoarding.

Mr. Clements: That's a political decision. It's for the President and you to decide.

Secretary Kissinger: How urgently is it needed?

Mr. Clements: It's a must.

Secretary Kissinger: But you believe it should not be announced with the other decisions? Suppose the Arabs cut off the supply tomorrow?

Gov. Love: Subject to your decision on the effect on the Gulf countries, I do not suggest announcing a rationing program now. But I would go ahead with the rest of the program.

Mr. Clements: We might hint at rationing.

Secretary Kissinger: Let me be sure I understand what you're saying. Incidentally, this paper is an amazing job considering the amount of time you had.

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[4] Tab C included another copy of Love's October 14 memorandum to Kissinger, an October 9 paper prepared in the Office of Energy and Natural Resources in the Department of the Treasury, entitled "Contingency Plans in Response to Curtailment of U.S. Oil Imports," and the interagency paper referenced in footnote 5, Document 214.

Gov. Love: Part of it is the Treasury paper that you had asked Bill Simon to do earlier.

Secretary Kissinger: You believe that, if there is an actual cut-off of oil, all of these things in the paper, except for rationing, should be done together?

Gov. Love: Yes.

Secretary Kissinger: I can't speak for the President, but I will talk to him right after this meeting. But, judging from the way the President has reacted, in the past, I would think he would think so too. He believes we pay the same price if we do a lot as if we do a little.

Mr. Clements: We could tell the public that rationing is the next step. This might be a rallying point and have a cohesive effect in getting people together.

Secretary Kissinger: And if these things fail, we would go to rationing. Are you saying rationing is inevitable? What would the President say?

Mr. DiBona: That we can lick the problem if everyone cooperates.

Secretary Kissinger: If everyone cooperates, we could avoid rationing?

Mr. DiBona: Yes.

Secretary Kissinger: But if we threaten rationing, that might create hoarding. How would it be done?

Mr. Rush: By everyone keeping his tanks filled.

Mr. DiBona: There's a lot of secondary storage already full. People filled up in August.

Secretary Kissinger: Isn't that a good cushion?

Mr. DiBona: Yes.

Gov. Love: Our task force on the political implications of the effect on Japan and Western Europe of an Arab oil cut-off has considered the possibility of a sharing agreement of up to 5 million barrels per day. There would be no way out of this for the US without utter chaos.

Secretary Kissinger: The other paper indicates that there are two roads—bilateral and multilateral. Do we have enough leverage with the oil companies to win the bilateral battle? Could we force them to divert to us?

Mr. Colby: It would be the other way around.

Mr. DiBona: There are two possibilities. One, the Arabs cut off oil supplies from the Arab sources to the US alone. We could handle this, with some strain. Second, a total cut-off of Arab oil to all recipients. If we should try to equalize the burden, this would mean the US would be shipping oil out to Western Europe and Japan. This would require 5 or 6 million barrels per day from the US—one-third of the US consumption.

Mr. Rush: The economic impact in this country would be so striking that it couldn't be done.

Secretary Kissinger: What about the impact of a cut-off in Europe and Japan? They would go crazy.

Mr. DiBona: It would affect their attitude toward the war.

Secretary Kissinger: To say the least!

Adm. Moorer: They have already made their attitude clear. They expect the US to carry the entire burden.

Secretary Kissinger: And they have been goddamned unhelpful in the diplomacy.

Mr. Sisco: The pressures would increase from Europe, but they haven't lifted a finger to help us with the Arabs as it is. It cuts both ways.

Gov. Love: You would see an almost automatic flow of French and German technicians to the Arab countries if there were an oil cut-off. We would lose out in the area.

Mr. Rush: It's unrealistic to think they would be willing to suffer economically for us.

Secretary Kissinger: How can they avoid it?

Mr. Rush: By staying with the Arabs and keeping the oil flowing.

Secretary Kissinger: If they do this, they would be doing us a favor. What more could they do for the Arabs than they have already done? There is a limit beyond which they can't push us without losing their NATO relationship. There are two alternatives: (1) the Arabs may cut off oil to the US only; there would be some resolutions in the Security Council we would have to veto, but we wouldn't be that badly hurt; (2) the Arabs cut off oil to Europe. The Europeans would gain nothing, and they couldn't be doing anything worse to us than they are already doing. And if the Europeans try to do to us what we did to them at Suez, we could do more to them in retaliation. They can't afford to go into open opposition to us. Is that a fair statement?

All agreed.

Gov. Love: Any approach to rational thinking on the part of the Saudis will show them that a complete cut-off is not in their self-interest.

Secretary Kissinger: We have had no indication up to now that they intend a cut-off. They have been extremely circumspect. They have never threatened an oil cut-off in any official channel. Officially, they have taken exactly the opposite tack.

Mr. Colby: We have an indication that the Saudis are being very cautious about this oil country meeting tomorrow.[5]

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[5] The OPEC Ministers met in Vienna October 16–17.

Secretary Kissinger: I sent them a letter yesterday telling them about our sending supplies to Israel. They replied that we should keep it in a low key and blame it on the Soviets.[6]

Mr. Sisco: This was not from the King, but we think it is official.

Secretary Kissinger: I've been dealing with the oil guy. We have no indication that there will be a cut-off. But if there is, I think the President will go for the whole program, minus rationing. That would be the best way to bring maximum pressure on the Arabs. John (Love), will you develop implementing programs for these things? Bill (Clements), will you work with him? Work out who does what and when, from D-Day plus. Also what we say publicly—the whole scenario.

Mr. Rush: We don't have Governor Love's memo.

Mr. DiBona handed out copies of the memorandum at Tab C, without the attachments.

Secretary Kissinger: We need a contingency plan now for D-Day plus. Now, it would be in our interests to make the Soviets pay for this. I have seen in one paper, possibly an internal State paper, some of the pressures we have available, such as holding back some wheat shipments. If we get into a test of this kind, we have to win it.

Mr. Clements: We are all in agreement that there are some mechanical and technical things we could do, but it would require an all-out effort with the oil companies and the pipeline companies. The first thing we would have to do is to get that Prudhoe Bay pipeline immediately. We could get another one million barrels a day if we go all-out, but we can't dilly-dally.

Secretary Kissinger: We have some real problems. The events of this summer have led to a belief all around the world that our authority has been weakened. If we get into a confrontation, we have to show that we are a giant! We have to win! I don't expect us to get into a confrontation, but we should look at everything we could do if we did. It may help us next time. Let's get that implementation plan for tomorrow's WSAG meeting. What each agency can do, including the public statements.

Gov. Love: But the President wouldn't move short of an Arab move to cut off oil?

Secretary Kissinger: No, and we haven't been threatened. No Arab radio has picked up what we're actually doing. We'll keep it in a low key. We shouldn't hypo it but we should be ready if someone else does.

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[6] See Document 216.

Mr. Schlesinger: It will be hypoed today when they see US planes coming over every half-hour.

Gov. Love: I was scheduled for a Press Club appearance tomorrow, but I will cancel it so I don't fumble around.

Secretary Kissinger: You won't fumble around. You can just say we don't expect an oil cut-off but we have contingency planning ready if there is one. You should be restrained but very confident. I think it would be a mistake to cancel your appearance. You should make no reference to the Middle East, but if you are asked, just say we are working on it and we can handle it. We'll meet again tomorrow; we'll let you know the time.

(Governor Love and Mr. DiBona left the meeting.)

[Omitted here is discussion unrelated to oil.]

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216. Editorial Note

On October 14, 1973, Secretary of State Henry Kissinger wrote King Faisal of Saudi Arabia that the United States "had no alternative" but to begin an airlift of supplies to Israel following the Soviet "massive airlift of arms" to Arab states. He added, "I hope, Your Majesty, you will understand that our airlift is not intended as anti-Arab." He assured King Faisal that "as soon as an effective ceasefire has been achieved, we are prepared to stop our airlift promptly provided the Soviets do the same." The letter was to be delivered no sooner than the opening of business October 15, the date on which the resupply effort was to be publicly announced. (Telegram 203672 to Jidda, October 14; National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Saudi Arabia, Vol. IV) The public announcement appeared in *The Washington Post*, October 16, 1973, page A1.

The Saudi response came from several officials. Saudi Minister of Petroleum Ahmad Zaki Yamani informed the French that if the United States did not impose an equitable solution on the conflict, Saudi Arabia would cut production over the course of one year by 5 percent per month. (Telegram 4476 from Jidda, October 14; National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Saudi Arabia, Vol. IV) The Saudi Ambassador to the United States, Ibrahim al-Sowayyel, told Assistant Secretary of State for Near Eastern and South Asian Affairs Joseph Sisco on October 15 that Saudi Arabia knew prior to Kissinger's letter that the United States had begun to resupply Israel. Sisco recounted al-Sowayyel's regretfully lodged official

protest, noting, "If the USSR was supplying arms for the Arabs to clear their country from foreign invaders, he [al-Sowayyel] did not see why the US did not then press Israel to return to its pre-June 1967 boundaries." (Memorandum of conversation; ibid.)

Prince Fahd, Second Deputy Prime Minister and Minister of the Interior, in a meeting with an American official in Jidda on October 15, said Saudi Arabia had been "offended" by the language, tone, and content of Secretary Kissinger's letter. He thought the message "seemed to ignore all other recent exchanges of view between the Saudi and American Governments, and to presume that Saudi Arabia would be willing to associate itself with American support to Israel in the name of anti-communism." He thought the U.S. decision to resupply Israel would only benefit the Soviet Union. He concluded that the U.S.-Saudi relationship "can never be the same again." He added that while Saudi Arabia was not considering a break in diplomatic relations it "should be assumed that Saudi Arabia will find itself compelled to support economic sanctions against the United States." (Backchannel message, October 16; ibid.)

In his official October 16 reply, King Faisal wrote that he was "pained" to learn of the U.S. decision to resupply Israel. He wrote: "We do care very much about the continuation of our friendship with the United States and wish that those responsible in the United States would realize the seriousness of the step (you are taking) and that the continuation of the American stand on the side of Israel will expose our relations to (being) lukewarm." (Telegram 4543 from Jidda, October 16; ibid.)

217. Minutes of Washington Special Actions Group Meeting[1]

Washington, October 16, 1973, 10:08–11:06 a.m.

SUBJECT

Middle East

PARTICIPANTS

Chairman—Henry A. Kissinger

State
Kenneth Rush
Joseph Sisco

Defense
William P. Clements, Jr.

JCS
Adm. Thomas H. Moorer
V/Adm. John Weinel

CIA
William Colby
Sam Hoskinson

Assistant to the President for Energy Policy
Governor John Love
Charles DiBona

NSC
Gen. Brent Scowcroft
William Quandt
Jeanne W. Davis

SUMMARY OF CONCLUSIONS

It was agreed that:

1) The oil contingency plan, including the draft Presidential speech, should be revised to include some intermediate and longer-term steps required to prevent this emergency situation from arising again.[2]

[Omitted here is discussion unrelated to oil.]

Mr. Colby: King Faisal is upset by the American air supply, but this is only temporary.

Secretary Kissinger: How do you know it's temporary?

Mr. Colby: He is inclined to blow off emotionally about things, but he usually calms down.

Secretary Kissinger: Did we make a mistake in informing him?

Mr. Sisco: No.

Adm. Moorer: It was better that way.

Secretary Kissinger: May we turn to oil, now.

Governor Love: I have a paper here.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–117, Washington Special Action Group, WSAG Meeting Minutes (Originals) 10/2/73–7/22/74. Top Secret; Sensitive; Codeword. The meeting took place in the White House Situation Room. The minutes are printed in full in *Foreign Relations*, 1969–1976, volume XXV, Arab-Israeli Crisis and War, 1973, Document 191.

[2] See footnote 2, Document 219.

(Mr. DiBona handed out copies of the paper at Tab B[3] to the principals)

Secretary Kissinger: (to Gov. Love) You've already learned how to defeat the bureacracy. You hand out a 100-page paper at a meeting when no one has had a chance to look at it.

Gen. Love: Is there any intelligence I don't know about on the oil companies' report on Yamani's statements about a progressive cut-back in oil shipments?

Secretary Kissinger: The oil companies have caused us more trouble than the Arabs. When this is over I am really going out to get the oil companies.

Mr. DiBona: Their report seems to be accurate.

Secretary Kissinger: But did they go out and ask Yamani if they were going to cut back?

Mr. DiBona: This happened in the context of the OPEC meeting.

Governor Love: This is nothing new. It came out of the Vienna meeting.

Secretary Kissinger: Can't we do something about the oil companies?

Mr. Rush: The oil people are calling me every day. I'll call them and calm them down.

Secretary Kissinger: The Israelis have told us they have crossed the Canal with 25 tanks at Bitter Lake and are operating within the Egyptian missile fields.

Mr. Colby: It could be a raid.

Secretary Kissinger: Can they knock out the missiles with this kind of operation?

Mr. Colby: It depends on what's around.

Adm. Moorer: On how many tanks the Egyptians use to oppose them.

Secretary Kissinger: We have no reports of any substantial breakthrough. Let's go ahead on oil.

Governor Love briefed from the paper at Tab B.

Secretary Kissinger: (to Mr. Clements) Were you involved in this too?

Mr. Clements: Superficially; I hadn't seen the final draft. When the Governor is finished I want to comment on some aspects.

Governor Love: If any of this is going to work, we have to create the feeling that there is a real problem—a crisis. The President has to

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[3] Attached but not printed at Tab B is duplicated material available at the October 14 WSAG meeting, Document 214, with the addition of Love's October 15 memorandum to Kissinger containing an oil contingency action plan; see footnote 2, Document 215.

take the lead and he and some of the rest of us have to take some actions to lead the way. We are proposing a Presidential speech.

Mr. Clements: The only shade of difference between us on this is the degree of emphasis we put on rationing. I don't think the President can rally the country and bring about any real response on a voluntary basis without saying that we are doing these things now, we are hopeful that they will help, but rationing is inevitable.

Secretary Kissinger: What would we gain by saying that?

Mr. Clements: You would prepare the people for what's coming later.

Secretary Kissinger: Could we say that rationing is inevitable unless people cooperate with the other steps?

Mr. Clements: That might do the trick.

Secretary Kissinger: Is the State Department on board on this?

Mr. Sisco: Yes, our people have been working with Governor Love.

Mr. Clements: We should also stress the intermediate steps—things we should do over the next one, two or three years. We must start these things *now*. Within this intermediate timeframe, we need to start new pipelines, stimulate exploration and development—

Gov. Love: This paper is designed to respond to the immediate problem within a time frame of this winter.

Secretary Kissinger: On rationing, I lean more toward not biting the bullet in the first speech. But he should use the crisis and say we must work all-out so that we never get ourselves in this position again.

Mr. Clements: That's my point.

Mr. Rush: We need a strong, affirmative program so as to avoid it happening again.

Gov. Love: Also, it's good for the President to have something to rally people around with. We need to get a sense of urgency.

Secretary Kissinger: We will all study the paper by tomorrow. This looks to be a good first approximation, but we will give it formal consideration tomorrow.

Mr. Clements: May we ask John (Love) to include some intermediate things.

Secretary Kissinger: Aren't they here? They should be. The speech should make four points: 1) what is the crisis? 2) what do we do now? 3) what are our next steps? 4) what as a nation can we do to be sure we are never blackmailed in this fashion again? Then we'll go to the Congress and ask for what we need and we would have a chance of getting it.

Mr. DiBona: Most of the intermediate things are already up with the Congress.

Secretary Kissinger: Then we'll get them to speed up.

Gov. Love: We might even need something almost like War Board controls plus an energy bank so we can look at our capital bank.

Secretary Kissinger: Let's draft a speech. Let's use this crisis creatively—use it to say "never again." (to Gov. Love) Can you draft it?

Gov. Love: Yes.

Mr. Rush: Completely aside from the Middle East crisis, we should have these programs going.

Gov. Love: The present situation aside, we would never have gotten enough more oil out of Saudi Arabia.

Secretary Kissinger: You put a man in a monopoly position and he will squeeze you. The Saudis would still squeeze us if Israel disappeared tomorrow. Under these circumstances, when they don't need the money, they're better off to keep their oil in the ground. With inflation it will be worth more later.

Gov. Love: I have to be on the Hill at 11:00 tomorrow morning to meet with (Congressman) Hebert on the Elk Hills matter, so if the WSAG meeting could be at another time.

Mr. Colby: I have to be on the Hill tomorrow morning too, to get our budget.

Secretary Kissinger: We'll meet in the afternoon.

(Governor Love and Mr. DiBona left the meeting)

[Omitted here is discussion unrelated to oil.]

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218. Memorandum of Conversation[1]

Riyadh, October 17, 1973.

[Omitted here is discussion unrelated to oil.]

5. The information which Shaykh Adham then went on to volunteer indicates that firm decisions on oil policy in the present crisis have been taken by the Saudi Government, and that it is therefore probably already too late for Ambassador Akins to be able to affect Saudi decisions on this matter. Because of the importance of what he was pass-

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia. Secret; Sensitive. Transmitted to Kissinger in an October 17 memorandum.

ing to us, Shaykh Adham took particular care to consult the official documents in his files in order to be certain of his accuracy in defining for us the Saudi Government position to be adopted at the upcoming Arab oil meeting in Kuwait. Shaykh Adham stated that during the past twenty-four hours Egypt and Saudi Arabia had exchanged messages which resulted in an agreement to take the following joint position in Kuwait: a five per cent cutback of oil production every month until the Middle East crisis is "satisfactorily resolved." By satisfactory resolution they meant in effect the implementation of U.N. Security Council Resolution 242[2] but specific mention of that Resolution probably will not be made in Kuwait because Saudi Arabia does not subscribe to Resolution 242. The Egyptians agreed to a point insisted upon by the Saudi Minister of Petroleum and Mineral Wealth, Shaykh Zaki Yamani, that the public statement of this decision will include no specific reference to the United States. The Egyptians insisted that the five per cent reduction be made effective immediately rather than following a "warning phase" of one or two months as desired by the Saudis. The Egyptians then suggested that the rate of cutback be doubled from five per cent to ten per cent after three months if no progress has been made. The Saudis objected to this suggestion and it was dropped by the Egyptians.

6. The Egyptian-Saudi joint position contains two other points as outlined by Shaykh Adham:

(a) There will be a total embargo of all oil sales to any country that officially employs its own regular armed forces in support of Israel. The Egyptians had wanted to apply this stipulation to any country whose "personnel" became involved in the fighting. The Saudis insisted that the term "personnel" not be used because of their recognition that individual Americans or other nations are serving as volunteers in Israel's armed forces. The Saudis also warned the Egyptians that the use of the loose term "personnel" would leave the Arabs vulnerable to possible "big lie" operations by the Soviets or Israelis who might want to sabotage Arab-American relations; hence, Saudi insistence that the intervention would have to be "official and overt" to constitute grounds for total embargo.

(b) Any country which decided to help the Arabs would be assured of all the oil it wants. Shaykh Adham mentioned as an example the "possibility" that President Pompidou of France will lift the French embargo on military sales to the Arabs.

7. It was agreed after debate that the five per cent reduction would apply to all countries with the exception noted above of countries which choose to help the Arabs. Agreement on this point resulted chiefly from Saudi insistence that Arab leverage over the United States

[2] See footnote 5, Document 176.

is increased by applying the reduction to all countries. If Japan and Western Europe are equally affected, then they can be expected to apply their fullest persuasive powers on the United States to support peace measures.

8. According to Shaykh Adham, the final Egyptian agreement to all of the foregoing was received in a telegram from Cairo early on the morning of 17 October. The Saudis believe that the Algerian and Libyan positions will be much more extreme than the Saudi-Egyptian position. They know, for example, that the Algerians want to cut production by twenty per cent per month. The Egyptian Minister of Petroleum had already arrived in Kuwait with another set of instructions before Cairo and Riyadh reached their agreement. Shaykh Zaki Yamani therefore took with him to Kuwait yesterday a new brief for the Egyptian minister. The Kuwaitis have notified the Saudis that they will support Saudi terms at the Kuwait conference provided the Egyptians are also in agreement. This therefore means that those three countries will present a solid front which the smaller Gulf producers are expected to join also. Shakyh Adham therefore believes that five per cent will carry the day, although he does not totally rule out the possibility that the final result might be a compromise closer to ten per cent.

[*3 lines not declassified*]

219. Minutes of Washington Special Actions Group Meeting[1]

Washington, October 17, 1973, 3:05–4:04 p.m.

SUBJECT

Middle East

PARTICIPANTS

Chairman:
Henry A. Kissinger

State:
Kenneth Rush
Joseph Sisco
Robert McCloskey

DOD:
William Clements
Robert Hill

JCS:
Adm. Thomas H. Moorer
Vice Adm. John P. Weinel

CIA
William Colby
Sam Hoskinson

Assistant to the President for Energy Policy:
John Love
Charles DiBona

NSC Staff:
Gen. Brent Scowcroft
William Quandt
Jeanne W. Davis

SUMMARY OF CONCLUSIONS

It was agreed that:

1) Assuming the present situation can be settled soon, the President should proceed with the proposed emergency oil program approximately two weeks after settlement.

[Omitted here is discussion unrelated to oil.]

Secretary Kissinger: Could we turn to oil.

Gov. Love: We have added some of the medium and longer-term actions you asked us for.

(Mr. DiBona handed around the paper at Tab B[2] and Governor Love briefed from the paper)

Gov. Love: We have put all of these things in a proposed speech by the President. In addition, I think we are all in general agreement

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–117, Washington Special Action Group, WSAG Minutes (Originals) 10/2/73–7/22/74. Top Secret; Sensitive; Codeword. The meeting occurred in the White House Situation Room. The minutes are printed in full in *Foreign Relations*, 1969–1976, volume XXV, Arab-Israeli Crisis and War, 1973, Document 198.

[2] Attached but not printed. At Tab B is an October 18 memorandum from Love to Kissinger, stating that the attached draft Presidential statement had been rewritten to include the announcement of several programs, "which would sharply reduce our dependence on imported oil to manageable proportions."

on identifying the kinds of things that need to be done. The problem is not identification. We need a timing and goals discussion and a structure to allow the things to get done. That's why I convened last week the Cabinet-level Energy Policy Committee. We need to set out some five-to-seven-year goals, with some "man-on-the-moon" type urgency. I have set up a series of interdepartmental Task Forces to work out some incremental movements: what we need by the end of 1973, end of 1974, etc.; what needs to be done and the constraints. I think we are on the way to a coherent, feasible program.

Secretary Kissinger: We don't expect an oil cut-off now in the light of the discussions with the Arab Foreign Ministers this morning.[3] What is the temperature of the oil companies? Did you see the Saudi Foreign Minister come out like a good little boy and say they had had very fruitful talks with us? (to Mr. Clements) Despite what your colleagues have done to screw us up with their messages, we don't expect a cut-off in the next few days.

Mr. Clements: They're not my colleagues. My colleagues are in this room.

Secretary Kissinger: (to Gov. Love) Have you redone the speech to take into account the longer-term things?

Gov. Love: Yes. As you said yesterday, this presents us with an opportunity to get some things done. I think we should proceed even after this is over.

Secretary Kissinger: I agree. Two weeks after this thing comes to an end, I think the President should send a message to the Congress. He should point out that this situation has brought home our vulnerability and that we can't stay in this position. He should press for urgent action on the things that are before the Congress now, plus some other things. We have been doing a tight-rope act and we can't pull it off again. We have been threatening the Arabs with pulling out of the diplomacy. If the diplomacy fails, we're in a helluva spot. We have to get ready.

Mr. DiBona: The European markets are in complete disarray. European shipments to the U.S. are already off. We have to be particularly careful about what we say, and have to watch very carefully this winter, even if there is no cut-off.

Mr. Clements: If we get by without this extreme emergency, we will still have problems. In the Mediterranean there has already been

[3] Nixon and Kissinger met with the Foreign Ministers of Saudi Arabia, Kuwait, Morocco, and Algeria on October 17 to discuss Middle East issues. They did not discuss oil. (National Archives, RG 59, Central Files 1970–73, POL 27 ARAB–ISR)

a cut-back by about 12% in the amount of crude available. We'll feel it in the fleet—we'll have to seek alternate sources for our ships there.

Secretary Kissinger: Also, we must see to it that the Europeans can never again behave as they are behaving now.

Gov. Love: Some European countries are getting anxious about the idea of sharing agreements. If there is any sharing, it will be all one way.

Mr. Sisco: Your study shows that clearly.

Mr. Rush: I've been in touch with the oil companies. They said they were not the source of the article in the *Times* yesterday:[4] that the State Department was. They have agreed to play in a low key.

Secretary Kissinger: They shouldn't be playing at all. They have an unparallelled record of being wrong.

Mr. Rush: I didn't tell them that.

Mr. Sisco: I think Governor Love's people have done a good job. It's good to see the entire thing laid out in one speech.

Secretary Kissinger: Assuming we can bring this thing to a conclusion in a short time, two weeks later we should start this program. The Arabs have to know that blackmail is a losing game.

Mr. Rush: If we get that Alaska pipeline that will bring in more than we get from the Middle East.

Mr. DiBona: The Alaska oil at its peak will equal the total lifting and production from the Arab countries. But by the time that is flowing, our demand will have increased.

Mr. Clements: We need two pipelines.

Mr. Sisco: What do we need to get that out of the Hill?

Mr. DiBona: I'm told they're down to the last wire.

Mr. Clements: We've been hearing that for a long time. They have no sense of urgency.

Gen. Love: If the President goes on TV and lays out a whole program, that will create a sense of urgency.

Secretary Kissinger: We'll get it done in two weeks after this is over. (Referring to the Love paper) This is a superb job.

(Governor Love and Mr. DiBona left the meeting.)

[Omitted here is discussion not related to oil.]

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[4] Edward Cowan's article, "A Saudi Threat on Oil Reported," noted that Yamani told oil executives if the United States overtly resupplied Israel, Saudi Arabia would cut crude oil production by 10 percent at once and by 5 percent a month thereafter. (*The New York Times,* October 16, 1973, p. 89)

220. Minutes of the Secretary of State's Staff Meeting[1]

Washington, October 18, 1973, 12:10 p.m.

PROCEEDINGS

(The meeting convened at 12:10 p.m., Secretary Kissinger presiding as Chairman.)

[Omitted here are the Summary of Decisions and discussion unrelated to oil.]

Mr. Casey: The only thing I might bring up: We see the high level oil committee is meeting. They have called a meeting on Wednesday.[2]

Secretary Kissinger: What—the oil?

Mr. Casey: Yes. On Wednesday. To review the current situation.

Secretary Kissinger: What do they want to do—assess us for the emergency share?

Mr. Casey: No. I think nothing was developed there. They want to consider what they call—to activate the Industry Advisory Committee.

Secretary Kissinger: What does that do? I don't know.

Mr. Casey: Well, the Industry Advisory Committee is ad-hoc sharing—quite apart from anything we've been talking about. They operated in the Suez situation. And they had, in the 1967 war, an ad hoc oil-sharing on a European-wide basis.

Secretary Kissinger: Between us and Europe or between Europe and—

Mr. Casey: That conference involves us and Europe. All they have—

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[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 720, Secretary's Staff Meetings 9/73–10/73. Secret. According to an attached list, the following people attended the meeting: Kissinger, Rush, Porter, Tarr, Kubisch, Casey, Weiss, Sisco, Hummel, Pickering, Ross, Springsteen, Lord, and Eagleburger.

[2] The meeting occurred on October 25. Members of the OECD Oil Committee's HLG agreed on the seriousness of the threat to the oil supply from production cuts and an embargo, and on the serious effects on their economies should the situation persist. They also wanted periodic joint reports on the supply situation from major oil companies, rejected a formal convocation of the International Industry Advisory Board (IIAB), and agreed that member countries could approach OPEC members to express their concerns about the unilateral abrogation of the Tehran agreement. (Telegram 27835 from USOECD Paris, October 25; ibid., Central Foreign Policy Files) Telegram 214629 to all OECD capitals, October 31, contains a summary of the meeting of the OECD Oil Committee October 25–26. (Ibid.)

Secretary Kissinger: I just don't want them to vote us into a sharing plan because they've got more votes than we do.

Mr. Casey: Well, everything is unanimous. I have nothing to say about it.

Secretary Kissinger: So what's the point of the meeting?

Mr. Casey: Most of the members got together to assess the current situation—assess the actions in the arms—

Secretary Kissinger: To assess the actions we've taken?

Mr. Casey: No. The Arab states have taken. The companies are meeting in London on Tuesday to try to assess what all this means and—[3]

Secretary Kissinger: Is somebody talking to the companies? They're the biggest menace in the present situation—seriously.

Mr. Casey: Well, they've filed a report.

Secretary Kissinger: Is somebody telling them to stay cool?

Mr. Rush: Yes.

Secretary Kissinger: Now, when you say "the companies are meeting," what can come out of such a meeting?

Mr. Casey: What would come out of such a meeting is their response to the actions that the Arabs have taken—what kind of protests, the price of supplying arrangements.

Secretary Kissinger: Can we give them any guidance?

Mr. Casey: They'll accept I think any guidance we'll give them. I haven't discussed the development in sufficient depth with them.

Secretary Kissinger: Well, I wouldn't trust them with letting them know our strategy.

Mr. Casey: Oh, no; not at all.

Secretary Kissinger: But can we give them some general guidance?

Joe?

Mr. Sisco: Well, I think this is a case where we must give them guidance.

Secretary Kissinger: I agree.

Mr. Sisco: Take the price issue, first of all. This is a price increase from $3 a barrel to a little over $5 a barrel. My own judgment—and I haven't had a chance to talk to Bill [Casey] and so on—is that the oil companies really have no alternative but to really go along with the price hike, basically. And my own judgment politically—in terms of

[3] Tuesday, October 23. It was announced in Kuwait on October 17 that 11 oil producing states would cut production by 5 percent.

our situation—is that we don't want here a confrontation between the oil companies and the Arab producers at this particular junction. And, therefore, I think our guidance ought to be in the direction of accommodation in terms of the oil companies with the producers.

I'm not sure. You know, we have to get very specific in this regard. But this is not a time, in my view, for business as usual—if I can put it that way—and a situation where this is viewed strictly from a technical economic-financial point of view. I think the politics are so intimately related to this that this is the sort of guidance we ought to be giving them.

Mr. Casey: Joe, this is the most scared bunch of guys you ever saw, and that type of guidance is not necessary because this is the way they're thinking.

Now, there are questions that are going to come up. In cutback, nobody knows how it's going to be applied. Nobody knows how it's going to be implemented. How do they handle the cutback that goes back to them as distributed between the Europeans, the United States, and so on?

Secretary Kissinger: Well, we have a letter from the British Prime Minister to the President[4]—who wants to take some considered action—but he hasn't got a clue as to what it should be.

Mr. Casey: It's everybody's posture. Everybody thinks something should be dealt out but there's no general formulation.

Mr. Sisco: Well, I had no doubt that this was the case when I just said what I said, but it just seems to me that it's helpful for us to say this in very calm tones because I know it's their disposition.

And, secondly, I would couple with it their problem. Among other things, Bill, is that they're making too damn much noise publicly about what are very, very serious problems not only from their point of view but from our point of view as well. And I just think that we ought to be saying to them: "We know you're disposed to moving in this direction and in the direction of accommodation, but let's play this quietly and privately in terms of your discussions and let's stay away from the public domain. The trouble is that this nervousness that you're talk-

[4] Heath's undated letter to Nixon outlined his great concern over the oil situation and recommended that the United States, the United Kingdom, the EC, and Japan develop a coordinated approach to negotiations with OPEC nations. (National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–69, Senior Review Group Meetings, SRG Meeting, Energy 10/30/73) In an undated cover letter to Nixon transmitting a draft reply, Kissinger stated that Heath "does not take fully into account the problems posed by the current Arab-Israeli fighting and the need to develop strategy for a longer-range solution to the oil supply problem." (Ibid.)

ing about is being reflected publicly by the oil companies and it's increasing our problems politically. That's the problem."

Mr. Rush: Well, I think we ought to be very careful here. First of all, we're dealing with large oil companies which are not necessarily American. Secondly, you don't want to take on the responsibility of government-to government responsibilities with regard to oil. Much of our strength in the past has been in the fact that this has been dealt with in the private sector. There's no difference whatever as to what we want to do.

Secretary Kissinger: What do we want to do?

Mr. Rush: The oil companies have got to accept this. Secondly, the oil companies—

Secretary Kissinger: Why? Just for my information, why is that true?

Mr. Rush: They may make a pro forma protest.

Secretary Kissinger: All right, but the next year they go to $10. Will they then have to accept that too?

Mr. Rush: Actually, they're in a position, as of now, where their entire maneuver is very, very small.

Secretary Kissinger: Then they go to $20. Is there some point at which they have to resist?

Mr. Rush: Yes. There are economic points at which the oil companies are cutting their troops because alternate sources of supply come in. Coal, for example, at $5—coal becomes cheaper for many, many things than oil—and you're going to have a marked turnup—not overnight. There's going to be a turn toward alternate sources of supply that's going to affect oil.

Secretary Kissinger: I should think the companies have to accept it at this time because of the Middle East crisis and because we don't want to inflame the situation more.

Mr. Rush: I don't think they have much room to maneuver, really.

Secretary Kissinger: On the other hand—well, since we don't have the strategy, since I haven't seen one, it's hard for me to make a judgment. My instinct would be that since the situation is going to get worse, it's better to have a confrontation early.

Mr. Casey: Well, what does a confrontation mean? Nobody in this Government has come up with any way to deal with these demands.

Secretary Kissinger: I could pass it on to other guys from the White House when I was there but now I've got people here that I can assign to it!

(Laughter.)

Mr. Casey: Well, I think the only effective way is to—

Secretary Kissinger: Which is what?

Mr. Casey: —do everything you can to cut back. Use this emergency to—

Secretary Kissinger: That's what we're doing anyway.

Mr. Casey: —subsidize all type of sources of production. I don't think three, four, five years would have any effect. In the meantime, I think it's just to scrapple and wrestle with it.

Mr. Rush: The Government can do it. We can do a great deal with regard to oil shale; with regard to classification of coal, with regard to the use of coal. This sort of thing can make a tremendous impact on the supply and demand picture.

Now, in terms of just a Cold War confrontation, they have the oil, and they have to have the oil; and they say: "We'll sell the oil to you at this price," and they say: "The confrontation means you don't get the oil unless you pay the price."

Secretary Kissinger: And they can hold out longer.

Mr. Rush: That's right. And they can hold out longer.

Secretary Kissinger: That's right. This is what I'd like to analyze. We're not going to get a strategy by next Monday. Therefore, we have to do it by this—but they're certainly going to come back in six months to a year with another rise in prices. And what we have never—I have never—been able to get done from the White House—partly because I never gave it enough time—is to see what should be the relationship between the Government and the companies, what should be the negotiating strategy that the companies follow—vis-à-vis the producing nations.

I've heard a lot of generalities that a grouping of consumer nations is either desirable or undesirable. I've heard both points of view, frankly, in platitudes. I don't know what a grouping of consumer nations would be, but this is something we're in the process of. The more powerful nations in the world are being paired together and we can let them be picked up individually.

Also, we don't know what such a grouping would do, and so we wander along from every issue. When we're 72 hours away from it we're not going to be able to make a rational decision. It could be, after we examine it, we'd still decide we wouldn't do anything except be caught 72 hours to make a decision in a crisis.

Mr. Rush: We have the American oil companies and international oil companies with about 90 percent of the production going not to this country but to Europe and to Japan. Now, the governments of Europe and Japan are also very vitally concerned about it—

Secretary Kissinger: That's right.

Mr. Rush: —because they're getting it through the American oil companies into Germany, into France, into England.

Secretary Kissinger: But here's the Prime Minister of Great Britain writing to the President. We don't know what to tell him. Last week when the French Foreign Minister was here[5]—George [Springsteen] wasn't at that meeting; Stoessel was—he raised the issue, and he said, "What are we going to do with respect to the price, and what principles do we follow?"

I didn't know the answer to either of these questions—

Mr. Rush: Right, right.

Secretary Kissinger: —and I said, "We have to do something" and he didn't know what they were willing to do.

That's not a tenable position for us to have. At least, analytically, we ought to understand what the relationship is between the various governments on this issue and what the relationship is between the governments and the companies.

Now, OECD is going to try to maneuver us into an oil-sharing plan that's favorable to the majority in OECD and hope that our perennial request for unanimity and unwillingness to stand alone is going to make us vote on the basis of unanimity. But who can do such a study quickly?

Win [Lord], you can get involved, but how about the Economic Bureau too?

Mr. Casey: I have a paper that addresses most of these questions.[6] I'd say it's 75 percent finished. And I would say I can probably get it finished by the end of the week.

Secretary Kissinger: Can you do that?

Mr. Casey: Yes; I'll pass it around because the thinking thus far—I couldn't agree with you more—the thinking thus far has been totally inadequate.

Secretary Kissinger: It hasn't got the guts—that's right.

Mr. Rush: See, most of the oil goes to the other countries. And we take the heat for a price increase by telling our oil companies to accept; and then the political heat, worldwide, descends on us.

What these oil companies must do, and what we must take into account—they must consult with the German Government, with the French Government, with the Japanese. I remember, when I was in Ger-

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[5] See Document 211.

[6] Not further identified. Possibly a reference to the paper summarized in footnote 3, Document 221.

many, the German Government was just mad as hell because the gas price went up and they weren't consulted. The oil companies have got to be the consultants with all of these companies [*governments*?].

Secretary Kissinger: Yes. But the oil companies are political idiots—excuse me, Ken [Rush]—

(Laughter.)

—but I've never seen such a group. I'd like to be able to get them in here—say, in three or four weeks.

My experience with the oil companies—which was only two enterprises with Sadat—was entirely tactical, entirely short range, and they they have no understanding of what they're getting themselves into—even at an intermediate period of time—and then they start flapping when things get bad because they have no sense of the framework. They were storming the White House all last week that we were ruining our relations with Saudi Arabia, and the opposite has been true.

Mr. Rush: Yes. I've been seeing delegations of them regularly.

Secretary Kissinger: What I think we ought to do here, in about three or four weeks, when this crisis is over, is to get the leading oil companies in here and tell them our political strategy, so that they have a sense of knowing what we're doing and they can figure out what role they should be playing.

I don't know what it is, but it's ridiculous that these companies have so much power that they can hurt our foreign policy in Europe. But that could also be a positive good that should be operating entirely blindly.

Bill, could you and Win, together with the E Bureau, do a paper on that—say, within the next two weeks?

Mr. Lord: Keep it administrative, at this point?

Mr. Rush: Yes.

Secretary Kissinger: If we can do a good paper here, then we can get it to the NSC.

Mr. Sisco: I think we've got a very good basis, as Ken knows, for an intensive and deep exchange with the oil companies because, you know, they do come in here very frequently. We have kept one another very well informed. I think the posture we've adopted, in a very difficult situation over the last several years of not taking on the onus of whatever deal they include—but, really, trying to give them the general guidance in terms of the political context in which they're operating—is basically a pretty sound approach.

Secretary Kissinger: Yes, but the problem is going to get tougher and tougher—

Mr. Sisco: Sure it is.

Secretary Kissinger: —because we're going to be facing constant demands for rising prices.

Mr. Casey: And they themselves have a fierce public relations problem.

Secretary Kissinger: That's one problem. The other problem is that we will come under increasing pressure from European governments to cooperate with them without knowing what the cooperation consists of. They don't know, but what's worse is I don't know. And maybe cooperation is impossible, but then I'd like to know why. But as it is now, I'm in no position.

Maybe it's my own ignorance, but I haven't heard anybody put forth a coherent view of how governments cooperate and why they should cooperate and what their relations should be with the oil companies.

Mr. Casey: Well, the general thrust of the oil cooperation that one can conceive of is that it's substantially ineffective. That's the general thrust.

Mr. Sisco: We each do our own.

Secretary Kissinger: What does that mean? We should throw our bilateral weight around?

Mr. Casey: Or your economic weight.

Secretary Kissinger: But that means we're going to throw our own weight around, which is the only alternative—which is all right with me, but I just want to know the strategy.

Mr. Casey: We're in a very good position, relatively. We don't have to throw it around.

Secretary Kissinger: In order to protect what we think they need, we can rely on our own economic strength. It's a policy, but we can do it.

Mr. Casey: A great part of our own economic strength is at home, our command over indigenous sources.

Mr. Rush: Until last year, we had an oil import problem, where our big problem was to stimulate domestic production and keep foreign oil out. And that 12 percent came from Venezuela, and Middle East oil was nothing to us.

Now, two things have happened—the oil shortage and environmental considerations, where oil is very much needed; and, secondly, we have the oil shortage—well, this has suddenly come about in the last year and a half—our entire approach has to change. But up until this time it's been Venezuelan oil, but as little as possible.

Secretary Kissinger: But we can't avoid the problem if the President goes to Japan. The one issue on which the Japanese talked like

human beings when they were here last time[7]—forgive my original fan dance—

(Laughter.)

—which cannot be brought to a point—was on energy—on which we, in turn, had nothing to say. If the President goes to Japan, it is guaranteed that the Japanese are going to raise the energy problem.

Now, maybe we have to say no, but I'd like to know why we're going to say no and what it is we can or can not do with them.

Mr. Casey: They can tell us what they want us to do.

Secretary Kissinger: No, no—but that gives us, potentially, a great possibility for leadership—in any event, the leverage—because even if we go bilaterally, we can still, out of that bilateral relationship, develop leverage, because they may still then need us on a case-by-case basis. But the last time we could have sold a hell of a lot to Tanaka for something on energy, except he didn't know what he wanted and we didn't know what we could offer. So it was a weird conversation that you had—one man eager one time. I've seen Japanese eager to move fast and cooperatively and we didn't even know—we literally didn't know what we were rejecting!

(Laughter.)

Mr. Casey: Well, I had that experience, when I was in Tokyo at the GATT meeting,[8] talking to the government people—and with a Tokyo gas company and Tokyo electric—and they talk in terms of wanting to get us in as partners in all these bilateral deals they're making.

Secretary Kissinger: Well, it seems to me even if we go bilateral—which has many advantages, because it means we can operate and don't have to wait for a consensus in an emergency situation, or even in situations where price rises come up—we would have tremendous leverage, which we could apply across the board. And that's what I'd like to get worked out. So could you and Win and the E Bureau get together?

Mr. Casey: Yes.

Secretary Kissinger: And then we could put it into the NSC system and get it implemented.

Mr. Tarr: Well, wouldn't the food be a factor?

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[7] On July 31, Prime Minister Kukuei Tanaka told Nixon and Kissinger that in terms of energy issues, Japan "would positively support international cooperation, centered on the United States." During a longer conversation on August 1 with Nixon, Rogers, and Kissinger, Foreign Minister Ohira stated that "not the slightest difference in view" existed between the United States and Japan, that both countries had agreed to exchange information and engage in joint research and development projects, and looked forward to talks on uranium enrichment and lessening the environmental pollution caused by the use of energy sources. (Both in the National Archives, Nixon Presidential Materials, NSC Files, Box 927, VIP Visits, Japan, PM Tanaka, July 31, 1973)

[8] September 12–14.

Mr. Casey: It doesn't balance. I mean, their food requirements are nothing compared to our fuel requirements. Infinitesimal, in my view.

Secretary Kissinger: It isn't judged by magnitude.

Mr. Casey: Yes, but they can get food elsewhere. I'm pessimistic about this fuel/energy tradeoff.

[Omitted here is discussion unrelated to oil.]

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221. Minutes of Washington Special Actions Group Meeting[1]

Washington, October 19, 1973, 10:04–10:57 a.m.

SUBJECT

Middle East

PARTICIPANTS

Chairman: Henry A. Kissinger

State:
Kenneth Rush
Joseph Sisco

Defense:
William P. Clements, Jr.
Robert C. Hill

JCS:
Adm. Thomas H. Moorer
Vice Adm. John P. Weinel

CIA:
William Colby
Sam Hoskinson

Assistant to the President for Energy Policy:
Gov. John Love
Charles DiBona

NSC Staff:
Gen. Brent Scowcroft
William Quandt
Jeanne W. Davis

SUMMARY OF CONCLUSIONS

It was agreed that:

1) Governor Love, with State, Defense and the NSC Staff, will turn the draft Presidential speech on the oil program into a message to the Congress;

[Omitted here is discussion unrelated to oil.]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–117, Washington Special Action Group, WSAG Minutes (Originals), 10/2/73–7/22/74. Top Secret; Sensitive; Codeword. The meeting occurred in the White House Situation Room. The minutes are printed in full in *Foreign Relations*, 1969–1976, volume XXV, Arab-Israeli Crisis and War, 1973, Document 208.

3) CIA will prepare a paper on the impact of an oil cut-off—where it will start showing up and when;[2]

4) State will prepare a paper today on possible oil talks with the OECD;[3]

5) we will agree to Prime Minister Heath's request for US–UK talks on Middle East oil next week;[4]

[Omitted here is discussion unrelated to oil.]

Secretary Kissinger: (to Gov. Love) Do we have any oil business today?

Gov. Love: I was asked to come to the meeting. I would like to say that I consider the Arab oil moves relatively moderate. We need to do these things we're proposing anyway. It's just a matter of timing, but I don't believe it is the right time yet.

Secretary Kissinger: We'll go with the program as soon as a ceasefire is concluded. What do you all think?

Mr. Clements: I agree.

Secretary Kissinger: Let's aim for the end of next week.[5]

Mr. Sisco: If you think we will get a ceasefire within the week, then the end of next week would be fine. If we conclude that the fighting will be much more protracted, we might consider going with the oil program before next Friday.[6] If we get a ceasefire by next week, that will help ease the Saudi position.

Gov. Love: Even after a ceasefire, if the negotiations are protracted, the Arab use of oil as a pressure point may continue or increase.

Mr. Sisco: That argues for the timing Henry (Kissinger) suggests. It would help deflate the pressure.

Secretary Kissinger: There will either be a ceasefire, in which case we want to be ready for the post-ceasefire period, or there won't be a ceasefire and we will need it for our diplomacy.

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[2] Document 223.

[3] Knubel summarized the State Department paper in a memorandum to Kissinger, October 19. Knubel noted that "the simple arithmetic of emergency allocation is that we are net contributors to any sharing arrangements under a general boycott because the United States is less dependent on Middle East oil than either Europe or Japan." Knubel stated that "U.S. willingness to join in an emergency oil allocation arrangement would be the primary issue at the emergency OECD" scheduled for October 24. (National Archives, Nixon Presidential Materials, NSC Files, Box 251, Agency Files, National Energy Office, Vol. III) The OECD Oil Committee meeting occurred October 25–26; see footnote 2, Document 220.

[4] Nixon informed Heath on October 19 that U.K. representatives should meet with William Casey in Washington. (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 5, Chronological File A, October 16–20, 1973) The meeting occurred on November 5; see footnote 3, Document 235.

[5] Approximately October 25 or 26.

[6] October 26.

Gen. Love: I'm going to Canada on Tuesday[7] to talk to them.

Secretary Kissinger: Once we have a program ready for Presidential announcement, how do we trigger it? Can we do it as a message to Congress if the President doesn't want to make a speech?

Mr. Sisco: A message would be better than a speech. It obviously involves Congressional action.

Secretary Kissinger: Have we at State gone over the speech?

Mr. Sisco: In draft.

Mr. Colby: The immediate impact of the cut-back will not be very large. But the longer term impact will be greater and will place a greater degree of power in Arab hands down over the years. It will only affect 1% of US consumption.

Mr. DiBona: It depends on whether the Europeans cut back their exports to us. If they do, it will mean 3–4% of the US consumption, but only 1–2% if you're just talking about Arab shipments.

Secretary Kissinger: At what point will it affect the Europeans?

Gov. Love: It already has. They're 1–2 million barrels per day down to the Europeans already.

Mr. Clements: They're off 12–14%.

Mr. Colby: European consumption is 15 million barrels a day, 11 million of which comes from the Arabs. That's 72%. They have already chewed into that by the 2 million barrel a day cut.

Gov. Love: If there are further European export controls, we will have less import and our shortfall will be even greater than already anticipated.

Mr. DiBona: The Italians and Spaniards have already cut back exports. But I have talked to some European Community people and, as long as the EC doesn't act, they think they can move around it.

Mr. Sisco: I think the Secretary needs a paper which will analyze in depth the impact and implications of our moving with the oil program quickly. Both the practical impact and the effect on our diplomacy. Also, the impact of waiting to move with the program, both as to the time lag and the effect on the diplomacy.

Gov. Love: It's just a matter of good policy to use the crisis to do what we have to do domestically anyhow.

Secretary Kissinger: We have to do it. The only question is timing.

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[7] A U.S. delegation led by Love met with a Canadian delegation led by MacDonald October 23 in Ottawa. The October 23 memorandum of conversation is in the National Archives, RG 59, Central Files 1970–73, PET 12–3 US. For a discussion of the meeting, see Documents 222 and 226.

Mr. Sisco: It should be a message to the Congress so as to get the thing as far down the line as possible.

Mr. Clements: Regardless of timing, it can only help the negotiating track. These are *must* steps—it's just a question of how soon. The problem will only get worse.

Secretary Kissinger: John (Love), could you, working with Bill Clements and State, turn your draft Presidential speech into a message to the Congress over the weekend? We may want to go with it early next week.

Gov. Love: Yes.

Secretary Kissinger: Get State and the NSC Staff involved. You've done a great job.

(Governor Love and Mr. DiBona left the meeting.)

[Omitted here is discussion unrelated to oil.]

Secretary Kissinger: Let's go back to oil. Could CIA give me a paper on the impact of a cut-off—when it will start showing up and where.

Mr. Rush: How much storage do they have?

Mr. Colby: The Europeans have about 60 days.

Mr. Rush: I mean the Arab states. They'll still be shipping out of their storage.

Mr. Colby: We're talking about actual tanker movements.

Mr. Clements: This is an extremely complicated picture. You can't reach quick judgments. The Europeans are already affected. That two million barrels a day curtailed out of the Eastern Mediterranean is a European supply factor. They have already started conserving their oil. The effect will be almost immediate. When one end cuts off production or shipments, the other end starts conserving its supply.

Secretary Kissinger: I want to know what the situation is. I want a judgment as to when the pressure will start building up on us. When are the Europeans going to come screaming to us?

Mr. Colby: They have already cut their exports.

Secretary Kissinger: I have no preconceived idea about this. But we need a forecast—a range of how and when it will happen. Bill (Clements), would you help CIA on this?

Mr. Clements: I'll talk with Bill Colby. It's already started.

Mr. Sisco: My visceral reaction is that we may want to go with Governor Love's oil program on Monday or Tuesday.[8]

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[8] October 22 and 23.

Secretary Kissinger: I haven't read the draft statement yet. Someone in State and Bill Quandt look at it and give me a one-page analysis. (to Scowcroft) Get our Program Analysis people on it, too.

Mr. Clements: When you read in the papers that the major oil companies are advising their clients that there will be a shortage, they are talking about refined products from Europe.

Mr. Rush: The Europeans will start conserving anyway.

Adm. Moorer: The pipelines into the Eastern Mediterranean at Sidon and Latakia are practically stopped.

Mr. Clements: That's where the loss is, but it's a damned tough message to get across.

Secretary Kissinger: I want some estimate of what this does to the Europeans. (to Rush) Also, I understand (Under Secretary of State) Casey is going to the OECD. He can't fly blind. Any talk about sharing will come out with something of maximum benefit to the Europeans. We want something of maximum benefit to the US.

Mr. Rush: Casey may not go to the meeting; we're thinking of sending someone else.

Secretary Kissinger: Whoever it is, we have to know what he will say. Let's get a paper today on what he thinks he will be doing.

Mr. Clements: Sharing only goes from us to them.

Secretary Kissinger: As long as they are screwing us in the Middle East, we shouldn't go around financing them. Also, (British Prime Minister) Heath wants some US–UK talks on Middle East oil. He wants to send someone over this week. We'd better let him do it. Who would talk to them?

Mr. Rush: Bill Casey and I.

Secretary Kissinger: Good; but we have to know what we're saying.

222. Minutes of the Secretary of State's Staff Meeting[1]

Washington, October 19, 1973, 12:35 p.m.

[Omitted here are the Summary of Decisions and discussion unrelated to oil.]

Secretary Kissinger: Bill.

Mr. Casey: There is an energy consultation with the Canadians on Tuesday, and I plan to go up with John Love.[2]

Secretary Kissinger: Can we know what is going to be discussed?

Mr. Casey: The whole range of the energy questions between the two countries—the Alaska pipeline bill.

Secretary Kissinger: But to what end? I am assuming you will discuss energy. But what are we trying to accomplish?

Mr. Casey: Well, we are going to express our displeasure about their policy on energy—export restrictions.

Secretary Kissinger: What are we trying to get them to do?

Mr. Casey: There is no specific action that I know of that we want to get. The last consultation we had with them focused on an emergency arrangement under which we supply oil to their eastern provinces, and they would compensate us by sending stuff down to the mid-west.[3] That broke down. We have had no success at all in any kind of energy discussions with them. Their energy ministry takes a tough anti-American line.

The significant thing about this meeting is that it has been broadened. And they suggested the meeting. We suggested a broader meeting.

Secretary Kissinger: I am for the meeting. I have a sort of a horror of palavers for their own sake. When one consults, I am assuming we know what we want. Otherwise, it is just sort of a little tea party.

Mr. Casey: We want them to get on board with us on this oil-sharing deal. We have the same interest and the same reluctance they have. We want them to be singing the same tune as we sing in the OECD. We want to examine with them what adjustment might be desirable from the standpoint of shifting supplies—if their western

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[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 720, Secretary's Staff Meetings 9/73–10/73. Secret. According to an attached list, the following people attended the meeting: Kissinger, Rush, Porter, Tarr, Bowdler, Casey, Sisco, Hummel, Newsom, Springsteen, Pickering, and Lord.

[2] See footnote 7, Document 221.

[3] See Document 168.

provinces are cut off, what kind of emergency collaboration we can work out with them. We want to see what we can do to stimulate their production.

Secretary Kissinger: Do we know what we would consider desirable?

Mr. Casey: I know certain things that I consider desirable.

Secretary Kissinger: You know, the problem is nobody seems to know what to do in the energy field.

Mr. Casey: That is right. The first step in knowing what to do is to examine what other people think they can do, too. And see whether there is anything we can do together.

Secretary Kissinger: Chip Bohlen said to me once, "If you don't know where you are going, any road will get you there."

Mr. Casey: It isn't that bad, Henry. We really ought to see what we can do in the Athabaska tar sands. Here is a resource as big as the Middle East. We have some American companies up there. This is probably the most economic source of supplementary energy. The Canadians want our capital. We ought to be intensifying an effort to do something beyond what is going on now in the tar sands. And there is an agenda, and it covers the whole range of common interest in energy. The Alaska pipeline bill mandates us to start talking to them about a Mackenzie Valley oil pipeline. We will begin that on Tuesday.[4]

Secretary Kissinger: I am for the consultation. What are we doing at the OECD meeting?[5]

Mr. Casey: At the OECD meeting, we are listening.

Secretary Kissinger: Okay.

Mr. Casey: There are no proposals.

Mr. Rush: You will get a paper on it today.[6]

Mr. Casey: The other thing in energy—Senator Jackson is holding an executive committee hearing on Wednesday. It is a panel kind of thing. He would like you to attend. I don't think you want to attend.

Secretary Kissinger: I have no intention of attending. I will be in China—Japan—somewhere.

Mr. Casey: Well, he has come up with this National Emergency Petroleum Act, which is pretty much based on the Treasury's contingency plans.[7] He just took all the ideas and threw them into a bill in about three days. He wants reactions to that. He wants to know about

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[4] October 23.

[5] See footnote 2, Document 220.

[6] See footnote 3, Document 221.

[7] Presumably a reference to the October 14 memorandum from Love; see footnote 2, Document 214.

the Administration's contingency plans. He wants an updating on what is happening in oil in the Middle East.

Secretary Kissinger: But can you do it, or Ken and you?

Mr. Rush: Yes.

Secretary Kissinger: You will be back from Canada.

Mr. Casey: Yes.

Secretary Kissinger: Between you two. I certainly will not do it—even if I put off my departure for China.

[Omitted here is discussion unrelated to oil.]

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223. Memorandum Prepared in the Office of Economic Research, Central Intelligence Agency[1]

Washington, October 19, 1973.

A. The Oil Weapon and Its Effects

On 17 October the Organization of Arab Petroleum Exporting Countries (OAPEC) decided to cut oil production.

—Production will be reduced by not less than 5% a month until an Israeli withdrawal from occupied territories is completed and the "legal rights" of the Palestinians are restored;

—The Arab countries also promised to maintain oil deliveries to "friendly" countries that give Arabs "effective material help"; and

—Threatened a total embargo of countries that used their armed forces to aid Israel.

Many parts of the statement were left deliberately vague in order to allow each Arab country a degree of freedom to act according to its own best interests. This ambiguity—similar to that of OPEC decisions in the past—is intended to give the OAPEC agreement greater durability by giving each country greater flexibility. All of the states are obliged to cut production by 5% a month, but the way is open for some

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[1] Source: Central Intelligence Agency, Office of Economic Research, Job 80–T01315A, Box 36. Secret. An October 19 covering memorandum for the record states that the memorandum was prepared October 19 for the WSAG meeting that evening and that Kissinger had requested it for a briefing of the President. An updated itemization of developments, resulting from memoranda of conversation between oil executives and representatives of the Departments of State, Treasury, Interior, Justice, and Defense, the Energy Policy Office, the NSC, and the CIA, is in an October 22 memorandum of conversation. (National Archives, RG 59, Central Files 1970–73, PET 17–1 US)

to make larger cuts. The Arabs did not define those "friendly" countries that will continue to receive normal imports from the Arab World. They probably will cut back shipments to neutral states such as the United Kingdom and Japan and may cut back shipments to such states as France and Italy that are "tilting" their neutrality toward the Arabs. In any event, the final interpretation of the definition is left to the individual producing country.

At least in the first months, the Arab monthly production cutback will probably be between 5% and 10%, but closer to the 5% rate. Saudi Arabia has reportedly already cut current production by 10%. Some other countries—such as Iraq, which is unable to export most of its production because of the closure of eastern Mediterranean ports—may make a virtue of necessity and make very large initial cuts. An all-Arab cutback of between 5% and 10% would represent a loss of between one million and two million barrels per day (b/d).

Several countries, including Libya, Abu Dhabi, Kuwait, and Saudi Arabia, have either announced or threatened a total embargo against the United States. However, the United States receives only about 1.6 million b/d of Arab oil (including products refined in Europe and the Caribbean). Thus, even if the embargo were effective, the effect on the United States would be relatively small, and, after the first month, the brunt of the cutback would fall on Europe and Japan. Moreover, the US companies that produce most Middle East oil might be able to shift supplies among themselves to avoid the embargo. The companies would, of course, hesitate to do this for fear of jeopardizing their relations with the producing countries as well as with Western Europe and Japan.

It seems inevitable that Western Europe and Japan will bear the brunt of the progressive cutbacks. Western Europe is dependent on Arab oil for 70% of its consumption, and Japan depends on the Arabs for 40% of its supply. The producer states recognize that it is "unjust" to punish Europe and Japan more severely than the United States, but see no other alternative. The Saudis have informed representatives of the major West European nations that they will be expected to pressure the United States. They have also suggested to the Japanese that they make a statement before the UN General Assembly to the effect that Japan desires an early settlement to the war and that it supports the Arab position.

From the point of view of United States vulnerability, it is perhaps fortunate that this particular crisis occurred now rather than a few years hence. It had been predicted that we would be importing nearly 5 million barrels per day of Arab oil or 21%–22% of our consumption by 1980. With this level of exports an Arab cutoff would severely affect our economy. Even now there are domestic as well as foreign pressures for policy changes as a result of the current cutoff. In any event, the

rapid increase in the price of imported oil should dampen our consumption and make other domestic energy sources more attractive, for example oil from Colorado shales and coal gasification.

Although the West European countries are attempting to form a common position regarding the oil cutback, divisive tendencies may prove too strong. Joint contingency plans exist, but, because of the different countries' different views of their own advantage, the plans may not be used efectively. Individual countries also have developed plans for dealing with a crisis on a national basis. Some reportedly are updating rationing systems worked out during earlier crises and have stocks of rationing books ready for distribution. At the same time, a few European countries, notably France, still entertain hopes that the Arab oil production cutback will not apply to them.

The immediate impact from war damage and production cutbacks will vary considerably among EC members. The shutdown of three eastern Mediterranean pipelines already has dropped Italy's oil imports by some 24% and France's by 14%, while affecting other members' imports only moderately or not at all. Because of the large difference in shipping distances, those nations such as West Germany that depend most heavily on North African oil will feel the pinch of a production cutback much sooner than those such as the Benelux countries that depend on Persian Gulf supplies (see the table). Italy already has imposed an embargo on refined oil exports outside the EC—a move detrimental to US supplies that may be emulated by other Community members if the supply situation worsens.

Over the next few months, the impact of reduced oil imports will be partly mitigated by reserve stocks maintained by the EC nations. All have about a two-month supply on hand, and France reportedly has a 90-day reserve. Arab oil, however, accounts for between 63% and 78% of EC members' oil imports and a similar share of their total consumption. As a result, a 5%–10% cumulative monthly reduction in production by the Arab states, together with already interrupted pipeline deliveries, would soon force EC nations to draw heavily on reserve stocks. If current consumption levels were maintained, these reserves might be depleted within six months, and total available supplies could be reduced to one-half of normal. Conservation measures could delay the depletion of reserves by at most another few months.

[Omitted here are a table on EC dependence on Arab oil and material on the effects of a 5 percent cutback, including 5 graphs.]

B. The Impact of Increased Oil Prices

The increase in oil prices will be felt primarily in the United States, Japan, and Western Europe. The oil import bills of the United States and Japan will each increase by about $3 billion, while the additional

cost to Western Europe will approach $8 billion. This assumes that deliveries from the Gulf will continue as scheduled prior to the announcement of production limitations.

—The oil price rise will turn an expected $1 billion or so 1974 US trade surplus into a roughly $2 billion deficit

—The Canadian trade balance will be virtually unaffected because Canadian oil imports are roughly equal to exports

—Japan, which imports about 43% of its oil from the Arab countries, will have a 1974 surplus of about $3 billion, compared with a previous estimate of $6 billion.

—The West Germans will pay an additional cost of about $1.8 billion—the highest in Europe—but they will feel the least hardship because their 1974 trade surplus will be on the order of $8 billion.

—Petroleum imports will push the UK trade deficit from about $3.5 billion to almost $5 billion.

—The OPEC action will add $1.5 billion to the oil import bill of both France and Italy. The price increases will reduce the French surplus to near zero. Italy's small deficit in 1973 was expected to narrow further but should now be in the $1.5 billion–$2 billion range.

Some of the impact of higher oil prices in the consuming countries will be offset by greater repatriation of oil company profits and larger exports to the producers, generated by their greater export income. Only part of the worldwide producer revenue increases of $15 billion will be spent, however. The 1974 oil revenues of Saudi Arabia, Abu Dhabi, Qatar, and Kuwait will approach the amounts recently estimated for 1980. These countries have only limited absorptive capacities.

Although the trade balances of the oil importers will deteriorate sharply, the impact on their domestic economies will probably be slight. Oil imports do not compete with domestic production so there should be no initial offsetting loss in jobs. The consuming countries' nonpetroleum trade and production will essentially be the same as before the oil price increase. Moreover, the sharp rise in crude oil prices should not significantly increase the price of finished goods.

The use to which the oil producers put their reserves could have an appreciable impact on the international exchange rate system and, through the exchange system, ultimately on the volume of exports and imports. If, for example, the producers decide to hold most of their increased receipts in dollars, the dollar will strengthen in exchange markets. A dollar appreciation means more expensive—and therefore reduced—US exports. In effect, the oil producers will be converting their trade surpluses with other consumers into trade surpluses with the United States; or, in another view, the US trade account with Japan, Canada, and Western Europe will deteriorate by the amount of the increase in their oil import bills.

As the oil producers' reserves increase, their threat to exchange markets will also increase. The Arab oil states already have enough

liquid foreign assets—around $5–$7 billion—to temporarily disrupt currency markets. Although there is no evidence of any substantial dollar sales during the current crisis, and an attack on the dollar would result in the depreciation of the Arabs' own reserve holding, it is not inconceivable that—if the political and military situation becomes increasingly unacceptable to them—the Arab leadership would move against the dollar. On Thursday,[2] Libya publicly called for concerted Arab dollar sales and withdrawal of deposits from US banks.

C. Foreign Reaction

Western Europe

There is very little the West Europeans can do in the near term to get their oil deliveries back to strength. They will, of course, continue to distance themselves from Washington's present Middle Eastern policy—in speeches, in UN votes, and in the denial of overflight and refueling rights for US military aircraft. But no European leader expects such behavior to cause Washington to rethink its position or entirely to save Europe from the effects of the oil embargo. Indeed, the West Europeans probably are overly conscious of their impotence to influence the present situation; they are more inclined to "keep their heads low" in the hope of warding off still greater threats to their energy supply.

At the moment, the West Europeans are eager to discuss oil problems with the United States, hoping naturally that the United States will agree to share supplies (and shortages). But if such agreements are not forthcoming from Washington—and if oil shortages begin to bite severely—the Europeans would try at least to keep all the oil they can get for themselves by reducing or eliminating their exports of refined oil to the United States. In such a scramble, they would be more likely to act unilaterally than on a joint European-wide basis.

There is some inconsistency between the European desire to minimize association with US political policy in the Middle East crisis and European awareness that some form of cooperation arrangement for coping with oil shortage must necessarily involve US-European conversation. This inconsistency is both real and apparent. The Europeans will try to resolve it insofar as they can, by working for quiet talks within OECD forum on oil matters, while avoiding political initiatives unless and until the time seems ripe for a mediation role that would not alienate the Arabs.

Over the longer run, the present experience will further encourage the West Europeans to decrease their reliance on the major oil

[2] October 18.

companies and to develop instead their own arrangements with oil producing governments. They would focus on offers of government-to-government agreements that would involve European technical assistance in return for supply commitments, and possibly trade preferences for oil producing states. An obvious side effect of such a policy would be lessened European willingness to join in consumer cooperation schemes on terms favorable to the United States or—depending on US-Arab relations in the postwar world—be associated with the United States in oil cooperation schemes on any terms at all.

Japan

The Japanese have always sought to avoid taking sides in contentious situations involving Middle East oil. In the last year, the Japanese have refused to join an oil consumers organization, for fear of antagonizing the oil producers in OPEC. There has been an ongoing debate in Japan for some time over the merits of multilateral versus go it alone approaches to assuring oil supplies.

Japan's policy in regard to the present petroleum supply situation rests almost entirely on the hope that the current Middle East crisis can be defused before severe sanctions are enacted by the Arabs. Tokyo is being urged by the Arab states, with Saudi Arabia taking the lead, to issue an official statement supporting the Arab position in the current conflict. The Arabs have avoided accompanying such requests with threats of a serious disruption in the flow of oil to Japan. Nevertheless, the implied threat of economic blackmail has not been lost on the Japanese. The Japanese are extremely reluctant to abandon their neutral position on the Middle East primarily because of the serious impact such a step would have on relations with the United States, in particular with regard to existing plans for bilateral cooperation in the field of energy-petroleum sharing. Foreign Minister Ohira, on 19 October, sought to sidestep an Arab request for direct political support when he told a group of Arab envoys that Japan favors settlement through the United Nations and noted that Japan supported the 1967 Security Council resolution calling for Israeli withdrawal from occupied Arab territory.

Tokyo's political tightrope walk will have difficulty surviving an indefinite prolongation or heightening of Arab pressure. If backed to the wall by credible Arab threats of a cut off of oil, the Japanese will probably give in. As a contingency measure, the Japanese Government is already studying drafts of a statement supporting the Arab position that could be used in such a forum as the UN General Assembly. But Japan would first make a last ditch effort to secure assistance from the United States in the form of diversion of some US oil supplies to Japanese needs.

[Omitted here is an Annex of Selected Tables.]

224. Message From Prince Fahd of Saudi Arabia to the President's Assistant for National Security Affairs (Kissinger)[1]

Jidda, October 23, 1973.

[Omitted here is information unrelated to oil policy.] Prince Fahd's oral message follows.[2]

2. "As I see the situation at this moment, the United States and Saudi Arabia share four clear-cut objectives:

A. Stop the fighting as soon as possible;
B. Achieve through negotiation a just long-term solution that will bring permanent peace to the area;
C. Accomplish the above in a manner whereby the Soviet Union achieves the absolute minimum of advantage;
D. Create conditions in which Arab confidence in the United States is restored sufficiently to enable a prompt return of its oil production and removal of the embargo on oil for the United States.

"In the period following the end of hostilities, when the political phase begins, Saudi Arabia will enjoy very considerable influence within the Arab community because of its position of primacy where oil is concerned, and because of the widely recognized importance to the industrialized nations of a prompt return to normal patterns of production and distribution. Saudi Arabia is more than anxious to use this influence in positive and helpful ways to help bring about an immediate ceasefire by all combatants, first of all, and then in the construction of a viable post-war settlement. However, I feel that I can tell you very frankly and in confidence, in the spirit of friendship which we share, that my Government is going to be most hesitant and even reluctant to use its influence until and unless we are convinced that the intentions of the United States and the Soviet Union in their joint initiative[3] is truly to implement Security Council Resolution 242 "in all its parts." We know that the Israelis have their own interpretation of Security Council Resolution 242 that would be far from acceptance to ourselves and to the other Arabs. Can you advise me of exactly how

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973. Secret; Sensitive.

[2] Prince Fahd's message was without the approval or specific knowledge of King Faisal. Telegram 4672 from Jidda, October 23, related a conversation between the President of ARAMCO and Yamani and contains similar information. (Ibid., Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV)

[3] Reference is to the joint U.S.-Soviet proposal for a cease-fire that was the basis for UN Security Council Resolution 338.

the United States and the Soviet Union have presently agreed to interpret the phrase "in all its parts?" Until we can be confident that the United States and the Soviet Union truly intend jointly to uphold the inadmissability of the acquisition of territory by force, we lack the means by which to persuade our friends that acceptance and immediate implementation of the present resolution is in the Arab interests.

"Again as a friend, I feel it is important that the United States realize two additional very important things about Saudi Arabia's position:

A. The embargo on oil for the United States will continue in force as long as Israel occupies Arab territory beyond its borders as they existed before the June 1967 war.[4]

B. King Faysal will be very hard to please on the question of Jerusalem. His inclination to help actively in the present situation will depend in large measure on the attitude of the United States regarding Jerusalem. It would be helpful to receive clear reaffirmation as soon as possible of the historic position of the United States on this issue."

[*3 lines not declassified*]

[4] On October 20 in Amman, Saudi Arabia announced that it would stop all oil exports to the United States, following Libya's October 19 announcement that it would cut off exports of all crude oil and petroleum products to the United States.

225. Minutes of the Secretary of State's Staff Meeting[1]

Washington, October 23, 1973, 4:35 p.m.

[Omitted here are the Summary of Decisions and discussion unrelated to oil.]

Mr. Newsom: Mr. Secretary, do you have any thoughts at the moment on what we do about the Arab oil boycott? My own feeling is that here is a very good chance to show them that there is a common interest—

Secretary Kissinger: We will break it. We will not provide auspices for the negotiations until they end it.

Mr. Newsom: I think the question of their reliability as suppliers can also be emphasized to them.

[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 720, Secretary's Staff Meetings, 9/73–10/73. Secret. There was no list of attendees.

Secretary Kissinger: We will not participate in any joint auspices until the oil boycott ends.

Mr. Newsom: Is this being made clear?

Secretary Kissinger: It will be. It has not been made clear yet. We want to get the war ended first. I don't think they will go through with it, not under these conditions. It may come back next year. And also we will start an emergency oil program in this country which is more symbolic than substantive.

Any other questions?

Good. Thank you.

(Whereupon at 5:00 p.m. the meeting was ended.)

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226. Minutes of the Secretary of State's Staff Meeting[1]

Washington, October 24, 1973, 5:10 p.m.

[Omitted here are Summary of Decisions and material unrelated to oil.]

[Mr. Rush:] Ken Jamieson called me again yesterday on the oil problem—

Secretary Kissinger: That was a disaster.

Mr. Rush: —saying, in essence, that it would cost us about a million 89 hundred barrels a day—ten percent of our oil supply.

Secretary Kissinger: What's his solution?

Mr. Rush: They don't have a solution, but they were thinking about his going along with some of the top men in the oil companies, and I've discouraged this.

Secretary Kissinger: It's too early.

Mr. Rush: I said it's too early. Faisal had turned him down.

Secretary Kissinger: It is too early here. He has no card. Let's wait until the scenario unfolds.

Mr. Rush: That's what I told him. So he agreed to wait and consult with us before he moved.

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[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 720, Secretary's Staff Meetings, 9/73–10/73. Secret. According to an attached list, the following people attended the meeting: Kissinger, Rush, Kubisch, Casey, Hummel, Pickering, Ross, Springsteen, Lord, Eagleburger, McCloskey, and Atherton.

He then said that the oil people want to put in a very urgent appeal for a coordinated oil program of the United States.

Secretary Kissinger: Well, why don't we get Ken Jamieson—particularly this genius from Aramco, Jungers—whatever his name is—and five or six others in here—Tuesday or Wednesday[2] for a meeting.

Mr. Rush: O.K.

Secretary Kissinger: Get Clements too.

[Omitted here is discussion unrelated to oil.]

[Mr. Casey:] Canada—I met with the Energy Minister and Minister of Foreign—External Affairs—and the Canadians in general behaved like the "Arabs of the North" in the Western Hemisphere. They have imposed an excise tax on the exports so it wouldn't go to the producer; it would go to the company.

They are planning to do the same thing on gas. We took a dim view, said it was a bad precedent; but there isn't a helluva lot we can do but pay it, in the short term.

Fundamentally, they talk about their plans. The Canadians can't develop their resource without access to our capital. At the same time, they're unprepared to make any kind of commitment with respect to supply prices, so we went around this extensively.

Their immediate problem is that they face acute shortages in the Atlantic provinces, which would be cut off from the Middle East crude. We won't be able to feed the refineries.

They're planning a pipeline at Montreal to cure this exposure. That will take six months to do. But it's a clear threat to our Middle East–Middle Western refineries. The oil that's now going down our Middle Western refineries will ultimately go down the pipeline.

Now, the Mackenzie Valley situation—they want to build a 7 billion dollar pipeline to get there for our Alaska gas and their Arctic gas, and they need our Alaska gas and our market to do that. If we go ahead with authorizing an application that's been made for a gas pipeline to Alaska with LNG ships down to California, they won't be able to float their Mackenzie Valley pipeline. So you have that kind of interrelationship between the thing we might do and the thing they might do.

You have the same kind of situation in British Columbia. You have the same kind of situation with the refinery they want to build in the St. Lawrence. They need access to the New York market to justify it.

We went over all these interrelationships; everything got laid on the table this first time and we agreed that we ought to do it more

[2] October 30 or 31.

frequently—there ought to be continuing discussions or continuing consultations between their level—at the Energy Ministry and the External Affairs Ministry—and we agreed to set up two working groups to function immediately and see what could be done on switching supplies, as between the Atlantic provinces and Alberta fields and the Middle West to deal with the immediate emergency. They can probably increase their production in Alberta by 150 million barrels a day. We think we can probably come out ahead on the exchange.

Secretary Kissinger: Bill, my problem with all of this is I cannot get into my head what we're trying to accomplish; and any time an oil problem comes up anywhere in the world, people tell me a billion barrels—or whatever the figures are—and I'm never clear what it is we're after—what it is in our interest to achieve.

I know what they want, and I can figure out roughly what we ought to want. But what I'm trying to develop is some oil strategy which is comprehensive. I can't ask you to do it in a three-day period.

Mr. Casey: That's been worked on for a long time, and there's an exercise going on now.

Secretary Kissinger: I mean, if they behaved like "Arabs of the North," what can we do to get them to behave like allies?

Mr. Casey: I think that the first strategic requirement in relationship with Canada is to increase supply generally and reduce our dependency on them.

Now, they are allergic, politically. They find it impossible to accept the concept of a unified or a continental oil strategy. They're willing to exchange information, so we know what each other is doing and can directly assess the risks and the opportunities that we each have.

Secretary Kissinger: Yes. But if they're trying to foul up everybody, they're trying to foul up everything else and then giving information only enables them to do it more effectively.

Mr. Casey: Everybody is trying to pursue their own interest.

Secretary Kissinger: That's a more elegant way of saying it.

Mr. Casey: I think they're trying to do it in a way that we can patiently pursue our own interests to mutual advantage. I mean, there are ways here.

Secretary Kissinger: But what are they?

Mr. Casey: They arise on an issue-by-issue basis, on a project-by-project basis. We should be getting involved in the capital flow necessary to develop their great resource, and we should be getting some assurance that oil will flow to us over a long term.

Now, they're reluctant to do that. I'm satisfied we can't do it.

Secretary Kissinger: If I'm going to see the oil company executives next week, I want to know what I have to accomplish.

Are you working on this?

Mr. Lord: There's a paper we're doing under Mr. Casey—he and my staff[3]—and we'll have to shorten the deadline on that to get it to you before the meeting.

Secretary Kissinger: Yes. I want to get the basic strategy set in my mind. Then I can understand what these individual decisions mean.

I have no quarrel with anything you're saying, Bill. Frankly, I don't understand it. That's my problem. I've never understood the oil business, and it's one of these things. In 1969, when this Administration came in, I saw an elegant report demonstrating that we should reduce imports as much as possible,[4] which was the last lesson I had in the oil business. So I am in gross need of re-education.

But in dealing, you know, with the Arabs, it's easy. What we want is more of the oil.

But with the Europeans—you know, I had a talk with Home at the airport, the other day, in London, and he's crying bitterly about the pressures he's under; and I don't know.

Mr. Casey: Well, when you analyze it, go through all the possible strategies, one thing you can do is increase the supply. The other is moderate the demand. But there are a lot of ways you can do it.

Secretary Kissinger: Yes, but what are these countries that are trying to squeeze you?

Mr. Casey: You get yourself in a position so that they can't squeeze you. That's why this bill[5] is important. That's why you won't be able to cut back the consumption.

Secretary Kissinger: I'm strongly in support of that bill. You want to get into a position where you can squeeze them back on something they need.

Mr. Casey: Yes. I was unsuccessful in finding them. That doesn't mean they're not there.

Secretary Kissinger: They don't exist, you say?

Mr. Casey: No; I don't say that.

Secretary Kissinger: I don't know.

Mr. Casey: You know, we talked about can we offset the price in oil by the equivalent price by Fuji.[6]

Secretary Kissinger: There's nothing we can do to Canada that they want?

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[3] Not further identified.

[4] See Document 32.

[5] The National Emergency Petroleum Act, introduced by Senator Henry Jackson (D–Washington) on October 18, 1973.

[6] A question mark on the original indicates this is a transcription error.

Mr. Casey: The important thing you can do with Canada would be to take away the exemption under the Interest Equalization Tax and cut off the flow of capital to Canada. That's the thing they need most from us. They need our market; they need our capital.

Secretary Kissinger: This may not be the cause for which to do it, but it would be useful to know what our pressure points are.

Mr. Casey: Well, the pressure points are not giving them access to our market. As I said, they can't develop their resources, which they're very anxious to develop, without our capital and access to our market.

Now, if we want to cut those things off, we can exercise a lot of leverage over them. But everybody has been afraid to do it—afraid to talk about it.

Secretary Kissinger: Why?

Mr. Casey: Afraid. You bring the government down there and all kinds of horrendous things will happen.

Secretary Kissinger: I think we've become too dangerous to play with. And if everyone around the world knows you cannot tackle the United States, people will stop trying to tackle us.

Now, if the price to tackle us would be for them to run clacking after us, then it's a good way to solidify it.

Now, I don't know what the pressures are, and the first few times people do it there will be an unholy uproar. After a while, people are going to be more careful.

Now, I'm not saying this is the cause to do it.

Mr. Casey: No; I understand.

Secretary Kissinger: I don't know if we've got that much of an investment in Trudeau that we can't bring him down.

Mr. Casey: I personally don't think so.

Mr. Rush: You don't have any.

Mr. Casey: I think the real concern here is—

Secretary Kissinger: And if he falls, I think his successor is going to pursue—what do you think, George? Is he in your area?

Mr. Springsteen: Yes. I got them all!

(Laughter.)

Secretary Kissinger: Sisco has all of them—as much as anyone.

Mr. Springsteen: I would say Stanfield[7] would come in, and Stanfield is a hardheaded businessman. He characterizes the underwear salesman, which is what Stanley produces, and I think you can do busi-

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[7] Robert L. Stanfield, Leader of the Progressive Conservative Party of Canada. His family owned the company, Stanfield Underwear.

ness with him on the grounds you are talking about. In other words, I don't think we can be any worse off with him than with the Trudeau Government.

Secretary Kissinger: We should not use our power arbitrarily, and it should be for a sufficient cause, but I really think it ought to be our basic policy that tackling the United States is not free and if you want to gain domestic points by tackling the United States you are running a hell of a risk.

Mr. Springsteen: Here again, Mr. Secretary, I think as far as their energy development is concerned about Canadian West, that is part of American oil investment, so if we had a program—as you said here—if you had a foreign policy program for the oil, this might be another point.

Secretary Kissinger: Can you, just for my own education, give me a list of pressure points in Canada, just so I know?

Mr. Rush: Is that in your study?

Mr. Casey: A little broader look.

You know, one of the problems in this kind of a policy is what the Canadians are doing is principally protecting their own potential needs. That is the way they see it.

Secretary Kissinger: Well, this may not be the cause to do it.

Mr. Casey: That is right.

Secretary Kissinger: We shouldn't throw our weight out without understanding what their points of view are, which ideally operate by consensus, but it isn't a tolerable position for us where every one of our allies calls on us on the basis of indivisibility of interests when it suits their purposes but pursues a totally independent policy when it pursues their interest.

Mr. Casey: I would say everything they disclose is in their future planning for petroleum and oil. You can see how it would be reasonably justified for a prudent policy for themselves.

Secretary Kissinger: Now, the reason for other countries to be cooperative is if it would be pursued even if they couldn't cooperate, and, therefore, if they learn, as they will learn, that if everyone in the world, including the United States, pursues their self-interest they are going to be the losers, then I think we are going to be able to get a re-establishment of a partnership concept, which I far prefer.

[Omitted here is discussion unrelated to oil.]

227. Minutes of the Secretary of State's Staff Meeting[1]

Washington, October 25, 1973, 3:15 p.m.

[Omitted here are the Summary of Decisions and discussion unrelated to oil.]

Mr. Newsom: Mr. Secretary, I was at a banquet in New York last night at which there were a number of executives of American oil companies—

Secretary Kissinger: I don't want to hear that. They are revolting. They are crying about the Middle East. Do they have a solution?

Mr. Newsom: No, they don't have a solution. But the impression I come away with is that there is a reverberation of reinforcement of doom between them and the Arabs.

Secretary Kissinger: I have been telling you this.

Mr. Newsom: And I think that when you see them on Tuesday[2]—I am sure you will—but I would just like to reinforce my feeling—

Secretary Kissinger: Can't somebody tell them to shut up—that they are making their own disaster? What the hell do they want us to do?

Mr. Newsom: I told Mr. Folmar last night—

Secretary Kissinger: Who is he?

Mr. Newsom: He is the Texaco man, who is the principal spokesman—

Secretary Kissinger: Do they have any idea of what we should do?

Mr. Newsom: No, they don't.

Mr. Rush: They have some ideas, but they are not acceptable.

Mr. Newsom: They don't stand still long enough to understand what we are trying to do, for one thing. I said to him: "You are sure you are not part of the problem, because you have a tendency to reinforce the Arab feeling that the United States doesn't know what it is doing in the Middle East?" And I tried to indicate what our basic objectives were. I cite this only to underline the fact—

Mr. Rush: What you said is exactly what they all think. They all think our Middle Eastern policy is wrong.

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[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 720, Secretary's Staff Meetings, 9/73–10/73. Secret. According to an attached list, the following people attended the meeting: Kissinger, Rush, Tarr, Kubisch, Casey, Sisco, Hummel, Newsom, Springsteen, Lord, McCloskey, Pickering, and Eagleburger.

[2] See Document 230.

Secretary Kissinger: What is their solution? Since we cannot destroy Israel, what is it they want us to do?

Mr. Rush: That we should step in, make Israel withdraw to her own boundaries, and then the Arabs will be very nice and sweet to us.

Secretary Kissinger: Countries in a monopoly position will use it.

Mr. Rush: Exactly.

Mr. Newsom: One thing, Mr. Secretary. They tend to believe a lot of the more outlandish statements which come from Arab sources, largely about what we are doing. For example, one of them said to me seriously last night "Why are we letting the Israelis expand their enclave on the west bank of the Canal?" And I said "We are not. We are making every effort to try and get it stopped."

You are very much aware of the problem. I just wanted to reinforce it.

Secretary Kissinger: They think I am part of their problem, too.

Mr. Rush: I don't think so.

Mr. Newsom: They speak of Washington in a broad generic sense, which encompasses all of us. One of them came up to me and said "Don't you people know what you are doing in Washington?" I said, "Yes, we think we do."

Secretary Kissinger: Are they being brought in here on Tuesday?

Mr. Rush: Yes. I am waiting for a date from Larry. Larry, do we have a date for Tuesday?

Secretary Kissinger: A date or a time?

Mr. Rush: A time is what I mean—an hour.

Mr. Eagleburger: I will check.

Secretary Kissinger: Just give an hour. Shift something out.[3]

[Omitted here is discussion unrelated to oil.]

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[3] In an October 25 telephone conversation with Rush, Kissinger stated that he wanted to meet with the oil men the following day. During the short conversation, Kissinger stated: "I want those idiots talked to before. I am not going to have an hour's battle with a bunch of maniac oilmen." He also reaffirmed the need for Clements to be present. (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 23, Chronological Files)

228. Memorandum Prepared in the Central Intelligence Agency[1]

Washington, October 25, 1973.

SUBJECT

Prospects For (A) *US Relations with the Arab States Following a Cease-Fire*
(B) *Meaningful Negotiations between the Arab States and Israel*

A. US Relations with the Arab States Following a Cease-Fire

An effective cease-fire of and by itself will not work a significant improvement in US-Arab relations, even though it temporarily alleviates some of the difficulties of those Arab states in which there remains a significant motivation for preserving special relations with the US.

In the Arab view, the burden of the "struggle" has now been passed from the principal "confrontation" states—Egypt and Syria—to the governments who wield the oil weapon, particularly Saudi Arabia and the major Persian Gulf producers. This shift from military action to oil has been a central element in Egypt's overall planning for the "battle" against Israel; the rapprochement between Sadat and King Faysal in the weeks before the outbreak of war put the Saudi seal on this conception. From all reports, Faysal intends to take up his role to the best of his ability, even though he is liable to be upstaged on occasion by irresponsible elements like Shaikh Zayid of Abu Dhabi, the first ruler to embargo the shipment of oil to the US rather than simply cut back production. Faysal therefore intends to keep the pressure on the US, and even turn it up, until a result favorable to the Arabs has been achieved.

Among the further specific actions that the Saudis and other Arab governments could take are

—a boycott of US goods and contractors, possibly selective at the outset; the present Arab boycott of foreign firms doing business with Israel could be revived and modified to serve current war aims.

—to differentiate more sharply still between the US on the one hand and Western Europe and Japan on the other in applying the oil embargo.

—outright nationalization of US oil companies, e.g., Aramco and Gulf Oil in Kuwait.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 129, Country Files, Middle East, Middle East. Secret; Sensitive. In his covering memorandum transmitting the memorandum to Kissinger on October 26, Colby wrote that it "may give the Arabs a bit more credit for being able to maintain concerted pressure on the U.S. than will be the actual case, but the paper does represent the views of my best people working on the Middle East."

—a determined effort in the international money market to weaken the US dollar.

—a shift in arms purchases by governments that normally have bought their major equipment in the US; there is considerable agitation in the Jordanian army on this score, and before the war there were clear signs that the Saudis were moving in this direction.

—fuller cooperation between Arab governments and fedayeen terrorists.

—to deny overflight rights to US civil and military aircraft.

There are constraints on the enthusiasm and persistence with which these measures would be undertaken by governments with a history of good relations with Americans. Fear of Soviet gains will deter moderate leaders from actions that might permanently rupture relations with the US. An anti-US boycott denies the Arab oil producers in particular skills and technology that they acknowledge are superior to what can be obtained elsewhere. Nationalizations ahead of schedule, like a boycott, are likely to bring technical difficulties in their train. Playing the money card would entail high costs for those governments—and this includes the principal oil producers—that maintain large balances in dollars. There are manifold problems for the buyer in a quick shift of arms purchases that is more than symbolic. Cooperation with the fedayeen is a high-risk policy over the longer term, especially for conservative Arab leaders, who also recognize that terrorism abroad is on balance counterproductive for the Arab cause.

Nonetheless, if the cease-fire does not result promptly in negotiations that give promise of movement toward at least the immediate Arab objective—acceptance by Israel of the principle of withdrawal from the territory occupied in 1967—these courses will be considered seriously by those governments that have a capability to effect them. Pending the opening of negotiations, the emotional mood of Arab leaders is such that none will feel able or even wish to lift the anti-US restrictions that have been instituted since October 6.

Assuming that the cease-fire does result in the opening of negotiations, the evolution of Arab relations with the US will depend mainly on two factors: the way Arab leaders perceive the objectives of the US in the negotiations together with the style in which we play our role; and the perception that Arab leaders, particularly the more conservative ones, develop regarding the role of the Soviets.

The US is already identified as Israel's second; the question in Arab minds will be what else is the US prepared to be? Faysal, who in this context is even more a key figure than Sadat, must assume that the US wants to repair its relations and protect its interests in at least his part of the Arab world. His pressures are directed toward accentuating that kind of interest on our part. Our co-sponsorship of the cease-fire was a start. He will be looking for more signs—not merely assurances—

that our objectives go beyond the protection of Israel. Initially, he will look for these signs in the style of our approach—whether we are perceived to be really willing to put leverage on Israel to enforce the cease-fire; whether we are seen to be working toward a "just" settlement or merely a restoration of the status quo ante October 6. To the extent that Faysal and other leaders are impressed by what they perceive, our relations will ameliorate, but not quickly. Indeed, initial evidence that the US is moving in their favor may well lead them to turn some of the screws a little harder in some cases—their strategy will seem to be working. The long term attractions of a good and useful relationship with the US will take time to make themselves felt again.

It may be argued that the US could turn this situation around by signalling to the Arab oil governments that we could play no constructive role in negotiations between the Arabs and Israel while we were under duress. This would come as a shock to those, like Faysal, who still believe that the US-Arab relationship can be beneficial. But the move would nonetheless be perceived as a bluff, and an illogical one at that. The Arab leaders simply cannot believe that the US can be driven further into the Israeli camp; in their view only an irrational disregard of true US interests has put us where we are. The only remedy, as they see it, is to keep hitting us until we wake up.

Paradoxically, our co-sponsorship with the Soviets of the cease-fire resolution—implying an acceptance of a legitimate Soviet role in the Middle East—may enhance the attractions that a resumption of good relations with the US has in the thinking of Arab leaders, again especially the conservative ones. In King Faysal's mind, the evils of Zionism are equalled only by the dangers of Communism. To the extent that the present situation in the area appears to be bringing gains for Soviet influence, the Saudi leadership, and to some lesser but still significant degree the leadership of virtually all the Arab states, will be concerned that US influence be preserved as a balancing element. For example, the Saudis probably greeted with some relief the US refusal to join the Soviets in placing a truce force in Egypt. While the Saudis of course want the cease-fire enforced, they will not want it done in a way that brings back a Soviet presence of the sort that they had thought removed in July 1972. The Egyptians basically feel the same way; hence their request for US as well as Soviet troops. Actual US-Soviet cooperation in the Middle East would dismay conservative quarters (and alarm Qadhafi, with his ultra-Islamic perspective), and this would encourage movement to repair relations with the US camp. This would be a somewhat longer run effect, however; the immediate impact is likely to be small.

In sum, our relations with the Arabs in general are likely to stay bad for some time before they get better; the diplomatic and economic

heat will be kept on while the Europeans and the US East Coast get colder. Relations will improve earlier—but still not very soon—if the US can demonstrate in the negotiations that it sits other places as well as in Israel's corner, and, less directly, if Soviet gains frighten the conservative Arab leaders.

[Omitted here is Section B, Prospects for Negotiations.]

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229. Minutes of the Secretary of State's Staff Meeting[1]

Washington, October 26, 1973, 3:15 p.m.

[Omitted here are the Summary of Decisions and discussion unrelated to oil.]

Secretary Kissinger: Okay. That leaves the oil.

Bill, do you want to put forth what the problem is? Or who does?

Mr. Casey: There are two papers here.[2] For the five o'clock meeting,[3] it seems to me there are three subjects of conversation. One is their posture. The other is what can be done about the embargo. I think one more subject here is what interest do they have in moving supplies around, keeping supplies moving. I think there is a very serious risk there. Because these international oil companies are American companies, some countries think we can tell them how to handle the shipments. I think we can only do that if we try to a very marginal degree. I think it would set up repercussions which would be damaging. It would not be worth what we get out of it.

Then the third part of what I have laid out here is the kind of questions you may want to raise with respect to re-examination of our ability to help them in fundamental price and supply problems after this current crisis.

There is the general situation of the posture of the oil companies, including embargo and where we go after the embargo is behind us.

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[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 720, Secretary's Staff Meetings, 9/73–10/73. Secret. According to an attached list, the following people attended the meeting: Kissinger, Rush, Porter, Tarr, Kubisch, Casey, Sisco, Hummel, Ross, Springsteen, Pickering, Lord, Vest, and Katz.

[2] Not further identified.

[3] See Document 230.

Secretary Kissinger: Well, what is your view about the position I should take?

Mr. Casey: I don't think we have any position.

Secretary Kissinger: Then what do I want from them? Why are they here?

Mr. Casey: You want three things. You want to get them squared away on their present behavior—to keep quiet and lay low. You want to get information from them as to the impact of the embargo as they see it. And we want to discuss—

Secretary Kissinger: Do we need that information?

Mr. Casey: Yes, I think we should have it. And we want to explore some points in handling the embargo.

On the embargo, I think we want to hear from them as to how they see its impact, what they can see as to how to minimize it.

I think we want to discuss with them the dangers of creating an impression that they are diverting shipments from other countries to maintain supplies to us. We want to get their views on the prospects of getting additional supplies from non-Arab sources.

Looking beyond the embargo, I think we want to ask for a re-examination of all the assumptions on which we have been operating, how we can support their position, how we can participate in handling the negotiations.

And I suggest here you suggest some of the questions on which we would like to have their advice. Is it still true that our best posture would be to let them negotiate and back them up, rather than deal directly with the governments. Should they be thinking about coming up with some new formulas and new initiatives in the change of ownership patters, as they have done with Iran and with Egypt.

Secretary Kissinger: What if I tell them they are no longer dealing with local sheiks but with international politics? Is that going to shake them?

Mr. Rush: They have realized that for a long time.

Mr. Casey: As to the future, I think their relationship—

Secretary Kissinger: Are you going to sit in, Joe?

Mr. Sisco: I haven't been asked to. Do you want me to?

Mr. Rush: Yes.

Mr. Casey: This may move the European countries to squeeze them out of the distribution business, which is important to us from the balance of payments point of view, and important to them.

Secretary Kissinger: I don't want to spend an hour or whatever time we have set aside for listening to their complaints, which are endless. I want to crystallize some solution or something we want them to do.

Mr. Casey: I think all we want them to do is keep quiet and advise us.

Mr. Rush: I think the best way to approach it is to outline to them, seemingly take them into your confidence on what are our foreign policy goals in the Middle East; bring them up-to-date on the crisis; ask for their support; and as a major part of asking for their support, request that they not muddy the waters.

Secretary Kissinger: You said "seemingly" take them into our confidence.

Mr. Rush: I think that would be the correct term.

Secretary Kissinger: But how about the negotiations? How about the relationship between the government and the companies, and between them and foreign countries apart from the producing countries, like the Europeans? What do we tell the British when they come over here? What do you think?

Mr. Katz: Well, Mr. Secretary, I think that the long-term problem really has to be looked at in terms of the demand-supply balance. We cannot affect supply except after a period of some years. The only way we can get a handle on prices, on ownership or any of the other subjects that have been dealt with in negotiations is to affect the demand balance, on the demand side of the equation. We can do that alone, to some extent, because we loom so large in the picture. We are the disruptive factor in the world market. Our demand is growing so large that we are taking up all of the increase in supply. We ought to do it, if we are going to do it at all, on a collective basis.

Secretary Kissinger: How?

Mr. Katz: We can do it by doing nothing. We can let price do it. Price will serve as a rationing function. It will hit probably people we would rather not hit, and it may disrupt our own economy in a way we would rather not.

Secretary Kissinger: Whom will it hit?

Mr. Katz: Well, internationally, of course, it will hit developing countries very hard. We can afford to go in and pay high prices. It will hit the British economy very hard. It will hit the French to some extent. It will not hit the Germans, it will not hit the Japanese.

Secretary Kissinger: It won't hit the Germans because they can afford it?

Mr. Katz: Because of the revaluation. They are not paying very much more for their oil internationally than they have previously.

Now, the other way we can do it is by physical controls. Essentially what this involves is an international rationing system. That is very difficult to negotiate. We would have to allocate supplies internationally. And of course other countries would look to us to take the

largest part of the burden, since we represent so much of the increase in demand.

But stripped of all of its values, that is what it really comes down to. It is the only way we can really get a handle on this problem, is to do something about demand. We can let it happen in the market place. As prices go up to ten dollars or higher, it will have an effect on demand. Or we can try to stop it before it gets to that point by putting on some physical controls. We would have to put import controls back on in the United States, we would have to stop some of our people going abroad, buying oil at very high prices, or buying hot oil, which they are doing now. There is some chasing of them in the courts. That is not very effective. We have to deal with that problem.

The other part of it is perhaps to use the same system to work out arrangements with producers, to enter into quantitative agreements with them.

Secretary Kissinger: The thing that is driving me crazy in governmental discussions about the oil situation, that I have now had for a year, in every forum that I could construct, is we know certain things are going to happen. There are going to be oil negotiations. We know that other countries are going to come to us, asking us for cooperative action. We know the companies are going to come to us. We know there is going to be an energy shortage. All these things are absolutely predictable. We know we will have to take a position in these negotiations. There is no way of avoiding it.

Yet every time I get a group together, whether it is in the Department, whether it is interdepartmental, people say "We don't know."

I don't know what the answer is. I don't even know what the problem is. When people tell me we are consuming six million barrels a day, they might just as well say fifty thousand Coke bottles worth of oil. I don't know what that means. And I have no fixed ideas. All I know is when the Prime Minister of Britain says he wants to send somebody over here to discuss the oil situation with one of us and I ask around the Department "What are we going to tell him?"—or we go up to Canada and I ask "What are we going to discuss?" and I am told we are just going to discuss—and every other department takes the same position. Interior Department hasn't got a clue. Everyone agrees that if we can get more supply in this country, or cut down the demand—that this will improve the basic situation. That is clear. What I want to know is what the hell we are going to discuss in these negotiations. What do I discuss with these oil men this afternoon? I don't know the answer to this. How do we get at this problem?

Mr. Katz: I think we know what the answers are. The trouble is that the answers are unpleasant.

Secretary Kissinger: They won't become any more pleasant. As I understand it, the problem is going to get worse. Therefore the pressures on us are going to get worse. My philosophy is if you have to take a bite at a problem, take a huge bite immediately. Then at least you have a chance of getting on top of it.

Mr. Casey: You have to do three things. You have to have a strong program to cut back, to ration. You have to take over the market, by allocation, as Julius spells out. You have to step in and negotiate and throw the government's leverage between the companies in their ownership negotiation. You have to get a decision to do that. There is no decision to do that.

Secretary Kissinger: I know what would have happened in the nineteenth century. But we can't do it. The idea that a bedouin kingdom could hold up Western Europe and the United States would have been absolutely inconceivable. They would have landed, they would have divided up the oil fields, and they would have solved the problem.

Mr. Casey: That is what these fellows at five o'clock want you to do.

Secretary Kissinger: That would have been done. And I am not even sure that this is so insane. But that obviously we cannot do.

Mr. Katz: Mr. Secretary, all of the answers are terribly complex. But that is not the reason not to take action. I think the real reason that we have procrastinated and delayed—recommendations have gone forward, ideas have gone forward.

Secretary Kissinger: They never reached my office at the White House in any systematic form.

Mr. Katz: I can't speak for that. But ideas have gone forward. They are tough decisions. You have to tell people—you can't just ask them to turn down thermostats. You have got to have some mandatory actions. You have to cut down on driving.

Secretary Kissinger: Is my judgment correct, that the problem will be tougher next year?

Mr. Katz: Unquestionably.

Secretary Kissinger: And tougher still two years from now. So what the hell are we buying by not taking action? The problem will not go away.

Mr. Katz: There are certain things we can do right now. And the crisis really gives us the reason for doing it.

Secretary Kissinger: We will put out that emergency program.

Mr. Casey: That is the only way to keep the situation from getting worse.

Secretary Kissinger: That we will do next week.[4]

Mr. Rush: The problem is fairly simple. First you have a supply problem, and then a demand problem. You hit it at both ends.

Secretary Kissinger: With all due respect, those are just the overall parameters of the problem. Within these parameters of the problem, you have innumerable subparameters. You have the problem of the negotiations with the producing nations. You have the problem of the relationship of the companies to their home governments as well as to the producing nations. You have the problem of sharing among the consuming nations. To none of which we have a clue. And if it is true that we have more weight than the others, as you said, then we might even turn this crisis into a certain kind of an asset, if we could take a leadership position. But since we don't know where we are going—that you solve the problem by bringing supply and demand in balance, that is clear. But since we are not going to be there for the next ten years, the question is how do we handle ourselves in a period of foreseeable shortages, when you are dealing with countries that have a monopoly position—which incidentally if Israel disappeared tomorrow, it would help a little but it would still not change the monopoly position of the Arabs.

Mr. Katz: I think if Israel were to disappear, or if we did not have the war, the choices would be somewhat different. I don't think we would have the same strategic problem. And we would have more of a choice. The point is we could decide just to let the market do this function, and it will. But it will produce dislocations of a kind that we might rather not have.

Secretary Kissinger: That is perfectly agreeable to me.

Mr. Katz: That is a policy choice.

Secretary Kissinger: What I would like to know, at least for my own education—when Jobert comes in here and says he is now ready—in June, when I discussed energy with him, he said there was no energy problem.[5] So I didn't have anything to discuss with him. Jobert said it was a myth, there was no energy problem. So now he admits there is an energy problem, and he wants to discuss it, the relationship of the United States and France, the relationship of the companies to the government. And I have nothing to tell him, because I don't know.

Mr. Katz: Well, there is an assignment on this with a fairly short due date. This will be a first crack at it.[6]

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[4] See Document 237.

[5] See Document 211.

[6] See footnote 2, Document 233.

Secretary Kissinger: Will you do a paper of what you think is right, no matter how painful?

Mr. Katz: Yes, sir.

Secretary Kissinger: Because my impression is, from all I have heard, that it will be even more painful next year. I have been screaming about this for a year, starting at the White House. I am not blaming the Department, because no other department seems to be willing to tackle it either. Apparently the choices are just very tough.

Mr. Casey: Yes. But there are two fundamental choices. Either you let the price system do it, and it will do it, or you go in and control the market and try to allocate on a world-wide basis. I am not sure we can do that effectively. I am not sure that wouldn't foul the system up.

Secretary Kissinger: If we say the price system does it, I would like to know what problems this will create with foreign countries; whether then we are in effect trying to squeeze them against the wall, which is all right with me. I just want to know what we are doing, and what our posture is towards other countries.

Also I would like to know how we could use this energy shortage, which all advanced nations face, if we wanted to, to get some political benefits for the United States, if we could.

Now, some things are obvious, like sharing research and development. The emergency sharing just doesn't seem to me to work very well, because when the emergency exists, we need it less than they—but we are still short.

Mr. Rush: Politically, it is almost impossible to share when we are short ourselves.

Mr. Katz: One of our other complications—and I think this has probably inhibited our thinking—is that there is the problem of the companies. Now, our interests are not necessarily synonymous with theirs.

Secretary Kissinger: That doesn't bother me. Why don't we say that?

Mr. Katz: It is not that clear, because while in some respects you can say the companies are really excess baggage and they get in the way, they do perform a valuable function. To the extent I have looked at it, I frankly would rather have the companies not disappear. I think they are important. But it does complicate our thinking.

Secretary Kissinger: It certainly doesn't clear our thinking for us to sit around an hour before the companies come in and literally—I know what I want from them politically. I want them to shut up. But since they are panicked, they are not likely to shut up.

Mr. Casey: We are not going to ease the panic by discussing these choices with them.

Secretary Kissinger: No. But it would help me to know what we want.

Mr. Casey: I think all you can get from them, outside of what you want to tell them, is their assessment of the impact of the embargo, what they think we can do in the way of finding additional sources to ease the pain, and what problems they see in handling it. And then tell them in a general way we are re-examining all our assumptions as to the relationships.

Secretary Kissinger: That's fine. I can get through an hour with them. I just want to make sure we are re-examining all our assumptions. Give us one or two or three strategies, and if they are tough let the President decide whether he wants to pay the price or not.

Mr. Katz: Mr. Secretary, could I just ask a very immediate problem. The Interior Department proposes to call in the Foreign Petroleum Supply Committee, which is an institution that exists for dealing with emergencies. Has that come to your attention yet?

Secretary Kissinger: What would that do?

Mr. Katz: It really constitutes an anti-trust waiver. It permits them to call the companies in and talk about adjusting the supply lines to minimize the disruption. There are two issues. One is whether they should be called. I think they should be. And secondly, whether this should be done publicly. I don't think it should be done publicly. But that requires a Presidential determination for an exemption on security grounds from the Freedom of Information Act.

Secretary Kissinger: We can get that, if that is the judgment.

Bill, when are they going with that oil message, do you know?

Mr. Casey: I believe early next week—Tuesday.[6]

You have a memo on this Emergency Committee. I think it should go ahead.

(Whereupon at 4:00 p.m. the meeting was concluded.)

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[6] October 30. Possibly a reference to the President's address of November 7; see Document 237.

230. Memorandum of Conversation[1]

Washington, October 26, 1973, 5:30 p.m.

SUBJECT

Meeting with Oil Company Executives

PARTICIPANTS

Henry A. Kissinger, Secretary of State
Kenneth Rush, Deputy Secretary of State
William Clements, Deputy Secretary of Defense
William Casey, Under Secretary of State for Economic Affairs
Joseph Sisco, Assistant Secretary of State/NEA
Thomas Kauper, Assistant Attorney General for Antitrust
Julius L. Katz, Deputy Assistant Secretary of State/EB
Harold Saunders, NSC Staff

Leon Hess, Chairman, Amerada Hess
Robert Anderson, Chairman, Atlantic-Richfield (ARCO)
Louis Cabot, Chairman, Cabot Co. (District Gas)
Ken Jamieson, Chairman, EXXON
James Lee, President, Gulf
Rawleigh Warner, Jr., Chairman, MOBIL
Otto Miller, Chairman, Standard of California (SOCAL)
Robert Dunlop, Chairman, Sun Oil
M. F. Granville, Chairman, TEXACO

Kissinger: I thought the most useful thing for us to do today is for me to outline where the diplomatic situation is. I have certain fundamental questions about oil strategy, but perhaps it is best for me to put these questions to you and for us to meet again in three or four weeks when you have had a chance to consider them. Is that an all right way for us to proceed?

One thing I want to say about the immediate situation is that it does nobody any good to raise doubts about American foreign policy among those who are already jittery about it. Raising doubts cannot change our basic policy. Increasing uncertainty about our policy makes it only that much more difficult for us to achieve the objectives we have. Some comments I have seen made by oil company executives are an unmitigated

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1027, Presidential/HAK Memcons, Memcons, April–Nov 1973. Secret; Exdis. Drafted by Saunders and Katz. The conversation took place in the Secretary's conference room. In a telephone conversation after the meeting, Clements told Kissinger he thought the meeting was "just great. You played it beautifully." Kissinger replied that Clements had been a "terrific help." He added, "You have turned out to be right on the Saudi Arabians and I was not," and that was not something often said to a Texan. Clements answered: "Every so often even a blind hog will pick up an acorn." (Ibid., Kissinger Telephone Conversation Transcripts, Box 23, Chronological Files, October 1973)

disaster. It is bad enough to seek to curry favor with the oil states but when this undermines our diplomatic efforts it is intolerable.

Our strategy starts from the fact that we are not hostage to Israel in the middle and long term. Once war broke out this time, we were forced into a position where we had to resupply Israel. But if we can keep our head down, I believe we are in a stronger position over the longer term than we have been at any time since 1948, in both Israel and in the Arab countries.

I do not want to go into the debate over whether more could have been done between 1967 and 1973 to produce a fundamental Arab-Israeli settlement. It is my view that Israel did not use the military supremacy it had to the best political advantage. But I do not want to debate that today.

The main elements in the new situation are that Israeli security is in question, on the one side. On the other, there is a romanticism about the Arab position which makes it difficult to negotiate a solution out of this present situation. All of the Arab foreign ministers I talked to want me to negotiate a peace and are trying to throw me into the breach. But I am not a prophet who can ride in from the desert on a white horse with a dramatic solution. The Arabs look at the four or five foreign policy successes I have had. They look at the results—what happened on the last day—and they want those results on the first day of their negotiation. What the Arabs have to know—with all the sympathy in the world for their point of view—is that they have to work with us on how to get from here to those results. The Arabs are personally very pleasant, but they have this vague romanticism which makes them very difficult to deal with.

This is essentially what I said to the Arab foreign ministers whom I saw in September and early October.[2] I told them we would engage fully in a settlement. Prior to the crisis every foreign minister I talked to I told that it would be senseless to try a major initiative before the Israeli elections which were then scheduled for October 29. After those elections, I told them that if they were prepared to work seriously with us, we would make a real effort. I said the same thing to Eban.

Now, what was our policy during the war and where are we?

After the war broke out, it made no difference who was right. A victory by states perceived to be radical and armed by the Soviet Union would have had a disastrous impact on the U.S. position in the Middle East and globally. Our position of leverage would have been to-

[2] Kissinger met with the Arab Foreign Ministers in New York on September 25. (Telegram 3416 from USUN, September 26; ibid., RG 59, Central Foreign Policy Files) For the October meeting, see footnote 3, Document 219.

tally destroyed. Our role during the crisis had nothing to do with the merit of the crisis itself. Most of the Arabs with whom I have communicated seem to understand that.

In my communications with Ismail, the one theme I have followed persistently is that we might be on opposite sides during the conflict, but Egypt would need the U.S. in a settlement. I urged him repeatedly not to do anything to make a U.S. role in that process more difficult.

Because the Egyptians understood this proposition, they behaved moderately. We had more trouble with states like Kuwait who had less contact with us and who had less at stake. We maintained good contact with Saudi Arabia until the request to Congress for the supplemental appropriation to aid Israel.[3] At that point, an emotional wave hit the Saudis. That did not work out. They are relatively new at this business of global diplomacy, and they reacted sharply.

We have paid a price for Arab romanticism. The Arabs were so surprised that they were able to maintain their forces on the East Bank of the Suez Canal, that they lost sight of their basic objective. If they had accepted our proposal of October 13, they would be in a good position for negotiation today. Once that failed, we matched the military equipment that the Soviets were putting in and put ours in more capable hands. Once the U.S. airlift began, the Soviets started moving. They invited me to Moscow and started pressing for a ceasefire as soon as they saw the Israelis were winning.

Our purpose in stopping the war was to try to leave a situation which would be the best possible for the long term. If the war had gone on, Israel could have defeated the Arabs. The Soviets might have come in. Stopping the war now left a better balance for negotiation than if the Arabs had been totally humiliated.

The instability in the present situation is that the Israelis have trapped a whole Egyptian army. This creates constant pressures on the ceasefire. The experience of the last two days has been one of the hairiest of my time here. There was a very real prospect that the Soviets would introduce forces of their own, and we faced them down. Soviet advisers are one thing. But if the Soviets had put in major military contingents, that would have created a totally new environment. All of your activities would be subject to a situation with which you had had absolutely no experience in the past.

The problem will be to get the Israelis to give up some of their present military advantage. They cannot force an army to surrender under conditions of a UN supervised ceasefire.

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[3] See Document 216. Despite Saudi displeasure, President Nixon sent a special message to Congress on October 19 requesting emergency security assistance to resupply Israel and Cambodia; see *Public Papers: Nixon, 1973,* pp. 884–886.

Beyond the present situation, we are in a better position for negotiations than at any time since 1948. Although the Israelis have won militarily, they have paid a tremendous price. They have suffered some 7,000 casualties, which would have been equivalent to some 300 to 400,000 casualties for us. They have found out that rapid spectacular victories are no longer possible and that in any war, they face a war of attrition which they cannot win over time. Our influence with Israel is greater than ever. They cannot go to war again without an open supply line from the U.S. They have to address what security they can now achieve by diplomacy.

On the other side, the Arabs have fought with honor. Although they have lost the war, they lost like normal countries; their forces were not routed this time. For their part, they must know that they can

[Page 5 is missing from the final version of the memorandum of conversation. Inserted here is text from the draft version. (National Archives, Nixon Presidential Materials, Box 251, Agency Files, National Energy Office, Vol. III, Aug 1973)]

get hardware from the USSR but that they can only get territory from the US. This dilemma is also apparent to the Russians. Everybody is coming to us.

Now, our strategy with respect to oil is that we will cooperate in a major diplomatic effort but not under pressure or blackmail. As soon as the ceasefire is stabilized, we will make this point to the key producers. We do not want to make it now because they are still concerned over what is going to happen to the Egyptian third army.

But we are going to start a diplomatic effort and link it to oil policy. This is in your interest. We recognize that we cannot play this along for five years, but we hope we can play it along for 6–9 months to give diplomacy a chance to work. I cannot tell you how the Saudis will react. I am confident how the Egyptians will react. When the ceasefire is firm, we will make formal approaches to the key countries explaining the diplomatic initiative we are going to undertake but making the point that we cannot operate under threat or blackmail.

The Arabs will have to learn to participate in a step-by-step negotiating process. On their side, the Israelis will have to learn that absolute security for them means absolute insecurity for someone else. Now they have the direct negotiations that they have been asking for for the last six years.

One thing I would say to you, gentlemen, is that it does not help this process which we are about to begin if your executives in the area keep wringing their hands. I read a telegram reporting a comment by a senior oil executive telling the Saudis that he was surprised they had waited so long to embargo shipments to the US and agreeing with them that US policy was stupid.

Jamieson: Was this in the Middle East?

Clements: Yes. I saw the telegram Henry is referring to, and I know the person involved. I am sure that Henry does not want to get into personalities, but the general point is that talking this way is not very helpful during a period of delicate diplomacy.

[Here ends the draft memorandum of conversation.]

Kissinger: I do not want to imply criticism of any individual. If I were a company executive in the Middle East and were faced with an American policy that was extremely distasteful to the people I was working with, I might feel the same way. But you can help us in one important respect. Tell your Arab friends that we are serious about trying to achieve a peace settlement but that they have to make an effort to move from here to there. But they have to engage in concrete steps and not just romanticizing. We can't go to the Israelis until the Arabs make a proposition that is realistic. You can help build confidence in us.

Now, on the longer term aspects of oil problems, for a year and a half everybody has been telling me that there is an energy crisis. Occasionally, we have had to help an oil company in trouble. What I have been trying to do is to see whether there is some concerted strategy that we all can follow together so we will not be picked off one by one. We need to enter negotiations as they arise knowing what we want. Theoretically, this is a supply-demand problem. But our ability to reduce the inequality between supply and demand is years away. The questions I have are: How do consumer nations deal with each other? How do consumers deal with producers? How should governments deal with oil companies? It would be good to have your ideas on the subject. Then we can meet again, perhaps in several weeks. We recognize that our interests may not always be parallel with yours. When you go into a negotiation, we should have a sense of what your relationship with us should be. If you want our help—which we in principle are ready to give—we need to have a strategy which we each understand. I am probably giving the Justice Department representative a heart attack.

Kauper: To the contrary. The more the government is a participant the less difficult the situation is.

Kissinger: I have other questions here which have been given to me. I can give you the list. I am just giving you the major questions which are on my mind.

Jamieson: We recognize the overall strategy that you have been following. It is the only sound way to go at the problem. However, there are two problems for us: (1) How does the government fit into our activities over the longer term? We have actually had a long dialogue on this subject, but we have never really come to grips on it. (2) Now there is an immediate problem. There is a cutback in supply, and we should have no illusion about the seriousness of that cutback.

Kissinger: How soon will an impact become apparent?

Jamieson: Immediately, although the extent of impact will vary company by company. Hess may begin to feel it early in November. Those who have the longer supply lines to the Persian Gulf will begin to feel it in December, and by January it will be critical. Ultimately, the loss could be 2.5 to 3 million b/d. There are just no alternative sources of supply. That is the problem we face.

To put this back in a political context, it may be that the Saudis are naive and that Faisal has stuck his neck way out, but the problem is how to get him off the hook.

Kissinger: I have wondered whether the other Arabs might not help.

Jamieson: I just don't see what is going to be different enough this time to convince them.

Sisco: The beginning of a negotiating process will give Faisal one peg if he believes it is a serious effort. He should be very much impressed with the effort that is going to be undertaken. If he wants a way out, that should provide one to him.

Jamieson: The key is to convince Faisal.

Kissinger: You have to assume that we will make a major effort with Faisal. We will make every effort to build bridges to him. We cannot guarantee whether he will walk back over them.

Clements: Henry is going to attack the problem with all of the resources at his disposal, and that means with all the resources available to the U.S. Government. Faisal will be impressed with the sincerity of this effort. He will be genuinely impressed. The question is how he will act then. Just for my information, don't you think that he is more afraid of the Soviets than of the Israelis?

Jamieson: Basically. But he is more fearful of the radical Arabs and of his own position.

Kissinger: Yes. As I see it, he is trying to forestall radical elements in his own country. I would say this as a gratuitous comment. I do not believe it is in his interest to push himself into the forefront of an Arab-Israeli settlement. Any settlement that is achieved will leave everybody a little bit dissatisfied. I think the Jordanians, Syrians and Egyptians ought to bear the responsibility for the settlement. Although we want them to survive, if all three of them go down the tube, that is not as bad as Saudi Arabia being lost.

You probably cannot influence Faisal very much, but for his own good I would encourage you to urge him to stay out of negotiations. It is in our interest and in his.

Jamieson: I agree. But what do we do to get Faisal out of his corner?

Kissinger: If we can just get the ceasefire firmed up, you will see in two weeks what concrete steps we are going to take. In the meantime, we cannot have an Egyptian army starving in the desert under a UN ceasefire. But I think the ceasefire will be straightened out. I do not promise success. But I do urge you not to contribute to the panic. The more you wring your hands, the better chance people have to upset our efforts. We do not want to operate in an atmosphere of confrontation. We are going to pursue our strategy in a conciliatory way.

Jamieson: The American public is just not geared up for the kind of crisis we face.

Anderson: We do not have more than three or four weeks.

Clements: Our purpose is to give Faisal some flexibility so that he can get himself out of the corner.

Jamieson: If there is no movement on our side, there will be another dramatic move on their side. Either a further general cut in production or even nationalization of ARAMCO.

Kissinger: You cannot affect what we do by commiserating with the Arabs. You can only make it more difficult. What we need now is for them to understand.

Warner: The statement by one oil executive may be just one isolated incident. What has really affected attitudes in the Arab world are the press statements made here in Washington.

Rush: Jack Anderson[4] knew of this meeting.

Anderson: Our trade publications are very well informed. The numbers that we are talking about will be published in the near future.

Kissinger: We will make every effort we can to try to avoid giving the oil producers reason for further action. But if they go through with their cut, what can we do then? If they want Israel to go back to the 1967 frontiers by January 1, that will be impossible. If they want a serious move in a reasonable time, we can have a crack at it. The Israeli elections have been put off now until December 31. The opposition in Israel is to the right of the government. This is an Arab problem as well as ours. There will have to be the beginning of a negotiating session before that. But it is difficult to see major progress.

We hope this will give Faisal a way out. We will talk to him very realistically about what we can hope to achieve and what we cannot expect to achieve in a limited period of time.

Jamieson: If we could do something for Faisal—something he could take credit for—that would help him immensely.

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[4] Syndicated newspaper columnist.

Kissinger: You are talking about Jerusalem.

I suggest that we meet again in 3–4 weeks. By that time our diplomacy will have unfolded. This may help to address the immediate problem. The question is where are we if the worst happens.

Jamieson: We will have to face up to the problem of consumer rationing. In World War II rationing reduced demand by about 6%. What we are talking about is the possible breakdown of the economy.

Clements: We are talking about a possible 18%. This could be a true disaster.

Kissinger: The problem is that there is no substitute for the Arabs trusting us. I could have Joe Sisco write a plan for peace overnight and we could publish it tomorrow, but in two weeks it could blow up and everybody would be angry with us. What we have to do is to move this thing ahead gradually.

Granville: We in the industry can perhaps help somewhat more if you could revamp the industry's supply committee. Then certain steps might be taken.

Jamieson: Any steps the U.S. takes will connote strength. They will suggest that we are working to resolve our problems.

Casey: We have to get together on our numbers. We do need a mechanism for doing this. It does seem to me that before the diplomacy could get moving, the Saudis might nationalize. It might be worth revitalizing the Foreign Petroleum Supply Committee.

Kissinger: We will do that next week. I think we will know more in three weeks whether what we are going to do diplomatically is enough to persuade the Saudis.

They are certainly the key on the supply side. If the first phase of our diplomacy fails, we are in trouble. On the other hand, if they inflict a cold winter on us, there will be less incentive for us to continue with diplomacy. They have to understand how we will operate.

Warner: There is a group of ARAMCO executives going to Saudi Arabia in ten days. This is the Board of ARAMCO. They are leaving for Saudi Arabia on November 6. Is there any problem with their going? In the normal course of things, they ought to go. It would be difficult to explain why they were not going.

Anderson: We are six weeks from a true disaster. I understand the need to play it cool. But we are going to have to alert our customers in about two weeks to what lies ahead.

Kissinger: Everyone is playing chicken here. If they do their worst now, they lose leverage on us in the future. But we will know in a couple of weeks whether the Saudis will listen to a rational plan.

Dunlop: We need to know what we can say. We also need to be sure that the Cost of Living Council will not throw further impediments in our way.

Clements: The trade journals are as knowledgeable as the U.S. Government about the shortfall that we can expect. This knowledge cannot be kept from the public.

Kissinger: Our immediate problem is to reverse the situation. We have to do this in Saudi Arabia. Also, our public does have to know what lies ahead. The Saudis use the request for a supplemental appropriation for Israel as the pretext for their cutbacks.

Jamieson: They have all the cards.

Kissinger: On the other hand, I have never seen a negotiation succeed where one side shows excessive eagerness.

Miller: The key is to convince the Saudis that their pressure will be counterproductive.

Jamieson: Should the ARAMCO principals go to see Faisal?

Kissinger: Not yet. We will tell you when the timing is better.

Clements: The ARAMCO Board that is going to Saudi Arabia in a few days would not normally see King Faisal. They are at a lower level.

Kissinger: I can see an advantage of having the ARAMCO principals talk with Faisal at some point. But let us tell you the time. Your disadvantage now is that you are supplicants. I can see the advantage of some hand-holding after our initial approach is made. The point then could be a low key one that there will be serious follow-up. I will discuss that with you (Jamieson) on the telephone at the end of next week.[5] At that time it will be more apparent how we are moving. After we have determined where we are in the short term, then we can see where we are going in the long term.

Jamieson: This has been a valuable discussion. We have been waiting for it for a long time. We want to cooperate with you.

Anderson: I guess the message is to stay cool.

Kissinger: In any approaches that we make, we do not want to single out Saudi Arabia. We think it best to wrap their problem into the problems of other producers.

Lee: I have one other appeal. While you are romancing Faisal, bring Kuwait in also. I was in Kuwait when we went through this in 1967 and they felt very much left out. They are feeling the same way now.

Clements: They are vulnerable to these approaches. You can do a lot by just talking with them.

Anderson: What shall we tell the press about this meeting?

Kissinger: Let's say that we had a general discussion of the situation in the Middle East. You can say that the State Department requested the meeting.

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[5] See footnote 6, Document 231.

231. Minutes of Washington Special Actions Group Meeting[1]

Washington, November 2, 1973, 10:27–11:35 a.m.

SUBJECT

Middle East; Vietnam and Cambodia

PARTICIPANTS

Chairman
Henry A. Kissinger

State
Kenneth Rush
**Joseph Sisco
*Arthur Hummel
Robert McCloskey

Defense
William Clements
Robert C. Hill

JCS
Adm. Thomas H. Moorer
V/Adm. John P. Weinel

CIA
William Colby
**Samuel Hoskinson
*William Christinson

NSC
Gen. Brent Scowcroft
**Harold Saunders
*William Stearman
*Lt. Col. Stukel
Jeanne W. Davis

*Attended only portion on Vietnam
**Attended only portion on Middle East

SUMMARY OF CONCLUSIONS

Middle East

It was agreed that:

[Omitted here is information unrelated to oil. A note on the original indicates there were separate Summaries of Conclusions for the Middle East and for Vietnam and Cambodia.]

. . . the President's message on the oil emergency will be redrafted to eliminate mention of the Middle East situation and of any numbers; it should be cast in terms of U.S. energy needs and the steps being taken to meet them.

[Omitted here is discussion unrelated to oil.]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–117, Washington Special Action Group, WSAG Minutes (Originals) 10/2/73–7/22/74. Top Secret; Nodis; Codeword. The meeting occurred in the White House Situation Room. The minutes are printed in full in *Foreign Relations,* 1969–1976, volume XXV, Arab-Israeli Crisis and War, 1973, Document 308.

Secretary Kissinger: Can we turn to the oil emergency? I understand that has deteriorated into a proliferation of meetings—there were 55 people at the last one.[2]

Mr. Clements: It was horrible.

Secretary Kissinger: It has now been decided that the President will put it out next week.[3] Will that hurt or help if it happens just as I arrive in Cairo?[4]

Mr. Clements: I don't like the latest draft. I've cautioned (Governor John) Love that we shouldn't use all those numbers. That would be alarming.

Secretary Kissinger: Are the numbers still in the message? They have to come out. (to Gen. Scowcroft) We have to get that cut down. You see to it.

Mr. Clements: It just gives the Arabs the ammunition to come back to us.

Secretary Kissinger: If we can get it cleaned up, should we put it out next Tuesday[5] or hold it?

Mr. Clements: We shouldn't get it confused with your visit.

Secretary Kissinger: Should we wait a week?

Mr. Rush: (Saudi Petroleum Minister) Yamani told (Ambassador) Akins that one of the reasons for their actions on oil was to show the US that they will have to turn to other sources of energy. They can pump half the oil at twice the price.

Secretary Kissinger: No, that wasn't why they did it.

Mr. Rush: But it's true that we do have to turn to other sources. If we don't put the message out now, but wait until you come back from your trip, it will look as though the trip was a failure. We should talk about the worldwide energy shortage and how we intend to meet it.

Secretary Kissinger: Let's set up a committee to rewrite the message—Bill (Clements), Joe (Sisco) and Hal (Saunders)—let's do it today.

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[2] Presumably a reference to the meetings being held by Love. No minutes of those meetings were found.

[3] Nixon's energy message was delivered on November 7. See Document 237.

[4] Kissinger's stop in Cairo was part of a longer trip throughout the Middle East and Asia. Kissinger was in Morocco (November 5–6), Tunisia (November 6), Cairo (November 6–7), Jordan (November 8), Saudi Arabia (November 8–9), Iran (November 9), Pakistan (November 10), China (November 10–14), Japan (November 14–16), and South Korea (November 16).

[5] November 6.

Mr. Sisco: It should be very low-key—to meet our energy needs, we are taking the following steps.

Secretary Kissinger: Yes, there should be no mention of the Middle East, no numbers. We'll get the latest draft, rewrite it here so there will be no jurisdictional disputes, then Scowcroft can ram it down their throats. We'll put it out Tuesday. Scowcroft will monitor it.

Mr. Sisco: I've talked with the best Arabists in the (State) Department, and they feel strongly we should go on Tuesday.

Secretary Kissinger: But there will be no cracks at the Arabs.

Mr. Clements: Absolutely.

Mr. Rush: It's not retaliatory—we're just meeting an economic need.

Mr. Clements: (to Secretary Kissinger) Did you see that report from Germany that they are going to announce rationing today or tomorrow—they're reaching for a 12% cut in consumption, but they can't do it.

Mr. Rush: Ken Jamieson (of Exxon) is pushing them.

Secretary Kissinger: I thought we told Jamieson to shut up and not to panic people.

Mr. Clements: I don't know whether he is there on his own initiative or whether the Germans asked him to come over.

Mr. Rush: He was already planning to go to Europe. That's why he wanted to shift his appointment with you (Mr. Kissinger).

Secretary Kissinger: The last thing we need right now is for someone to panic.

Mr. Clements: That's why I'm telling you.

Secretary Kissinger: Rationing in Germany won't make any difference.

Mr. Clements: It certainly won't help Henry (Kissinger) for the Germans to panic.

Secretary Kissinger: (to Mr. Rush) Will you call Jamieson and tell him to cool it.

Mr. Rush: I'd better call (Ambassador) Hillenbrand first and get the facts.

Secretary Kissinger: I thought we had agreed everyone could stay cool for two weeks.

Mr. Clements: We did. This will cause a chain reaction in Europe that couldn't be more detrimental to your trip.

Secretary Kissinger: This will just create domestic pressure in those countries to put the squeeze on Israel. Then the Arab incentive to deal with us will go down. Ken (Rush), get hold of Jamieson immediately.

Mr. Rush: I will.[6]

[Omitted here is discussion unrelated to oil.]

[6] In a telephone conversation that evening at 6 p.m., Kissinger told Jamieson, "the best thing you can do is keep everybody from taking panicky action while invoking the gravity of the situation. If we can alleviate the situation on this trip we will know that soon, if we cannot avoid it, if we can avoid the temptation of these people buttering up Saudi Arabia, saying the government is stupid, and that kind of thing." He added, "If they have grave doubts about the government, if they think we are not doing enough, tell them we will continue to press, believe me we are doing everything we can. We have got to organize pressure to face the onslaught of the Israeli lobby." Kissinger promised to talk "with absolute frankness with King Faisal," and ask that he ease the embargo for 6 months, then reimpose it if needed. Jamieson promised to "take the line you suggested." (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 23, Chronological Files, October 1973)

232. Memorandum From James H. Critchfield, Special Assistant to the Deputy Director of Operations, Central Intelligence Agency, to Director of Central Intelligence Colby[1]

Washington, November 2, 1973.

SUBJECT

The 1973 Winter Energy Crisis

1. The inclusion of the Netherlands on the embargo list adds a new and serious dimension to the problems facing the consuming nations this winter.[2] In general, the scope of the embargo and the effectiveness the Arabs can bring to enforcement is exceeding earlier appraisals. Slowly, a kind of panic will start manifesting itself in most of the consuming nations; nationalism will assert itself in the form of suddenly imposed controls on the movement of crude oil and products across national boundaries; the size of the waves in what Love's office calls "the ripple effect" is likely to become quite impressive.

[1] Source: Central Intelligence Agency, National Intelligence Council Files, Job 80–B01495R, Box 4. Secret. A copy was sent to Deputy Director of Central Intelligence Vernon A. Walters, Deputy Director of Operations William E. Nelson, Deputy Director of Intelligence Edward W. Proctor, and George Carver, National Intelligence Office.

[2] The Arab oil embargo was extended to the Netherlands on October 23 because of its support for Israel.

2. Oil men who follow domestic affairs now tell me that severe shortages in the Midwest and Northeastern US are now inevitable. One, whose judgement I respect, anticipates an "absolute disaster" in the Midwest if the Canadians make the cuts they have indicated.[3]

3. The prospects for Europe look even worse. If the embargo continues after the end of November and is increased by an additional 5% or more, the Europeans will have to take drastic measures. Since this is daily becoming more apparent to the Europeans, we can expect reactions soon. If the EC nations initiate an internal EC sharing arrangement, the Arab producers will almost certainly react against those who attempt to cut across the lines of the Arab selective embargoes. At some point, the Europeans will probably decide that they must act together to seek their peace with the Arabs. Thus, the prospects for additional strains between the US and Europe appear to be growing.

4. One of the problems facing the oil industry is the disposition of the large tankers that are rapidly becoming surplus. There are simply not enough harbors and anchorages to accommodate these vessels.

5. All of these energy developments add real heat to the urgency of Secretary Kissinger's peace mission.[4] If he does not wring some concessions on scaling down the embargo soon, there will be no way to avoid a real energy crisis this winter. As far as I can judge, there are, thus far, no real contingency plans in the works that will do much to alleviate the crisis. There is a remarkable tendency to pin hopes on the miracle that Secretary Kissinger is expected to perform.

6. It is clear that we will be called upon to produce, in an atmosphere of crisis, a number of political and economic estimates on the shape that this new crisis will take. If it goes on very long, Europe and Japan will be tempted to join the Arabs in a new relationship that excludes the US. The flaw in this policy for Europe, Japan and the Arabs is that with US influence out of the Middle East, they would not be left alone long to share their new relationship; the Soviets would be back. It seems to me that it would be useful if we were to attempt to set up some fairly black assumptions and, against them, write the scenarios of what will develop in the next six months if Secretary Kissinger fails to meet some of the very high hopes that are now harbored by the Arabs and particularly the Saudis.

James H. Critchfield[5]

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[3] See Document 226.

[4] See footnote 4, Document 231.

[5] Printed from a copy that indicates Critchfield signed the original.

233. Memorandum From the Executive Secretary of the Department of State (Pickering) to Secretary of State Kissinger[1]

Washington, November 2, 1973.

SUBJECT

Middle East Oil and European Reactions

Your strategy in handling the Arab oil embargo has caused a number of I think essentially helpful comments from the Department, including one which Winston Lord has forwarded to you and one from INR.[2] I believe you are essentially correct in pursuing the Arabs on the basis of the no oil, no U.S. participation actively in a peace settlement formula.

Beyond that there are a number of nuances which might be worth looking into. I am particularly concerned that for rather narrow domestic reasons we are losing an opportunity with the Europeans. Their dependence upon Arab oil is obviously much greater than ours. Similarly, this gives us a much stronger position of leverage with the Europeans should we be prepared to take a number of minimal steps to help them in the oil crisis. It might mean the diversion of some small percentage of our own resources with some further belt-tightening domestically. A good bit of it might be more rhetorical than real—since the steps we will have to take will also reinforce your bargaining position with the Arabs and may well result in breaking the embargo before the actual steps have to be implemented.

However, helping the Europeans form a solid front against the Arab oil embargo with some minimal assistance from ourselves puts the leadership into our hands in an essentially important economic question in Europe. The leverage to be gained by this is great not only in facing the Arabs with a united front of oil consumers and the appropriate and implied action that this might carry with it in terms of what the consumers can do to the Arabs on both trade and on control

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[1] Source: National Archives, RG 59, Central Files 1970–73, PET 17–1. Confidential. A copy was sent to Eagleburger and Lord. A handwritten notation at the top of the page by Kissinger reads: "Good idea. Get more work done. HK."

[2] The first document is presumably a November 3 memorandum from Katz and Lord to Kissinger. (Ibid., PET 1 US) The INR study, November 2, is entitled "Economic Dependence of Arab Oil Producers on Trade and Financial Relations with Major Oil Importing Countries." (Ibid., RG 56, Records of Secretary of the Treasury George P. Shultz 1971–74, Box 7, GPS Secretary of State C–1974) These documents are summarized in Document 235, to which copies are attached as Tabs A and B respectively.

over Arab monetary sources now deposited either in the United States or Europe, but it puts us in a position to begin to drive rather than be driven by the Europeans on important economic issues.

I broached this particular thesis to Larry and Winston[3] and they believe it is worth further study. I will leave it to Winston to see what he can provide in the way of a more comprehensive and thoughtful analysis of the question, but believed you might be interested in an initial raising of it prior to your trip to the Middle East.

Thomas R. Pickering

[3] Lawrence Eagleburger and Winston Lord.

234. Memorandum From Charles A. Cooper of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, November 3, 1973.

SUBJECT

Arab Oil Embargo and Production Cutbacks

Early Reversal of the Embargo Not Essential

The economic implications of the Arab embargo for us are unlikely to prove so burdensome that an early abandonment of the embargo is vital to our interests. Although I am not an oil industry expert, there are reasons to believe that while an Arab oil embargo against us will cause serious economic difficulties, the problems that arise will not be so serious that they cannot be tolerated:

—There is a difference between Arab rhetoric and performance—not only is it difficult for all the Arab nations to enforce their cutback and embargo policies, but there will be both economic and political incentives for them to rely more on words and less on deeds, particularly as time goes on and crisis atmosphere lessens.

—There are many circumstances short of a definitive settlement in the Middle East conflict under which the embargo *policy* itself is likely to be modified.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Energy Crisis, Nov 73–Feb 74. Secret. Sent for action.

—If the embargo is sustained, and somehow enforced with 100 percent effectiveness, we can get through this winter. The measures to be announced next week[2] to conserve the use of petroleum, and to increase our production, and to draw down stocks, together with some increased imports from non-Arab sources, will be effective even though politically and economically burdensome.

—As time passes, adjustments will be more effective and the economic consequences of the embargo less serious. The domestic oil policy which will be announced next week is drastic, but we would have had to take comparable conservation measures anyway over the next several years, given the basic change in Arab oil export policies.

Refusal as a Matter of Principle to Accept the Legitimacy of a Link Between the Arab Oil Embargo and Our Middle East Policy

We should treat the Arab oil embargo as an illegitimate economic act, which we will not allow in any way to influence the timing or substance of our peace efforts in the Middle East. If we threaten to delay our peace efforts unless the embargo is lifted, we put our own highest priority foreign policy concern at hostage. Even if we put indirect pressure on by calling attention to how hard it is for us to carry out our diplomatic efforts, we tend to create the same problems. We should instead take a line with the oil producers which emphasizes our determination to keep separate our policy towards the Arab/Israeli conflict and our policy towards the Arab oil embargo. The line outlined below could be taken with King Faisal, who is the key player, recognizing that while he may be genuinely concerned over the Israelis, he also has other considerations which may make him interested in a face-saving alternative to confrontation with us.

Approach to Faisal

1. Inform him that we cannot allow ourselves to be influenced on a foreign policy matter of such grave concern, and one where our relations with the Soviet Union are so directly involved, by any actions he might or might not take with respect to oil shipments to us.

2. Express our concern that the repercussions of a continued embargo, which are hard to predict or control in a situation so volatile, could lead to a Soviet role in the Middle East which he might find extremely uncomfortable and undesirable.

3. Assure him that we intend to continue our efforts to promote a just and durable settlement of the Middle East conflict, though we are concerned that public reaction to the Arab embargo may make it harder

[2] A reference to Nixon's November 7 energy message; see Document 237.

to carry forward these efforts as actively and as constructively as we might otherwise be able to.

4. Stress to him that we in no way believe the Arab oil embargo to be legitimate or justifiable, but that we are ourselves fully prepared to make whatever economic adjustments are needed if it continues.

5. Point out that the Arab nations themselves have much to lose economically, since we, and others, will inevitably be compelled to adjust our own production and consumption, and our relationship with other oil-producers, so as to reduce or eliminate our requirements for Arab oil in the future.

6. Indicate that as a practical matter a continued embargo is likely to have spill-over effects in many areas of our bilateral relationship even though we value our traditional friendship with his nation very highly and hope that it will continue in the future.

7. Urge that he follow a moderate and prudent course, and that he continue to keep in mind our deep desire for friendship with him and our genuine interest in helping to achieve a settlement of the conflict between the Arabs and Israelis.

If Faisal remains non-conciliatory, you could make the following point:

8. Warn him that if the economic hardships occasioned by the Arab boycott and production cutback become too severe, particularly in other countries more dependent on Arab oil than we are, that economic countermeasures in which we might participate cannot be ruled out, although we are not considering any such actions at this time.

If Faisal shows signs of looking for a face-saving way out, you might:

9. Suggest that he may wish to take measures to sustain production so that significant cutbacks of oil to such countries as Japan and the FRG can be avoided, even though the U.S. embargo is formally continued, and that in such circumstances we would seek to avoid actions or statements which might add to any political pressures he may face.

235. Memorandum From the Under Secretary of State for Economic Affairs (Casey) to Secretary of State Kissinger[1]

Washington, November 3, 1973.

This memorandum with my current thoughts, judgments, and assessments on the oil situation, may be useful in preparation for your talks next week.[2]

The Current Situation

The assessment of the damage inflicted by the embargo grows more serious. Two weeks ago the estimate was that a cutoff of Arab oil supplies would take away 10 to 12 percent of our total consumption. The latest estimate from the Love office is 15.5 percent, and the oil companies and Defense are putting it at closer to 18 percent. This latest jump comes from the inclusion of 300 thousand barrels a day of bonded military jet fuel stored offshore and higher estimates of winter needs and products imports coming indirectly from Arab countries through Caribbean, South American, and European refineries. The increase in impact estimates also comes from the Saudis' unexpected diligence and efficiency in pulling the noose tight on indirect U.S. use of their crude through imports of petroleum products from third countries. The savings from the options currently being presented to the President are estimated to be good for 2 million barrels a day. The prospect of the shortfall running to 3 million barrels a day requires forcing further consumption cuts by a consumer rationing. This will take 60 days to put in place, and that process is to some extent in motion. Because of quirks in the distribution system and time lags these expectancies are not likely to be fully achieved so that we will see considerable confusion and hardship if the embargo continues for another 2 or 3 months.

The Strategic Alternative

I am signing through to you today the new study (Tab A) of alternative strategies dealing with the international oil problem which you have requested. It looks at four basic strategies:

a) Control the companies.
b) Use of diplomatic, security and other leverages on the producing countries.

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[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz 1971–74, Box 7, GPS Secretary of State C–1974. No classification marking. All tabs are attached but not printed. Tabs A and B are described in footnote 2, Document 233.

[2] See footnote 4, Document 231.

c) Reorganize the market through consumer cartels or a system of consumer country import controls or through a supply and price commodity agreement between consumer and producer countries.

d) Rely primarily on building self-sufficiency.

These strategies are not mutually exclusive and all four of them could be utilized.

My own judgment is that a strong drive to self-sufficiency is fundamental and paramount and that diplomatic initiative is necessary to buy time and to cope with the financial imbalances already inherent in the present situation. I have very little confidence in controlling the companies or organizing the market. It is my judgment that these approaches would turn out to be counter-productive.

The Price Impact

I think it is important to recognize that the increase in price which has already taken place will turn out to be more important than the embargo. The embargo will not last forever but the price increases will generate wide financial disruption and, more important, remove the incentive of the Arabs to lift their production to the levels they had planned and on which the consumer countries have been counting.

Counter Economic Warfare

In looking at options to deal with embargo I had INR pull together a picture of what might be accomplished by economic counter measures. As you will see from the paper at Tab B there does not seem to be much leverage there.

Fundamental Long-Term Approach to the Arabs

During the summer I felt the same dissatisfaction you have expressed in the options being developed for cooperation of a bilateral and multilateral character to meet the energy challenge. I felt that any approach to the Arabs would be ineffective unless (a) put in perspective of actual steps already in motion on our part to achieve self-sufficiency and (b) related to their self-interest in beginning now to adapt to a world in which their only real asset—liquid oil in the ground—will have lost much of its importance. It seems to me that we have to show them that by going wild on prices they will accelerate this process. It also seemed to me that the only way to enlist their financial cooperation is to offer them a way of participating in the future world energy system in which liquid hydrocarbon must play a smaller role. I would urge you to read the speech I made in September in which I began to spell out this perspective. It is at Tab C and I have marked off the most important paragraphs.

They must come to understand that we can manage without their oil. Cutting our consumption back by 20 percent will be rough but only

for a few years. I am attaching at Tab D a preliminary on a study we have been working on with Interior which shows how more severe but still feasible steps than those set out in the President's energy messages could relieve us of dependence on Arab imports in 1975, all oil imports by 1980 and all gas imports by 1985. The Arabs must also perceive that once we make the immense effort and investment to start in this direction their market for oil may be permanently impaired.

You are uniquely in a position to begin a process of engaging the Saudis in a continuing exploration of where their real interest lies in this period of transition to a world in which liquid hydrocarbons will inevitably share the world energy market with increasing proportions of hard hydrocarbons in the form of coal, shale and tar sands and new technologies based on the atom, hydrogen, and the sun. Children in Saudi Arabia today can see a day when their oil may not be enough to sustain them, and wise leaders would use their growing financial reserves to get a stake in that world.

We should also be exploring what a $10 barrel of oil will do to the prices of all the other commodities in the world. We should be studying together the implications of $5 a bushel wheat and $6 a barrel oil for their inflationary investment and monetary implications along with our mutual political and security concerns which I don't have to develop for you.

Addressing the Embargo

The most promising approach at this time, is the effort you are embarking upon to convince Sadat and Faisal that, if we are to play successfully the role in the Arab-Israeli territorial settlements they need, this oil pressure is counter-productive. They cannot expect you to sustain the domestic and other support you will require to accomplish this by tightening the screws every few days.

Yet, I am inclined to share the doubts stressed by both Ray Cline and John Wilhelm on the ability of Faisal to terminate the embargo before there is tangible evidence of commitments on a settlement. If you decided that is the case, I have some suggestions for a series of specific and not very visible relaxations of the embargo that would relieve our situation and get Faisal moving in the right direction. For example, on the basis that the Arab states as well as all others have an interest in keeping the global air transport and shipping systems going, shipments to refineries to the extent necessary to produce bonded jet and bunker fuel for these purposes could be continued. Another example, Saudi crude goes into refineries in Portland, Maine, which puts it into a bonded pipeline to Montreal. Although Canada is not on the embargo list the Saudis have decreed that the crude necessary to supply their pipeline cannot go to the U.S. refinery. This interpretation might have been the other way. Again, they could be less diligent in

shutting off crude to the Caribbean and South American refineries on the basis of products going to the U.S. That they are willing to be flexible in this kind of thing is demonstrated by the Netherlands situation. When they embargoed the Netherlands they did so without cutting back their production to the extent of their shipments to the Netherlands. That means that ARAMCO will get that crude and will be able to send it to European refineries or ports where it can be turned into products that can be applied to meet needs which otherwise would have been met by shipments to Rotterdam. The point here is that both the embargo and the supply situation could be relaxed and a productive process set in motion if it turns out to be impossible to get the embargo called off until the peace settlement shapes up more clearly.

The European Situation

The disarray of the Europeans and the general scramble to appease the Arabs and take care of themselves has made the oil weapon successful more than anything else. This has been generally explained on the basis that the Europeans and Japanese are more dependent on Arab oil than we. The fact is that today we are facing a 15 percent cutback in consumption, Europe a 9 percent cutback in consumption, and Japan a cutback of about 4 percent. The emergency oil sharing scheme which is being studied in the OECD, if implemented today, would increase our imports by 18 percent over the embargo levels if it operated on the basis of sharing imports which is the only basis we have been willing to consider. It would reduce our imports by about 3 percent if operated on the consumption sharing basis which would be the most disadvantageous to us.

When I talk to the British and the Germans on Monday and Tuesday[3] I plan on engaging in a mutual assessment of the situation and to see what they are willing to do to remedy it. It is in our common interest to cut back consumption and to force synthetic production. They have to move on that and decide whether they are going to share among themselves in the operation of the European Community before we can

[3] According to telegram 16053 from Bonn, November 6, Casey met with senior Foreign and Commonwealth Office and DTI officials on November 5. He reported that British policy was to "'help maintain maximum flow of oil' by resisting Dutch demands for public manifestation of EC solidarity in order to protect their favored position while quietly preparing for worse and hoping that shock and implications this fourth Arab-Israeli war sufficient help you 'get politics right in Near East.'" (National Archives, RG 59, Central Foreign Policy Files) On November 6, German officials from the Foreign Office and Ministry of Economics told Casey that they preferred a "very silent" system of cooperation relying on companies to do the necessary shifting of supplies, unless Libya embargoed Germany, which would cause a shortfall of 40 percent of consumption. (Telegram 28915 from USOECD Paris, November 8; ibid.)

even begin to think of anything we might be able to do to help them. In fact because we are losing more than they, we have a grievance as they shut off product shipments to us. They will say that they have to do this in order to keep the Arab crude flowing to them. The only thing that can keep European industry from grinding to a halt and their people from freezing as the Arabs continue their cuts will be the achievement of a settlement, or whatever else it takes to bring about a reverse of the Arabs' announced policy of steadily curtailed production. The original purpose of Prime Minister Heath's request for consultation was to discuss what can be done about the huge unilateral price increases which have been imposed. This is particularly damaging to the UK with its acute inflation and balance of payments problems. I want to find out what they propose to do about this and how they assess the feasibility of improving the situation through greater control of the companies and tighter organization of the market. I plan to get their ideas in a general way on the questions indicated in the letter I sent to the Presidents of the oil companies outlining the questions on which we would like to get their reaction when you return from your trip. (Tab D)

As pressing as the current situation is and as urgent as it is to strike out in new directions, we must not let the process of looking for oil be neglected. Nor should we forget that the Arabs carry the risk of significant uncertainties in the demand and supply projections which have undermined the bargaining strength of the producing countries. Continuing large increases in oil prices can be expected to have a dampening effect on its consumption and place in the energy resource mix. Even small changes in the currently projected rates of growth of world energy demand or in the energy resource mix (e.g., more coal) could alter the world oil equation beyond the practical capacity of oil producers to offset. Production projections will probably turn out to be overstated in the case of certain major sources—e.g., Saudi Arabia—while quite possibly understated in a large number of places ranging from the North Sea, Siberia and the Arctic to the offshore continental shelfs around the world to the Amazon jungle.

In short, oil market conditions may well, over the next ten years or so, be conducive to opportunities for advantageous bargaining between producers and consumers on private and public levels. This is the area we should continue to explore, seeking to uncover and even induce new prospects and accelerated exploration. Higher prices will stimulate both exploration and greater production from existing pools and we should be careful about market or contract arrangements which could be counterproductive to this process.

William J. Casey

236. Minutes of Washington Special Actions Group Meeting[1]

Washington, November 6, 1973, 2:01–2:54 p.m.

SUBJECT

Middle East; Cambodia and Vietnam

PARTICIPANTS

Chairman—Gen. Brent Scowcroft

State
Kenneth Rush
Rodger Davies

Defense
William Clements
Robert C. Hill

JCS
V/Adm. John P. Weinel

CIA
William Colby
Samuel Hoskinson

NSC
William Quandt
Jeanne W. Davis

SUMMARY OF CONCLUSIONS

It was agreed that:

[Omitted here is discussion unrelated to oil.]

. . . General Scowcroft would inquire as to the reasons for the separate energy R&D agency.

[Omitted here is discussion unrelated to oil.]

Gen. Scowcroft: (to Messrs Rush and Clements) Have you gentlemen had a chance to look at the latest draft of the President's energy message?[2] We have no great problems with it, although I don't think it's a barn burner.

Mr. Rush: It doesn't set one on fire.

Gen. Scowcroft: Hopefully, they are going to punch it up a little.

Mr. Clements: I think they need more of the patriotic approach—that everyone needs to cooperate—than is in there now.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–117, Washington Special Action Group, WSAG Minutes (Originals), 10/2/73–7/22/74. Top Secret; Sensitive; Codeword. Printed in full in *Foreign Relations*, 1969–1976, volume XXV, Arab-Israeli Crisis and War, 1973, Document 322.

[2] Drafts of the President's November 7 energy message are in a memorandum from Love to Kissinger, October 20 (National Archives, RG 59, Central Files 1970–73, PET 17–1 US–ARAB), and in a memorandum from Love to Haig, November 1. (Ibid., Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–95, Washington Special Action Group Meerings, WSAG Meeting, Vietnam and Middle East, 11/2/73) The final text is in a November 7 memorandum from David Gergen to members of the President's staff. (Ibid., NSC Files, Box 321, Subject Files, Energy Crisis, Nov 73–Feb 74) See Document 237.

Gen. Scowcroft: We are making that point to them to try to get some dynamism in it, but it solves our problem about references to the Arabs.

Mr. Clements: I want to get on the record with one thing. I think the President is on a bum wicket with the independent agency for research and development from the point of view of management and structure. He is asking for an agency—the Department of Energy and Natural Resources—which will bring a high degree of concentration to the energy matter. Some 32 groups, I think will be brought together in this agency. But to have this Department, plus a separate R & D agency outside of it, doesn't make sense from the organizational standpoint. It would be breaking off the most important longer-term facet of what he is creating in the Energy Department.

Gen. Scowcroft: My guess is that this was done because OMB thinks it may be a long time before the Energy Department is created; this takes an act of Congress. They think they can get the R&D agency now.

Mr. Clements: OMB is human, too—they can make mistakes. Organizationally, it's just a poor structure. You should have the best R&D people right in the agency itself.

Mr. Rush: A big part of R&D is the result of operational experience. To isolate them is just not feasible. You need the interplay.

Gen. Scowcroft: I'll look into it. I think there was dissatisfaction with the idea of leaving R&D with the Atomic Energy Commission.

Mr. Clements: I agree with that.

Gen. Scowcroft: So, rather than wait for the Department to be created, which might take a long time, they decided to pull the R&D group out independently. I'll find out about it, though.

Mr. Clements: It's too late to bring up a major issue, but every time the President gives a speech and comes down hard on this, it gets more difficult for him to back out. He's sticking himself in concrete.

Gen. Scowcroft: That's a good point; I'll find out about it.

Mr. Clements: I'd like to make two or three quick points about this oil situation. If we don't solve this oil embargo situation by January 15 or February 1, I can't emphasize too strongly the degree of trouble we'll be in. We need to talk about some things in this group that we can't talk about in the Energy Policy Group or the larger group. I tell you, from my experience, Watergate will be a tea-party compared to this thing by February 1.

Mr. Rush: I agree, and the Israelis will think it's a tea-party, too. What happens in Europe and Japan has a very heavy impact here. As our allies start shedding us off, the impact here will be very serious.

Mr. Clements: There has been nothing in my adult lifetime as serious as the next 90-day period in our energy situation.

Mr. Rush: Our recent problems with NATO are just the beginning.[3] Wait until they start closing plants, schools, jobs.

Gen. Scowcroft: In the middle of winter.

Mr. Clements: Our economy will turn itself inside out. And the alternatives are as serious as the ones we are talking about. I have carefully avoided such a discussion up to now, but I want to get this on the record. To use a favorite word in this room, my perception is that the President doesn't have any understanding of how serious the problem is. He has been preoccupied with other things, and understandably so, but compared to this, the naming of a new Attorney General and a new prosecutor are side issues.[4] Ken (Rush), do you agree?

Mr. Rush: We have the reverse of the normal economic situation. The Arabs can increase their prices and cut back their production, and still have more money than they did before. There are no economic pressures on them.

Gen. Scowcroft: None.

Adm. Weinel: And the problem is exacerbated because people can't identify the sacrifices they are being asked to make with any principle. If we could put it in the context of a maximum contribution to the millenium someone could make a speech in the UN about it.

Mr. Clements: Henry (Kissinger) is really on a pilgrimage to Mecca. There's something ironic about that. I know what the problem is and I know what the solution must be, but how to get from one to the other, I don't know. Henry (Kissinger) now understands the problem and the solution—the solution is Saudi Arabia. But how to get there, I'm not smart enough to know. That's the Secretary's (Kissinger) problem. But

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[3] A reference to strained relations between the United States and NATO allies over the neutral stance taken by NATO countries during the war, including denial of base rights for refueling U.S. aircraft involved in the resupply of Israel. (*The New York Times*, October 27, 1973, p. 1) In his press conference of October 26, Nixon discussed assertions made in the Department of State "to the effect that our European friends hadn't been as cooperative as they might have been in attempting to help us work out the Middle East settlement." (*Public Papers: Nixon, 1973*, p. 902) Schlesinger discussed NATO's response to the Middle East war with NATO Secretary General Luns, November 6. (National Archives, RG 59, Central Files 1970–73, POL 27 ARAB–ISR)

[4] A reference to the situation that existed after the so-called Saturday Night Massacre when both Attorney General Elliot Richardson and Deputy Attorney General William Ruckelshaus resigned rather than carry out Nixon's order to fire Special Prosecutor Archibald Cox, who was then investigating the Watergate scandal. Third in command at the Department of Justice, Solicitor General Robert Bork, carried out Nixon's order and fired Cox October 20. Nixon appointed Edward Hirsch as Attorney General January 1, 1974.

we can't have any misunderstanding about this. There is no question of how strongly I feel about this, and I know I'm right. We'd better get our eye on the ball. Ken (Rush), do you agree?

Mr. Rush: Absolutely.

Gen. Scowcroft: (to Mr. Clements) I have relayed your views to the Secretary. I think this group should meet fairly frequently in the next week or ten days.

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237. Editorial Note

On November 7, 1973, President Richard Nixon addressed the nation on television and radio from the Oval Office of the White House. He unveiled Project Independence, a domestic response to the energy crisis that he compared to the Manhattan Project and the space program. He identified the goal of Project Independence as "the strength of self-sufficiency." Stating that while the United States' energy shortfalls were in part the result of Middle East developments, the shortage mostly reflected the United States' own economic growth. As such, Nixon called for greater use of coal, reduced quantities of fuel for aircraft, reduced supply of heating oil for homes and offices, lowered interior temperatures, reductions in energy consumption throughout the Federal Government, increased licensing and construction of nuclear plants, and reduced highway speed limits to 50 mph. Additionally, he asked Congress to develop emergency energy legislation that would authorize a return to daylight savings time on a year round basis, the relaxation of environmental regulations, energy conservation measures, the adjustment of plane, ship, and carrier schedules, and approval and funding for increased exploration, development, and production from U.S. naval petroleum reserves.

President Nixon also chastised Congress for failure to pass any of his major energy initiatives. He wanted Congress to approve legislation that would authorize construction of the Alaska pipeline, promote the use of natural gas, set reasonable standards for mining coal, increase research and development, and approve an Energy Research and Development Administration. Nixon's address is printed in full in *Public Papers: Nixon, 1973,* pages 916–922.

President Nixon followed this speech with a Special Message to Congress on November 8, urging that the executive and legislative branches work together to develop emergency energy legislation. Nixon wrote: "Largely because of the war, we must face up to the stark

fact that we are heading toward the most acute shortages of energy since the Second World War." He reiterated the actions announced in his address to the nation and asked for a bipartisan approach to energy legislation that would increase Presidential authority to allocate and ration energy supplies. Nixon asked for early action on pending legislative proposals on competitive pricing of natural gas, reasonable standards for strip mining, simplified procedures for approving electric energy facilities, the establishment of a Department of Energy and Natural Resources, and procedures for the construction and operation of deep water ports. He also asked that priority attention be paid to the creation of an Energy Research and Development Administration separate from the proposed Department of Energy and Natural Resources. Nixon concluded:

> "Project Independence is absolutely critical to the maintenance of our ability to play our independent role in international affairs. In addition, we must recognize that a substantial part of our success in building a strong and vigorous economy in this century is attributable to the fact that we have always had access to almost unlimited amounts of cheap energy. . . . Thus, irrespective of the implications for our foreign policy and with the implicit understanding that our intentions are not remotely isolationist, the increasing costs of foreign energy further contribute to the necessity of our achieving self-sufficiency in energy." (Ibid., pages 922–926)

On November 25, President Nixon again spoke to the nation from the Oval Office on energy issues. Stating that "the sudden cutoff of oil from the Middle East had turned the serious energy shortages we expected this winter into a major energy crisis," Nixon reiterated the key points of his November 7 message and then turned to recent developments. Among these were the passage on November 16 of the Trans-Alaska Pipeline Authorization Act, which was adopted by the Senate only after a tie-breaking vote cast by Vice President Gerald Ford, and passage of the Emergency Petroleum Allocation Act of 1973. Nixon also stated that, on the advice of Colorado Governor John Love, head of the newly-established Energy Emergency Action Group, he was announcing greater emphasis on the production of home heating oil, the closure of all gas stations from 9 p.m. Saturday night to midnight Sunday, mandatory speed limits, a rescheduling of air traffic, restriction of outdoor ornamental lighting, and reduced interior temperatures to 68 degrees Fahrenheit. The text of the President's speech is ibid., pages 973–976.

On December 4, speaking from the White House Briefing Room, Nixon remarked that due to the Middle East oil embargo, it was necessary to strengthen the nation's ability to make and implement an energy program. To do this he "decided to bring together in one agency the major energy resource management functions" of the government.

Nixon personally assumed chairmanship of the Energy Emergency Action Group (EEAG), and appointed William E. Simon, Deputy Secretary of the Treasury, to serve as the Executive Director. The EEAG was to have central authority for dealing with the energy crisis. Nixon asked Congress to create a Federal Energy Administration and, within the Executive Office of the President, a Federal Energy Office to carry out all energy-related functions. He established, by Executive Order 11748, the Federal Energy Office in anticipation of Congressional action, also to be headed by Simon. John Love and Charles DiBona had resigned their positions as Director and Deputy Director, respectively, of the Federal Energy Office on December 3. The President's remarks are ibid., pages 990–991.

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238. Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to President Nixon[1]

Washington, November 9, 1973.

Secretary Kissinger has sent you the following report of his meeting with King Faisal:

I met with King Faisal for three hours at the Royal Palace in Riyadh, late Thursday evening November 8.[2]

First I gave him word of the agreement we had worked out with the Egyptians and Israelis to stabilize the ceasefire and ensure relief

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973. Top Secret; Sensitive; Exclusively Eyes Only.

[2] In his November 8 meeting with King Faisal, Kissinger explained U.S. foreign policy toward the Middle East, and emphasized the U.S. desire to promote peace in the region and prevent the spread of Communism. Faisal talked about the regional problems created by Israel and his hope that the United States would abandon its support for Israel, stating "Israel would withdraw the moment Israel saw that you would no longer protect it, cuddle it." He thought Israel a liability to the United States. Faisal also stated his "red hot" desire to end the oil production ban, stating that the embargo had nearly "incapacitated" his "nerves." In response to Kissinger's suggestion that the embargo be partially withdrawn, Faisal said that would happen only if the United States announced that Israel must withdraw from the occupied territories and allow the return of the Palestinians and if it did not, the United States would no longer support Israel. Kissinger noted that moving with such speed to such a decision was politically impossible. (Ibid.)

supplies to the Egyptian Third Army. He was pleased at the news. I then outlined again the strategy you intended to pursue in the coming weeks: to prepare the ground carefully in order to move decisively in the near future. Faisal was encouraged by this and assured me several times of his confidence in you and of his friendship for the United States.

In this context I raised the matter of easing the oil boycott. An energy crisis in America, I told him, would make your position very difficult. It would only strengthen the hand of those forces in the U.S. who were resisting a just settlement and who were seeking to undermine Presidential authority generally. I made the point subtly that we could handle an oil shortage economically but that its real significance was political and psychological as I described.

King Faisal assured me that nothing would please him more than to be able to maintain and even increase oil supplies to his American friends. But he emphasized he was under pressure from the radicals. He pointed out that all Arabs were united on the basic issues and he hoped we would move as expeditiously as possible toward a settlement. He did indicate that he would do his best to overcome his dilemma.

Immediately after our meeting the King sent his two principal advisers one after the other to encourage us in our present course. Prince Fahd, his Second Deputy Prime Minister, came by for a half hour, and Foreign Minister Saqqaf then met with me for an hour. Fahd said he would do his best to get the oil flowing again.[3] The Foreign Minister said that Saudi Arabia was looking for an excuse to get out of its uncomfortable position of confrontation with the United States.

Foreign Minister Saqqaf came by again this morning, November 9,[4] before my departure. He said Saudi Arabia needed some pretext to change its position. He thought the announcement of the opening of the peace negotiations (now planned for November 20) could be the occasion for a formal communication by you to Faisal on the oil boycott. He thought the result might well be favorable.

I invited King Faisal to Washington on your behalf. He said he could not come until after some more progress had been made towards peace.

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[3] Accounts of Kissinger's meetings with Fahd and Saqqaf are ibid.

[4] No other record of this meeting was found.

239. Message From Saudi Minister of Petroleum Yamani to Secretary of State Kissinger[1]

Jidda, November 11, 1973.

[Omitted here is information unrelated to oil.]

"The oil picture is not as dim as I had previously indicated. I am personally hopeful that something can be done—both here in Saudi Arabia to change the attitudes of senior officials and also later with the Arab oil producing countries. I realize that it is not easy at the present time for you or any other official in the United States to give a public statement favorable to the Arabs. However, something in this line would be very helpful to our efforts. In this respect I am refering to a statement regarding implementation of United Nations Security Council Resolution 242 and, specifically, withdrawal from occupied Arab territories."

2. Dr. Yamani stated that the message above contained the complete oral message which he wished passed to Dr. Kissinger. In a discussion which followed however, he made a number of additional comments. He stated that a meeting to which he was going shortly with the King had been called to attempt to obtain the King's approval to take certain steps which would ease somewhat the Saudi Embargo and oil reduction. He said that a complete reversal of steps already taken was out of the question, but that it might be possible to take some steps which would modify the position. If successful in his efforts with the King, Yamani then plans to call a meeting of the organization of Arab petroleum exporting countries (OAPEC) to investigate what could be done to ease the situation.

3. Yamani said that the major problem facing him was the fact that the King was so terribly angry at the United States that it will be difficult to get his approval to proceed. As he has done with others earlier, Yamani almost plaintively lamented that the United States had failed to get the Saudi message given repeatedly over the last six months or a year regarding Saudi actions if the U.S. did not change its pro-Israeli policies. He again said that a complete lifting of the embargo

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973. Secret; Sensitive. The message was transmitted to Kissinger who was in traveling in the Far East. On November 16, Kissinger responded that he appreciated Yamani's message and wished him and Faisal to know that "I cannot promise sudden and dramatic developments," although he would continue to work toward a step-by-step achievement of peace. (Ibid.)

was impossible at this time and that the United States would have to pay the price of her support to her Israeli friends.

4. Yamani said that "if given the green light by the King" he would depart Riyadh at 1700 hours local time this evening 11 November for Beirut. He would plan to remain in Beirut until Tuesday or Wednesday[2] when he would proceed to Geneva, apparently for the OAPEC meeting if one is to be held.

[Omitted here is information unrelated to oil.]

[2] November 13 and 14.

240. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon[1]

Washington, November 12, 1973.

SUBJECT

Message from Prime Minister Trudeau on Canada's Oil Policy

Prime Minister Trudeau has sent you the message at Tab B[2] with a view to ensuring that no misunderstanding exists with respect to Canada's policy governing export of Canadian crude oil and petroleum products to the United States.

The Prime Minister's message contains forthright assurances that despite rumors to the contrary, Canada will not permit its foreign policies or its relations with the United States to be dictated by Arab blackmail. The Prime Minister reaffirms Canadian friendship for the United States. He goes on to assert that while Canada will face critical fuel oil shortages in the coming months, the Canadian Government will act in consultation with the United States and will seek in every way to minimize disruption of supply to the United States consistent with meeting Canadian requirements.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 750, Presidential Correspondence, Canada Trudeau Correspondence. Confidential. Sent for action. A notation on the memorandum indicates the President saw it.

[2] Attached but not printed at Tab B is a November 7 letter from Canadian Prime Minister Pierre Trudeau to Nixon.

The tone of the Prime Minister's letter is notably different from that of some recent public statements of his Energy Minister, whose line has been narrowly nationalistic and seemed to foreshadow ready capitulation to Arab pressure.

The message for your approval to the Prime Minister at Tab A[3] would thank him for his message, and it would advise him that the United States is prepared to cooperate and consult with Canada on the energy problem. Your reply would suggest, with regard to the mutual consultations he has proposed, that our two governments focus initially on the development of arrangements to mitigate the impact of the present crisis by helping to overcome distribution and other problems that will arise as shortages appear, and the identification of longer term energy projects that will work to the mutual benefit of the United States and Canada. Your message would further inform the Prime Minister that you have asked Governor Love and Under Secretary Casey to undertake the proposed consultations with Prime Minister Trudeau's officials.

Your message has been coordinated with Dave Gergen. Governor Love concurs. CIEP (Mr. Hale in Mr. Flanigan's absence) concurs.

With your approval of the message, we will instruct the Department of State to send it telegraphically to Embassy Ottawa for delivery to Prime Minister Trudeau.

Recommendation

That you approve the message to Prime Minister Trudeau at Tab A.[4]

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[3] Attached but not printed at Tab A is a November 14 letter from Nixon to Trudeau.

[4] Nixon initialed the approve line. On November 23, Trudeau responded that he accepted early consultations on long and short term energy related issues. (National Archives, RG 59, Central Files 1970–73, POL CAN–US)

241. Memorandum of Conversation[1]

Jidda, November 17, 1973.

[Omitted here is information unrelated to oil.]

1. On 17 November 1973 Kamal Adham, Advisor to King Faysal [*1 line not declassified*] made the following comments [*less than 1 line not declassified*] in Jidda concerning King Faysal's position on the relationship of the oil embargo to U.S. efforts to effect a Middle East settlement.

2. When President Sadat visited Riyadh on 3 November, just before Secretary of State Dr. Kissinger's visit, he (Sadat) made a "formal and official" recommendation to King Faysal that Saudi Arabia lift the embargo on oil shipments to the United States in a series of gradual steps commensurate in each case with prior advances made in the direction of achieving a peace settlement satisfactory to the Arabs. Sadat suggested, as an example, that the embargo be partially lifted in the first instance in response to a partial Israeli withdrawal in Sinai. Note that Sadat never recommended total lifting of the embargo; it was to be a gradual, step-by-step process contingent upon prior (repeat prior) Israeli action. Sadat made this appeal on the basis of recommendations offered by Isma'il Fahmi in Washington, who had been persuaded by Dr. Kissinger and President Nixon that the administration could not undertake the management of a Middle East settlement as long as it appeared to be acting only in response to Arab pressure.

3. King Faysal flatly rejected Sadat's suggestion, saying that "a few miles of the Sinai desert" meant nothing to him; he would consider a step-by-step modification of the embargo only under two conditions:

A. Firm prior agreement from the United States that the final settlement would result in a "denial of Israeli sovereignty over Jerusalem." [*less than 1 line not declassified*] The negative formulation of this point implies tacit acceptance of the principle of internationalization—as distinct from Arab sovereignty—but Adham did not so specify.)

B. Secondly, such a formula of gradual, tit-for-tat concessions would have to have the full agreement of Syria and Kuwait in addition to Saudi Arabia and Egypt; [*less than 1 line not declassified*]. In response to a direct question, Adham discounted the agreement of Algeria as being of no consequence in this context; he said the Saudis are already assured that Algeria will go along with any formula adopted by Saudi Arabia because Algeria is "more than anxious" to renew full

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973. Secret; Sensitive. Transmitted to Kissinger on November 17.

oil production in order to proceed with various expensive development projects.)

4. Dr. Kissinger's subsequent visit[2] confirmed President Sadat's report that President Nixon and Secretary Kissinger were going to insist upon some Arab concession on the oil embargo as a precondition to full U.S.G. support for a political solution acceptable to the Arabs; King Faysal, while persuaded of Kissinger's sincerity, remains adamant that no concession will be made except gradually and except under those conditions specified to Sadat.

5. Two days after Kissinger's departure, King Faysal called a meeting of the Supreme Committee (Lajnat Al-Ulya) of Princes, neither Umar Saqqaf nor Zaki Yamani was present. King Faysal directed that Yamani be sent on a mission to Egypt, Syria and Kuwait to obtain the agreement of those heads of State to the proposition as he had defined it. If Yamani returns with a report that Egypt, Syria and Kuwait agreed, then (and not before) it would become Saudi policy. At that time, the U.S.G. would be officially informed of the decision. King Faysal would ask at that time for a commitment from the United States on the Jerusalem question; he may be willing to allow this commitment to remain secret for the time being, but Washington should understand that a major Israeli concession on Jerusalem is going to be King Faysal's sine qua non, and that Faysal has already committed himself irrevocably on this point before all other Arabs.

6. King Faysal furthermore believes that if current endeavors to achieve a negotiated settlement fail, Egypt and Syria must renew hostilities. In the spring and throughout the summer and early fall of 1973, King Faysal was a persistent voice of restraint on Anwar Sadat; when the war broke out, Faysal regarded it as a disastrous error on Sadat's part. Events proved otherwise, however; King Faysal now believes that military victories or defeats have no particular relevance except as a means of creating for the super-powers conditions of intolerable instability and threatened confrontation. To this extent, Sadat's initiative was a brilliant success. If it does not result in favorable settlement, however, and if the situation recedes into stalemate, President Sadat will be under positive Saudi pressure, not restraint, to start hostilities again. King Faysal is out on a limb, having played the only really effective card in the Arab hand: oil. In the process, however, Saudi Arabia has had to jeopardize its highly-valued alliance with the United States. It troubles Faysal acutely to read that the Philippines and Singapore have declined to fuel the 7th Fleet "because of the Arab boycott," and that Italy cannot supply the 6th Fleet for the same reason. Saudi Arabia,

[2] See Document 238.

despite its differences with the United States over Israel, nevertheless considers itself a staunch partner of the U.S. in the fight against international communism, and King Faysal is deeply disturbed at any representation of his policy as an obstacle "preventing the United States from deploying its power effectively in defence of the Free World" (Exact quote from Adham). Nevertheless, Washington must understand that Faysal cannot and will not take one step to modify the oil embargo until a full program is laid before him consisting of definite steps leading to Israeli withdrawal and including denial of Israeli sovereignty over Jerusalem. Unless that is the case, hostilities will renew.

[*1½ lines not declassified*]

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242. Message From Saudi Minister of Petroleum Yamani to Secretary of State Kissinger[1]

Jidda, November 19, 1973.

[Omitted here is information unrelated to oil.]

We were not able to pass a Resolution, but passed a recommendation to be approved by the heads of state of the concerned countries. The recommendation provides for removal of the embargo when the Israelis accept to withdraw from all the occupied Arab territories according to a timetable.[2] I hope that this will give the U.S. Government a stronger voice in dealing with the Israelis to speed up their acceptance for a peace conference and withdrawal. I also hope that the circumstances might change a little bit to enable us to move another step.

[Omitted here is information unrelated to oil.]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973. Secret; Sensitive.

[2] On November 19, the OPEC Ministers, meeting in Vienna at the OPEC Ministerial Conference, announced that a planned cutback in exports to Europe would not be implemented. The embargo on the United States and The Netherlands would remain in place until a peace settlement based on the inadmissibility of acquisition of territory by force was achieved. The next day it was reported that Saudi Arabia would increase production if Israel agreed to a timetable for withdrawal. (*The New York Times,* November 19 and 20, 1973)

243. Memorandum of Conversation[1]

Washington, November 20, 1973, 5 p.m.

SUBJECT

Meeting with Oil Company Executives

PARTICIPANTS

Henry A. Kissinger, Secretary of State
Kenneth Rush, Deputy Secretary of State
William Clements, Deputy Secretary of Defense
William J. Casey, Under Secretary of State for Economic Affairs
William Donaldson, Under Secretary of State-Designate
Major General Brent Scowcroft, Deputy Assistant to the President
Joseph Sisco, Assistant Secretary of State/NEA
Thomas Kauper, Assistant Attorney General for Antitrust, Department of Justice
Julius L. Katz, Acting Assistant Secretary/EB
George Aldrich, Acting Legal Adviser
Harold Saunders, NSC Staff

Kenneth Jamieson, Chairman, EXXON
Otto Miller, Chairman, Standard of California
Robert Dunlop, Chairman, Sun Oil
John McCloy, Milbank and Tweed
B. F. Dorsey, Chairman, Gulf
Robert O. Anderson, Chairman, Atlantic-Richfield
M. F. Granville, Chairman, TEXACO
Charles Spahr, Chairman, American Petroleum Institute
Leon Hess, Chairman, Amerada Hess
Howard Hardesty, Executive Vice President, Continental Oil
Louis Cabot, Chairman, Cabot Co. (Distrigas)

Kissinger: I thought we might have a review of the political situation in the Middle East as we now see it.

The press knows about this meeting and will pursue each of us after we leave this room. I hope we can follow the same procedure as we did after our last meeting[2] and to say only that we had a review of the current situation. I am glad to say that there were no leaks about contents of our last meeting and I would hope the same would be true on this occasion.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1027, Presidential/HAK MemCons, Memcons, April–Nov 1973. Confidential. Drafted by Katz. Cleared by Saunders and approved in S by Eagleburger on December 3. The meeting was held in the Secretary's Conference Room. Attached but not printed is an unattributed, undated handout, presumably from the oil companies, entitled "Impact of Reduced Arab Oil Production/Embargoes."

[2] See Document 230.

First, I will speak about the status of our negotiations, and then I will have some reflections on the oil situation.

Our first objective was to solidify the ceasefire. The Egyptians showed statesmanship in accepting what they did in the six-point agreement when they could have argued for the October 22 lines.[3] This would not have meant anything in terms of the longer range settlement they sought but would have impeded progress toward that goal. On the other hand, we were not helped by the Europeans who chose the very day of agreement on the six-point plan to issue their declaration. This did not help Sadat. The Egyptians had done some serious thinking about the long term. They know what they want. Certain elements of their objectives will be unacceptable to the Israelis but the Israelis will have to give. Of all of the Arab leaders I met, Sadat was the most impressive. He is moderate and he is pro-Western.

Our next objective is to attempt to organize a peace conference. We expect the conference to be chaired by the Secretary General of the United Nations and will be held under U.S. and USSR auspices. The conference will be attended by the Israelis, Egyptians, Syrians and Jordanians. The first stage of the peace conference should deal with disengagement. The next stage will deal with such matters as boundaries, security guarantees, etc.

There are a number of major difficulties ahead. First, there is the pressure from radical Arabs, which has more of an impact on conservative Arab governments than on the moderate governments. Secondly, there is the behavior of the Europeans and Japanese. I will have more to say about this later. Third, there is the possibility that the Soviets may be tempted to try to get back into the game by taking more extreme positions than we do.

Our position is that we will not be driven by pressure from one point to another. This is a game we could not win and it would be disastrous for us to try to compete with the Europeans or the Russians or the Japanese. Our line with the Arabs is that the Soviets can give you weapons but only we can get you a settlement. The Europeans can give you rhetoric but only we can give you performance. We may promise less but we deliver on our promises.

The problem is that major concessions will have to be made by the Israelis. Everyone knows this. Increasingly, the Israelis are recognizing this. What makes our life difficult is when the Europeans and the Japanese cave to Arab pressures. Since there are limitations on how fast we can produce results, it makes us vulnerable to outbidding by other countries.

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[3] The Six-Point Agreement, aimed at stabilizing the cease-fire achieved in UN Security Resolution 338 of October 22, was signed on November 11 at Kilometer 101 on the Cairo–Suez road.

Jamieson: Yes, we are very familiar with the problem of leapfrogging.

Kissinger: If they want performance, they can't expect us to act under pressure or under blackmail.

I spent a most anguishing evening with King Faisal listening to his view of history and his description of his role in world affairs. After my meeting with him I was visited by several half brothers and sons who told me not to take literally all of his statements and stressing that the King's position was not irrevocable.[4] It reminded me somewhat of the workings of the NSC system. The important thing, is that our point about not being pressured has gotten through. The problem is how to get the Saudis off the hook without subjecting them to pressure from radical Arabs.

We have had some indications that the Saudis are in fact seeking a way out. We have a report, for example, that they are trying to send oil to us through a third country.[5] Yamani has been in constant touch with me and in recent days the Shah and the King of Morocco have sent emissaries to King Faisal urging him to moderate his position. We have been urged from a number of sources not to be too discouraged. We have been told the King is old and stiff-necked and it is difficult for him to change his position. He needs something he can hang his hat on. It has been suggested to us, for example, that it might have been better if the six-point agreement had been signed in Saudi Arabia rather than in Cairo. We are waiting to see what will be the effects of the opening of the peace negotiations early next month. I can't tell you with assurance now that the embargo will be lifted. What is clear, however, is that they are looking for a way out. We are getting daily signals to this effect. We will be making some suggestions to the Saudis but at the time we can't appear too anxious. I must stress that we cannot get into a competition with the Russians and the Japanese since we can't win. We will be driven from one position to another until the Israelis are driven back to war.

As one to whom the concept of Atlantic partnership was central, I must say I find the behavior of the Europeans incredible. It is just not true, as has been alleged, that we failed to consult with the Europeans. On the contrary, we consulted regularly and frequently. In fact, those Europeans with whom we consulted most frequently are the ones who

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[4] See Document 238.

[5] A November 15 intelligence report indicated that Yamani asked a Jordanian official "to attempt to locate a country or company willing to accept a 'sizeable' amount of Saudi oil for non-attributable transshipment to the United States," and that the request came from Faisal. (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 73)

have given us the most difficulty. Those Europeans with whom we consulted the least have been the most understanding of our policy and our position. I would like, Jack McCloy, to meet with you and a group of Atlanticists in the next two weeks or so to discuss this question at greater length. What the Europeans have done has not only been harmful to our own efforts but contrary to their own interests.

It is in our interest that moderate Arabs be in a position to demonstrate that the Arab cause will not be helped by unreasonable demands. The Europeans and Japanese, however, are making it more difficult for the moderates to prevail. From that point of view alone the Europeans' performance has been discouraging but I can also make the case that certain Europeans have used every bit of information given to them against us to further their own position with the Arabs. Nevertheless, it is clear that the Arabs prefer to deal with us. The Europeans are not helpful to the Arabs either as a military or negotiating conduit.

This is the situation we are up against. If we can get the negotiating process under way, there is a chance we can get some movement on the oil boycott but we must hold to the line that we are not going to be pressured. I would like to ask those of you who deal with the Arabs to follow this same line.

The arguments I have found persuasive are (1) to the extent that the embargo hurts us, they undermine the government they need most to help them, and (2) they run a risk of having sentiment and public opinion turned against Arabs.

A number of moderate Arab leaders have sent messages to Faisal along these lines. Even Sadat conveyed our arguments to Faisal without, however, endorsing them. This is where we stand at the moment and you can help us by not giving the impression that you are seeking to pressure us. In any case we are not going to yield to pressure.

Jamieson: What about Faisal himself?

Kissinger: Faisal said he was working on a nervous breakdown. He gave me his proposal for Jerusalem and I told him that if he were prepared to wait ten years he might succeed. He then told me of the pressure he was under from the radicals, from Yemen and Iraq and said he was about to have a nervous breakdown. One must distinguish between Faisal's formal position and what he is really thinking. Two of the four people present at my meeting with him told me afterwards that we should not take his formal position as irrevocable. This view was echoed by Fahd, Saqqaf, and by Prince Sultan.

Incidentally, the Saudis have told us that any public speculation in the United States that the embargo may be lifted will be disastrous. I realize there were some comments made to this effect last week and we must avoid this at all costs.

Anderson: Have the Israelis been cooperative?

Kissinger: The toughest negotiations I have ever had, other than the ones I had with Thieu, were with Mrs. Meir. But one has to understand the Israeli position. They have suffered casualties which would be the equivalent of 150,000 for the U.S. They thought themselves to be the victims of aggression. Now they find they have no friends left in the world except the U.S. There is however a change taking place in their appreciation of the situation. This is not to say that they will agree with us on all of the specifics, but the realities of the present situation are now being impressed upon them. They realize that this is no longer a time-buying exercise. It is my feeling that over a period of some weeks and after their election they will be more flexible.

Dorsey: What about Japan?

Kissinger: When I met with the Japanese last week[6] they had rehearsed in advance all of their arguments in support of a change in their policy, including a break in relations with Israel. I told them that it was foolish for them to do this before negotiations had even begun. I had them persuaded last week but the pressures of their internal political situation will probably lead them to make some kind of a statement on Thursday. The Japanese are facing elections next summer and this appears to be an overriding preoccupation with the Tanaka government. My estimate is that the Arabs want a settlement, not statements. I understand the difficulty the Japanese have, but their leaping ahead is just not helpful.

Dunlop: What about our situation here? What should we be doing to help at home?

Kissinger: This is really for the domestic side of the government to determine. I just want to make it clear that it is not helpful for you to be telling us what and how to negotiate.

Jamieson: I am very concerned about a possible domestic reaction. We have an obligation to tell people what the problem is and how serious it is likely to be.

Kissinger: I have no problem with that. Moreover, we should take resolute measures to deal with our domestic situation. To the extent that we can show that we are dealing with our domestic situation, our negotiating position is strengthened. Anything which supports the authority of the government in this connection is helpful.

Jamieson: Can't we do something in the OECD to produce a unified position among oil consuming countries?

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[6] Kissinger met with Foreign Minister Masayoshi Ohira of Japan on November 14 in Tokyo. The memorandum of conversation is ibid., RG 59, Central Files 1970–73, POL 27 ARAB–ISR. On November 22, the Japanese issued a statement that called upon Israel to withdraw from all Arab territories it occupied in the 1967 war. Failure to do so would cause Japan to reconsider its policy toward Israel. (*Los Angeles Times,* "Japan Urges Israeli Pullback, Threatens to Reverse Policy," November 22, 1973, p. 1)

Casey: The Europeans have been afraid that any action they might take in the OECD and elsewhere to deal with the oil problem might be viewed by the Arabs as a hostile act. Thus, they have not even been willing to convene the Industry Advisory Group of the OECD.

Kissinger: Again, I will say that the European performance has been incredible to me. It is suicidal from their own point of view. The idea that 10 million Arabs can hold up and blackmail Europe notwithstanding its military, economic and financial strength should be intolerable from the point of view of the Europeans themselves.

Anderson: By the end of the year, the supply problem will be catastrophic for us.

Jamieson: I agree. If we don't get control of our demand now, the problem will be so much worse by January and February. We could face a situation where fuel supplies in the northeast will be 50 percent of demand by late winter. We have prepared a paper which shows how the impact grows worse as we delay taking action to reduce demand (paper attached).

Kissinger: Aren't we dealing with this situation?

Clements: No, not now, but hopefully by the first of January we will be.

Jamieson: The industry can help the Government deal with this problem but antitrust laws stand in the way.

Kauper: We can't waive the antitrust laws. We just don't have that authority. If anything is to be done about the antitrust laws, it will require legislation.

Kissinger: Well if we need legislation, can we get it?

Katz: The Emergency Petroleum legislation requested by the President is in the Congress now.[7] The Senate passed the bill yesterday and it will be considered in the House next week. If we need a provision on the antitrust laws, there is a vehicle for getting it.

Kissinger: Well we should work with Justice and the White House to get whatever we need.

What about the idea of the Saudis sending us oil through a third party? Do we have a problem working with the industry on this? We will certainly need industry to help work out details of such a proposal.

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[7] See Document 237. The Emergency Petroleum Allocation Act sought to ensure equitable distribution of available products, to establish equitable prices, and to preserve the independent segments of the oil industry. It established a two-tiered pricing system for domestic crude: "old" oil (crude from properties producing at or below 1973 levels) were subject to a price ceiling; and "new" oil and "released oil" were allowed to be sold at market price. The price of imported oil remained unregulated. (www.eia.doe.gov/pub/oil_gas/petroleum/analysis_publications/chronology/petroleumchronology2000.htm#T_3_)

Jamieson: I have some doubts that we could obtain oil through third parties without other people knowing about it, especially Arab radicals. In any case, the amount of oil we would be getting in this way would be so small as to be insignificant.

Kissinger: I understand. We will be moving in any case to set up the peace talks next week and there should be an incentive on the part of the Arabs to start oil moving again.

Jamieson: Would it be helpful for the ARAMCO principals to see Faisal?

Kissinger: Faisal has expressed his appreciation for our getting involved. The problem is that it is his assessment that if he keeps our feet to the fire, we will move faster. We need to convince him that this is not so, and that our ability to be helpful in the peace negotiations will be harmed rather than helped by the pressure of the oil boycott. If you can make this point to him without appearing to be pleading, it could be helpful. On the other hand, he has heard our line of argument from the Shah and from the King of Morocco and from Sadat.

Jamieson: Is there anything else we can do?

Kissinger: No, you have been extremely cooperative. I have no complaints, such as I had the last time we met. Evidently, you have sent the word to your people and they have been disciplined. What we want to do is make the seriousness of the situation to be made to work for us rather against us.

Spahr: It is not too early to have whatever antitrust clearances are required tonight or tomorrow morning. We just can't afford to wait until the end of the year.

Kauper: While we have some discretion with respect to the advice we give, it must be realized that I have no authority to repeal the antitrust laws. Dividing markets is illegal under the law and nobody can waive this provision.

Miller: The only solution to our oil problems is to have the embargo lifted. Will the December talks be a sufficient basis to permit the resumption of oil shipments?

Kissinger: The peace conference will get under way early in December but we must realize that we are not going to have much progress on its engagement until after the Israeli election. Nonetheless, the Arabs will have a basis for moving on the boycott if they wish to do so. After all, our record of performance with the Arabs is pretty good. But for us the Third Egyptian Army would have been annihilated. We did get a six-point agreement. We did arrange for the kilometer 101 talks. It should be clear to the Arabs they have to come to us to get results.

McCloy: What about the Soviets?

Kissinger: They have been somewhat nervous about our getting out in front but they have come around and they are being helpful at the present time.

McCloy: What can we do about improving the performance of our allies?

Kissinger: I don't know. I do want to get together with you and a group of people interested in Atlantic Affairs. Up to now the Europeans and Japanese, as I have said, have just been unhelpful. The British and French, for example, have been trying to ingratiate themselves with the Arabs by insisting on being present at the peace talks. The Arabs, on the other hand, don't want them present. We don't care one way or the other, but clearly the Israelis don't want the Europeans present, and the Egyptians directly and the Syrians, though the Soviets, have told us that they would just as soon not have the British and French present. I will get in touch with you Jack about a meeting in the next week or so.[8]

Once again gentlemen, I would like to thank you for the cooperation and understanding that you have shown.

Jamieson: Mr. Secretary we want to thank you for the outstanding job that you are doing and to thank you for the time you have given us. You have our full support.

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[8] On November 21, Scowcroft informed Kissinger that John McCloy was prepared to assemble some Americans and some Europeans for the meeting Kissinger had suggested during his meeting with oil company executives. McCloy also suggested that Kissinger meet with Jerry Wagner, head of Royal Dutch Shell. (National Archives, Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Energy Crisis, Nov 73–Feb 74)

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244. Editorial Note

In an October 27, 1973, press conference, Secretary of Defense James Schlesinger announced that U.S. forces had gone on alert, initially without President Nixon's knowledge, following a Soviet warning that it would take unilateral action in the Middle East if the United States did not restrain Israel from cease-fire violations. (*The Christian Science Monitor,* October 27, 1973, page 1, and *The New York Times,* October 27, 1973, page 10) In a telephone conversation that evening, White House Chief of Staff Alexander Haig told Secretary of State Henry Kissinger that Schlesinger had mentioned "putting troops in crucial states to get oil." Kissinger responded: "He is insane." Haig com-

mented: "He (Schlesinger) thinks forces should be put in." Kissinger: "I do not think we can survive with these fellows in there at Defense—they are crazy." (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 23, Chronological Files)

Secretary Schlesinger discussed the issue of the use of military force to secure Middle East oil during bilateral meetings on energy issues with members of the NATO Nuclear Planning Group, November 5–8, including Dutch Prime Minister Joop den Uyl and the Defense Ministers of the United Kingdom (Lord Peter Carrington) and Germany (Georg Leber). Schlesinger emphasized that "the United States did not repeat not intend to be driven to the wall in this situation." (Telegram 4914 from The Hague, November 8; ibid., RG 59, Central Foreign Policy Files) Schlesinger's meeting with Den Uyl is reported in telegram 4939 from The Hague, November 12. (Ibid.) Although no separate record of his meetings with Defense Ministers Leber or Carrington were found, Secretary Schlesinger told Dutch Foreign Minister Van Der Stoel that the "U.S. is not concerned about supply of oil and is determined that neither it nor the West be driven to the wall. While U.S. is not advertising this position, we want it clearly understood that we will not tolerate this kind of blackmail and it would be most helpful if our partners were not so willing to pay it." (Telegram 4916 from The Hague, November 9; ibid.)

British Ambassador to the United States Lord Cromer informed Foreign Minister Sir Alec Douglas-Home that Secretary Schlesinger's statements on oil and force to Lord Carrington needed a response. Ambassador Cromer therefore met with Secretary Schlesinger in Washington on November 15 to defend Britain's Middle East policy, citing its obvious dependence on Middle East oil. Secretary Schlesinger asked whether the European "overt acquiescence in Arab bullying" had not increased the strength of the "Arabs' whip-hand." He stated that Evelyn Baring, the First Lord Cromer, would roll over in his grave. Ambassador Cromer replied: "We were not living in the 19th century, when gunboats were in fashionable use." Secretary Schelsinger argued that the Arabs "had probably not expected Europe to crumple so easily. They would certainly now use similar tactics in the future. Surely the lesson for the future was that the Alliance must stick together and protect its own interests actively." Schlesinger then told Cromer that "it was no longer obvious to him that the US could not use force. An interesting outcome of the Middle East crisis was that the notion of the industrialized nations being continuously submitted to whims of the underpopulated under-developed countries, particularly of the Middle East, might well change public perceptions about the use of the power that was available to the U.S. and the Alliance."

Ambassador Cromer concluded: "Within the wider context of our conversation, including such chance remarks as why had we not finished the job properly at the time of Suez, the implication that the Alliance should be readier to use the force available to it to secure its objectives came through very strongly. It is worrying." Subsequently, the British Joint Intelligence Committee prepared a paper on December 28, entitled "The Middle East: Possible Use of Force by the United States." It speculated on "the political and military options" open to the United States if it decided to use force in the Middle East and the likelihood of American requests for British assistance. (Record of meeting by Lord Cromer; Public Records Office, PREM 15/1768)

The question of whether the United States was willing to use force occurred in the midst of what Kissinger, in *Years of Upheaval,* pages 878–879, referred to as "a series of Saudi communications that, reflecting the various pulls on Saudi emotions, seemed to cancel each other out." Kissinger was describing communications printed here as Documents 239 and 241. He also referred to a November 12 press conference he held in Beijing during which he provided a general and standard statement accepting the principle of withdrawal but not the specifics. He also referred to the contents of telegram 5095 from Jidda, November 18, which reported information from an aide to Prince Fahd, and a November 21 memorandum to Fahd. In this memorandum, Kissinger invited Fahd to Washington and wrote: "it will be very difficult for us to be as helpful as we would like in the negotiations ahead if we remain under the threat of a continuing oil boycott. It will be very difficult to explain in the United States that the continued shut-off of oil supply is the act of friends in the Middle East. In an atmosphere of confrontation, it will be hard for us to muster support for the posture that we shall have to adopt if the negotiations are to have any chance of succeeding." (Both in National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973)

Secretary Kissinger publicly aired the idea of a possible U.S. use of force during a November 21 press conference: "if pressures continue unreasonably and indefinitely, then the United States will have to consider what countermeasures it may have to take. We would do this with enormous reluctance, and we are still hopeful that matters will not reach this point." (*The Washington Post,* November 22, 1973, page A1) In his memoirs, Secretary Kissinger emphasized: "These were not empty threats. I ordered a number of studies from the key departments on countermeasures against Arab members of OPEC if the embargo continued. By the end of the month, several contingency studies had been completed." (*Years of Upheaval,* page 880) For these contingency papers, see Document 255 and footnote 2 thereto.

Kissinger also recalled that he stated publicly in this press conference what he had so far only told the oil producers privately:

"Those countries who are engaging in economic pressures against the United States should consider whether it is appropriate to engage in such steps while peace negotiations are being prepared, and, even more, while negotiations are being conducted. I would like to state for the United States Government that our course will not be influenced by such pressures, that we have stated our policy, that we have expressed our commitments, and that we will adhere to those and will not be pushed beyond this point by any pressures." (*Years of Upheaval,* page 880)

Kissinger's press conference is printed in full in Department of State *Bulletin,* December 10, 1973, pages 701–710.

These public and private statements elicited an immediate response from the Saudi Government. Saudi Foreign Minister Sayyid Omar Saqqaf told U.S. Ambassador James Akins that he was "disturbed" by Kissinger's comments. He said the embargo could be lifted and production increased as soon as there was some real movement toward peace. He thought that Secretary Kissinger's statement made it harder for the Arabs to lift the embargo because the Zionists would "crow" that they had won a victory, the pressure on the Israelis would be relaxed, and the peace talks would collapse. (Telegram 5182 from Jidda, November 24; National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV) Saudi displeasure was reaffirmed in a November 24 message that contained information that Royal Adviser Kamal Adham, King Faisal, and his advisers were "annoyed and distressed" by Secretary Kissinger's press conference. (Ibid.) Kissinger's response is in Document 248.

President Richard Nixon broached the idea of sending an emissary to Saudi Arabia. Kissinger told Scowcroft in a November 25 telephone conversation that Nixon "called me and he wants to send a special emissary to Saudi Arabia to get them to turn the oil on." He added, "He does that and he is in deep trouble with me. We cannot have this now." To which Scowcroft responded, "Oh, no. That would be the worst possible thing to do." Kissinger then said, "Besides, aid will be refused. It will put us in the position of the supplicant." Scowcroft agreed, and asked, "Where do you think he got that idea?" Kissinger: "Probably from some of his oil friends. No sense worrying about it. He will calm down, don't you think?" Scowcroft concluded: "I would hope so. Goodness. That would be a disaster." (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files) According to *Years of Upheaval,* page 881, Kissinger was able to "dissuade" Nixon from this course, which he felt was "hardly the best way to convey imperviousness to pressure, which was essential to the success of our policy."

245. Minutes of the Secretary of State's Staff Meeting[1]

Washington, November 23, 1973, 3:10 p.m.

[Omitted here are the Summary of Decisions and discussion unrelated to oil.]

Mr. Rush: One other matter. One thing I might mention is that Exxon International sent letters—and we have had cables from our Ambassadors[2]—to the U.K., Bonn and Rome saying that they were cutting us off from all supplies. I got hold of Ken Jamieson about this. And he went back and checked into it and said this was absolutely imperative. Otherwise they could not—they would be entirely shut out by Saudi Arabia. The Department of Defense knows all about it. It is about seven percent of our supplies overseas. They agree with Exxon. So there we are. But it is a very bad thing.

Secretary Kissinger: They will not supply our forces overseas?

Mr. Rush: They do business—Exxon is a major supplier of our forces from their outlets in Germany, Italy and the U.K. They have been told they have to cut off all supplies to our military forces, and they have told us that. They say it is being monitored.

Secretary Kissinger: By them?

Mr. Rush: By the Arabs.

Secretary Kissinger: How would the Arabs be able to monitor it unless our companies monitor it for them?

Mr. Rush: They tell me they do have that capability.

Secretary Kissinger: How?

Mr. Rush: I don't know.

Mr. Porter: There is a lot of Arab personnel involved—probably local accounts, others.

Mr. Sisco: Reports said this morning they have got Arabs checking the various vouchers and bills of lading and what-have-you. In other words, they are actually checking the amounts.

Mr. Rush: But the risk was too great for Exxon to take. They would be frozen out completely.

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[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 720, Secretary's Staff Meetings, 11/73–12/73. Secret. According to an attached list, Kissinger, Rush, Porter, Stoessel, Sisco, Newsom, Kubisch, Hummel, Casey, Ingersoll, Wright, Weiss, Lord, Vest, and Pickering attended the meeting.

[2] Telegram 12938 from Rome, November 21; telegram 13616 from London, November 21; and telegram 16817 from Bonn, November 20. (Ibid., RG 59, Central Foreign Policy Files)

Secretary Kissinger: We better do the letter about the military aspects of it.[3]

Mr. Rush: Actually, it is only seven percent.

Secretary Kissinger: There was a draft.

[Omitted here is discussion unrelated to oil.]

[3] Not further identified.

246. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, November 26, 1973, 1710Z.

5225. Subject: Willingness of King Faisal To Change Saudi Oil Policy.

1. Prince Fahd, Saudi Minister of the Interior and brother of King Faisal, told me in Riyadh today that the King has concluded that the Arabs have efficiently made their point by imposing a boycott on the U.S. and restricting oil production; that the Arabs have shown the world they could cooperate and that oil was indeed an effective weapon. He was now prepared to ease the boycott on the U.S. and resume production provided the Arabs can see concrete steps being taken toward a just peace in the Middle East.

2. Fahd said that an agreement on the schedule of Israeli withdrawals from Arabs lands would be sufficient indication for the Arabs to move. Even private Israeli assurances to the USG that it would withdraw might be sufficient to allow the Saudis to act.

3. At the same time the boycott would be lifted the Arabs would announce that the action had been taken because of assurances given them by President Nixon and Secretary Kissinger that they intended to work for a just peace in the Middle East; that the Arabs believed the President and the Secretary would devote their full energies to this end. It would also be announced that if Israel became recalcitrant, or if the

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV. Secret; Nodis. A stamped notation on the telegram indicates that it was received at the White House Situation Room at 8:11 a.m., November 27.

U.S. dropped its efforts, the Arabs would have no choice but to reimpose the boycott.

4. Fahd believed Egypt would support the Saudi position as would Abu Dhabi and Qatar. Algeria, Kuwait and even Syria probably would not oppose it. Strong opposition, of course, would be expected from Libya and Iraq.

5. Fahd said Faisal intended to defend this position in the current Algiers meeting[2] but he added that he had not been authorized by the King to tell me this.

6. I said I was grateful to hear this but reminded him that the Israeli election was scheduled for December 31 and it was not conceivable that the present Israeli Government could take any significant action before then. Even immediately afterwards it would be difficult for the new Israeli Government to reach concrete decisions. In the meantime, the United States would become very cold, factories would close and the U.S. public reaction could very easily turn against the Arabs.

7. I asked if there were not some action which could be taken very quickly? Could not Saudi Arabia ease the boycott somewhat on the basis of statements already made by Secretary Kissinger? And could it not lift it entirely on supplies to our military forces who serve as a shield for them as well as us? Finally, could not the December 1 scheduled cutback in oil production be eliminated? (I explained that any further cutback would hurt third countries who were potentially friendly to the Arabs; it would not hurt the U.S.)

8. Fahd said he wasn't sure what could be done now; in fact he wasn't certain that the action currently favored by the King would be carried out if there were serious opposition from other Arabs. He suggested that it would be very helpful if the President were to send a personal letter to the King. The President could spell out the harm the oil embargo was doing to the U.S. and the world; he could refer to old personal friendships and to the common struggle against Communist penetration in the Middle East and could refer to his determination, as expressed by Secretary Kissinger, to reach a just peace in the area. Fahd said he thought such a letter would strengthen the King's hand and his determination.

9. *Comment:* While it would of course be preferable to have the boycott lifted with no references to any reimposition, such a statement would probably have to be included in the announcement in order to get other Arabs' approval and to avoid the accusation that Saudi Arabia had capitulated to the Americans.

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[2] The Arab League Summit was held in Algiers November 26–28.

10. Fahd is certainly the most amiable of the Saudi princes and the most pro-American and there's no doubt that he personally hopes the boycott can be lifted. However, unless he was being deceitful (which I doubt), this message reflects the King's current thinking. It is highly unlikely that Fahd would have been this explicit without the King's approval. We have learned from other sources that the King was greatly disturbed at being forced by U.S. actions to impose the boycott, that he was particularly disturbed by the thought of weakening of U.S. armed forces, and that he is most likely looking for some action—almost any action—by U.S. to give him reason to change Saudi Arabia's oil policy.

11. *Action Requested:* That the President send a letter along the lines suggested by Fahd as soon as possible, preferably tying it to some specific event, e.g., a reference to the opening of the Peace Conference. We will submit a draft for your consideration tomorrow.[3]

Akins

[3] Telegram 5236 from Jidda, November 27; National Archives, RG 59, Central Foreign Policy Files.

247. Memorandum of Conversation[1]

Washington, November 26, 1973, 11:30 a.m.

PARTICIPANTS

Secretary Kissinger, Under Secretary William Donaldson, Mr. Walter J. Levy, Oil Consultant, Mr. Jan M. Lodal, NSC Senior Staff

Mr. Kissinger: I'd like to have a brief talk about where the energy situation stands. Mr. Donaldson will handle these matters in the Department and Mr. Lodal for the National Security Council. I would like to marshal our resources on the subject.

Mr. Levy: First, I would like to say that the President did not go far enough in his program announced last night.[2] We are facing un-

[1] Source: National Archives, RG 59, Central Files 1970–73, FSE 1 US. Secret; Sensitive. Drafted by Lodal. The meeting took place in Kissinger's office at the Department of State. Talking points for the meeting are ibid., Nixon Presidential Materials, NSC Files, Box 250, Agency Files, National Energy Office, Vol. II.

[2] See Document 237.

known contingencies; if we have a harsh winter or an increase in Arab cutbacks, we could have a very severe situation.

Mr. Kissinger: Further cutbacks would hurt the Europeans, but not us wouldn't they?

Mr. Levy: They would hurt us also, because more severe cutbacks might require us to share with them.

Mr. Kissinger: With respect to sharing, why have we not done anything for the Dutch? (To Donaldson) Why hasn't the paper been done yet? The staff always does it in the last four hours anyway, and I asked for it ten days ago. I need a paper telling me what should be done, what can be done, and why we are not doing everything we could be doing. (To Mr. Lodal) Do you know why the paper hasn't been done?

Mr. Lodal: Quite honestly, I did not realize you had asked for it. Nevertheless, I agree thoroughly that it needs to be done immediately.

Mr. Kissinger: Can you have it for me by tomorrow?

Mr. Lodal: Yes.[3]

Mr. Levy: Briefly, back to the domestic problems, the major problem is with residual fuel oil. If people use electric heaters, and we have a harsh winter, we will run out of residual fuel. Power plants will have to shut down or cut back voltage, burning up our electrical equipment. We need a residual allocation program.

Mr. Kissinger: What I would like to know is what can we do here that might impress the Arabs.

Mr. Levy: It's important that we protect our domestic flanks.

Mr. Kissinger: What are those flanks?

Mr. Levy: I'm speaking of a potential breakdown in our economy.

Mr. Kissinger: It would never come to that. We would have to use military power first.

Mr. Levy: It's not clear that would work.

Mr. Kissinger: Couldn't we invade Abu Dhabi?

Mr. Levy: Yes, but in Saudi Arabia, with the pipelines, we might not succeed. In any event, you want to be reasonably free from domestic problems.

Mr. Kissinger: What are the Arabs going to do?

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[3] The November 27 memorandum from Lodal and Sonnenfeldt noted that the Netherlands was a strong transshipment point in Europe for petroleum products. It also noted that the Dutch had not asked the United States for help, but that the United States could minimize Dutch shortfalls through the emergency sharing program asked for by the OECD. (National Archives, Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Energy Crisis, Nov 73–Feb 74)

Mr. Levy: I think they will stay at their 25% cutbacks. However, as I said on *Meet the Press* yesterday, I believe that no Middle East settlement is possible unless the Saudis approve. We're going to have to put pressure on the Israelis to do that. But they might cut further, and we should be prepared domestically. We should set up a residual allocation program.

Mr. Lodal: You are going to get domestic arguments about the residual allocation program. Love and some of his people feel that coal substitution and other efforts now being planned will handle the situation.

Mr. Kissinger: What do you think we should do with the Europeans?

Mr. Levy: I think that you should meet with people at "next to the Prime Minister" level, in the most important European countries and with Japan. You should give them unofficial assurance of an internal allocation scheme which would ensure that the U.S. oil companies do not divert oil from them. This would remove a great fear—the Japanese are extremely worried about this. I believe all this should be done unofficially. The OECD is out of the question—they are a talk group. Also, I believe we should look out for developing countries and make sure they get a minimum allocation.

Mr. Kissinger: (To Donaldson) You should go with me to the NATO meetings and go around to the countries, provided you'll be tough enough. The Europeans can't continue to act as they have in the past.

Mr. Levy: You can force the companies to cooperate; if you and Heath tell them they will cooperate.

Mr. Kissinger: Can you give your ideas on this to Bill in some detail?

Mr. Levy: Yes. In addition, I think we should pressure the Europeans to keep the price below $16/barrel.

Mr. Kissinger: How?

Mr. Levy: We must get agreement and pressure the oil companies not to accept such prices.

Mr. Kissinger: First, I need to figure out what I want to ask the oil companies to do. But will they do it?

Mr. Levy: They left their meeting with you with a sense of overwhelming respect. They would do what you ask. But you should probably bring them in before your trip.[4]

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[4] Between December 8 and 22, Kissinger traveled to parts of Europe, North Africa, and the Middle East. He was in Belgium (December 8–11), the United Kingdom (December 12), Algeria (December 13), Egypt (December 14), Saudi Arabia (December 14), Syria (December 15), Jordan (December 15), Lebanon (December 16–17), Israel (December 17), Portugal (December 17–18), Spain (December 18–19), France (December 19–20), and Switzerland (December 20–22).

Mr. Kissinger: I don't understand the $16/barrel?

Mr. Levy: I think it was Coastal States perhaps; they bought the oil at that price in Nigeria.

Mr. Kissinger: Is my understanding correct? If we don't stand up now, the Arabs will drive us crazy for the next five or ten years.

Mr. Levy: That's right.

Mr. Kissinger: By early next week we have to know what we want from the Europeans. I need to know what my options are. Can we have some work done on this?

Mr. Lodal: The CIA has started a study; also, you might wish to have an interagency meeting before your trip.

Mr. Kissinger: The CIA never tells you your options, and I don't work through committees. I don't work with the Interior Department. Once we know what we should do, I'll worry about selling it within the Government. (To Donaldson) Can you get some work started for me on this?

Mr. Levy: I believe you might wish to warn the Soviets before discussing this program with the Europeans. By the way, the Soviet gas proposals are a bad deal economically, but you might wish to go through with them for political reasons.

Mr. Kissinger: The political base is better with the Soviets for long term export stability; they would be less likely to cut us off than the Arabs.

Mr. Levy: But they have cut back Eastern Europe. One would not have said that the Arabs would have cut us off a few months ago.

Mr. Kissinger: I have been saying for years that the Arabs would cut us off. They are sufficiently weak that they are essentially invulnerable. They have nothing to fear from us.

Mr. Levy: That's right. The less they produce, the more money they make. I have one other suggestion. We should get an informal group from the nations you talk to to study the longer-term situation. It should probably be sponsored outside the Government.

Mr. Kissinger: I believe you have to have Government people involved. People outside the Government are not well enough informed to deal with the problem. (Interruption while Sec Kissinger took a telephone call from the Mexican Foreign Minister.)

Mr. Levy: Might I suggest something? Would it be helpful for me to go on the trip as a backstop to Bill Donaldson?

Mr. Kissinger: I think that would be a good idea.

Mr. Levy: We need a program that rational Europeans will accept. If necessary, I believe we should force the French out. Our policy should be to make it more costly to the other Europeans to be anti-American

than it is to be anti-French. Also, we must include the Japanese from the beginning. We can't bring them in after the fact.

Mr. Donaldson: Will you be doing this at your NATO meetings?

Mr. Kissinger: No. I will use the occasion of my being in Europe for the NATO meetings to independently meet with them on these issues. We have to put together our program.

Mr. Donaldson: Once again, I think the weakness of the present domestic program will cause you trouble.

Mr. Kissinger: We have to separate our domestic problems from the international ones. I want to know what our domestic problems are; but the place I have authority to deal in is with the international problems. We have problems with the long-term relations between the consuming nations; we have to deal with the current shortage and we have to understand how the West can have a coordinated energy policy. If we have a higher standard of performance within the Government on dealing with foreign issues, that will give us more influence in dealing with domestic issues.

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248. Telegram From the Department of State to the Embassy in Saudi Arabia[1]

Washington, November 27, 1973, 1337Z.

232189. Subject: Saqqaf on Possible Moves on Oil Boycott. Ref: Jidda 5193.[2] For the Ambassador from the Secretary.

1. If Saqqaf again brings up what I am supposed to have said to Egyptians per para one reftel,[3] you should tell him you have reported

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV. Secret; Priority; Nodis; Cherokee. Drafted by Atherton; cleared by Sisco and Pickering; and approved by Kissinger.

[2] Dated November 25. (Ibid.)

[3] According to paragraph 1 of telegram 5193 from Jidda, Saqqaf said that Kissinger had dared Sadat to cross the canal and had said that the Arabs were weak and that they would have to recognize this and swallow their pride and settle for whatever Israel offered. Kissinger was also reported to have said, "if the Arabs thought differently they should try and prove it." Accordingly, "Sadat had taken the dare and the Arabs had won (or would have if it hadn't been for massive U.S. aid); the Arabs were now in a much better position than they had been before; Israel and its supporters were no longer so confident of their superiority; and there is at last a real chance for peace. He [Saqqaf] said the Arabs could not have been in this position if they had not moved on October 6." (Ibid.)

this to me, and I have authorized you to say that it is simply not so. I never said Arabs were weak and would have to settle for whatever Israel offered, and I never dared Egyptians to prove otherwise by trying to cross canal or in any other way. You can be quite forceful in disabusing Saqqaf on this score.

2. Re Saqqaf's remarks on Arab oil strategy, you were quite right in telling him that best thing Arabs can do to strengthen our peacekeeping efforts is to ease the boycott. I do not, however, want to base our case on being solicitous of interests of Europeans and third-world countries or on seeking partial relief.

3. Our strategy is to make clear to Arabs that if they want our involvement in peace settlement efforts, they must first lift restrictions they have imposed rather than holding off on lifting restrictions until there is progress on settlement front. We want an end to interference with oil supplies for our fleet, but beyond that we want a return to situation that existed before production cutbacks and embargoes were imposed, not just a suspension of further cuts and restrictions. We have up to now downplayed talk of retaliation and want to keep our emphasis on one simple line of argument: the Arabs and world in general need a settlement at least as much as we do; our continuing involvement is essential if progress is to be made toward a settlement; and they will not get the kind of U.S. involvement that is necessary unless situation on oil front is returned to normal. This is not a threat but a statement of fact based on objective situation as it relates to public support here for effective U.S. involvement in peacemaking process with all the implications this has for U.S.-Israeli relations.

4. You should be guided by foregoing in future discussions with Saqqaf and other Saudis where you feel making these points would be effective.

Kissinger

249. Paper Prepared in the Office of the Director, Installations and Logistics, Department of Defense[1]

Washington, November 27, 1973.

FOREIGN OIL DENIALS

(U) DoD has traditionally depended on foreign refineries for nearly half its total supply needs. Those needs, which reached 1,090,000 barrels per day in FY 1969 at the peak of the war in SEA, were projected at 650,000 barrels per day during FY 1974, a reduction of about 12% from FY 1973. Some 275,000 barrels per day were under contract from foreign sources for delivery during the first half of FY 1974.

(C) Much of our foreign source petroleum products supply has now been denied. The largest increment has been lost through direct embargo action of Arab governments against DoD supply sources located on Arab soil, principally Saudi Arabia and Bahrein. Other increments have been lost, or will be lost, as follows:

—Total cutoff in supplies from all refiners in Singapore. Cause cited as expressed wish of Singapore government not to become "another Rotterdam." Has impacted heavily on supply to Viet Nam, Cambodia and Thailand.

—Heavy reduction by Exxon and its Eastern Hemisphere subsidiaries in the amounts which will be delivered under existing contracts. Reductions allegedly equate to percentage of Arab oil being used by Exxon to make military products. Denials in some major countries are 56% in Japan, 60% in Italy, 63% in FRG, 70% in UK, 76% in Greece, and 100% in Thailand and the Philippines, the latter two supposedly at the direction of the governments concerned. (Exxon's worldwide loss of crude is less than 20% of total supply.) Exxon is our largest supplier in many areas, particularly in the Mediterranean and Europe. Basis for reductions is Arab pressure on Exxon.

—General reductions in product deliveries by most offshore suppliers, regardless of nationality. In most instances these reductions are percentage-wise less severe than those imposed by Exxon. Generally, they are attributed more to shortages of crude oil than to Arab pressure on the companies concerned.

—Impending losses from refineries which will soon be out of crude, or in short supply. Guam Refining has lost all supply and will run out of crude in December, and some Western Hemisphere sources, heavily dependent on Arab crude oil, will probably have to reduce supply under military contracts.

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[1] Source: Washington National Records Center, OASD/IL Files: FRC 330–85–0035, Petroleum—Arab Oil Embargo 1973–74. Confidential. A stamp on the bottom of the page reads: "Sec Def has seen. 1 Dec 1973." Schlesinger wrote at the top of the page: "Bill Clements: What's your reaction on Exxon issue? JS."

(C) All offshore supply denials must eventually be made up from domestic sources. In the meantime our only alternative is the use of our prepositioned war reserve stocks (PWRS), a process which has already become well advanced, and which serves to degrade military readiness until the inventories can be reconstituted.[2]

(C) Aside from direct Arab embargo actions, the worst impacts have come from the Singapore Government and from Exxon. State and the local Embassies are now seeking to re-establish SEA supplies from Singapore refineries under direct local government procurement actions, to remove the stigma of U.S. involvement. ASD(I&L) has talked to senior Exxon officials to no apparent avail about Exxon's excessive zeal in appeasing the Arab states at the expense of DoD.

[2] According to a November 30 memorandum from Arthur I. Mendolia, Assistant Secretary of Defense for Installations and Logistics, to Brigadier General Richard Lawson, Air Force Military Assistant to the President, the Department of Defense had reduced its petroleum consumption by 22 percent from FY 73 to FY 74. Mendolia wrote that "while some reductions in activity, particularly training, can be accepted in the short term they cannot be continued for the long term without an adverse impact on readiness." He concluded that "the near term DoD petroleum shortage is very serious," and the Defense Department "will soon be forced to begin standing down operational forces." (Ibid., Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Energy Crisis, Nov 73–Feb 74)

250. Notes From Peter Rousel of the Republican National Committee to George H. W. Bush, Chairman of the Republican National Committee[1]

Washington, November 27, 1973.

GB—

Bill Wittmer[2] from Houston was calling to tell you that his office had a call from one of Faisal's aides in Paris who says that Faisal is getting some bad information about U.S. intentions in Saudi, ie. that the U.S. is considering military action concerning control of oil producing facilities there. Faisal's man mentioned Kennedy, Javits, Jackson and Fulbright as those who they feel are supporting such action.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1336, NSC Unfiled Material 1973. No classification marking. Bush forwarded the notes to Scowcroft, November 28. (Ibid.)

[2] Former President of the Tennessee Gas Pipeline Company.

Wittmer says their info is that Faisal has ordered the mining of all oil facilities. He just wanted to keep you posted.

pr

Tuesday[3]

GB—

Bill Wittmer called back to report that his office had received a call from Crown Prince Khaled with a message to the effect that if Nixon could make it clear to the Arab power bloc that the U.S. plans no armed intervention in their countries it would help melt tensions that now exist. Khaled said they are very suspicious and nervous about rumors that the U.S. is planning such moves.

pr[4]

[3] November 27.

[4] Printed from a copy with these typed initials.

251. Memorandum of Conversation[1]

Washington, November 29, 1973.

PARTICIPANTS

Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Dr. James R. Schlesinger, Secretary of Defense
William Colby, Director of Central Intelligence
Admiral Thomas Moorer, Chairman, Joint Chiefs of Staff
Amb. Kenneth Rush, Deputy Secretary of State
Major General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

Kissinger: I have been telling the President that we should say to the Arabs that we will make progress when you lift the embargo—not that the embargo will be lifted as we make progress.[2]

Schlesinger: We have been talking about using the Marines.[3]

[1] Source: Ford Library, National Security Adviser, Memoranda of Conversations, Box 2, November 29, 1973. Top Secret; Nodis. The meeting was held in the White House Map Room. All brackets, except those that indicate omissions, are in the original.

[2] See Document 244.

[3] See Documents 244 and 247.

Kissinger: We should have a plan before we move troops. It is ridiculous that the civilized world is held up by 8 million savages. I spent three hours with Faisal.[4] His problem is he is a friend of the United States, but he is pressured by radicals. So he is leapfrogging the radicals so he isn't embarrassed by his U.S. relationship.

We have had two letters from Yamani.[5] I told them that we couldn't operate under pressure.

I get the impression they are blinking.

Colby: Yes, they are looking for ways to get us oil.

Schlesinger: They are turning up the screws on Aramco.

Rush: I don't know how it could be done without being found out.

Colby: If it was antitrust, they could keep it quiet. The oil companies don't have the incentive.

Kissinger: They seem to be looking for a way out. They told me if they could have announced the six-point deal, they could have lifted the embargo.

The opening of negotiations might do it.

Rush: If we could get a withdrawal to the passes . . .

Kissinger: Ken, we can't yield to blackmail. We can't tie ourselves to any scheme. We have to show our muscle now or the Russians will take extreme positions and drive us right out of the Middle East.

We will have to pressure Israel, but if it looks like we do it under pressure, we won't even get credit for it. We must pressure Israel, but at the right time; don't nickle them on petty issues.

I was impressed with Sadat. He showed statesmanship. I told him if he insisted on the 22 October line, he could get it, but with great agony and it would stop there. The same agony later would get us something more.

I think he doesn't like the Soviet Union.

An announcement of the Conference has a 50–50 chance of getting action on the oil.

If I support 242, that will get us something.

We *won't* make the oil conditional on progress in the substance of the talks. We have to be prepared to stop the negotiations if we get pressure—otherwise the Russians will make extreme demands. The Arabs like us.

[Omitted here is discussion unrelated to oil.]

Kissinger: Let me summarize.

Hassan, Hussein, and Bourguiba are with us.

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[4] See Document 238.

[5] Presumably a reference to the messages in Documents 239 and 241.

Faisal, I think, is in a dilemma. He gave me a hard line and I told him bull shit. I said you tell me about the World Wide Jewish conspiracy and you want me to take it on without preparation. These Jewish groups will say we are yielding to the Arabs' blackmail. That is impossible. He agreed and said, "Can't you help me? Can't you give me Jerusalem?" I said: "That's the last. Our enemies would like to hang us up on a tough point like that. Give us time and we will do it." He asked me to do something, and I said I would see what I could do. Then Fahd and Saqqaf came to me and said they would do what they could. They bled about some Navy deal where we keep raising the price.

Moorer: I know about that.

Kissinger: If we could give on that—but let me do it.

[Read Yamani letter.]

I have already done some—when I said in Peking that Israel would have to do some withdrawal.[6] We have shaken the Saudis. They are saying they trust me. If we keep discipline, we have a chance. But we can't put out that the oil embargo will be lifted as we make progress.

[Omitted here is discussion unrelated to oil.]

[6] See Document 244.

252. Memorandum From David Elliott of the National Security Council Staff to Jan Lodal of the National Security Council Staff[1]

Washington, November 29, 1973.

SUBJECT

International Cooperation in Energy R&D as an Energy Initiative

The following may be useful for inclusion in your energy initiative package.[2]

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Energy Crisis, Nov 73–Feb 74. Confidential.

[2] Presumably a reference to material being prepared for upcoming OECD meetings, during which Donaldson met with Simonet on December 11 to discuss OECD proposals for dealing with the oil situation. (Telegram 7183 from USEC Brussels, December 11; ibid., RG 59, Central Foreign Policy Files)

In the normal scheme of things we can expect increasing international cooperation in energy R&D, particularly in the application of technology to the development of alternate or new energy sources. This expansion will be a natural consequence of the greater activity in this field: the new U.S. commitment ($10 billion over the next 5 years with knowledgeable betting that the figure will grow) and some presumed growth of energy R&D in Europe and Japan in response to the same imperative that is driving us. If, however, we accelerate the evolution of this cooperation we might derive some immediate political benefit as well as moving ourselves more quickly toward greater energy self-sufficiency by capitalizing on R&D abroad. More specifically, I would see the advantages and disadvantages as follows, with the advantages strongly prevailing.

Advantages

1. National programs supplemented by bilateral and multilateral R&D cooperation can be expected to advance the rate of new developments faster than wholely independent activity at the same level of effort (high energy physics is a good example of this type of synergism).

2. Europe and Japan traditionally are more deliberate (slow) than we in undertaking new or expanded technical programs, even when they recognize the inevitability and benefit involved. We can help to trigger their commitment by encouraging some cooperative work, as was the case in the post-Apollo space agreement.

3. Cooperation in energy R&D may be about as much as can be achieved in terms of immediate collective action by Europe and Japan in facing the energy problem. But, even if they are prepared to act in concert in other energy areas, the R&D cooperation would still be a very useful adjunct to a broader energy initiative.

4. A cooperative agreement seeking alternative energy sources would be a signal to OAPEC—perhaps not a very threatening signal in immediate terms, but one which may contain significant longer term implications.

Disadvantages

1. If a cooperative effort is carried out which exceeds the stage of information exchange, i.e., where R&D is conducted jointly and intimately, we may face the usual problems of possible recriminations over poor performance on one side or the other, and disputes over intellectual and commercial rights as technologies successfully evolve.

2. Our own program will lose some flexibility, i.e., inhibit our ability to stop unpromising or overly expensive projects and to start up substitutes.

3. If the Europeans and Japan subsequently prove unable to devote the necessary new resources to energy R&D, then the U.S. accel-

erated program will pull away leaving little behind for meaningful cooperation.

4. If cooperation fails to progress past the paper agreement stage, the failure will become evident to knowledgeable observers within a couple of years and any accrued political advantage will be lost and the "helpless giants" syndrome accentuated.

Considerations in Achieving Cooperation with Maximum Advantage

The primary issue in obtaining significant cooperation is the ability of Europe and Japan to commit to a mutual, sizeable, expanded energy R&D program. Their attitudes toward such an undertaking depend on their perception of the longer range implications of the current situation, but the indications show a strong and growing interest abroad in joint energy R&D. (The FRG, for example, plans to initiate talks with the U.S. on this subject after the first of the year.)

Governor Love's staff, State, and we see a cooperative program as being advantageous, having few substantive negative attributes, and certainly worth the effort to attempt to achieve it. Some exploratory work abroad could (and should) commence immediately. A small push by HAK during his European trip of the general idea and concept would be most helpful in bringing the right level of European attention to the issue and would give a fast start to exploratory talks.

Some specific considerations relating to obtaining and implementing a cooperative agreement advantageously are:

1. The agreement should be multilateral, starting with western European nations, but readily admitting Japan. (Many separate bilateral agreements dealing with technical cooperation are not only lengthy to conclude but would certainly lack the same political impact as a collective commitment.) In implementing a cooperation arrangement, we should encourage the governments and their technology ministries to deal with us collectively through a single organizational entity—this has recently proved a flexible and successful mechanism in our space cooperation with the Europeans.

2. It would be sensible to select four or five major projects, rather than a larger number of small projects, to give focus and public awareness to the activity. (More projects than this may stress European willingness to open their purses.) For reasons of R&D efficiency, individual projects may not be strongly multilateral, but the collection of projects would aim to engage all of the participating nations substantially. Also, the individual projects should involve a significant and *identifiable* European part, since there is concern abroad that in arrangements of this nature the U.S. might submerge and overwhelm the European contribution.

3. The cooperative agreement should be concluded at a high political level (possibly at the European summit meeting) to give the necessary commitment, impetus, and attention. (Also, without this type of commitment the European technology bureaucracy would find it almost impossibly difficult to alter priorities or extract significant new funds.)

4. Although a general cooperative agreement could be concluded and appropriate projects identified later, it would be better to attempt to specify at least one or two projects at the inception. Intensive homework and exploratory discussions with some interested countries (e.g., UK, France and FRG) should lead to a delineation of good candidates. (A recently completed interagency report[3] of cooperative opportunities, suggests 18 areas of possible cooperation, with 6 being of higher priority. The report, though not exhaustive, clearly indicates that energy R&D contains numerous promising areas for international work.)

5. The necessity of a substantial funding commitment should be made quite explicit from the beginning—a meaningful, vigorous program cannot be based on a relabeling of on-going work. New funds, perhaps on the order of $200–500 million per year, will be needed on the European side. There already is a nuclear program in Europe of some magnitude, and building from this base ought not to be too difficult. The non-nuclear area is much smaller and will, relative to its present size, need to be significantly expanded.

6. State feels that the energy R&D activity of OECD is not the appropriate base from which the new cooperation should grow, nor certainly should it be considered as a substitute for a major new U.S.-Europe-Japan undertaking. The OECD work is more usefully oriented toward surveying and inventorying member states energy R&D work—its actual research effort is entirely nuclear and at a modest level ($10 million/year). We should not, however, rule out OECD as a coordinating mechanism.

[3] Not found.

253. Memorandum of Conversation[1]

Washington, November 29, 1973, 1:20–2:38 p.m.

PARTICIPANTS

Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Dr. James R. Schlesinger, Secretary of Defense
William E. Colby, Director, Central Intelligence Agency
Admiral Thomas H. Moorer, Chairman, Joint Chiefs of Staff
Maj. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

[Omitted here is discussion unrelated to oil.]

Kissinger: We had a message from the Saudis[2] that a Presidential letter would help them get off the embargo.

Schlesinger: We should establish their bona fides.

Kissinger: No. There are two letters.[3] One was through the State channel direct to me. The two reinforce each other.

The leaking is terrible.

Colby: I propose we have a memo on this.

[There was a discussion on the NSC meeting of 24 October.]

Kissinger: The Saudis are blinking. It would kill the Europeans if they lifted the embargo on us before them.

Schlesinger: They think we knocked off Idris.[4]

Kissinger: They have never played in this league before. They are scared.

Schlesinger: We need to build a presence in the Middle East.

Kissinger: It is essential.

Is the *Oriskany* an attack carrier?

Schlesinger: Yes. Did you see the Moynihan cable?[5]

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[1] Source: Ford Library, National Security Adviser, Memoranda of Conversations, Box 2, November 29, 1973. Secret. All brackets, except those that indicate omissions, are in the original. This luncheon meeting took place in the White House Map Room.

[2] See Document 246.

[3] The second letter was not further identified. Possibly a reference to the message in Document 241.

[4] During the course of a conversation recorded in a November 28 backchannel message, in which Faisal and Fahd asked an intermediary to explore a mutually acceptable compromise to end the oil embargo, Fahd also asked the intermediary to find out whether the United States was planning "to do to us what they did to King Idris in Libya." (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973)

[5] Not further identified.

Kissinger: I will be glad to rename the ocean if it will solve this problem. He is not out there to express his views on our naval deployment in an ocean named after . . . It was named after the American Indians—that is why we're sending the *Oriskany*.

Schlesinger: There are other base possibilities—Durban, Lorenco Marques. This might be a good time to do it as a reaction to the Middle East. Now it can be interpreted as shoring up our Middle East policy.

Colby: Do we get anything out of the Africans?

Kissinger: Can't we overthrow one of the sheikhs just to show that we can do it?

Colby: We need a base in more than one place so that we aren't completely dependent.

Schlesinger: How about Ethiopia?

Kissinger: Great. I objected to . . . Will they let us?

The Paks want us to build a naval base. They would give us the facilities.

Schlesinger: We should start in Bahrein.

Kissinger: [*1 line not declassified*]

Colby: [*4 lines not declassified*]

[Omitted here is discussion unrelated to oil.]

254. Minutes of Washington Special Actions Group Meeting[1]

Washington, November 29, 1973, 2:39–3:20 p.m.

SUBJECT

Middle East and Indochina, (see separate minutes for Indochina portion)

PARTICIPANTS

Chairman—Secretary Henry A. Kissinger

State
Kenneth Rush
Joseph Sisco

DOD
William Clements
Robert C. Hill

JCS
Adm. Thomas H. Moorer
Vice Adm. John P. Weinel

CIA
William Colby
Samuel Hoskinson

NSC Staff
Major Gen. Brent Scowcroft
Harold Saunders
Jeanne W. Davis

SUMMARY OF CONCLUSIONS

It was agreed that:

. . . an SR–71 photo mission would be flown over the area from the U.S. next week; thereafter the flights would originate from the UK;

. . . the Defense Department should evaluate the present Egyptian and Syrian military equipment situation in relation to the October 6 level;

. . . Defense would review the latest Israeli requests for military equipment and prepare some options including various packages of equipment and rates of delivery.

Secretary Kissinger: (Commenting on ticker item that the Egyptians had pulled out of the military talks with the Israelis at Kilometer 101) I think this will work out all right. The Israelis made a proposal they never should have made, then they pulled back from it. I think they will stagger along until the Geneva meeting is over.

Mr. Sisco: I agree. It won't be easy, but with the Secretary talking in the area and my contacts . . .

Secretary Kissinger: The Egyptians will get in touch with me if they have a real axe to grind.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H–Files), Box H–117, Washington Special Action Group, WSAG Meetings Minutes, (Originals), 10/2/73–7/22/74. Top Secret; Nodis; Codeword. The meeting took place in the White House Situation Room.

Let me review the diplomacy. (to Clements) Your Saudi Arabian friends were not as upset by my press conference as you were.[2] The intensity of their correspondence with me has not slackened. I think things are on track for the December 18 meeting in Geneva at the Foreign Minister level. Both we and the Soviets have received substantially the same reply. There is agreement in principle but everyone is nit-picking. (Israeli Foreign Minister) Gazit is the worst. He is insisting that "contending parties" be mentioned one more time in the first paragraph when it is already mentioned six times. Joe (Sisco) is trying to put it in once more. The Egyptians have made what they call "suggestions". Dobrynin told me the Syrians had mumbled something about other countries participating. We had already heard this from the British. The Egyptians are violently opposed. So, unless Egypt and Israel blow up between now and December 18, things are on track. We have used Saudi Arabia as an intermediary with the Syrians. The Saudis wanted to play that role, but the Syrians won't answer us through the Saudis. They insist on coming back directly to us. We have pretty good contacts with the Syrians now. Incidentally, the Saudis are financing Syrian resupply and rebuilding.

On oil, there is more going on than the formal statements would indicate. I don't think Yamani had full instructions. He's coming over here next week. We'll have a fuller report once the conference is set.

On possible countermeasures, we should review when would be the time to implement them, if ever. Let me make clear our strategy on the oil embargo. We think if we yield to the embargo in the sense of bargaining with the Saudis on the specific terms for the conference, we will get ourselves on a hopeless wicket. It would take too long. It would make the Saudis responsible for every point and they would be driven by their radicals. The British and French would be given an incentive to leapfrog.

Every producing country would set up its own OPEC for the purpose of blackmailing us. Our position with the Saudis is that they have demonstrated their power. They have moved us off our position of letting things take their natural course. We have assumed a major responsibility for the negotiations, which they wanted. Now it is their turn to help. To take action which would inflict harm on segments of the American population before we have had an opportunity to develop something in the negotiations is unacceptable to us. They may have a monopoly on oil but we have a monopoly on political progress. They have already done everything to us that they can. On the basis of regular exchanges we are having with the Saudis, I'm confident this

[2] Kissinger is presumably referring to his November 21 press conference; see the Department of State *Bulletin*, Vol 69, July 2–December 31, 1973, pp. 701–710.

message is getting through. All of you should stick to this line. What we are going to have to do in the negotiations will be painful and difficult for some segments of the American public. If, on top of that, we have serious fuel shortages, it will make our position impossible. If we drop a hint now and then on what actions we might take in return, it might worry them a little. We're getting through; they are definitely thinking about what we might do. When Yamani comes over next week, we should stop commiserating with him on his problem and talk about our own. I really think we are going to make it. What do you think, Bill (Colby)? Joe (Sisco)?

Mr. Colby: I agree, on the basis of the messages I have seen.

Mr. Sisco: So do I.

Secretary Kissinger: We're really making progress.

Mr. Sisco: Despite what some people may believe, I think this thing will work out.

Mr. Clements: (to Secretary Kissinger) I have great confidence in what you're trying to do. But I can't agree, as Bill (Colby) can, on the basis of messages that I haven't seen. I think there is one thing missing from your equation, and it is very difficult to understand unless you have been deeply involved in all these questions of dislocation, redistribution, etc. I can't emphasize how important the next five weeks are for the well-being and security of the United States.

Secretary Kissinger: But there is nothing we can do in five weeks to get Israel back to her 1967 borders.

Mr. Clements: I don't agree. I think we must make some responsible move toward an attempt to get that valve cracked open. If we do not have a new line of communication opened with some oil flowing to us before Christmas, that 17% short-fall the President talks about will be 23%.

Secretary Kissinger: What would be a responsible move?

Mr. Clements: Send someone over there who can look (King) Faisal in the eye and talk to him. Yamani is a ribbon clerk compared to Faisal, Fahd and Sultan.

Secretary Kissinger: Those are the people we are in touch with. What would you tell them?

Mr. Clements: Tell them that we're hurt. Tell them: You've made your point, but there is a point beyond which you can't push us without its being counterproductive. You've proved your point; that's reflected in Wall Street. Just look at the Saudi investment in relation to six weeks ago. Say, as a matter of good grace, and in your position, you should restore relations with the U.S. It is unbecoming and unproductive for you to pursue this line. You need to assume a larger stance and open the valve. From a technical standpoint, your position will be just as good a year from now, if you want to close it again.

Secretary Kissinger: I agree with that strategy. That gives me no problem.

Mr Clements: But he can be told that this week. Nothing will be lost. And it can't be done in one hour or even in one day. You would have to give Faisal time to consult with Fahd and Sultan and mull it over in his own mind. It could be done on a very low key basis, with no advertising. We could use a cover story, and Tom (Moorer), Bob (Hill) and I have a perfect reason for being in Saudi Arabia. We've got $2 billion worth of equipment for their Navy and National Guard on the rocks over there. We're trying to get over there to see if we could get things moving. We could play the whole thing in a very low key. If we were successful, then you (Kissinger) could come over for the closing bit. You could be the hero.

Secretary Kissinger: Now you're speaking my language!

Mr. Clements: It should be the Secretary of State who does it. If we fail, we can just ugly off into the desert. No one will ever know and there will be no embarrassment. At least we will have accomplished something on our other problem. If we don't do something on that, we will just foul up on the $2 billion we have been trying to use as a bridge to the royal family.

Secretary Kissinger: What $2 billion?

Mr. Clements: We've got a $700 million Navy modernization program. Also a modernization program for the Saudi National Guard—the outfit that protects the King. These programs have been underway for more than a year and they have never really gotten off dead center. The Saudis are beginning to think we're not serious about them. They're beginning to flirt with the French. The French Defense Minister has been over there and the French are busting a gut to take over from us in Saudi Arabia. If we're successful on the oil issue, we will have cracked the valve and that feared shutdown, which would cut the flow to the Eastern seaboard by 50% until February or March, won't happen. We have a responsibility to do everything we can as quickly as we can to alleviate this situation.

Secretary Kissinger: I have heard this same line in Japan. Everyone who is in a jam says we must do something. But the question is whether certain actions are more likely to get it done or not. We'd be nuts to send a mission to Saudi Arabia before our talks with the various emissaries who are coming over here. After those talks, we can sit down and discuss what to do next.

Mr. Clements: We've already wasted too much time.

Secretary Kissinger: Before the Arab summit meeting, we might have done it but it would have made no difference at all. The Saudi Arabian problem was to align itself with enough other Arab countries so it wasn't out in front. After that, it's a matter of tactics.

Mr. Sisco: And they did that through the Arab summit meeting.

Secretary Kissinger: Yes. Let's wait and see what the emissaries bring us. After that, we may decide that a mission to Saudi Arabia is important.

Mr. Clements: I can't say any more.

Secretary Kissinger: But you can't say we have wasted two weeks.

[Omitted here is material unrelated to the oil embargo.]

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255. Memorandum From Harold H. Saunders of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, November 30, 1973.

SUBJECT

CIA Study of US Options Toward Saudi Oil Embargo

Mr. Colby has sent you the attached paper which examines the feasibility of four stages of action designed to alleviate the Saudi oil embargo.[2] The focus is exclusively on means of pressure, rather than on combinations of sanctions and positive inducements.

In brief, the options considered are the following:

—Convince Sadat to urge Faisal to relax the embargo. Faisal is likely to be responsive to Sadat, and the Egyptian leadership will appreciate the need for avoiding confrontation with the US over oil. Iran is mentioned as another mediator, and the suggestion is made that the Saudis be asked to lift the embargo selectively—on Europe and Japan first, while looking the other way if transshipments are then made to the US. This would give the Saudis a face-saving way of backing down.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV. Secret; Sensitive. Sent for information. Kissinger initialed the memorandum.

[2] Attached but not printed is the November 23 paper, "U.S. Action Options in the Context of a Continued Total Saudi Arabian Oil Embargo." A Treasury Department contingency plan, "Arab Vulnerability to US/Western Counteraction," based largely on the CIA's assessments, was also prepared. (Central Intelligence Agency, Office of Economic Research Files, Job 80–T01315A, Box 37) These are the contingency plans cited in *Years of Upheaval*, p. 880, and referenced in Document 244. A January 10, 1974, CIA review of possible military contingencies concluded, "for this moment in history King Faisal has the leverage to translate his assets into effective pressure on us in a way we can not match with ours without destroying the very objective we seek." (Central Intelligence Agency, Executive Registry Files, Job 80–M01048A, Box 3)

—If the Egyptian approach does not succeed, the message could be conveyed to Faisal through a variety of [*less than 1 line not declassified*] channels that the US is contemplating serious action against Saudi Arabia. This could be paralleled by [*less than 1 line not declassified*] contacts with Prince Fahd to judge his thinking. The idea could also be spread that we intend to rely primarily on Iran as an alternative to Saudi Arabia in the Gulf area.

[*2 paragraphs (7 lines) not declassified*]

It should be noted that the last two options are not analyzed carefully, but are simply put forward as possibilities.[3] If the situation seemed to warrant such severe measures in the future, a great deal more thinking would have to be done on this topic. Among other things, we would need a careful assessment of Saudi capability to destroy the oil production capacity of the country in the event of militarization. Industry sources judge this to be very high.

[3] Critchfield informed Colby in a November 12 memorandum that the essence of the CIA position was that "the US has almost no economic or financial options for effectively putting pressure on the Arabs. We acknowledged there were political options but that these were currently subordinate to the diplomatic effort." He concluded, "Hopefully, we have put this particular effort to rest." (Ibid., Office of Economic Research, Job 80–T01315A, Box 37)

256. Memorandum From the Director of the Policy Planning Staff (Lord) to Secretary of State Kissinger[1]

Washington, December 1, 1973.

THE SILVER LININGS OF THE OIL EMBARGO

In the present hand-wringing over the clouds of the "energy crisis" it is useful to recall some silver linings.

The Saudi/Kuwaiti oil embargo is an inconvenience for the US. It does not threaten our vital interests if we manage our resources well.

In return for the inconvenience we get the following:

a) A clear demonstration of US power. We are the only major Western country which cannot be shut down by an embargo.

[1] Source: National Archives, RG 59, Central Files 1970–73, PET 1 US. Secret; Nodis. Drafted by J. K. Wilhelm (S/PC). At the top of the page Kissinger wrote: "Interesting."

b) An opportunity to revitalize our alliances by moving toward cooperation across the energy front.

c) It forces attention domestically on the longer term energy supply issue and its relationship to our security and ecology.

d) It forces a serious review of our international oil logistics system and its implications for our security.[2]

e) It encourages objectivity in US attitudes on the Arab/Israeli issue.

f) It maintains pressure on the Israelis to be reasonable.

g) By clearly demonstrating who needs whom it gives us a powerful future bargaining weapon with the Saudis on future prices and quantities of oil for the US.

The Saudis cannot live with the embargo very long because:

a) It kindles internal dissent.
b) It strengthens the Soviets whom they find anathema.
c) It damages their long term economic interests.

The Saudis know that there are ample energy resources in the world. The Saudis are, and will continue to be the residual world supplier of oil (read energy). They know that the introduction of other modes of energy and the development of new oil fields cuts into present and future Saudi markets. Stated differently, any expansion of supply beyond normal growth in demand occurs at the expense of Saudi Arabia.

That is a very poor position in the long run, especially if the forces for uneconomic expansion of energy resources have been unleashed.

The Saudis know that. It is in their interest to get out of the embargo corner. The corner encourages contemplation and enhances our position not only on the Arab/Israeli issue, but also on the future price of oil.

[2] Kissinger put an X next to this sentence.

257. Message From Saudi Political Adviser Kamal Adham to the President's Assistant for National Security Affairs (Kissinger)[1]

Jidda, December 2, 1973.

[Omitted here is information unrelated to oil.]

The following was [*less than 1 line not declassified*] from Kamal Adham, [*1 line not declassified*]. It has been seen by Ambassador Akins, but no other dissemination is being made of it.

"1. At the Algiers conference[2] King Faysal was successful only in obtaining from his primary Arab partners a reaffirmation of their agreement in principle that the oil embargo should be modified in stages, contingent upon the prior achievement of commensurate progress at the peace talks.

"2. There is 'no possibility', according to Adham, that Faysal will ask any more of his allies than that as long as American diplomacy has been unable to accomplish the disengagement of forces in Sinai. President Sadat, who has consistently and repeatedly urged King Faysal to trust Dr. Kissinger and to comply with the Secretary's request for lifting of the embargo before the peace talks, began to modify his position when confronted at Algiers with other Arab heads of state who challenged his faith in Dr. Kissinger in the absence of conclusive evidence yet of American capability to bring about Israeli compliance with the cease fire agreement.

"3. Most of King Faysal's advisors believe now that the occasion of the convening of the peace conference on 18 December should be seized upon by the Arabs as an opportunity to modify the embargo substantially. These advisors have been persuaded that the pressure on Dr. Kissinger must indeed be eased, not only as a gesture of goodwill but to forestall mounting anti-Arab feeling in the United States and Europe. There are, however, three main obstacles to the achievement of a unified Arab policy position on that point at this time:

"A. King Faysal's established position now as the primary spokesman for the Arabs will make the King doubly reluctant to appear conciliatory toward the United States in the absence of a measurable first step backward by Israeli military forces. (Adham's advice is not to harass the King any further on this point, but to demonstrate

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973. Secret; Sensitive. A handwritten notation reads: "Rec'd 1:00 p.m. Dec 2, 1973."

[2] The Arab League Summit was held in Algiers November 26–28.

by overt diplomatic activity that the United States attaches first priority to the disengagement of forces in Sinai rather than to 'breaking' the oil embargo. If Dr. Kissinger can demonstrate that his personal efforts have resulted in Israeli compliance with the 22 October Security Council Resolution and the subsequent six-point ceasefire agreement,[3] then—but not before—King Faysal's advisors may be able to persuade him to consider recommending to his Arab partners that the embargo be modified as a gesture of faith in Dr. Kissinger personally.)

"B. Concessions won by Saudi Arabia from the EEC, Japan, etc., in return for favored treatment have succeeded to an extent which makes it that much more difficult for King Faysal to grant similar favors to the United States before tangible progress has been made. The Japanese, for example, have told the Saudis of the extreme pressure they were under from Dr. Kissinger not to make their 22 November declaration.[4] Now that the Japanese feel that they have paid a high political price in terms of their relations with the United States and Israel, therefore, the Saudis are just that much more reluctant to appear conciliatory toward the United States until it appears that the United States is willing to make comparable adjustments in its traditional policies. Considering that in fact the Arabs demanded nothing more of Japan, and are demanding nothing more of the United States, than the implementation of policies to which both are already firmly committed (SC Resolutions), the Saudis do not feel that theirs is an unreasonable position.

"C. Appeals to King Faysal in the name of traditional Saudi-American friendship, and gestures confirming the desire of the United States to preserve and strengthen the partnership of the two countries in the preservation of peace and security in the Middle East, will have much more effect on King Faysal in the final analysis than any other form of persuasion. Expressions of anger and protest over the harmful effects the embargo is having on the United States' economy will have very little effect other than to annoy the King; Faysal clearly recalls the numerous times over the past twelve months (starting with his appeal to President Nixon by letter in November 1972)[5] when Saudi Arabia has warned the United States that it was going to be impossible for Saudi Arabia to resist Arab pressure to use oil as a weapon unless the United States brought about an improvement in the 'political atmosphere' in the area; nothing was ever received in return from these friendly entreaties and admonitions except public statements by one American official after another—with the notable exception of Jim Akins—to the effect that the King was 'bluffing', that he was 'threatening' his traditional friend and benefactor, and that an Arab oil production cutback

[3] See footnote 3, Document 243.

would not affect the United States in any case." ([*less than 1 line not declassified*] Kamal Adham laid particular stress on this last point, saying that "everyone" in the Saudi Government concerned with the present problem, from the King on down, is recalling today the particular statements made by particular American officials to the effect that Arab oil was of no appreciable significance to the economy of the United States.)

[*3 lines not declassified*]

[4] See footnote 5, Document 243.

[5] See footnote 2, Document 154.

258. Letter From President Nixon to King Faisal of Saudi Arabia[1]

Washington, December 3, 1973.

Your Majesty:

The past two months have seen momentous developments in the Middle East which have opened up an historic opportunity for ending the unnatural conditions of the past and bringing a just and lasting peace to the countries and peoples of your region based on Security Council Resolution 242.[2] As the date for convening a peace conference in Geneva approaches, I want to share with you in some detail how I see the present situation.

Looking back over recent years, I recall the many times Your Majesty has written to me of your concern and of your conviction that we should do more to resolve the Arab-Israeli conflict. You have always given me wise counsel, and in retrospect your advice was well taken and should have been heeded.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973. No classification marking. According to a December 1 memorandum from Scowcroft to Nixon, the letter, which Kissinger suggested be sent to Faisal, "is framed in such a way as to provide a useful vehicle for those in the Saudi government who are prepared to make efforts to relax the oil embargo." He added that the letter was also designed to "reassure the King regarding your seriousness of purpose in working for a just and lasting peace in the Middle East." (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 5, Chronological File A, December 1–11, 1973) The signed original reached Jidda on December 22. (Telegram 5663 to Jidda, December 23; National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV)

[2] See footnote 4, Document 176.

The latest war, and the shadow it has cast over our relations with many of our friends in the Middle East, has demonstrated beyond any doubt that the situation which has existed for so long can no longer be permitted to remain unresolved.

Secretary Kissinger has described to Your Majesty my determination to move decisively to promote a just negotiated settlement. The U.S. does so in its own interest, but also out of a sense of solemn responsibility to its friends in the Middle East. My efforts, already begun before the recent war, have been further intensified since then, and with concrete results. Those efforts achieved the ceasefire of October 22, and the six-point agreement of November 11 to stabilize the ceasefire. They have caused the Secretary of State, at my direction, to state three times that a settlement required Israeli withdrawals based on Security Council Resolution 242. As a result, and because of the far-sighted and statesmanlike approach of responsible leaders in the Arab world, in particular President Sadat, we are on the verge of a peace conference which holds out greater hope for the future prosperity and stability of the Middle East than at any time in the past 25 years. This conference must not fail, and I am determined to do all within my power to see that it succeeds.

My administration has made a major effort in recent weeks to enlist the understanding and support of American public opinion and of members of our Congress for the endeavor on which we are embarked. The American people, while they feel a strong commitment to the security and survival of Israel, also harbor friendly feelings toward the Arab world and are well disposed to give responsible Arab views the attention they deserve. The American people have even understood how, in the heat of the recent war, the need to demonstrate solidarity with your Arab compatriots led Your Majesty to institute certain measures with respect to the production and supply of oil.

We are now in a new phase, however, and I must tell Your Majesty frankly of my concern that the American people will not understand the continuation of these measures while their Government is making a major and difficult effort over the weeks and months ahead to promote the just peace that the Arab world seeks. If, with the opening of the peace conference at which my Government will be a participant, these measures are not suspended, I fear that public opinion will not permit us to play the sustained role which you and we agree is our responsibility.

I take the liberty of speaking so frankly because only a restoration of mutual good will and cooperation between the U.S. and its Arab friends will create the atmosphere in which it will be possible for us to pursue the diplomatic course we have set for ourselves. An atmosphere of growing confrontation would only work to our mutual disadvantage and to the benefit of those who wish to maintain the status quo. Furthermore, a continuing disruption of the economy of the free world will only weaken its overall strength to the benefit of the Communist

countries. This would not be understood here as a contribution to peace and would only work to undermine the values and goals which Your Majesty and we have jointly sought for the Middle East over the many years of our close relationship.

With Your Majesty's cooperation, I am prepared to devote the full energies of the U.S. to bringing about a just and lasting peace in the Middle East based on the full implementation of Security Council Resolutions 242 and 338,[3] in the adoption of which my Government played a major part.[4]

Let me say in closing, Your Majesty, how deeply moved I was by your expressions to Secretary Kissinger of your abiding friendship for the U.S. This friendship is reciprocated in full measure. I am confident that our two nations will be able to earn the respect and gratitude of future generations for the contribution we can now make, if we work together, to the cause of peace, justice and freedom in the Middle East and in the world.

Please accept, Your Majesty, my warmest friendship and highest esteem.[5]

Sincerely,

Richard Nixon

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[3] See Document 209.

[4] Nixon inserted the handwritten sentence: "You have my *total personal* commitment to work toward this goal."

[5] Akins presented the letter to Faisal on December 8. After a long discussion, Akins concluded: "King is torn between sincere desire to fully normalize relations with US, and concern that such action would be at first misinterpreted by other Arabs and ultimately prove—much to SAG disadvantage—to have been taken in vain. As King ruminates on issues, one group of advisors, including Saqqaf and probably Dr. Rashad Pharaon, will try to keep SAG's Arab relations in forefront of King's mind; another, including Prince Fahd, and, we believe, Prince Sultan and Prince Nawwaf, would be more disposed to support our position or seek a compromise." Akins thought Faisal had not "completely closed his mind." He recommended that the United States resist giving Faisal the impression of threat or menace. (Telegram 5416, December 9; National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV)

259. Message From Prince Fahd of Saudi Arabia to the President's Assistant for National Security Affairs (Kissinger)[1]

Riyadh, December 3, 1973.

[Omitted here is information unrelated to oil.]

1. On 3 December 1973 Prince Fahd of Saudi Arabia and Shaykh Kamal Adham, [*1 line not declassified*] both provided identical information [*2 lines not declassified*] as follows:

A. King Faysal has agreed in principle that Prince Fahd should accept your invitation to visit Washington prior to 8 December.[2] This decision was being finalized in a high-level Saudi Government meeting [*1 line not declassified*].

B. King Faysal's only reservation has been that he wants to be sure that Prince Fahd has "something in his hand" when he goes; this was the subject of intense consideration within the Saudi Government 3 December.

C. The proposition before the King in the meeting cited above is that Prince Fahd should travel to Cairo immediately, with Kamal Adham, in order to obtain President Anwar Sadat's agreement for Prince Fahd to present the following proposal to you on 6 December 1973 in Washington.

(1) If all parts of the six-point ceasefire agreement are implemented prior to the 18 December peace conference, all oil production limitations and embargoes will be lifted in their entirety before the peace conference convenes. The Saudi Government's target date for an announcement of this would be during your 14–15 December visit to Jidda.

(2) The Arab action would necessarily contain a warning that if the peace conference does not produce a "reasonable" step-by-step agenda for implementation of Security Council Resolution 242 "in all its parts", and if progress toward that end is not forthcoming at a "reasonable" pace, the oil limitations and embargoes will be reimposed. Prince Fahd stated that this is a necessity in order to secure the concurrence of the other Arab leaders.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973. Secret; Sensitive. A handwritten notation on the first page indicates the message was received in the White House at 5:14 p.m.

[2] See Document 238.

(3) A second condition would be that this proposition must remain absolutely Top Secret between King Faysal, Prince Fahd and Kamal Adham on the Saudi side and you on the American side until the following two things have been accomplished: first, the securing of the concurrence of President Sadat, Hafiz al Asad of Syria and Honari Boumedienne of Algeria, and possibly of the Kuwaitis also, although the latter are regarded by the Saudis as of less importance in this respect; secondly, agreement between Prince Fahd and you privately in Washington this week on the exact timing and details of the handling of the public announcement.

(4) The definition of "implementation of the six-point ceasefire agreement" was left deliberately vague, pending Fahd-Adham talks with Sadat in Cairo en route to Washington. Definitions of "satisfactory" agenda for the implementation of Security Council Resolution 242 and of "reasonable" pace of progress toward final settlement were also left imprecise by design.

2. The question of Jerusalem was not raised by either Prince Fahd or Kamal Adham in their 3 December talks [*2 lines not declassified*].

3. [*4 lines not declassified*] Assuming that King Faysal formally approves the final proposition as set forth above, a decision will be made later 3 December as to what overt reason Prince Fahd will give for his sudden visit to Washington via Cairo. [*10 lines not declassified*]

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260. Message From Prince Fahd of Saudi Arabia to the President's Assistant for National Security Affairs (Kissinger)[1]

Riyadh, December 4, 1973.

[Omitted here is information unrelated to oil.]

1. In a message from Riyadh [*less than 1 line not declassified*] 4 December 1973, [*less than 1 line not declassified*] Prince Fahd, in acknowledging receipt of your message of 3 December, asked that his very

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973. Secret; Sensitive. A handwritten notation indicates the message was received in the White House at 11:42 a.m.

warm personal thanks be conveyed to you for your response of 3 December.[2] At the same time, Prince Fahd advised also that as a result of a change in plans necessitated by tactical considerations outlined below, he will not be able to visit either Washington or Brussels this week as previously planned.

2. Prince Fahd asked that you be informed, first of all, that high-level Saudi Government meetings late 3 December and the morning of 4 December resulted in formal approval of the proposition described in paragraph one (C) of my memorandum to you on this subject dated 3 December. This is now firm Saudi Government policy, and this memorandum, by Prince Fahd's authorization, constitutes official Saudi notice to you of this fact.

3. The decision against Prince Fahd's visit to Washington stemmed from the complicating fact that a meeting of Arab oil producers will be held in Kuwait on 8 December. King Faysal and Prince Fahd, supported by a decision of the Saudi Council of Ministers, reached agreement the morning of 4 December that the 8 December meeting in Kuwait would be the most natural and politically desirable forum in which to obtain from the Arab oil producers a binding decision of approval, and not merely a "recommendation," for the lifting of all oil embargoes and production limitations prior to the convening of the peace conference on condition that in the interim the ceasefire agreement is satisfactorily implemented. At the Saudi Government meetings the night of 3 December and the morning of 4 December a consensus developed that in seeking such a binding decision of approval, Saudi Arabia would be placed in a very difficult position at the 8 December meeting in Kuwait, and probably would be increasing unnecessarily the obstacles to securing such approval, if Prince Fahd had already effectively taken the big step two days earlier in Washington. In the Saudi calculation, it is wiser for them to seek broad approval of a larger group of Arab colleagues in the forum of the Kuwait meeting rather than to take what others might well construe as a unilateral Saudi action in the name of all Arab oil producers and affecting broad Arab interests.

4. The Saudis are reasonably confident that President Sadat, Asad, and Boumedienne will give them effective support at the Kuwait meeting. Prince Fahd asked that we convey to you his promise that by remaining in the Middle East this week he will be able to ensure that their

[2] Kissinger informed Fahd that he appreciated the December 3 message and that it would be possible to work something out that was "consistent with the principles embodied in the message." He added that there would have to be "some discussion regarding some aspects such as timing, but on the principles involved the U.S. can give iron-clad assurances." (Ibid.) Fahd's December 3 message is in Document 259.

new oil policy is vigourously carried through to a successful conclusion. Prince Fahd also reiterated the compelling necessity for maintaining the mutual agreement on absolute secrecy. He emphasized that any premature leak of the Saudis' intention, particularly to the Israelis, could seriously undermine the Saudi position and their prospects for success.

[*3 lines not declassified*]

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261. Memorandum From Jan Lodal and Helmut Sonnenfeldt of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, December 4, 1973.

SUBJECT

Next Steps in the European Oil Situation

In preparation for your trip to Europe,[2] this memorandum describes briefly the European oil situation and then addresses several key questions relating to the next steps we might take with the Europeans: what leverage do we have with the Europeans in this situation; what do the Europeans want from us regarding oil; what do we want from the Europeans?

The European Oil Situation

The current state of the oil situation in major European and other states is summarized in the table below. The "pre-crisis forecast" is the amount of Arab oil these countries had been assuming—prior to the crisis—that they would have available in December. The "post-crisis forecast" is the reduced amount CIA now expects will be available for December as a result of the Arab cutback and embargo.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Energy Crisis, Nov 73–Feb 74. Secret. Sent for action. Concurred in by Saunders, Cooper, Elliott, and Jack Froebe of the NSC Staff. An unidentified hand wrote "Action taken" in the upper right hand corner.

[2] See footnote 4, Document 247.

Reduction in Oil Imports from Arab Sources
for December 1973

	Pre-Crisis Forecast (Thousand b/d)	Post-Crisis Forecast (Thousand b/d)	Reduction in Expected Arab Oil (%)	Reduction in Expected Total Oil (%)	Oil Reduction in Terms of Total Energy (%)
France	2,250	2,110	6	4	3
UK	1,550	1,460	6	3	2
Italy	1,765	1,470	20	14[3]	11[3]
West Germany	1,685	1,405	20	10	6
Belgium/ Luxem-bourg	490	410	20	13	8
Japan	2,500	2,075	20	9	7
Canada	200	165	20	2	1
Nether-lands	2,900	0	100	322[3]	188[3]
Portugal	100	0	100	64	42
U.S.	2,400	0	100	13	6

The table shows that the UK and France, both "favored" states under the Arab oil cutbacks, are losing only some 6% of their expected current imports from Arab sources. The "non-favored" countries, such as Italy (as well as Canada and Japan) are losing some 20% of their expected Arab imports. The Netherlands and Portugal (as well as the U.S., South Africa and Rhodesia) are totally embargoed from Arab sources. Arab oil normally provides only 40% of the EC energy supplies.

The international oil companies are diverting some oil from "favored" countries, such as the UK and France, to embargoed countries, such as the Netherlands, but the amounts cannot be determined by the USG. There are also signs of diversions away from Japan.

In return for pro-Arab statements, the Arab producers have exempted the EC states (except the Netherlands), Japan and the Philippines from their 5% production cutback in December. At the recent Arab summit meeting in Algiers, a secret decision was apparently made

[3] "Total Oil" and "Total Energy" calculated in terms of domestic consumption. The Netherlands re-exports some 80% of its imports. Italy re-exports some 20%. [Footnote in the original.]

to stabilize future production at the November level, 25% below September production. Such a step would postpone, but not prevent, serious economic disruption in most oil importing states. *Unless the Arabs increase production, the West European countries and Japan will face by mid-1974 recessions ranging from no economic growth in the case of the UK and France to very serious losses of output in the other industrialized countries.*

As we noted in our memorandum to you on assistance for the Dutch (Tab A)[4] the basic problem for the Dutch is not an oil shortage for themselves. They normally consume less than 20% of the oil that passes through the Netherlands. If the Dutch passed on the effects of the embargo to those states that depend on them for supplies, the main energy loss would fall on West Germany, Belgium and Luxembourg. However, the Dutch would lose the foreign exchange and GNP which come from producing and exporting refined products.

The Saudis have just informed the Germans and Belgians that they would order shipments destined to them through Rotterdam delivered instead through non-Dutch ports such as Hamburg and Antwerp. However, these ports are not now capable of handling much more oil than at present rates. The Germans and Belgians would still face serious shortages in the event of a Dutch cutoff. There are indications that the Saudis will permit bonded shipments of crude oil to Belgium and Germany through Rotterdam. In any event, *the percentage reduction figures listed in the above table for West Germany and Belgium/Luxembourg are likely to prove optimistic.* In the worst case—assuming a Dutch cutoff and a delay in circumventing the Rotterdam obstacle—*the reduction in expected Arab oil imports could approach 40% for West Germany and 50% for Belgium/Luxembourg.*

The embargo on Portugal should not cause major difficulties because of its access to Angolan oil.

All Western European countries are taking energy-saving measures. In most cases, these measures will be inadequate to counteract these countries' mid-winter supply shortfalls, which will range between 10% and 40% if the Arab cutbacks continue. However, the moderate steps taken so far will help prepare the public for the more stringent actions that may be necessary in early 1974.

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[4] Not attached. Presumably a reference to their memorandum of November 27; see footnote 3, Document 247.

Our Oil Leverage With the Europeans; What Do They Want From Us?

The unique role of the U.S. in the current oil crisis and in the longer term oil situation gives us some leverage with the Europeans. We have the power to make their oil situation better or worse.

This leverage derives from a multiplicity of political, economic and technical factors:

—We are the sole possessors of sufficient political leverage on the Israelis to pressure them to accept a satisfactory peace settlement. Without a settlement the cutbacks may not be restored totally.

—Except for possible voluntary actions such as oil sharing, we have been hurt as much as we're going to be by the Arab embargo, while the European situation can grow considerably worse.

—We can get by in energy without any help from the Europeans, whereas they will need our help if matters get much worse. For example, if the situation deteriorates for them, the Europeans may become very interested in an emergency oil sharing arrangement with us. Beyond this, they will need our cooperation if economic or military countermeasures are to succeed. (We are continuing to analyze the feasibility of various countermeasures.)

—Most international oil companies are U.S. owned and could be manipulated by the USG to the disadvantage of the Europeans.

—We have a real option and the makings of a long-range plan for self-sufficiency in energy, unlike almost all Europeans, which eventually will permit a "go-it-alone" policy.

—We still retain considerable economic and political influence with Saudi Arabia, an influence unmatched by the Europeans.

—Our influence with the Saudis, Iranians and the U.S. oil companies will be very important in working out long term arrangements between producers and consumers for ensuring adequate supplies of oil at reasonable prices.

—We are well ahead of the Europeans in most fields of energy-related technology, especially those dealing with new sources of energy.

This, plus our large and varied research and technical resources, are essential to any major coordinated effort to develop nuclear energy, coal and other non-petroleum energy sources. We have more to offer than gain from such an effort.

Except for the Dutch, the Europeans do not appear for the moment to want much from us regarding the oil situation. They are counting on U.S. pressures on Israel and on their appeasement of the Arabs to make matters better. Aside from a desire for these pressures, *the Europeans appear most anxious for us not to exercise our ability to make matters worse than they are.* For example, they do not want USG manipulation of

American companies so as to divert oil from Europe; they do not want U.S. pressures for actions—such as overt sharing with the Dutch—which could lead to further confrontation with the Arabs.

What Do We Want From the Europeans?

There are two areas where we want some help from the Europeans at this time:

—To help solve the Dutch problem;

—To resist further Arab pressures.

A third—and much less pressing—area where we could make some progress with the Europeans is in laying the groundwork for longer-term cooperative steps in energy.

Our leverage is pertinent to all three areas.

Solving the Dutch Problem

We have previously sent you a memorandum (Tab A) with recommendations on how to proceed bilaterally with the Dutch to help solve their immediate problems.

In the Alliance-wide context our basic objective is to get the Allies to help the Dutch so as to reduce divisiveness in the Alliance and help reestablish solidarity. Our main leverage at the moment—which we are not recommending that you use—is our potential ability to manipulate U.S. oil companies to obtain de facto sharing to help the Dutch. We could offer to pressure the U.S. companies to divert non-boycotted oil (e.g., oil from Iran intended for France or the UK) to the Netherlands. This arrangement, along the lines of what Walter Levy advocates, would help make up the Dutch foreign exchange shortfall resulting from reduced exports to oil products. It would also result in more oil going to the Belgians and Germans, who are heavily dependent on crude oil imported through Rotterdam.

We do not believe that the French or British are likely to agree with this arrangement at this stage of the crisis; they probably could prevail on the Dutch not to go along. This arrangement would further increase divisiveness in the Alliance if put into effect against the wishes of the French and the UK. The manipulation of oil companies by the U.S. would serve to augment fears of diversion of supplies to the U.S., further increasing Western divisiveness. Finally, the arrangement is severely limited by the fact that *all* U.S. oil company shipments from non-Arab producers to the UK and France amount to only about 80,000 barrels per day, compared to a potential Dutch shortfall of some 2,900,000 barrels per day. Moreover, the U.S. companies have a large stake in refining and distribution in these countries which they would be reluctant to jeopardize.

The Dutch want to preserve the appearance of EC unity to the extent possible. Given this and the lack of useful U.S. leverage with regard to our Allies at this time, *we should take our cues from the Dutch on the question of solving the Dutch oil problem.*

In discussions with our Allies, however, we should impress upon them that our support for the Dutch should not only aid the Dutch but the Germans and Belgians as well, insofar as our help permits Dutch oil exports to them to be maintained. Our help should also reduce the likelihood of Dutch countermeasures against their EC partners. Thus, *our support for the Dutch is a significant effort to help regain solidarity in the Alliance and should be recognized as such.*

Resisting Further Arab Pressures

Our objectives in stiffening the Allies against further Arab oil pressures are (1) to prevent further divisiveness in the Alliance, and (2) to avoid further caving, which would both encourage the Arabs to pursue further their oil strategy and make it more difficult for us to play a constructive role in the peace negotiations.

We can draw on our leverage to help attain both objectives. By pledging to ensure that U.S. companies will not divert oil to the U.S. from our Allies, we can avoid making matters worse for them.

In discussions with our Allies, we can hold out hope for matters getting better by noting our willingness to apply pressure on the Israelis to achieve a just peace, as long as the Europeans do not extend the utility of the Arab oil strategy by caving further.

We can say we would be willing to use our leverage with the Saudis to attempt to lift the embargo on the Europeans, which would likely be sooner than the lifting on the U.S. We can note that the oil situation for us has gotten about as bad as it's going to get. We can get by on our own from now on. For the Europeans, however, if matters get much worse they will need us for effective action against the Arabs and for sharing arrangements. *We should note that our willingness and ability to enter into emergency cooperation with the Europeans if things for them get worse will be directly related to how they behave now with regard to the Dutch and the Arabs.*

The Europeans are obviously very sensitive about being caught in bed with us at this time. Moreover, two key European countries in any emergency scheme, the UK and France, don't feel much of a pinch as yet. This may change if Arab exports to them do not increase over 1974, or if there are renewed Arab pressures—to which they do not submit—as a result of faltering peace talks or of new fighting. This makes it unlikely that the UK and France, among others, would agree to contingency planning at this time. However, we believe that it would be

worth trying to get consultations underway on such planning. *By proposing quiet, high level consultations on the conditions under which joint countermeasures of all types might be taken, we would be emphasizing our leverage in the oil situation and, hopefully, lead into useful consultations. Some Allies are likely to leak this proposal to the Arabs, but this has positive pressure aspects itself.*

Longer-Term Cooperation

Neither we nor our Allies are in position to begin serious discussion of where we want to be in the longer term in energy. However, *at the moment, we can both highlight our longer term leverage and help stiffen our Allies' backs by proposing high level consultations (say, in late January, if conditions warrant) on longer term aspects such as:*

—*An OECD-wide sharing arrangement.* (Our leverage is low at this time, since we would stand to gain much more now from a sharing plan than would our Allies. If this situation reverses, which would happen several months after the Arabs resumed their cutbacks, our leverage to get a sharing plan more attractive to us would greatly increase.)

—*Cooperation regarding energy R&D* (a memorandum from Dave Elliott on this subject is attached at Tab B).[5]

—*Cooperation in backing up companies, limiting oil prices, and in constructive assistance to the producers to ensure adequate oil supplies at reasonable prices.*

—*An Atlantic-Japanese energy policy reflecting the above aspects.*

As long as we remain on the "partnership" track with the Europeans, we should also have a posture of favoring longer-term cooperation in energy. However, because of their current sensitivities, the Europeans may not want to do more than have quiet consultations on this subject. *Our approach should be that energy may be as much of a challenge for the Atlantic community in the seventies and eighties as the security threat was in the forties, fifties and sixties and that we stand ready to do our share.*

Japanese Aspects

The Japanese are as hard-hit by the Arab cutbacks as most Europeans. Indeed, there are signs that the oil companies are diverting oil away from Japan. For at least these reasons, *you should bring in the Japanese on any high level consultations that you arrange with the Europeans on possible joint countermeasures and on longer-term cooperation in energy.*

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[5] Not attached.

Recommendations

That in your consultations with the Europeans you:

—Encourage assistance to the Dutch, but take your cues from the Dutch themselves on what specific assistance to push.

—Note that our support for the Dutch is a significant effort to help regain solidarity in the Alliance and should be recognized as such.

—Offer, if necessary to stiffen the Allies against further Arab pressures, assurances on non-diversion of oil by American companies.

—Emphasize that further European concessions to the Arabs would encourage the Arabs to pursue their oil strategy and make it more difficult for us to play a constructive role in the peace negotiations.

—Note that our willingness and ability to enter into emergency cooperation with the Europeans if matters for them get worse will be directly related to how they behave now with regard to the Dutch and the Arabs.

—Emphasize our leverage by proposing quiet, high level consultations with the Europeans and Japanese on possible joint countermeasures against the Arabs and on longer-term cooperation in energy.

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262. National Intelligence Estimate[1]

NIE 1–1–73 Washington, December 5, 1973.

THE WORLD OIL CRISIS: ECONOMIC AND POLITICAL RAMIFICATIONS FOR PRODUCERS AND CONSUMERS

Major Judgments

Part I: The Producers

The Arabs have finally used oil as a political weapon—declaring an embargo against the US (and a few others) and instituting major production cuts to drive their point home. This program has and will hurt the oil-consuming states. At present it works as follows:

—Total production has been cut 25 percent, and the Arab producers threaten to go on cutting five percent a month until Israel

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 362, Subject Files, National Intelligence Estimates. Secret. A title page and table of contents are not printed.

withdraws from all territory captured in 1967 and the rights of the Palestinians are restored.

—Until then; *favored countries* may buy Arab oil at the pre-October quantities; *embargoed countries* get no Arab oil; *neutral countries* will have to divide up what is left.

This combination of embargo and production cuts by Arab oil producers has had an immediate and strong impact on the main oil-consuming countries. The Arabs seem both surprised and pleased at their success.

Saudi Arabia and Kuwait, which together account for about 60 percent of Arab oil exports, have been the leaders in implementing this program. Other Arab producers have been somewhat less enthusiastic about using oil as a weapon, but have for the most part joined in. Because of the recent price increases, Arab oil producing states have plenty of revenue to run their governments and give aid to poorer Arab states. And, solidarity between Saudi Arabia and the states that did the fighting is strong.

The Saudis and their followers will require major and substantial progress on the Egyptian-Israeli front before they would restore much of the production cut or ease the embargo. Saudi Arabia will rely heavily on Sadat's judgment and suggestions in this situation. For King Faisal, the future status of Jerusalem will be the key problem. But the Arab oil producers will hesitate to cut output so much that major neutral or favored consumers would be severely crippled. Saudi Arabia and Kuwait respect the power of the major consuming states and, more importantly, do not wish to tear down the whole structure of relations with Western Europe, Japan, and the US.

The Arabs have a number of powerful options in employing oil as a weapon:

—they can shift consumers from the neutral to the favored class
—they can shift countries into the embargoed class
—they can vary the rate of application of production cuts
—they can restore production selectively or across the board.

The Arab oil producers will be flexible and selective in exercising their options, but they will insist on progress. *We judge that the Arabs will maintain a squeeze on oil supplies until there is real progress on the negotiations, which includes substantial Israeli withdrawals from occupied territory.* We do not think that, in the circumstances following this relatively favorable round of hostilities, the Arab states are going to let the opportunity to win a victory at Israeli expense slip out of their grasp.

If serious fighting breaks out again, the restraints on Arab use of oil as a weapon would be reduced. Reason would yield greatly to emotion, damaging effects on neutral states would carry less weight, and

concern about good relations with the US would diminish, since the latter would be held responsible for failing to restrain Israel.

Part II: The Consumers

Europe and Japan see no realistic short-term alternative to making the best possible deals they can with the Arab oil producers to get through the next few months. Their need for Arab oil has brought a general scramble to protect national interests, accompanied in Europe by a widespread desire to strengthen its longer-term bargaining position towards the Arabs and the world.

The general strategy for the next few months will probably be characterized by the following:

—An official policy along the lines of the November EC declaration,[2] but accompanied by less overt warnings to the Arabs not to go too far.

—Looking to the US to carry the burden toward an Arab-Israeli settlement accompanied by persistent endeavors by the French and also by the British, to obtain a seat in any international conference on a settlement.

—More or less quiet efforts, through the oil companies and in negotiations with the Arab producers, to ease the oil pinch—including attempts to ameliorate the lot of those allied states on the embargoed list. In this connection, the more favored nations, Britain and France, will argue that a pro-Arab official line on their part will be indispensable to these efforts.

European governments will also be considering other measures to diminish their vulnerability.

It is unlikely that they will use force or, at least under present circumstances, threaten it.

There are, however, other measures lying between appeasement and the threat or use of force.

—Most obvious, and least risky, are assorted steps to limit consumption and increase availability of alternatives to Arab oil. The first can provide only limited relief and the second, relief only in the long term. Both, however, have some use as political and psychological gestures.

—An organized consumer-producer dialogue is a step which both sides could contemplate as realistic and desirable. But Europe will probably not be prepared to explore this with any effective unity until the immediate crunch is over.

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[2] On November 6, the European Community called on Israel and Egypt to return to the lines held on October 22, before Israeli forces surrounded the Egyptian Army's III Corps, and for a return to the 1967 borders. The EC members also agreed to hold a meeting in Copenhagen December 14–15 to discuss Middle East issues.

—Both the technological and negotiating strategies would require cooperation with the US and the major oil companies. Lacking such collaboration, the negotiating strategy would invite destructive competition among consumers.

Japan is walking an uncomfortable line between the conflicting imperatives of close ties with the US and a vital need for Arab oil. How long Japan can balance these contradictions depends on the Arabs and the US. On the whole, the odds favor Japanese movement toward meeting Arab requirements, at least in the short run, because the prospect of losing so large a percentage of oil imports looms as a more clear and present danger than does some increase in political strains with the US.

Canada's problems are, immediately at least, due more to geography and an inadequate distribution system than over-all shortage. Its eastern provinces are dependent on imported oil. The crisis will accelerate development of the trans-Canada pipeline. In general, the energy crisis will give new urgency to Canadian policies aimed at better husbanding Canadian resources.

The Middle East crisis has aggravated existing problems between the US and its allies across a broad spectrum. During negotiations, and so long as the oil crunch is on, it will be difficult to enhance a sense of shared common interests among the US and its allies. Various inducements might help but would not eliminate some sharp conflicts of interest. The allies would still be dependent on Arab oil. Attempts to bring the Europeans and Japanese along with the US by economic or security threats, e.g., threats to withdraw US troops from Europe, would affect different allies differently but would be of dubious value in getting them to support US policy in the Middle East. If such threats were used, they could generate reactions causing lasting damage to the alliance.

[Omitted here is Part I, "The Producers," including sections on OAPEC Fears, the Cease-Fire, Arab Goals, Renewed Hostilities, and the Longer Term.]

Part II: The Consumers

I. Dimensions of the Problem

24. Most of the world's major oil consumers appear not yet to have grasped the magnitude of the crisis triggered by the Arab oil cutback. The measures taken to curtail consumption in the face of declining imports have been minimal; consumers seem unable to perceive as real the potential impact of sustained oil cutbacks on their usual daily routine. At the same time political leaders are estimating the likely impact of reduced Arab oil supplies under varying scenarios. Soon—if they haven't already—they will conclude that continued cutbacks will begin to be seriously felt within a few months and have a rapidly accel-

erating effect thereafter. Political leaders will be influenced more by their perception of the potential vulnerability of their countries than by the precise timing of the supply crunch itself.

25. The analysis that follows assumes that after December, the five percent monthly cutbacks (announced by the Arabs on 5 November and since modified somewhat) will continue to be made. It is possible that the Arabs will decide to postpone some of the cuts now planned for next year. If they do, the economic consequences that are now foreseen for late winter or early spring will be moderated and stretched out to early summer. The key point, however, is that unless the Arabs *increase* production, the West European countries and Japan ultimately face recessions ranging from no economic growth in the case of UK and France to even more serious losses of output in the other industrialized countries.

26. If the Arabs continue to hold down oil production and especially if they cut output further, pressures on West European political leaders somehow to restore oil supplies will rapidly intensify. Although the supply crunch will come sooner in some nations than in others, Arab oil accounts for such a large portion of total EC energy supplies—42 percent—that Arab cutbacks clearly will have consequences for production and employment within the next several months sufficient to jolt consumers into an awareness of the seriousness of their situation. Even France and the UK—exempted from cutbacks by the Arabs—will probably experience, at best, negligible economic growth by about mid-1974. The other EC nations could postpone the economic consequences of the oil cutbacks until early spring only by drawing down oil stocks to unacceptably low levels. As stocks reach dangerous levels, pressures will mount to do something to restore Arab oil supplies, and France and the UK will be increasingly urged by their partners to share their more ample oil supplies.

27. West Germany will be one of the first major countries to face severe economic hardship. If the Germans lose the oil they normally import through Rotterdam in addition to their direct share of the cutback, West German oil stocks by February would be 50 percent depleted even with rationing, and economic output would begin to fall off. Continued receipt of supplies through Rotterdam would merely delay this impact by a few months. Italy, despite its more ample stocks will be hit still harder because it is even more dependent on imported oil.

28. France and the UK will be hurt by Arab oil policies. Even though they are in the preferred category, they will still not get all the oil they need. By drawing on stocks and instituting conservation measures, both nations can maintain consumption at near normal levels for more than a year, provided they do not lose their favored status or a

substantial portion of their non-Arab imports. However, because of their dependence on foreign trade—particularly with other EC nations—disruptions in export sales to their harder hit trading partners and in imports of energy-intensive raw materials will cause economic losses. At best, Britain and France will forfeit growth, although later than the other states. At worst, the trade losses will cause some drop in GNP and employment. These losses, however, would be small in relation to those suffered by their EC partners.

29. In Japan industry will bear almost the full brunt of the oil shortfalls because they have less room for conservation possibilities in other sectors. By March, the Japanese anticipate at least a 12 percent reduction below the current level even with a substantial drawdown in petroleum stocks. To cope with the situation, the government has ordered a 10 percent reduction in oil and electric power consumption in all major industries by the end of December and plans a further five percent cut during January–March. The industries hit hardest, including steel, transport equipment, and chemicals, account for about two-thirds of total industrial output.

30. Canada's eastern maritime provinces and Quebec stand to lose about 20–25 percent of their total crude imports. The Portland, Maine, to Montreal pipeline has been denied all of its Arab oil. There is no present threat to Canada's large imports of Venezuelan oil, but these could also shrink as other consumers compete for Venezuelan oil. Because of the lack of oil transport facilities, the supply problems in eastern Canada cannot be alleviated by the crude production centers in western Canada.

31. All of the less developed countries (LDCs) will suffer from Arab oil cutbacks to some extent. Even those countries on the Saudi preferred list—such as Brazil, India, Turkey, Pakistan, and most African nations—will be hurt indirectly by Arab oil policies. At best these countries will forfeit some growth. The other LDCs stand to lose a substantial portion of their oil supplies. Those LDCs that are rapidly industrializing and that have little or no domestic production will be among the hardest hit by the supply shortfalls, whatever their magnitude. Most prominent in this group are Brazil, Taiwan, and South Korea. Unemployment and loss of output could be especially severe in the latter two. Although Third World oil imports are relatively small compared with those of the industrialized nations, the LDCs generally depend on oil for a far greater share of their commercial energy needs than do the developed countries. Thus even relatively small shortfalls in oil needs could have pronounced economic effects. The embargo of the US has severely reduced oil supplies to Laos, Cambodia, and South Vietnam since the US military plays the role of an intermediary in supplying these countries.

USSR and Eastern Europe

32. The Soviet Union will neither suffer from the Arab cutback, nor is it in a position to greatly alleviate the sufferings of those who will. Through 1975, the USSR should produce enough oil to meet its domestic needs and to export sizable quantities to Eastern and Western Europe. In the 1980s, however, unless major production problems are solved, it may have to rely on Arab oil to meet part of its steadily growing domestic demand. In 1972, Soviet net exports of oil totaled about 2 million barrels per day, almost one-fourth of total production. Nearly half of these exports went to non-Communist countries, and earned about $580 million in hard currency. Oil exports are the USSR's largest single source of hard currency.

33. East European countries, with the exception of Romania, are heavily dependent on imported oil, primarily from the USSR. Arab countries now provide about one-seventh of Eastern Europe's imported oil. Reliance on this source is scheduled to increase as the USSR has encouraged Eastern Europe to seek a larger share of its oil from other producers. Although the USSR values its reputation as a reliable supplier to the West, the current crisis has forced it to give priority to the needs of Eastern Europe. Consequently, the Soviets have reduced deliveries to Italy, probably in part to compensate for reduced Iraqi deliveries to Bulgaria, which depends on Iraqi oil for about half of its supply. Iraqi and Syrian deliveries to the Mediterranean were cut off during the October war. The export ports were badly damaged and still have not been repaired. Recent reports also have indicated that Soviet oil deliveries to France and Germany are running behind schedule.

II. Remedies Available to Western Europe and Japan

34. The West-European countries and Japan apparently feel that they have little or no influence over the course of events in the Middle East. Most of them are prepared, however, to go far toward supporting the Arabs' political demands. Their immediate aim is to persuade the producers to drop their embargoes and restore production cutbacks, or to give preferential treatment to additional countries.

35. Both Western Europe and Japan have begun to encourage fuel conservation. Rationing will follow, although there is reluctance to quickly adopt strict controls. None of the governments have adequately prepared their publics for drastic steps to curb consumption. Such measures would stretch available supplies through the winter, but they would not avert serious shortfalls after that.

36. The possibilities for substituting other fuels are minimal in the short run. Those countries with coal or natural gas reserves will try to make additional use of them. However, the decline of the coal industry cannot be quickly reversed, nor in most cases can installations

using oil be quickly converted to natural gas or coal. Except in a few countries, such as West Germany, which have large stocks of coal already mined, these measures will be of little short-term utility.

37. More efficient use of coal—including the development of coal liquifaction and gasification, accelerated exploration for oil on the continent or offshore, increased reliance on nuclear energy, and other more exotic technologies are certain to receive more attention, but their immediate value would be primarily psychological and political: an assurance to worried consumers that measures were being taken to prevent a long-term energy disaster and hopefully, a warning to the producers that the oil weapon will in time lose effectiveness. However, such moves are unlikely to give the oil producers reason to pause.

38. Non-Arab oil supplies are scarce and the US and other nations compete with Western Europe and Japan for what is available. The oil majors have said they will shift non-Arab supplies to help the embargoed and neutral states, but it is unclear how effective such shifting will be in practice. It may help now to correct marginally the imbalance of supply between preferred and neutral countries. Given a progressively tighter squeeze, the shifting of supples will only spread the shortfall.

39. The oil companies face an excruciating dilemma between their source, their customers and their home countries. The international oil companies are attempting to divert some oil—both Arab and non-Arab—from the preferred to the neutral consumers. Such action is in line with the companies' interest in keeping their Dutch refineries operating and maintaining their marketing position in the major consuming countries. However, these diversions may be jeopardized by the extensive press coverage that they are receiving in Europe and by possible complaints from British and French consumers. In the event of a showdown over this issue, we believe that the companies would bow to producer demands and halt or greatly reduce such diversions.

40. "Europe" is still too divided to mount a serious collective response to the Arab oil cutbacks, despite a common resentment against Arab high-handedness. The community members have shown a greater inclination to look out for themselves. The governments fear the long-term consequences should divisive Arab tactics be successful, but they have thus far lacked the consensus to go beyond mildly cautioning the Arabs not to overplay their hand.

European Collection Measures

41. Such oil sharing as is now going on in Western Europe is being carried out "under the table" by the international oil companies.

There is little prospect of any formal or official agreement on sharing among the European Community members within the next several months. There may in fact be an understanding that the oil companies' efforts are conditioned on the avoidance of any appearance of a common European front and on a continued declaratory policy that is more or less satisfactory to the Arabs.

42. As oil shortages begin to bite, pressures will mount within the community for a more serious approach to oil sharing. But the pressures in France and Britain to avoid the risk of harming their economies for the sake of their less-favored partners will also be strong. Over the longer period, the spill-over effects of the recessions that could hit their Common Market partners would intensify the French and British dilemma about oil sharing. In that event, France especially, would try to extract a price from its EC partners for any concessions it might make.

43. The French are already pressing the community to invest in a new uranium enrichment plant using the French-engineered gaseous diffusion process. They also now argue for moving ahead with the long-debated common EC energy policy. France presumably hopes to get agreement to organize the community energy market along cartelized French lines.

44. None of the main elements of the EC Commission's energy policy proposals would alleviate the community's problems in the short- and medium-term. Arguments for joint bargaining with the oil producers will probably get a boost from the present crisis. Invitations from the OPEC producers to engage in talks about future supplies and prices may encourage a joint European response. But the community still lacks the cohesion and basic mechanisms for a common approach to the producers, despite the considerable appeal of the idea of a systematic producer-consumer dialogue.

45. Should the situation evolve toward an out-and-out European confrontation with the Arabs, it seems doubtful that Europe alone would have much leverage. Use of the community's so-called Mediterranean policy[3] is unlikely to be effective; the EC's present offers are not, in fact, very generous. Boycotts of Arab exports other than oil would not hit the hardest at the more important oil producers and would cloud for a long time the community's claim to a special relationship with the Mediterranean world. Embargoes of technical assistance and goods, to have a remote chance of success, would have to be

[3] A reference to the EC practice of granting certain Mediterranean countries privileged access to the EC market.

coordinated by Western Europe, Japan, and the US, and the chances of this degree of cooperation seem remote. Such an embargo would also be circumvented by the Soviets.

46. The use or threat of force against the producers may be increasingly talked about if the oil shortage produces desperation. We doubt that any European government, however, will seriously contemplate this course unless or until other possibilities had been exhausted and certain essential conditions had been met, e.g.:

—Such drastic action, or the threat of it seemed necessary to the British and French (the only two states with anything approaching the requisite military muscle) to stave off serious economic depression;

—Full US support and participation were assured, both to provide adequate force to do the job and to prevent Soviet interference, and

—It was determined that joint use of force could in fact achieve the objective of securing the oil flow, i.e., that physical sabotage and other countermeasures would not result in a further reduction.

47. On the whole, it seems very unlikely that all these conditions will be met, and consequently remote that Western European states will consider the use of force as a feasible option under presently foreseeable circumstances. Some of them may try to use the threat—as well as hints of more believable economic countermeasures—as a bargaining lever, on the argument that without some fear of drastic sanctions there will be no curbing of Arab appetites. This impulse will be countered by nervousness lest such threats, especially if not very convincing to the Arabs, simply serve to increase their intransigence.

West European-Japanese Cooperative Measures

48. Cooperative arrangements between the two largest deficit areas do not appear a promising prospect. Competition for available supplies is in fact more likely. Even were Japan and Europe not competitors, both would fear that overt cooperation would be interpreted by the Arabs as a hostile act. Prime Minister Tanaka tested and found these waters very cold earlier this fall when he tried to interest European leaders in joint, long-term energy ventures, such as trading Japanese investment in British North Sea development for access to British sources of oil in the Middle East.

49. Whatever else it does, Japan will be intensifying its search for alternative oil supplies in Indonesia, the USSR, China, off-shore exploration, joint ventures with South Korea, Canadian tar sands, and Alaskan oil. Because of Japan's expanding requirements, however, its dependence on Arab oil is not likely to decrease.

III. What Europe and Japan Will Expect of the United States

50. The Europeans and Japanese appreciate that the US is no longer self-sufficient in oil. But they also probably feel that the US has

more room for energy saving. For the time being, at least, they are not anxious to engage in oil-sharing talks because this would conflict with their present efforts to appease the Arabs. Even if they were of a mind to seek US help now, they would fear a rebuff that would only worsen the already tender relations among themselves and with the US. US-owned companies, however, will continue to be pressed not to divert available oil supplies from intended destinations.

51. If the Arab squeeze continues beyond next March, demands for sharing among the OECD importing countries will surely increase. The loudest calls are likely to come from the embargoed and "neutral" countries. In the event that the French and British remain uninterested in involving themselves in a sharing scheme with Washington, any assistance the US might offer to other European countries would reduce the pressures on Paris and London for solidarity with their partners.

52. If OECD oil sharing becomes a realistic prospect, there will be problems in working out the ground rules. The US and the major oil-importing countries have long been at odds on whether to base any sharing scheme on a country's over-all consumption or on imports only. Since imports will now constitute an even smaller portion of US supplies, the other consuming countries will press even harder to base sharing on over-all consumption.

53. The Europeans and Japanese, despite their own hesitancy about imposing stringent energy-conserving measures, will expect rigorous consumption curbs in the US, arguing not only that the US is far nearer to self-sufficiency than any other major consumer, but also that its per capita consumption is also so much greater. They will on the other hand welcome closer cooperation with the US in research and development as part of a common long-term effort to expand energy sources. They may also show interest in an eventual multilateral response to Arab feelers for consumer-producer country talks. In general, the Europeans and Japanese have very little specific leverage to induce positive US responses beyond the fact that neither they nor the US want to see the destructive effects of non-cooperation.

IV. Impact of the Oil Situation on Other United States, European, and Japanese Objectives

54. *European Unity.* The Nine[4] are hoping that peace prospects will improve sufficiently that the Arabs will lower the oil weapon before

[4] The European Community: Belgium, Luxembourg, France, Italy, Netherlands, West Germany, Great Britain, Ireland, and Denmark.

European solidarity is really put to the test. The Arabs' best hope for encouraging the present European "neutrality" or even further concessions to Arab positions is judicious use of oil cutbacks—maintaining them at the current level or offering occasional respites to keep consumers hopeful and on their side. Such a policy, however, will not prevent the surfacing of differences among the EC members and within them over the wisdom of submitting to Arab demands.

55. Nevertheless, if the crisis has shown the present limits on European unity, it has also strengthened, in many quarters, the impulse toward unity. In calling for a European summit meeting next month, Paris has taken the lead in this—partly because it accepts the need for greater unity, partly because it sees an opportunity to exploit that need to advance its own concepts of an acceptable European organization. Pompidou's initiative has received general endorsement, but the sharp differences of national interests argue against the achievement of any great leap forward at the summit meeting. The forthcoming summit and other high-level meetings may, however, lead to a more cooperative atmosphere, some improvements in the mechanisms for political consultation among EC members, compromises which would permit the community to initiate a regional development program, and token advances toward closer monetary and economic union.

European and Japanese Relations with the United States

56. The Middle East crisis has had the contradictory effect of heightening the Europeans' sense of dependence on the US while at the same time increasing their feelings of vulnerability and relegation to a bystander's role. The oil component of the crisis may crucially affect the US-European relationship in several ways. Should the worst estimates of continued oil deprivation prove true, the Europeans would view the US response to requests for some form of sharing as a direct test of the meaningfulness of the US-European relationship. US failure to provide help would be taken as an indication of US indifference and could "tilt" the Europeans even further toward Arab positions, even at the cost of greatly aggravating differences with the US. (It could also bring to a crisis the differences that have developed within the EC itself on oil sharing.)

57. On the other hand, a positive US response would not, of itself, produce a dramatic reaffirmation of Atlantic ties. At best, these would be restored only to the uneasy status quo ante. Even the patent demonstration of US-European interdependence inherent in the oil problem would still leave unresolved the basic issues which stem from the unequal Atlantic partnership that the Middle East crisis has unbalanced still further.

58. The military implications of the Middle East war for NATO is an assessment that the allies are only just beginning to make. Their first requirement is for more intelligence and analysis. The threat that an enlarged Soviet Mediterranean presence could pose to the southern region of NATO will call for a reevaluation of Europe's role in the common defense of that area, including a clear look at where Europe's interests lie in relation to those of the US. At a minimum there will probably be a franker acceptance that those interests are not identical, and in some respects, are not even parallel. On the other hand, in facing up to these facts, Europe and Japan will also probably have to acknowledge that they do share with the US a common interest in keeping the Middle East free of Soviet dominance and in preventing further outbreaks of war. In coming months, they will have to strike some balance between these considerations. No confident estimate can be made about how "Europe" or its principal members will come out in these calculations. It will depend on major variables including notably:

—whether Soviet behavior adds to Europe's apprehension or allays it,

—whether US efforts to move Israel are convincing and effective in the European view. If such efforts are, this would add to a feeling of congruence in US-European interests, or at least would strengthen the idea of shared goals despite different roles. If they are not, this would further drive Europe and the US apart.

United States and European Cooperation

59. The Arab strategy (of inducing Europe to pressure the US to move the Israelis) takes account of the fact that the European governments have for some years urged the US to lean on Israel to make concessions, e.g., on Resolution 242. Such European pressures will no doubt intensify. But there is probably a limit to how far the Europeans jointly, or even singly, can go in espousing pro-Arab positions. European opinion would not, for example, support a Middle East settlement that seemed to pose an unmistakable threat to Israeli integrity. The complaints that are now heard in some quarters about "blackmail" would become a chorus if the Arabs should not accept terms that were generally regarded as "reasonable" and seek to keep Europe's economy in hostage to the achievement of their maximum demands.

60. The Europeans recognize that the peacemaker's role belongs primarily to the US, which alone retains influence in both camps. France and Britain cling to a belief in their diplomatic influence in the area, but the Nine as a whole probably lack the unity required to play a direct role as guarantors of a peace agreement. They also lack the necessary credit with the parties to the conflict. The British and the French

will nevertheless want a role in an international conference on settlement, and support for their bid will be implied in European calls for a conference "in the UN context." If movement toward a settlement in the Middle East develops, the prospects for an indirect role for Europe—in cooperation with the US and UN efforts—would be brighter. Economic and technical cooperation with the Arabs, as well as financial contributions to the resettlement of Palestinian refugees, would be well within Europe's capabilities.

61. In sum, Europe can do little or nothing by itself to bring about a settlement in the Middle East, but once the Arabs and Israelis were on the road to agreement, Europe could make a contribution that might help to stabilize the peace.

62. *Détente.* The Middle East conflict—despite the Soviet role in it—will probably not dramatically change European attitudes toward détente. Their attitudes were already a mixture of caution about Moscow's ultimate aims in Europe and awareness that European vulnerability would not, in any case, permit direct confrontation with the Soviets. Moscow's role in the conflict has served to cast further doubt on the USSR's intentions, and Soviet support of Arab use of the oil weapon has also reinforced Europe's sense of vulnerability—not only to loss of its energy supplies, but also to the consequences of isolation from the US.

63. The conflict has resulted in deepening European apprehension that the US is, deliberately or willy-nilly, in the process of cutting its commitments to Europe. For those already inclined to question the extent of US-European "interdependence," the positions taken unilaterally during the war and the scramble for oil supplies since then will be taken as further evidence that both sides are increasingly preoccupied with independence and self-interest. The consequent impulse is to begin casting around and gradually to develop alternative arrangements—even though this runs up against Europe's unpreparedness to go it alone for many years to come. Should Europe be thrown into a deep recession as a result of oil deprivation, clearly the whole delicate balance of East-West relations will be put to a critical test.

Multilateral Trade Negotiations and Monetary Reform

64. Recent, dramatic increases in oil prices will place substantial burdens on payments balances of oil importing countries. This fact alone has important implications for both multilateral trade negotiations and monetary reform. If, in addition, the oil squeeze is maintained to the extent of creating world-wide recessionary conditions, the effect could be to retard or even halt progress toward multilateral trade liberalization. Even in the absence of such a recession, the expected im-

pact of the oil situation on their trade balances will probably cause the Europeans and Japanese to be even more concerned that any multilateral trade negotiations yield them some net advantage.

65. In the area of monetary reform, the uncertainties of the oil situation have had at least two effects—there is general acceptance that a longer "transitional" period of floating may be required before any return to "stable but adjustable" parities; concomitantly, considerable interest has arisen in prompt development of a code of conduct or set of rules for floating. In addition there is a heightened feeling that controls of various sorts must remain available as policy instruments to deal with the possibility of some disruption of international money markets.

66. Most foreign governments share the view of the exchange markets that the US may be less hard-hit than the Europeans and Japanese, and thus that the dollar may strengthen still further, perhaps excessively. A related concern is that countries hard-hit by the oil squeeze and/or price rise may resort to "competitive devaluation," which also in part underlies the desire to establish a set of rules for floating.

67. The oil squeeze, however, need not lead to general resort to competitive devaluation. To the extent that a recession is induced by the oil squeeze, it would be the result of supply shortages and bottlenecks rather than inadequate levels of aggregate demand. In these circumstances, any effort to increase net exports would simply exacerbate domestic shortages and inflationary pressures.

68. *US-European Partnership.* The Middle East crisis has clearly added new substance to the trans-Atlantic debate over "partnership." Although the crisis furnished new evidence of US-European interdependence, it has also brought forth new mutual recriminations. The Europeans will argue that the crisis demonstrated a disparity of US and European priorities that should be frankly acknowledged. They will cite the US alert of its military forces[5] to prove that prior consultation does not always take place. Moreover, while the Europeans may come to regard oil-sharing as desirable, at the moment they are more worried that such a demonstration of Atlantic solidarity would do more to harm relations with the Arabs than it would to alleviate Europe's energy shortage.

69. For the French, who believe partnership implies a contractual relationship which amounts to European subservience, "partnership" has become a dirty word. France's fellow community members are less

[5] See Document 244.

exercised over enshrining the word in an Atlantic declaration but they, too, harbor suspicions that acknowledgement of partnership would bind them to something more than the proposition that the US and Europe are interdependent.

Japan

70. The Arab selection of Japan as a special target for the oil weapon is based upon its extreme dependence on imported oil and its ties with the US. Japan is uncomfortably walking a tightrope between conflicting imperatives. The Japanese are acutely aware of the damage they can do to US-Japan relations if they shift their policy in the Middle East radically toward the Arabs. They are also concerned that obvious expediency on the issue will damage an image of integrity in international dealings.

71. The Japanese leadership is presently divided on the issue of how to respond to the next round of Arab pressures—which seem to be in the direction of a diplomatic and economic break with Israel. Most top leaders—e.g., Finance Minister Fukuda and Foreign Minister Ohira—would oppose further concessions to the Arabs. Prime Minister Tanaka is a less certain quantity, more susceptible perhaps to the public pressures that will arise as oil supplies dwindle and national production slows. The resultant economic and social dislocations will pose a severe test for modern Japanese society as well as for the Tanaka administration.

72. Possessing little political leverage in the Middle East, Japan will attempt to utilize its economic strength in lobbying among the Arabs to preserve the flow of oil. Tokyo is already trying to buy off the Arabs with promises of heavy investment in and aid to the several Arab economies. How long Japan can play this game and balance the contradictions depends on the Arabs and the US. On the whole, the odds favor Japanese movement toward meeting Arab requirements because, to Japan, the prospect of losing Arab oil imports looms as a greater danger than does an increase in political strains with the US.

Canada

73. From the Canadian viewpoint, the Canadian-American relationship has changed considerably over the past decade. The shift first occurred in public opinion and is now manifesting itself in official relations. The change involves a sloughing off of the national inferiority complex and a gradual movement toward a distinct national identity vis-à-vis the US. At the same time there exists a reservoir of genuine respect and friendship for the US that finds expression in many ways. The current crisis in the Middle East is one of these areas. After some initial groping—particularly over what caused the US

military alert—the Trudeau government has adopted a position quite similar to the US. The pro-Israeli tilt in Ottawa's outlook has always been evident, and when Canada's outspoken and politically ambitious energy minister began to suggest that Ottawa was going to shift its foreign policy because of the Arab oil stance, Trudeau acted quickly to correct the situation.

74. Until recently the Canadian Government required refineries east of the Ottawa valley to operate on imported crude oil, reasoning that it was cheaper to bring in crude from overseas than to ship it across Canada. The uncertain supply situation and the rising costs of the world oil market led the government even before the Middle East war to begin to take steps to protect Canada against such vagaries. The Arab cutbacks have accelerated the process of formulating a national energy policy that is certain to be more active in protecting Canadian interests.

75. Canada has no ability to increase oil production in the short term. Its immediate goal is to mitigate the effects of a reduction in Arab oil deliveries to eastern Canada. The measures taken to date include calls for voluntary cutbacks in energy consumption and preparation of plans for fuel rationing; the use of the Canadian Commercial Corporation (a government-owned company) to purchase oil on the spot market, especially refined products; diversion to the domestic market of a small percentage of current crude exports to the US; and applying diplomatic persuasion to convince the Arabs that Canada should remain exempt from the oil embargo.

76. Over the long-term Ottawa is heading for an energy policy that has a distinct Canada-first flavor. The Trudeau government or any possible successor would not take action in this area without serious considerations of the impact on Canadian-US relations. Nevertheless, the major influence will be the needs of Canadian consumers. Over the next two or three years, the present Alberta-Ontario pipeline will be extended to Montreal, thus diverting to the domestic market a large part of the 1.2 million barrels of oil per day now exported to the US. Ottawa is also likely to proceed with the creation of a government-owned company to buy, sell, and set prices for Canada's energy resources.

V. Opportunities and Risks in Dealing With Europe and Japan

77. As noted earlier, the intent of Arab pressures on West European countries, Canada, and Japan is to intensify tensions between them and the US until the US shifts its position on the terms of an acceptable Middle East settlement. The Arabs may judge that unity of the "Western" world will ultimately prove of greater importance to the US than support for Israel. If the Arabs are astute enough in the

manipulation of their oil policy, tensions between the US and the others are indeed likely to persist throughout the long and difficult Middle East negotiations regardless of the pressures the US may attempt to exert on both sides of the table.

78. US attempts to work together with Europe and Japan will have only a marginal effect on the resolution of the conflict in the Middle East itself. Their main purpose would be to limit damage to the alliance. Although the US has unique influence for purposes of effecting a settlement between the Arabs and Israelis, over-emphasis on this fact—or on the US' capability of withstanding an oil shortage—would conflict with the overall objectives of maintaining cohesion in the alliance. They may resent it, but both Western Europe and Japan remain aware that the US security role is indispensable and that there is a broad interlocking of our economic interests. Hence manifestations of a US go-it-alone policy would undercut this recognition of interdependence and tend to polarize pro- and anti-US feelings within each country.

79. It will be difficult to enhance a sense of shared common interest among the US and its allies. Various inducements—improved consultations, information exchanges, and possibly energy sharing—would help, but would not eliminate some sharp conflicts of interest. The allies would still be dependent on Arab oil. Conversely attempts to bring the Europeans and Japanese along with the US by economic or security threats (e.g., threats to withdraw US troops from Europe) would affect different allies differently. But they would be of dubious value in getting the allies to support US policy in the Middle East. If such threats were used, they could generate reactions causing lasting damage to the alliance.

[Omitted here is the Annex, including illustrative tables.]

263. Memorandum of Conversation[1]

Washington, December 5, 1973, 2:30 p.m.

SUBJECT

Meeting with Saudi and Algerian Oil Ministers

PARTICIPANTS

Henry A. Kissinger, Secretary of State
William H. Donaldson, Under Secretary of State for Security Assistance
William E. Simon, Deputy Secretary of the Treasury
Robert S. Smith, Deputy Assistant Secretary of State for African Affairs
Julius L. Katz, Deputy Assistant Secretary of State for Economic and Business Affairs
Alec Toumayan, Interpreter
Francois M. Dickman, Country Director, Arabian Peninsula Affairs

H.E. Ahmad Zaki Yamani, Saudi Minister of Petroleum and Mineral Resources
H.E. Belaid Abdesselam, Algerian Minister of Industry and Energy
H.E. Ibrahim al-Sowayel, Ambassador of Saudi Arabia
Mr. Abdelkader Bousselham, Head of the Algerian Interests Section

Kissinger: I am delighted to welcome both of you here to have an exchange of ideas. I recall my meeting with Minister Yamani last year[2] and I regret to say that everything he predicted has come to pass. I am happy to have this opportunity for a general exchange of ideas. I might mention at the outset that I greatly appreciated the hospitality extended to me in Saudi Arabia and throughout the Arab world.

I believe that the U.S. and the Arabs now find themselves with the following situation. The Arab world has achieved considerable political success in the events of last October. I think it is true, as Minister Yamani pointed out last year, that the conflict in the Middle East did not have the priority attention of the U.S. Government. This was partly because we did not take this serious matter sufficiently into consideration. As I told the Arab Ambassadors in New York shortly after I was confirmed, I recognized that the situation in the Middle East was intolerable; but the war in the Middle East gave this problem an impetus

[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Department of State 1968–1977, Box CL 342, MemCons External, Sep 73–Feb 74. Secret; Nodis. Drafted by Dickman. The meeting was held in the Secretary's office. Yamani and Abdesselam also met with Secretary of Commerce Dent on December 6. (Memorandum from Dent to Rush, December 11; National Archives, RG 59, Central Files 1970–73, POL SAUD–US) In his December 8 meeting with Clements, Yamani promised an additional 100,000 barrels per day for the Sixth Fleet. (Telegram 240916 to Jidda, December 8; ibid., Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV)

[2] Kissinger met with Yamani April 17, 1973; see Document 176.

which it would not otherwise have had. However, we have made a decision to get a just peace under Security Council Resolution 242. The President has affirmed this and I mean to carry it out.

Now there is a relationship, however, between our efforts and what you and the other Arab Governments are doing and the decisions that you have taken.

Yamani: We are very delighted to have this opportunity to meet with you and to hear the attitude of the U.S. Government and of the efforts it is taking to get a peaceful settlement in the Middle East. Unfortunately, what we predicted has happened. We are not happy with this and we will be only happy when the day comes when we can remove all the restrictive measures we have taken. I believe there is no reason for me to explain to you why these measures have been taken unless you wish me to do so.

What we want is to get back occupied territories. If this is achieved, we will immediately restore production to the September 1973 levels. What we want is a peaceful settlement and when this is achieved, our production will rise to a level that is defined by economic circumstances. I previously told my friends at Mr. Donaldson's lunch that we in Saudi Arabia will increase production if we can industrialize. We think this is possible and there are many favorable indicators and I am optimistic.

At the present time, we are applying two measures. The first has been to cut back oil production. We are prepared to restore production to the September 1973 levels according to a timetable which corresponds to a timetable of Israeli withdrawal. We also have the embargo. We hope we will soon be able to lift the embargo against the U.S. when we have a justification to do so. We would like to have your views on this to justify a change in our oil policy that we can point to in light of Arab public opinion.

Kissinger: I don't know who is taking notes, but I do not want to have this conversation distributed all over town. Now to answer your question . . .

We understand the Arab concerns and Saudi Arabia's policy up to a point, but we are in a different position from the Europeans. You can get from the Europeans any amount of rhetoric you want but they cannot deliver. The Europeans can make speeches, but cannot assure political progress in the Middle East. The Soviets can deliver arms. Only we can give you a settlement. If the Arabs want political progress, they have to work through us, but for this reason we have to be much more careful about what we say because we will be held responsible for whatever we say. We will not promise anything we cannot deliver; we will, however, deliver what we promise.

When I saw Prime Minister Saqqaf before and during the Middle East war, I did not promise that we can deliver but I did say that we

have fully committed ourselves to implement Resolution 242. This is a very serious commitment for the U.S. How to do it and when to do it depends in part on several practical considerations.

I remember that previous Secretaries of State had made promises, but there never were any results. This was not their fault. It was because they did not have either the backing of the White House or of the American public. Now we have the full commitment of the White House and we are working to get the support of the American public. However, the timing of what we do has to be left to our judgment. I am not speaking of two years from now, but of a measurable time. It would be easy for us to make declarations at this time but you will judge us by results and not by declarations.

You have asked for a justification. Now I would like to review briefly what we have done. We have brought about a ceasefire when a major military defeat for Egypt would have otherwise occurred. We have saved the Third Army. We are now working to get the peace negotiations started, but we are faced with an important question. This is a question of principle. We have given our word to your King (Faisal) and other Arab leaders of our intention. Now, should we be blackmailed while we are in good faith trying to help meet Arab aspirations? This will hinder us in pursuing this policy. The Arabs can always reimpose oil restrictions if the promises we have made are unfulfilled.

It is not appropriate for us to bargain in advance of what we are going to negotiate. We understand the Arabs' interpretation of Resolution 242, and I have said in Peking that it would be necessary for Israel to make substantial withdrawals. I am trying to avoid a major uproar in this country before the peace conference begins. For the forthcoming peace conference, I believe the first item on the agenda will be disengagement of military forces. This is one reason why I felt that going back to the October 22 lines was not very important, that it was a very minor move. But once the peace conference starts, we will make a very serious effort. Now I have told all Arab leaders that nothing can be achieved until after the Israeli elections. I have pointed out it would be a mistake to try to do something now when there are 25 Cabinet members engaged in political maneuvering in Israel and at least 10 of these want to be Prime Minister. Dayan[3] is traveling through the U.S. making speeches. We would be unhappy to get in the middle of this so that we are not going to press now. However, you have to have confidence in us. I pointed this out to King Faisal in Riyadh.[4]

I should also point out that we have carried out strictly what we have told we were going to do to the Arab leaders. We have seen that

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[3] Israeli Defense Minister Moshe Dayan.

[4] See Document 238.

the Third Army was resupplied. We have committed ourselves again publicly to UN Resolution 242. I personally have testified eight times before various Congressional committees, and I am meeting with another group of leaders this afternoon as well as tomorrow.

But our Arab friends must understand that if they want progress, they must let us choose the correct timing, but it will be soon.

Yamani: In January 1974?

Kissinger: We will begin moving in January 1974 in an unqualified way, but I do not want to see this statement in the newspaper tomorrow.

Yamani: We fully agree that what the Arabs can do towards the U.S. is nothing compared to what they can do to the Europeans or Japanese.

Kissinger: The Europeans can do nothing but talk but the more they talk, the more they move away from reality.

Yamani: I don't think this is a good time to move away. We do appreciate the efforts and the promises of the U.S. and we hope they will achieve the results we want. What we want is peace and the fulfillment of the previous promises we received from the U.S.

Kissinger: But you never had promises in the past. What you had were assurances of general objectives.

Yamani: I believe we are more hopeful now.

Kissinger: I believe that is true. I don't think you had promises before designed to a specific negotiation process.

Yamani: What we are doing is not blackmail, and I hope I can explain why. I think what we did was legitimate. We were hurt by what the U.S. did in providing military and economic aid before and during the war to Israel. The oil restrictions are a means of defense. I am hopeful, however, that we are starting a new era and that the way will be found to realize peace and to look forward to a good future.

Kissinger: We understand the reasons the decisions were taken by the Arabs to restrict oil during the war, and there is no question about the good relations that we have with Saudi Arabia and the strong personal ties many Americans have in the Arab world. The problem we face now is the situation produced by the war. We felt obliged during the war to introduce massive military aid to Israel. I don't mind repeating to your colleague from Algeria, who may have another point of view, that we had one fundamental motive—this was to offset the massive introduction of arms from the other side. We had to prevent the Soviet Union from gaining dominant influence. We said this to the Saudi and Algerian Foreign Ministers when they came here during the war.[5]

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[5] See footnote 3, Document 219.

We now have a new political situation, however, which permits movement toward a solution and where no outside country can dictate an outcome. It is in this new situation that we see oil restrictions as blackmail. Before the war, we were helping Israel but we were not making political moves. Now we are making a contribution to peace. We will support Israel's existence but we will also meet Arab aspirations. To pursue this policy will cause a tremendous uproar in the U.S., but it will be very difficult to do if it is done while we are suffering hardships as a result of the oil restrictions. That is why I call these restrictions blackmail.

Yamani: The U.S. has promised a peace settlement but we do not know what is the interpretation of Resolution 242. Is the U.S. committed to complete withdrawal? We do not question your commitment to Israel's survival but we question whether the U.S. is committed to Israel's continued occupation of Arab lands.

Kissinger: When the Israeli Prime Minister was here,[6] we had an unbelievably hard time. I spent three nights in this room with her. I can assure you if I have to spend three nights with a lady, I would rather not do it with her. We kept getting phone calls during the Prime Minister's visit from Congress that we were wrecking Israel. This commotion has now calmed down. I believe that history will show that the decision by President Sadat to work on the basis of a six-point program was very statesmanlike and in the long run will be helpful to the Arab cause. It enabled us to contain our own pressures in the U.S. The Israelis are more flexible now than they were on November 1, and they will be even more flexible on January 1. The Arabs have to understand what we have in mind. We have discussed many matters with Arab leaders already and there are many ideas. But before the U.S. takes a position on the frontiers, we will want to have discussions about Israel's security with Arab leaders. The solution must be acceptable to the Arabs and not be imposed, and there is no dispute about the need for massive Israeli withdrawal.

Yamani: We do not know what "massive Israeli withdrawal" means.

Kissinger: It involves the issue of establishing a final frontier; this is not the appropriate forum to discuss this question but the Arabs should be under no misapprehension what we are saying. The Israelis have never gone back one kilometer. The first thing that has to be done is to get a major Israeli withdrawal and this will create a new state of mind in Israel.

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[6] Golda Meir visited the United States November 1. For documentation on this visit, see *Foreign Relations*, 1969–1976, volume XXV, Arab-Israeli Crisis and War, 1973.

Abdesselam: Our countries and the Arab world in general are aware that the solution lies in the U.S. There are two problems: a problem of substance and a problem of procedure. The problem of substance deals with a final decision. Then, there is the problem of procedure; how to settle the matter. Concerning the problem of substance, we are in the dark about the position of the U.S. There are three essential points. Withdrawal from the territories but that is not the fundamental issue. The fundamental issue is the Palestinian one because that has been the source of all the other difficulties. There is the occupation of the territories since 1967; and then there is the question of the security of Israel which is raised by the U.S.

We can have no hope in a final solution unless there is a clarification of the U.S. position on the Palestinian issue, since the question of the security of Israel can be settled by means other than acquisition of new territories. When we see withdrawal tied to Israeli security, we tend to believe that the final solution will entail territorial concessions on the part of the Arabs. We consider that the matter of security for Israel can be settled by other means. To see withdrawal tied to security is tantamount to accepting the Israeli thesis that security per se is a justification for the acquisition of new territories.

The U.S. has not made its position clear. In no case should there be a consecration of the concepts of acquiring new territories in a final agreement. The war was not the fault of the Arab leaders. The U.S. gave Israel massive aid while the war was going on in Arab territories. We could have understood massive aid being extended if the classic borders of Israel had been threatened, if Israeli territory had been threatened. But the U.S. gave Israel massive aid in a manner which led the Arab Governments and public opinion to see it as assistance to Israel so it could maintain its occupation. This is the new factor which has occurred since the October war and which is keeping us from being able to change our attitude. We are not criticizing the U.S. for being friendly to Israel, and giving guarantees to Israel for its security, but in the present situation we see the U.S. as supporting the expansionist designs of Israel.

The U.S. should have a clear expression of its position set forth in global terms encompassing the basic issues, the guarantees for Israel and the clarification of the position on the Palestinians. We see this as a political problem and corollary to withdrawal from the occupied territories. A clear expression of position from the U.S. can be an incentive to the Arabs to change their attitude.

Kissinger: (Waving to break in)

Abdesselam: I have two more points to make. To solve the Palestinian problem you have to start involving the Palestinians themselves and it is up to the Powers responsible for the restoration of peace and primarily the U.S. to involve the Palestinians in the process of solution.

At present, we see the Palestinians as being kept aside or out of any conversations as if, in effect, there were an Israeli veto which we see no move to override. The problem must be tackled globally. The line of October 22 cannot apply only to Sinai but also to Golan, and the question of the Palestinians and of Jerusalem must be tackled at the same time. I am saying this because right now we see a trend to move toward a partial solution, an attempt to solve one part and not the others. We are not simply supporting the position of the Egyptians, the Syrians or the Palestinians. Our support is global. If the U.S. speaks of this disengagement of forces, this cannot apply only to the Egyptian party. If there is a disengagement of forces as a first step on the Sinai, then it must be carried out on Golan simultaneously. A number of tracks must be pursued concurrently.

Kissinger: I would like to . . .

Abdesselam: The Arabs are aware that the solution rests only with the U.S. but in view of all that has happened, I must ask if the Arabs are now being asked to sign a blank check. We do not come with set ideas or a frozen position. We are disposed to be flexible but there must be a substantial justification on the basis of which we can have a change in our attitude.

Kissinger: I will be making another trip to the Arab world[7] only one month since I have taken the last and I will have the opportunity to go into the points which you have raised. I would emphasize that the principle of disengagement in the Sinai applies to the Golan, too.

Abdesselam: This is not the situation today.

Kissinger: But this is what I am telling you.

Are we going to approach this the French way or the practical way? The French and those educated in French lycées have a tendency towards the formulation of Cartesian principles.

Abdesselam: Are you saying this to me or are you reproaching the French?

Kissinger: I am reproaching the French for teaching this method. I have dealt for four years with people trained by the French and my nervous system has not fully recovered.

There is one aspect that Arab leaders should consider. The Arabs have complained about the U.S. commitment to Israel. It clearly was not an accident and it clearly has basic reasons because the U.S. does not commit itself to a nation of 2½ million people 8,000 miles away as a general principle. If this consideration is understood, it can't be challenged on a day-to-day basis. It has to be dealt with case by case. We are not ready to make the comprehensive statement you want us

[7] See footnote 4, Document 247.

to make. We have domestic pressures to contend with and we are dealing with them. Even though it is not visible yet, we believe several basic objectives have been achieved.

We do not want a confrontation with the Arab states. Placing conditions based on a comprehensive solution, however, will make a solution that much more difficult to achieve. There are the questions of security, of frontiers, of guarantees, of the Palestinians and Jerusalem. All of these have to be settled in a satisfactory manner before a global solution is achieved. I told your Foreign Minister that the Palestinian question has the greatest complexities, and there are two aspects to this question: who represents the Palestinians; and what provisions should be made for the Palestinians. I am aware of this problem but I think it is unwise to fight too many theoretical battles. Timing is very important at this point.

As for the blank check, we see three problems: (1) the embargo; (2) the oil production cutback; and (3) the need to increase oil production. We are aware that the Arabs can produce an energy crisis simply by going back to the September 1973 level and no further. Therefore, the proposals that the Arabs have made to the Europeans should not be very reassuring. If the Arab oil producers stay at the September 1973 level and there are no cuts and no embargo, it will eventually cause an energy problem unless there is an increase in production. Therefore, we are not talking about a blank check. If the Arabs increase production and make no demands, then that would be a blank check. If the Arabs remove the embargo, this would be a symbolic act which would help. If they remove the oil cutbacks, this would ease the situation also, but it would only postpone an energy problem that would arise a year or two from now.

The oil restrictions raise the issue whether countries toward which we show good faith and whose objectives we are supporting should engage in discriminatory policies against the U.S.. What I am saying is that it would be highly desirable if we could go back to the September 1973 level, but that is not an end in and of itself since production at this level will only postpone the energy problem temporarily. There is going to be more and more demand for oil.

Yamani: I would like to say . . .

Abdesselam: Production cuts are his problem (pointing to Yamani) not mine; I want high production and high prices.

Kissinger: Yes, but we are far from asking the Arabs for a blank check. We would think that if immediately after or just before the opening of the peace conference the oil embargo and restrictions were removed, this would have a favorable impact. The Arabs could always reserve the right to reimpose these restrictions if no significant movement occurred but their removal at this time would turn public opin-

ion against those who would oppose our achieving a settlement of the Middle East problem.

Yamani: I do not disagree with what you have said but we have public opinion also, and our public opinion is more important to us than your public opinion. We are not in a position to do anything without additional justification. The massive U.S. aid to Israel was the reason for our action and this aid is continuing. We cannot ignore that Israel poses a military threat to the Arabs.

Kissinger: We foresee a situation arising where the Arab countries could overplay their hand. I believe the Arabs in the past have made a mistake by seeking to gain their political objectives through hostility to the U.S. This was a policy followed by Nasser. It made it easier for those who wanted to maintain the status quo in the Middle East. The Arab states could make the same mistake now with their economic policy. We can live with the oil restrictions and we can make the necessary adjustments; however, it causes irritation which complicates the authority that the U.S. Government will require to carry out the policy needed in the Middle East.

Yamani: There is another point of view that the Arab oil restrictions may have helped the U.S. pursue its new Middle East policy.

Kissinger: It has up to a certain point, but if the Arabs push too hard, it will be counter-productive.

Abdesselam: When I referred earlier to the global solution, I didn't mean that all issues had to be solved all at once. What I meant was that movement must take place on several levels simultaneously. Troop withdrawal must be carried out on the two fronts. The Palestinian problem must be taken up at the same time. As for the question of the Palestinian interlocutor, I believe that the Palestine Liberation Organization is now viewed by all the Arabs as the only representative of the Palestinians. I do not want to say too much on the Jordanian problem. You will be talking to the Jordanian leaders. But today there is a Palestinian problem; there is not a Jordanian problem because the West Bank has in the past been part of Palestine. There is also the problem of Jerusalem.

Kissinger: I mentioned Jerusalem before you did, and I know that King Faisal will bring this to my attention again when I see him.

Abdesselam: We have no mandate to negotiate any solution. I have not tried to talk from the French standpoint but from a practical standpoint. We realize you hold the key to the solution and if you are ready to move toward a solution, we cannot move in two different directions.

Kissinger: I understand and I believe our objectives are complementary. It would be a mistake to move in different directions. This is why I am making another trip to the Arab world. I have had to deal with three parties in Vietnam and now nine parties in the Middle East. The possibilities in the Middle East to achieve a solution are better than

since 1948. We are determined to achieve a solution, not perhaps at the speed of the most impatient Arabs, but as quickly as possible. We believe the process must start in January 1974 and symbolically beforehand in Geneva on December 18. I believe that progress will be shown quickly and will accelerate once it gets started. You must understand, however, that we are faced with a very difficult exercise, and we cannot do it under pressure. We cannot act like some other countries with whom the Arabs have had dealings. Therefore, you (the Arabs) have to calibrate your actions with this reality. The need for energy in the world will continue to increase and therefore you will never be without weapons.

I must say in retrospect that Minister Yamani gave me a warning, and I have not forgotten our earlier conversation. We think we understand the situation and I will do my best but Arab oil producers should not complicate the situation.

Yamani: We greatly appreciate this opportunity to meet with you. I hope all of this will be over soon and there will be no need for any more warnings.

Kissinger: (to Yamani) If there are any special problems you would like to raise with me before I leave, I would be glad to see you again.[8]

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[8] In his memoirs, Kissinger recalled that he met again with Yamani on December 6, without "the radical Algerian." Yamani indicated "that the formal position would be interrupted with great flexibility in practice. The embargo would be lifted if we achieved an Egyptian-Israeli disengagement in January as we planned." (*Years of Upheaval,* p. 883) According to the Secretary's Calendar of Events for Thursday, December 6, Kissinger met with Yamani from 6:40 to 7:12 p.m. No other record of this meeting has been found.

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264. Editorial Note

On December 12, 1973, Secretary of State Henry Kissinger delivered an address in London before the Pilgrim Society of Great Britain as part of his effort to promote cooperation between the United States and Europe in all areas, including energy. Secretary Kissinger laid out the difficulties and possibilities of the "Year of Europe" that he had announced in April. (See Document 177) After stating the necessity for "renewing the Atlantic community," Kissinger turned to the issues of the Middle East and energy. He told the audience that although the war and the U.S. effort to resupply Israel with weapons had some bearing on the energy crisis, the energy crisis was "the inevitable consequence of explosive growth of worldwide demand outrunning the in-

centives for supply. The Middle East war made a chronic crisis acute, but a crisis was coming in any event."

Kissinger then stated that the only long-term solution was a "massive effort to provide producers an incentive to increase their supply, to encourage consumers to use existing supplies more rationally, and to develop alternate energy sources." To achieve this, he proposed the establishment of an international Energy Action Group (EAG). The Group's goal would be to assure energy supplies at reasonable cost through such mechanisms as conservation, discovery and development, incentives for producers to produce more oil, and coordination of research into new technologies. Kissinger stated that the Group should be composed of consumers and that producers would be invited to join from the beginning. He concluded that the United States was ready to make "a very major financial and intellectual contribution" to this endeavor. The speech, which became known as the Pilgrim's Speech, is printed in Department of State *Bulletin,* December 31, 1973, pages 777–782.

Two major European responses followed Kissinger's speech. First was that of the European Community (EC). The EC issued a declaration on December 15 at the end of its Summit meeting held in Copenhagen, reaffirming its November 6 declaration (see footnote 2, Document 262), which had called for the full implementation of Resolution 242 and confirmed the importance of European consumer nations negotiating with the oil producing countries. The December 15 declaration, without mentioning the EAG by name, stated that the EC found the U.S. proposal useful to deal with both the short-term and long-term energy problems of consumer countries within the framework of the Organization for Economic Cooperation and Development (OECD). (Telegram 3189 from Copenhagen, December 16; National Archives, RG 59, Central Foreign Policy Files) Kissinger wrote President Richard Nixon that the EC Summit was "unable to endorse the U.S. call for the formation of an Energy Action Group—settling instead for bland communiqué language that would send the problem to the OECD for study. The tone of the message also reveals the EC's current determination to keep its distance from the United States." (Memorandum from Kissinger to Nixon, undated; Library of Congress, Manuscript Division, Kissinger Papers, Geopolitical Files, Box CL 145, Great Britain, Chronological, Jan–Feb 74)

The second response came from the December 19 meeting of the High Level Group of the OECD Oil Committee. According to telegram 32515 from USOECD Paris, December 20, there was a "strong consensus" in the HLG in favor of the EAG. Delegates of the United Kingdom, Germany, Italy, Canada, the Netherlands, Norway, and the EC Commission saw the proposal as an "imaginative and constructive initiative." The French delegate was noncommittal. The Japanese delegate

welcomed the proposal but indicated that Japan's final view might be determined by the reaction of the oil producing countries. Most delegates thought the OECD would be a useful vehicle for an EAG. (National Archives, RG 59, Central Foreign Policy Files)

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265. Message From Prince Fahd of Saudi Arabia to the President's Assistant for National Security Affairs (Kissinger)[1]

Riyadh, December 12, 1973.

[Omitted here is information unrelated to oil.]

"The publicly announced results of the OAPEC Conference represent all decisions actually taken.[2] Although we did not achieve as much at the conference as we wished, the results came as close as possible to achieving our goals. The main factor inhibiting full achievement of our goals as previously conveyed to you[3] was the insistence of other participants at the conference that even stronger and more extreme decisions and resolutions be enacted. I instructed our acting Petroleum Minister Hisham Nazir to insist that the conference formally adopt a "decision" of the conference rather than merely announcing a "recommendation" of the conference which would not have bound the OAPEC member states to implement lifting of the oil embargo and the production restrictions once progress has been achieved as outlined at the conference. The decisions and recommendations of the conference would have been very different had it not been for the position taken by our acting Petroleum Minister."

[*3 lines not declassified*]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973. Secret; Sensitive.

[2] At the December 8 meeting in Kuwait, OAPEC issued a resolution setting forth its decisions: 1) If Israel withdrew from the occupied territories, including Jerusalem, in accordance with a timetable, which the United States would guarantee, the oil embargo on the United States would be withdrawn; 2) when the timetable for withdrawal was agreed, the Arab Oil Ministers would meet to agree on a schedule for return to the production levels of September 1973; and 3) African and "friendly Islamic" countries would be supplied with oil even if it meant an increase in production, provided they did not re-export the oil to embargoed countries. (Telegram 8269 from Kuwait, December 10; ibid., RG 59, Central Foreign Policy Files) In his memoirs, Kissinger described the resolution as a "clear non-starter." (*Years of Upheaval*, p. 883)

[3] See Documents 259 and 260.

266. Paper Prepared by William B. Quandt of the National Security Council Staff[1]

Washington, December 14, 1973.

PRESIDENT'S SATURDAY BRIEFING

For President

Possible Change in Saudi Oil Policy: According to the President of Aramco, Saudi Petroleum Minister Yamani has indicated a willingness to modify the oil embargo, even if Saudi Arabia has to act unilaterally without the support of other Arab oil producers. Yamani expressed his desire to find ways to help Belgium, hard hit by the embargo on the Netherlands, and to provide fuel for US military forces. Another high Saudi official has concurrently told Aramco of possible modifications in Saudi oil policy that would permit Arab oil to pass through Rotterdam to other European consumers and through Portland, Maine, for Canadian refineries. If these arrangements are in fact made, Aramco would be allowed to increase production to cover these shipments.

Source: Critchfield memorandum, December 14, 1973[2]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1279, Saunders Files, UAR, 12/1–12/15/73. Secret; Sensitive. In a covering memorandum, Quandt asked Scowcroft if the information should be passed on to Simon. Scowcroft initialed the "no" line. The information was not included in the Presidential briefing material for Saturday, Decmeber 15.

[2] Not found.

267. Memorandum of Conversation[1]

Riyadh, December 14, 1973, evening.

PARTICIPANTS

King Faisal
Prince Fahd
Prince Nawwaf
Omar Saqqaf, Minister for Foreign Affairs

Henry A. Kissinger, Secretary of State
Joseph J. Sisco, Assistant Secretary of State
Harold H. Saunders, NSC Staff
Isa Sabbagh, Interpreter

[Omitted here is discussion related to the post-war negotiations.]

Kissinger: There are two other considerations.

If I may presume to describe our view of the Arab interest, my feeling is that if the oil weapon is used with care, it can be an effective weapon. But it can also be counter-productive. Up to now, the Arab nations have made their point in an effective way. But if the pressure is continued too long, at a time when we know that we are making a major effort for peace, public opinion in the United States will turn, not against Israel but against the Arabs.

But if the embargo were suspended and then if it were reimposed at a point later in the negotiations, the public blame would focus on the other side if the other side seemed to be the cause of the negotiating impasse. So it is a weapon that, once it is in its sheath, is not unavailable.

Then, if Your Majesty will permit me to say a word about American domestic considerations, Your Majesty knows that there are forces in the US that will undoubtedly try to destroy me because of my effort. That is not so important but they will also try to destroy the President and that is more important. If the winter goes on and if the difficulties continue, he will be blamed for the hardships. When Congress returns in January and February this reaction may become uncontrol-

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[1] Source: National Archives, RG 59, Central Files 1970–73, POL 27 ARAB–ISR. Secret; Cherokee; Nodis. Drafted by Saunders. Brackets, with the exception of those indicating omitted discussion, are in the original. A handwritten notation on the memorandum reads: "Rec'd 11/10/74 WH/JD to LSE." Kissinger also met with Hisham Nazir on December 15 to discuss Saudi industrial and economic development and whether Saudi Arabia should send a mission to the United States rather than have a U.S. mission go to Saudi Arabia. (Ibid., Nixon Presidential Materials, NSC Files, Box 1027, Presidential/HAK Memcons, Memcons, April–Nov 1973) From Lisbon Kissinger thanked Faisal for his hospitality and informed him that Israel had agreed to the joint cease-fire agreement and to a conference in Geneva to begin December 21. (Telegram 4602 from Lisbon, December 17; ibid., Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973)

lable. Opposition to the President because of the fuel shortage will be encouraged by groups who only benefit from a reduction of US authority. So this is what Your Majesty might wish to consider as we move into the next phase. This does not require a decision today or this week, but in my judgment it does require a decision in the relatively near future. We, in turn, will do our share.

I hope Your Majesty will forgive me for speaking so frankly.

Faisal: Of course, in the same vein, Your Excellency must know by now the background of my attitude. Since 1967, a lot of other forces have pressed me not only to cut off oil but to break diplomatic relations with the United States. For years I have resisted pressures from my fellow Arabs not to take more extreme measures. But after the October war, when the US attitude appeared to be one of all-out support for Israel, I had no choice.

[At this point, the interpreter prefaced his translation of the King's remarks saying that the King was measuring his words very carefully.] If, at the determination of that phase which you have described, in announcing the results of that phase, you could put a "rider" on your announcement that said that this is but one step in a solution leading to withdrawal and to the realization of the Palestinian rights—at the moment that is said the faucets would open again.

Kissinger: Then, if I understand, when we announce an agreement in connection with the first phase of negotiations we say that this is only a first phase in implementing Resolution 242, would that be what Your Majesty has in mind?

Faisal: The Resolution you are referring to is well known. But the problem is that Israel does not totally recognize that Resolution. It does not recognize total withdrawal and also, the Palestinians are left out. So, if you permit, I would go back to my suggestion: ". . . one step in the implementation of 242, which stipulates total withdrawal." If the US supports this declaration and stands behind it, there is no problem.

Kissinger: The difficulty is that there are some things which are better not said. The Japanese and Europeans can say anything because they have no responsibility and they have no domestic price to pay for what they say. I would be glad to make any statement about Indonesia. But the difficulty is that we must preserve our influence to get from here to there. Ever since my last visit, I have, at every press conference, mentioned Resolution 242. I admit this leaves a certain vagueness, but some vagueness may be desirable to keep our opponents divided. But I am determined to proceed.

Faisal: In expanding on the importance of certain elements, Jerusalem should not be ignored.

Kissinger: I understand that.

Faisal: Are there not Jews in the United States who could speak in terms of US interests?

Kissinger: If, in October, I had said publicly that Israel should move its forces back to the Mitla Pass, there would have been a rebellion in Congress. Before I came out here on the last trip, 15 Senators called me and objected that I was going to put pressure on the Israelis to move their troops from the West Bank of the Suez Canal. On my last visit I concentrated on saving the Egyptian Third Army and Sadat was kind enough today to tell me that he was grateful for that. I did not concentrate on moving Israeli forces back to the October 22 lines because I thought that would have provoked a fight over an issue which really was not important. Since my last visit I have appeared before eight Congressional committees, and I have given some publicity to a Congressional committee that visited Arab countries. Before the current trip, as a result, I had had no calls from suspicious Senators who felt that I was going to pressure Israel. Now I am not talking about the October 22 lines—and before my first trip there were objections to my even thinking of proposing that Israel move back that far—but now I am talking about Israel's moving back to about the Mitla Pass on the East Bank. And no one is objecting. While I have not made these comments very public, still, enough Senators have heard them so that there could have been objections. What I am saying is that, between these two trips, I have noted a significant change in the base of public support for our policies. And I have done this by quiet talk and not by public declarations.

Faisal: Of course, I appreciate fully your further remarks. Your Excellency will appreciate also that we have certain difficulties ourselves. That is why the US must hasten its support for progress in Phase One so that we can fully resort to friendly relations as we have had in the past.

Kissinger: If I may say so, Your Majesty, we have a great interest in the strength and vitality of Your Majesty's government and do not want to do anything to weaken Your Majesty. We are reassured that Your Majesty is one of the most important leaders of the Arab world.

Faisal: I want to turn back to a point which is a corollary. It is important to have your public backing for Phase One. That would strengthen our hand.

Kissinger: The backing for the first phase can be done publicly.

Faisal: Perhaps you could have a public statement which would say that in addition to stage One there would be further steps toward the ultimate goal which is . . .

Kissinger: I never want to promise something which I cannot deliver. I want His Majesty to have full confidence in what we are doing. We can give public support to the work in Phase One and we can press for progress fairly rapidly. We can say that stage One is just one phase on the road to the implementation of Resolution 242. But it would not be in our mutual interest if we were more explicit than that. Your

Majesty would retain his weapons to use at any time if he feels that we are not living up to your expectations.

Faisal: I do not see how a statement would be counter-productive.

Kissinger: Because it would lead to such a debate if it appeared that I had taken this trip and, as a result of pressure from the Arab oil producers, I made a statement that made it appear as if I were selling Israel out. If I put myself in that position, then I could not do what I want to do to make good on the private understandings I have reached with President Sadat.

But I can tell Your Majesty—of course, everything I say here is said in confidence—what I told the European leaders that I could conceive of a time in the negotiations when I might welcome a statement by Your Majesty threatening to reimpose the oil embargo. If that were played carefully, it could help our effort. But it would be better in the situation that I described earlier, where the embargo had been released in good faith and the reimposition were seen to be in response to an impasse created by the other side.

By the tactics I have pursued, I believe we have made progress in building domestic support in the US. If your associates would analyze US opinion and US press, the press has shifted its position gradually because I have acted as a mediator rather than as an advocate of one side.

Faisal: We are very grateful and cannot express our thanks enough for these sentiments. I pray for your continued effort and that God will grant results.

Kissinger: We shall continue our efforts with great energy. We consider that is what is necessary on our side.

Faisal: Nothing would please me more than to say that tomorrow morning we will lift the embargo. But, as the American expression goes, it does take "two to tango." It should not be like playing chess where two adversaries work against each other. It should be a situation where you strengthen my hand and I strengthen yours.

Kissinger: Fair enough. When we have progress to report I will inform Your Majesty in complete confidence.

Faisal: In sha Allah. Grant us success in finding a solution to this pernicious problem.

Kissinger: I agree.

Faisal: I wish you every success.

[Omitted here is discussion related to the post-war negotiations.]

268. Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to President Nixon[1]

Washington, December 20, 1973.

The Saudi Foreign Minister, Omar Saqqaf, has told our Ambassador that King Faisal has now decided that the Arabs have made their point;[2] that the world understands the ability of the Arabs to use their oil weapon effectively; and that many of the Arabs' friends and other innocent, uninvolved countries are now being hurt. The King has therefore decided that the oil boycott must be lifted and limits on production removed.

According to Saqqaf, this decision will be implemented as follows:

—The Saudis will convey their intention to the Arab oil conference on December 25th.

—The Saudis are attempting to move the meeting site from Tripoli to Kuwait and are suggesting that Arab Foreign Ministers, as well as Oil Ministers, attend the meeting.

—The position of the Saudi delegate will be that you have made solemn commitments to work for peace and that King Faisal believes you and hopes you will be successful. In the event you are not successful, the embargo could be reimposed and the blame would then be on Israeli, rather than Arab, intransigence.

—The estimate of the Saudis is that Algeria and Egypt will concur; Iraq and Libya will oppose, but have already broken the boycott themselves and their voice will not matter anyway; and Kuwait and Abu Dhabi could create problems.

There is no reason to believe that Saqqaf is not telling the truth, but this news should still be viewed with caution. The December 25 meeting is solely for the purpose of gaining the approval of the other Arab states. If the Saudis are successful, that meeting will trigger the scenario for January which the Secretary described to you in his reports from Cairo and Riyadh. There still remains the possibility, however, that the Saudis will back down if faced with strong opposition at the December meeting or will change their mind if there is a leak before they are prepared for announcement. As you know, the Secretary has already consulted with the Saudis and the Egyptians regarding the public statements which would be made.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Nov–Dec 1973. Secret; Sensitive; Eyes Only. Sent for information. A handwritten notation at the top of the memorandum indicates the President saw it.

[2] Reported in telegram 5606 from Jidda, December 19. (Ibid., NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV) According to telegram 5603 from Jidda, December 19, Yamani was going to recommend to Faisal that both the embargo and cutback in production be ended soon after the opening of the Geneva Conference, which was to begin December 21. (Ibid.)

269. Memorandum of Conversation[1]

Paris, December 20, 1973, noon.

PARTICIPANTS

Georges Pompidou, President of the French Republic
Interpreter
Henry A. Kissinger, Secretary of State

[Omitted here is discussion unrelated to oil.]

[Kissinger:] With regard to energy and oil, I believe that we are only at the beginning of a resolution of the problems between industrialized and developing countries. If the western powers exhaust themselves in internal squabbles, these problems will never be solved. I was struck by the fact that before we approached any Arab country, Saudi Arabia, Egypt and Kuwait took the initiative to inform us that they were favorably disposed to the energy proposal that I put forth in London.[2] I believe that is because the Arabs recognize that a competitive struggle for oil among the consumer countries will facilitate the consolidation of the radical Arab regimes. We are in no way opposed to the European identity, but we would like to establish a growing framework of relations with it. We are mindful of the difficulties of the past. We would prefer, certainly, to focus this dialogue with France and the United Kingdom, as opposed to Luxembourg, Belgium or the FRG.

[Omitted here is discussion unrelated to oil.]

[Pompidou:] You brought up the problem of energy. If we are talking about a dialogue between consumers and producers, we can discuss the modalities of such a dialogue without any problem. I would not concur, however, in establishing a consortium of consumers that would seek to impose a solution on the producers. You only rely on the Arabs for about a tenth of your consumption. We are entirely dependent upon them. We can't afford the luxury of three or four years of worry and misery waiting for the Arabs to understand the problem. I won't be able to accept, no matter what conditions are established, a situation which requires us to forego Arab oil, for even a year. I would like to be able to take advantage of the resources of Texas and Venezuela, etc., but I don't have that option.

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, TS 26, Geopolitical Files, France, Chronological File, 19 July–20 Dec 1973. Top Secret; Sensitive; Eyes Only. The meeting took place at the Elysée Palace. Kissinger also met with Jobert December 19. (Ibid.)

[2] See Document 264.

Kissinger: If there is one thing which we want to avoid, it is the weakening of European governments because we recognize that the consequences of such a situation, particularly in Germany, would be very bad. Thus, it is very much in our interest that nothing happens to Europe, as a result of the energy crisis, to weaken the current governments—particularly that of France. There remains a practical question—how do we assure that oil begins to flow as quickly as possible? It is easy for us to talk about it because we possess reasonable resources from Texas and elsewhere, and we are not suffering the pressures to which you refer. Nevertheless, my experience, and I could be wrong, with Arab countries, leads me to say that oil will never flow as a function of our requirements, but of theirs. When Yamani was in Washington he tried to extract the conditions of peace that we could accept.[3] I refused to answer him and stated that we have our own dignity, just as he has his. The only interest of Saudi Arabia is to not reinforce radical governments. I know how to deal with them, and I made that clear to King Faisal. Afterwards he became much more reasonable. As a result, I believe that the immediate crisis can be overcome within two months. This is the impression that I have drawn from my discussions, especially with Faisal. It is terribly important that this remain a matter of confidence.

Further, with regard to energy, we would like to establish an effective dialogue between consumers and producers. But not the creation of any syndicate. At the same time, with regard to other sources of energy besides oil, if you believe that the consumer countries should coordinate their efforts, I would agree completely. That corresponds to our common interests and we are ready to share our technology. This is the objective of our proposal on oil—a dialogue between producers and consumers—on other sources of energy, a more constrained relationship between consumers.

Pompidou: When I received Yamani and Abdesselam, he asked that Europe and France attempt to exert pressure on Israel, breaking relations and so forth. I answered, just as you did, that we will maintain our dignity.

Kissinger: That is very important over the long term. One of the reasons for which, in the Middle East, we have publicly declared that Europe cannot force us toward certain acts is in part to avoid precisely the Arab pressures on Europe.

Pompidou: You didn't entirely succeed.

Kissinger: I have the impression that Saudi Arabia is looking for a formula to extricate itself from the problem.

Pompidou: You understand that a lot better than we do, even though our relations with the Arab countries are quite good.

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[3] See Document 263.

Kissinger: It is very important that this remain confidential. In my government, I have told no one except the President, and I have told no other government except yours. In effect, it will be necessary for Saudi Arabia to obtain the agreement of the other countries.

[Omitted here is discussion unrelated to oil.]

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270. Minutes of the Secretary of State's Staff Meeting[1]

Washington, December 26, 1973, 3:10 p.m.

[Omitted here is discussion unrelated to oil.]

Mr. Sisco: Do you want to say a word about oil? I think there will be a good deal of interest here in the group.

Secretary Kissinger: Well, on oil, as those of you know who know the subject better than I do, you are aware there are really two issues. There is the issue of the level of production; there is the issue of the embargo. Lifting the embargo without raising the production doesn't really do us much good, because we would then be competing with the Europeans for an already inadequate share of the total. So our objective is two-fold—to get them to increase their production, and secondly, to get them to lift the embargo. Our object is also to get this brought about without our having to bargain for specific terms on the Arab-Israeli settlement—because our view has been that if we once begin to let ourselves be blackmailed, this weapon will be used time and time again at every stage of the negotiations. And if we once get into a negotiation on specific terms in return for the oil, we will be negotiating with the wrong parties, perhaps without being able to deliver the other party. So the position we have taken with the Arabs, which I think is going to work, is that we have shown our good will by producing the conference, by establishing an agenda that has a clear direction, and by using our influence to get Israeli agreement to that agenda and to that direction. We will not under any circumstances make pronouncements as to the final goal in order to get a temporary alleviation of the oil problem. And I think that has become understood.

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[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 720, Secretary's Staff Meetings, 11/73–12/73. Secret. The minutes contained no list of attendees and no summary of the meeting decisions.

I don't know what the experts here think, but I consider that this increase in production is not a bad prelude to the lifting of the embargo—if this is where they are planning to go.

We certainly found the Saudis much more relaxed and much easier to talk with this time than on the last visit. In fact, I'm reaching the point where if a Foreign Minister doesn't kiss me, I think there is something wrong. (Laughter)

Question: It is when they start burning the photos that you have to worry.

Secretary Kissinger: That is going to happen, too. It has been too easy.

Okay.

Are there any questions?

Good.

(Whereupon at 3:30 p.m. the meeting was adjourned.)

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271. Telegram From the Embassy in Iran to the Department of State[1]

Tehran, December 26, 1973, 0635Z.

9057. For the Secretary from the Ambassador. Ref: Tehran 9001 and the Shah's Press Conference of December 23.[2]

1. The consternation caused by the doubling of Persian Gulf crude oil prices provides incentive for the European Community to join urgently with the United States, as per your call earlier this month,[3] in a

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Iran, Vol. V. Secret; Immediate; Cherokee; Nodis.

[2] According to telegram 9001 from Tehran, December 21, the Shah wanted the Persian Gulf members of OPEC, who were to meet in Tehran December 22–23, to do away with the posted price system and fix the price of crude oil in relationship to alternate sources of energy, the equivalent cost of which was between $8 and $14 barrel. (Ibid.) Kissinger recalled that the cost of oil per barrel at the time was $5.12, creating a 387 percent price increase from October. (*Years of Upheaval,* p. 885) On December 23, Amouzegar announced, on behalf of OAPEC, a new posted price of $11.60 per barrel for Arabian light crude, doubling the price and yielding about $7 per barrel profit for Persian Gulf producing governments. In his press conference the same day, the Shah stated his sympathy for developing nations and said part of Iran's extra revenue would be invested in both developed and developing nations. (Telegram 9031 from Tehran, December 23; National Archives, RG 59, Central Foreign Policy Files)

[3] See Document 264.

common approach to the energy problem.[4] These new prices will hold only for the ninety days after January 1, 1974. Already the Kuwaiti Oil Minister is talking of another increase. The Shah in his press conference of December 23 wants to use this period to establish the price of crude oil in comparison with other sources of energy. Put another way, the time has come for the industrial countries of the world to fashion an approach toward the oil producers and to establish a dialogue between OPEC and the OECD to work out some kind of solution to the present totally unsatisfactory state of affairs. OPEC will meet January 7 to devise its strategy vis-à-vis the OECD. It may well be based on the Shah's concept. (May I recommend that you read his entire press conference of December 23.)

2. The Shah's thinking has changed dramatically during this year. When I first saw him last spring, he was in favor of keeping oil prices down so as not to encourage price rises in the US and Western Europe where he buys most of his imports. The doubling and in some cases tripling of commodity prices in the US this past summer staggered him and faced him with tough problems dealing with inflation in Iran. The October war and resulting oil embargo set the stage for skyrocketing crude prices. Iran could not lag behind. "I cannot get less for my oil than other countries," said the Shah. Yet he realized that the chaotic price situation must be brought under control. After much thought he developed his concept of trying to relate the price of crude oil to the cost of alternative sources of energy. This idea may be overly simplistic, but it confronts the industrial West and Japan with a challenge the solution to which will engage industry, government and economists across the spectrum.

3. The developing world will be hardest hit by the latest increase. India's five-year economic plan will go into the trash barrel. The Shah's suggestion for helping India help herself seems hardly adequate in the premises. What further price rises will do in these countries is all too clear. In short, it can be said without exaggeration that the non-Communist world is in a fair way to being shaken to its economic foundations. Against this background the United States while joining with the European Community to tackle this problem may also want to

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[4] In a meeting with Akins on December 26, Saqqaf, Fahd, and Yamani told him that Saudi Arabia had "strongly opposed" the price increase at the Tehran meeting, but all other OPEC members, led by the Shah, wanted oil prices to be between $10–$14 per barrel. Faisal had "chewed Yamani out" because Faisal thought the higher oil prices "would hurt the world," and turn "the world against the oil producers for purely economic reasons." Akins complained that "Tehran was a catastrophe and Kuwait was an insult, given our political actions in the last two months." (Telegram 5703 from Jidda, December 26; National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV) Akins was referring to the OAPEC meeting in Kuwait; see footnote 2, Document 265.

give thought to the plight of the developing world and invite its recommendations.

4. What one does to deal with the OPEC price onslaught is no insignificant question. Until now the approach has been one of pleading, of diplomatic démarches, of appeals to the better self. It is no wonder they have been unavailing. The leaders of these countries know they have the whip hand, remember every denial or indignity of the major oil companies over the years, and are in no mood to have commodity prices float freely in the market while crude oil prices do not. They understand very well too the desire for independence from government control of the majors in the United States and the inability of the USG to do anything except weigh in with words when some decision goes against the majors. Perhaps it is time the USG examined the effectiveness of the majors as negotiators for the American people and their standard of living. In any event, I would like to suggest that finding the answers will require your personal leadership in bringing together the relevant elements of the US economic life to devise an approach to a problem which in the short term at least is the most important economic challenge faced by the industrialized world since World War II.

Helms

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272. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, December 26, 1973, 1601Z.

5704. Subj: King Faisal's Letter to the President. Ref: A) Jidda 5663; B) State 236510.[2]

1. Omar Saqqaf gave me this morning a letter from the King to the President. It follows by immediate cable.[3] He said he had drafted it and he pointed out several points he considered significant.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1298, Saunders Files, Saudi Arabia, 9/1–12/31/73. Secret; Immediate; Nodis; Cherokee.

[2] For telegram 5663, see footnote 1, Document 258. Telegram 236510 has not been found.

[3] Faisal's letter to Nixon, December 25, is in telegram 5705 from Jidda, December 26. (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74)

2. He said the tone was warm and friendly and he hoped the President would understand how much the King appreciated the actions taken by you and the President.

3. Saqqaf said the last paragraph's reference to the "storm clouds" lifting early next year meant that the boycott would be lifted and September production levels restored, as early as January, when the Arabs can see that progress toward peace is being made. He said this would be when disengagement begins or even is announced.

4. Finally he asked me to remind you that he had given his word to work toward a lifting of the boycott on the basis of what you are trying to accomplish. He said he was in no way disappointed in what you have done already and he, on his side, was still working toward the same goal. But, he said, the King was difficult. At times he thought the King wanted to lift the boycott immediately; at other times he seemed morose, disspirited and hostile. In any case, he said that Sadat had told you not to expect any action on the oil front yet (reftel) and therefore neither you nor I could be disappointed by his failure to move the Arabs to lift the boycott now.

Akins

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273. Telegram From the Department of State to the Embassy in Saudi Arabia[1]

Washington, December 28, 1973, 2331Z.

251946. Subj: Letter from Secretary Kissinger to Minister Saqqaf. For Ambassador from Secretary.

1. You should immediately deliver following message from me to Minister Saqqaf.

2. *Begin text*. Dear Omar: I have had full reports from Ambassador Akins of his talks with you and other officials of the Saudi Arabian Government regarding the OAPEC decisions which were announced on December 25.[2]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Secret; Niact; Immediate; Cherokee; Nodis. Drafted by Atherton; cleared by Sisco; and approved by Kissinger.

[2] See footnote 2, Document 271.

3. I cannot express too strongly my disappointment and dismay. You must know that the discriminatory nature of those decisions, which single out the United States for a continuing embargo when we are the only country seriously trying to bring about the just settlement desired by the Arab world, while increasing oil production for other countries who are unable to make any significant contribution to that effort, puts President Nixon in an impossible position.[3] Under these circumstances of undisguised discrimination against the United States, I will be totally unable to continue on the course I have set for myself and have described to you in detail over the recent weeks.

4. Whatever impressions President Sadat may have conveyed to you about our attitude toward the timing of lifting the embargo, my discussions with him were in an entirely different context from the present one. They were certainly not in the context of a discriminatory easing of restrictions such as OAPEC decided upon at its recent meeting.

5. I want to underscore as strongly as I can that it is absolutely essential that the oil embargo and oil production restrictions directed against the United States be ended immediately. Particularly in light of OAPEC's action in increasing production for other consuming countries, it is inconceivable that an end to this discrimination against us should await the outcome of the current disengagement negotiations in Geneva.

6. Finally, while I do not want to address myself in detail in this letter to the drastic and unjustifiable price increases announced in Tehran on December 23 I want your government to know that their predictable and disastrously destabilizing effect on the free world's economic and monetary system is of the deepest concern to us. I fully support what Ambassador Akins has said to you and other officials of your government on this subject.[3]

7. With warm personal regards. Henry A. Kissinger. *End text.*

Kissinger

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[3] At the same time the Arab oil nations announced the price increase in Tehran, they also announced that they would increase production by 10 percent in January 1974 and supply the full needs of the United Kingdom, France, Japan, Spain, and other "friendly countries," but would continue the embargo on the United States. ("Arab Brinkmanship," *The New York Times,* December 26, 1973, p. 65)

[3] See footnote 4, Document 271.

274. Letter From President Nixon to King Faisal of Saudi Arabia[1]

Washington, December 28, 1973.

Your Majesty:

I have received from Secretary Kissinger a full report of his trip to the Middle East, of the opening phase of the Geneva Conference, and, in particular, of his most recent meeting with Your Majesty.[2] Based on this report, I continue to believe there is opportunity for progress toward a peace settlement.

As Your Majesty knows, much has already been accomplished. The ceasefire, the six-point agreement, the opening of the Peace Conference, important as they are, are only beginnings. We are committed, as I wrote you, to full support and implementation of the November 1967 Security Council Resolution 242.[3] We have made progress also in developing the basic principles of a disengagement agreement with Egypt, subject, of course, to a number of details still to be worked out and negotiated. Israel has sent its military representatives to Geneva where they are meeting with Egyptian military representatives looking towards an early agreement on the disengagement of forces. We have also arranged for Defense Minister Dayan to come next week to the United States so that we can pursue the full details with him of a disengagement agreement. All of these are solid achievements brought about almost exclusively by United States actions.

I am deeply convinced that our two Nations stand at the threshold of a great turning point in history. We can, if we have the will, bring a new era of peace and prosperity to all the peoples of the Arab world. But should we fail, we will condemn the Middle East to a long and bitter continuation of the conflict which has for too long plagued the area. For my part, I pledge myself to do everything in my power to ensure that my second term as President will be remembered as the period in which the United States developed a new and productive relationship with the entire Arab world.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Secret. The letter was transmitted in telegram 251342 to Jidda, December 28. (Ibid.) Nixon sent a companion letter to Sadat on December 28, stating his support for Resolution 242, reiterating the recent accomplishments of Kissinger's trip to the Middle East, and stressing the need to end the embargo. (Ibid., Box 132, Country Files, Middle East, Egypt, Vol. VIII, Nov 1–Dec 31, 1973)

[2] For Kissinger's meeting with Faisal, see Document 267. Kissinger's report is printed in *Foreign Relations*, 1969–1976, volume XXV, Arab-Israeli Crisis and War, 1973, Document 415.

[3] See Document 258.

I am also convinced, however, that only if the United States continues to play a major and decisive role in the negotiations now underway in Geneva can we hope for any lasting success. But in order to make it possible for me to move decisively it is necessary that the discrimination against the United States, which the oil embargo represents, be brought to an end. Thus, Your Majesty, I must tell you in all frankness that I have noted with dismay the December 25 decision of the Arab oil ministers in Kuwait to increase Arab oil production by ten percent to help meet the needs of Japan and various European countries while continuing the embargo against the United States. This action has put me in a most difficult position since it constitutes a continuation of a policy of discrimination against the United States. You know from our past exchanges that we believe it is essential that the United States be in a position to engage itself in a positive manner free of outside pressures. The activities of the last several months demonstrate clearly and without equivocation the role the United States has played and would intend to play in order to help bring about a just and durable peace agreement in the area. You know the great stress I place on close relations with the Arab world and with Saudi Arabia in particular. However, the clearly discriminatory action of the oil producers can vitiate totally the effective contribution the United States is determined to make in the days ahead. Therefore, I must tell you in candor that it is absolutely essential that the oil embargo and oil production restrictions against the United States be ended immediately.

I have felt free, Your Majesty, to write to you again so frankly because I know from all our recent exchanges of messages, most recently your letter of December 25,[4] that you are as concerned as I am not only with achieving real progress towards peace but also with strengthening the long-standing friendship between our two countries. I am writing to President Sadat in a similar vein since I believe it is important that we all fully understand each other's points of view, particularly since our role may prove to be decisive in the upcoming disengagement talks between Egypt and Israel.

In closing, I would like to express my gratitude for the cordial welcome and hospitality you have extended to Secretary Kissinger and his party on his most recent visit to your great country. He has reiterated to me how much Your Majesty values our continued friendship. I can assure you that this is also our desire, and that we look forward to working closely with you in the year ahead toward a solution of the political, economic and other problems which confront our two peoples. For this reason it is essential that the prevailing difficulties be re-

[4] See Document 272 and footnote 3 thereto.

solved promptly so that we can look to a future in which the relationships between our two countries will be reaffirmed and strengthened.

Sincerely,

Richard Nixon

P.S. I look forward to the future time when we may be able to meet again personally for a general discussion—not only of our bilateral situation but of the world situation as well.

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275. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, December 30, 1973, 1210Z.

5763. Subj: Saudis To Supply Sixth and Seventh Fleets With Oil. Ref: State 250849.[2]

1. Ahmad Zaki Yamani, Saudi Minister of Petroleum told me the evening of Dec 28 that he had made no commitment to Clements or anyone else while he was in the States that he would ease the boycott for U.S. military forces.[3] He said it was inconceivable that he would do this. He had only said he would try to do so. He had raised this matter with the King ten days ago and his initial reaction had been negative; the King said supplies for the military would be restored at the same time the boycott was eased. I outlined for Yamani, as I had repeatedly in the past, the reasons for an extra effort to supply the military. He said he understood and was still trying to get something done.

2. Yamani told me this morning that he met the King shortly after he saw me; he reviewed our concerns, said that I had assumed there would be some easing of the boycott at the Kuwait December 25 OAPEC meeting, but as there was not, the question of supplies for our military became even more acute. He said he gave the King a full briefing on the weakening of U.S. forces vis-à-vis the Russians, and the need for some special arrangement. The King did not respond. Yamani said he told the King he interpreted his silence as consent. The King still did not respond. He said he then thanked the King and said he would inform me that this decision had been taken.

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 207, Geopolitical Files, Saudi Arabia, 28 Nov 73–Jan 74. Secret; Immediate; Cherokee; Nodis.

[2] Telegram 250849 has not been found.

[3] See footnote 1, Document 263.

3. Yamani said he had given this information only to Frank Jungers, President of Aramco, and had asked that only those needing to know be informed. Aramco is now working out a program based on extra shipment of crude to certain refineries, and on products directly from Bahrain. It will supply both the Sixth and Seventh Fleets but not other military forces, which would be more difficult to conceal. (*Comment:* Before this is fully implemented I suspect the Italian Government will also have to be informed, if the oil for the Sixth Fleet is to be refined in Italy. I did not mention this to Yamani.)

4. Yamani said that in Saudi Arabia only Prince Saud, his deputy, and the King knew of the decision. Only Tavolereas in Mobil and "someone" from Exxon would be informed, and he asked that it be very tightly held in Washington. He quoted the leak from the "high-ranking Defense Department official" on the prospective easing of the oil boycott and said that if there were anything on this matter in the press, three things would happen: A) the fleets would lose their Saudi oil; B) he would be compromised and could even lose his job; and C) the prospects of any general lifting or easing of the boycott would be very seriously diminished.[4]

Akins

[4] In telegram 2412 to Jidda, January 5, 1974, Kissinger thanked Yamani for his "statesmanlike action" which would help maintain U.S. military strength "in the common interest of Saudi Arabia, the United States and the entire Free World." He also assured Yamani that the information would be restricted to those who had an absolute need to know. (National Archives, Nixon Presidential Materials, NSC Files, Box 631, Country Files, Middle East, Saudi Arabia, Vol. V)

276. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, December 30, 1973, 1508Z.

5770. Subj: Saudi Reactions to President Nixon's and Secretary Kissinger's Letters. Ref: A) Jidda 5706; B) Jidda 5705; C) Jidda 5704; D) Jidda 5703; E) State 251946; F) State 251342.[2]

Summary: On December 29 Ambassador Akins presented Minister of State for Foreign Affairs, Omar Saqqaf, with Secretary's letter (ref E) and asked him transmit President Nixon's letter to King Faisal (ref F). King in Mecca and will be unavailable until O/A Jan 6. That night, after having reviewed letters with King (Sadat's advisor Ashraf Marwan also present for much of meeting), Saqqaf informed Ambassador that King had expressed concern over tone of Secretary's letter to Saqqaf; wondered why U.S. resorting to threats. According to Saqqaf, King said U.S. knew SAG wanted to end oil boycott ASAP but also said that it could not act without some prior signs of Israeli movement. Otherwise lifting of boycott would be taken by Arabs (and even Westerners) as Saudi capitulation before U.S. pressure. King noted he had been assured Israeli move from canal imminent anyway; if this truly the case, King wonders why USG cannot afford endure continuation of boycott for additional brief time (presumably). Also on boycott, Saqqaf said Saudis justified easing pressure on Europe and Japan because even though they could not help against Israel they at least had not harmed Arab cause as USG had. Re price increases, Saqqaf stressed SAG had been against them and Shah chiefly to blame. He urged that we make strong representations to Shah but doubted whether USG willing to confront H.I.M. personally. All in all, Saudis becoming uneasy and apprehensive about lack of visible progress; if there were some part of Secretary's or President's letters that could be released, Ambassador could explore with SAG if this might constitute basis for easing of boycott. But SAG would probably demand some sign of Israeli movement first. *End summary.*

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Secret; Immediate; Cherokee; Nodis.

[2] Nixon's letter to King Faisal, transmitted in telegram 251342 to Jidda, is Document 274. Regarding Kissinger's letter to King Faisal, sent from Lisbon, see footnote 1, Document 267. Telegram 5706, December 26, transmitted the King's thanks for Kissinger's letter. (National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV) For telegrams 5704 and 5705, see Document 272 and footnote 3 thereto. For telegram 5703, see footnote 4, Document 271. Telegram 251946 to Jidda, which transmitted Kissinger's letter to Saqqaf, is Document 273.

1. Omar Saqqaf, Saudi Minister of State for Foreign Affairs, told me yesterday morning Dec 29, that I would not be able to see King Faisal until after the Moslem feast, i.e. about Jan 6 for the reasons given earlier (ref E).

2. Accordingly, I saw Saqqaf at 4:00 Dec 29 (1300 GMT) and gave him the President's letter to the King.

3. Before giving him your letter I told him it was approximately what I had told him your reaction would be. You were surprised at the Kuwait Oil Ministers' taking no action on behalf of the United States. The President was being hurt by the continuing oil crisis in the United States and his power to act constructively in the Middle East was therefore also being weakened.

4. Saqqaf made no comment about the President's letter other than to remark on its friendly tone. But he said your letter was hostile; it appeared threatening and he should not accept it.

5. He asked what you meant by lifting the boycott "immediately"; he said his English was weak but he assumed it meant "now," "this minute." I told him this was true, literally, but I thought that under the circumstances it would mean a day or so. I had earlier urged him to lift the boycott before the Israeli elections. I had thought that the Arabs, by such action, could win considerable support in the United States and the world; it would also help you and the President and it might even help the moderates in Israel. I was sure this was what you meant, as the Israeli elections were only two days off.

6. Saqqaf then left to see the King and Egyptian Presidential Advisor Ashraf Marwan who had just come to Jidda.

7. I saw Saqqaf again at 11:00 last night Dec 29 (2000 GMT) and he gave me a full account of the evenings' discussions. He said the letters were discussed with the King and briefly with Marwan who asked for copies. They were not given to him but he did read them and he left after a few minutes. Saqqaf stayed the remainder of the evening with the King. The King made no comment about the President's letter other than to ask what was meant by an "immediate" lifting of the boycott; he said the President must know such action could be taken by only an Arab consensus and it could not be achieved today. The King read your letter to Saqqaf and asked why the U.S. was making these statements and threats; why did it not get Israel to move as you had said it would.

8. Saqqaf said there was no difference between his position and that of the King. He said both wanted to lift the boycott and raise production but they had to have some reason for taking the action. He asked if the U.S. were really trying to destroy Saudi Arabia or drive it into the camp of the radicals. This being a rhetorical question (I think), I did not respond.

9. Saqqaf went through litany of promises made to the Arabs by Presidents Kennedy, Johnson and Nixon; he said President Nixon had told him in 1969 that the Middle East problem would be solved within a year. I commented that I was sure this was a hope not a commitment; that the letters from President, the King, and your statements were in an entirely different category. He didn't reply but continued with quotations of statements made by Secretary Rogers on his interpretation of Resolution 242. Saqqaf concluded this thought by agreeing with me that the situation was different today, but asked how could the Arab peoples or even the Saudis know this?

10. The King, he said, had private assurances from you in person and through letters from you and the President. But none of this had been made public. You had assured the King that you had done far better than getting Israel to withdraw to the Oct 22 peace lines; you had gotten their agreement to withdraw completely from the canal and all the way to mountain passes in Sinai. Yet nothing had happened; in fact the Israelis were still squabbling about their troops around Suez City.

11. If the Saudis were to lift the boycott now, he said, it would appear as complete surrender to American pressure. Israel's American defenders would boast that they had brought Saudi Arabia to its knees; that the Arabs had once again demonstrated that they could not be resolute and therefore there was no reason to make any concessions to them. And the reaction in the Arab world against the King and against Saudi Arabia would be even stronger.

12. He said that all the Arabs had seen so far was President Nixon signing into law a massive new aid bill for Israel.[3] He asked if I considered this to be pressure. I replied that I knew how the aid bill was viewed in the Arab world, but it was indeed potential pressure. The President is not required to give the aid; he is authorized to give it and if Israel is unreasonable the aid can be withheld. Saqqaf asked if this had been made clear to Israel and to its friends; I said it was implicit in the bill. He asked why there could not be a public statement to this effect.

13. Saqqaf then said your comments on the U.S. being the only country to help the Arabs were true; but he added the U.S. was also the only country to give Israel massive assistance. The restrictions on oil deliveries to Europe and Japan were not lifted because of any action they had taken on behalf of the Arabs, the Saudis had no illusions about this. They knew the statements of the EEC and Japan were worth very little. But neither had those countries hurt the Arabs and therefore it would be wrong and impolitic for the Arabs to continue hurting them.

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[3] In the amount of $492,800,000.

14. He said the King had told the President in his last letter that he didn't want to dwell on the past; Saqqaf said that neither did he. He could go back to Truman, if he wanted, but such a debate would be sterile. We had to work with what we have today, and today the Arabs have nothing from the United States they can work with.

15. He said, again, that Sadat had told you he would come to Riyadh to convince the King to lift the boycott if this were not done by the Saudis themselves when disengagement was achieved. Saqqaf said again that this would not be necessary; Saudi Arabia would be disposed to lift the boycott anyway. He asked how you could expect Saudi Arabia to move before the Israelis did, and he asked if appropriate pressure was being put on the Israelis to withdraw, as you said they would. Again I said I could infer that this was being done, but I did not know.

16. Saqqaf said he assumed similar letters had been sent to all the Arab oil producing states; that he would be checking with them soon. You would see that their reactions would be even stronger than had been Saudi Arabia's. (Saqqaf goes to Aswan today to see Sadat and promised to brief me as soon as he got back to Jidda.)[4] I said I did not know if there were other letters; these letters had been sent to the King and to him because they were the Chief and the Foreign Minister of the country which was by far the most important in oil production and which we considered our closest friend in the area.

17. Saqqaf then turned to your remarks on the price increases. He asked if I had not reported what had happened at Tehran. He said even if you did not believe my accounts, you must know from the newspapers and from your reports from Iran that it was the Shah who had insisted on the increases in prices; that Yamani had been instructed to hold out for much more modest increases and he had indeed achieved some success in that the increase was far less than the Shah initially demanded. He asked if we had made similar demands on the Shah and then answered himself: "Of course you haven't, the Shah would never accept such statements; he would expel your Ambassador."

18. Saqqaf commented that he was puzzled by the urgent tone of both letters, he wonders why the U.S. cannot wait a few more days un-

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[4] After this meeting Faisal sent Saqqaf to meet with Sadat to discuss Nixon's and Kissinger's letters. According to Saqqaf, Sadat reiterated that he would try and convince Faisal to lift the boycott once disengagement was completed, but not until then. Saqqaf also told Akins that the first decision on the boycott, made by the Petroleum Ministers, was "botched," because the Petroleum Ministers were "foolish to have said that the boycott would not be lifted until Israel had withdrawn to the pre-1967 borders." Now that the Arabs had backed off from this position, they looked "weak." (Telegram 5793 from Jidda, December 31; National Archives, Nixon Presidential Materials, NSC Files, Box 630, Country Files, Middle East, Saudi Arabia, Vol. IV)

til Israel withdraws. He said he is almost forced to conclude that Israel is not going to withdraw. If they do not, he said, if the right wing parties win in the Israeli elections, if Dayan carries out his threat to mobilize the American Jews against President Nixon and if then no pressure is put on Israel, and Israel does not withdraw, resumption of hostilities will be inevitable. And the boycott, if it were lifted now, would just have to be reimposed. I replied that this was the old chicken-egg problem I had discussed with him and with the King before the latest Kissinger visit. Our position was clearly that the lifting of the boycott should come first. Had this happened President Nixon would have been strengthened and we would now be able to put more pressure on Israel. This was all you were saying in your letters.

19. *Comment:* There may have been some misunderstanding here of the Egyptian position, but the Saudis clearly still believe that Sadat does not want the lifting of the boycott before there is Israeli troop movement. Neither do the Saudis. They are also certain that you know this. The Egyptians, or so the Saudis believe, favor lifting the boycott when your disengagement plan is implemented. The Saudis would agree to this and they are certain you know this from Sadat.

20. The Saudis are concerned about two things: first, lifting the boycott for no obvious reason would expose them to attacks from other Arabs—perhaps even from Sadat—and all the old accusations of their being tools of the Americans would be revived. Second, they do not want to lift the boycott and then have to reimpose it. They feel this would have to be done if there is no Israeli withdrawal.

21. On the question of price, the Saudis have taken the mildest position in OPEC and if the other main producers, notably Iran and Venezuela, are willing to consider a decrease in prices now, coupled with a phased price increase over the next decade, the Saudis would support the action and would be able to carry along some of the less important producers.

22. The King is very sensitive to threats and he gets stubborn when he feels he is being pushed. Appeals to their friendship and better nature are more effective, not threats of countermeasures. Saqqaf commented several times that your letter contained only appeals to help the Nixon administration, not to help the people of the United States or the American economy. (I explained that the letter was very limited in scope; it addressed itself to the question of pressure on Israel. Your ability to do so was weakened by the continued boycott.)

23. I am sensing a growing feeling of unease here. The Saudis, as you know, expected very quick results. The King said in November that he saw no reason why, if the United States really wanted it, Israel could not have withdrawn fully by the end of the year. Now with the continuing fussing around on the West Bank of the canal and with no

apparent Israeli movement; with Golda Meir's statements that the Israelis would "never" withdraw from Golan or even discuss Jerusalem, the Saudis are wondering if anything will happen. I can talk about the electioneering all I want but it doesn't get through. The Saudis are feeling very uneasy. The Israelis may be bothered by a Masada complex; here it is more "Goetterdaemmerung," or mixing my periods, a feeling that the Saudis are Samson in the Temple of Gaza; if pressures on them become intolerable (and they still are also clearly afraid of a military attack), they will be destroyed, but the world will also suffer horribly.

24. Can I give the Saudis any word on impending Israeli withdrawal? Is there any part of your statements or your letters, or the letters of the President I could tell them they could release as justification for easing the boycott?[5] I'm not sure even this would work, but I could try it out. I fear however that we will just have to wait for the Israeli withdrawal; Saqqaf reminds me that you said this would be achieved very soon and they wonder why the urgency for action on their part now, if indeed Israel is about to withdraw. They seem to be concluding that we might just be trying to trick them into lifting the boycott now, counting on Saudi reluctance to reimpose it if the Israelis don't move. They ask why we can't wait two more weeks, as surely the withdrawal must have taken place, if it is really to take place, before then.

25. In any case because of the pilgrimage I will now lose contact with the King for a week or ten days and with Saqqaf and other ministers for a good part of this time.

Akins

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[5] Kissinger wrote Saqqaf, December 30, stating that he was "replying immediately from San Clemente because I sense from your reaction that there may be some misunderstanding of what I intended to convey in my letter." In arguing for an end to the embargo, Kissinger wrote, "during January the pressures on the President from groups in America seeking to defeat his policies will increase as the Congress reconvenes. If he can be attacked for having failed in his unprecedentedly even-handed approach to the Middle East problem, it will severely hurt his ability to carry forward the policy which I have outlined to His Majesty and to you." (Telegram 3 to Jidda, January 1, 1974; National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74) Akins reported Saqqaf was "delighted with both the tone and the contents," adding "it did soothe the savage beast." (Telegram 9 from Jidda, January 2; ibid.)

277. Paper Prepared in the Office of Economic Research, Central Intelligence Agency[1]

ER IB 74–1 Washington, January 1974.

INTERNATIONAL ECONOMIC IMPACT OF INCREASED OIL PRICES IN 1974

Summary

Increased prices will mean a $70 billion increase in the Free World oil bill in 1974, if world oil exports approximate the 1973 level, as seems likely. Western Europe will experience about a $33 billion increase; Japan, $11 billion; and the United States, almost $16 billion. If the United States were to cut 1974 consumption by 5% of the 1973 level, the added import bill would be about $12 billion; a 10% cut would limit the increase to about $9 billion. Only a small part of these increases can be offset in the countries' current accounts by exports to the oil producers, transport receipts, and remittances of oil company profits. US trade competitiveness will tend to improve because the country depends less on imported oil than do Western Europe and Japan, but this advantage may be offset at least partly by the dollar's appreciation.

Soaring payments for oil threaten a massive loss of purchasing power in the importing countries, equivalent to about 3% of GNP in Western Europe and Japan. Unless expansionary measures are taken, all face severely reduced rates of economic growth—perhaps even declining output—and increased unemployment. The governments will be cautious in inflating demand, however, because of the already high rates of inflation and the uncertain impact of the energy supply constraint on productive capacity.

Any attempts to redress deteriorating trade balances—through import restraints or competitive devaluation—could aggravate international economic tensions. The energy problem has already shifted attention from international trade and monetary negotiations. In any event, major governments will be hesitant to move forward on reform issues until economic prospects become clearer.

The producing countries' oil revenues will reach about $95 billion in 1974—three and a half times as much as last year. Receipts will rise by about $14 billion for Saudi Arabia; $14 billion for Iran; $8 billion for

[1] Source: Central Intelligence Agency, Office of Economic Research, Job 79–T01092A, Box 2. Confidential.

Venezuela; and about $5 billion each for Kuwait and Libya. The receipts of Saudi Arabia, Kuwait, and the other small Persian Gulf states will far exceed their spending capability.

Discussion

Introduction

1. This publication is an initial assessment of the possible impact of increased oil prices on the main consuming areas in 1974.[2] It also considers some implications of the price hikes for government policies. Discussion is based on the following three assumptions:

- The major exporters' oil prices will remain—on the average—at current levels throughout 1974.
- World oil exports in 1974 will approximate the estimated 1973 level of about 32 million barrels per day (b/d), even if the Arabs fail to increase output above the current level.
- Oil demand will be essentially unchanged from the 1973 level. Higher prices, conservation efforts, and the general economic slowdown will offset the 5% increase in demand that was expected before the crisis began.

2. These assumptions lead to only one of several possible scenarios for 1974. The trend in world oil consumption will depend on both the level of Arab oil output and the ability of consumers to reduce oil use without restricting production. If the Arabs move closer to pre-crisis production levels, as we believe they will, oil consumption will be higher than assumed even if prices are maintained or increased. This judgment rests on the belief that the oil importing countries would choose to allow their balance of payments to worsen in order to maintain economic growth and employment.

[Omitted here is the remainder of the paper.]

[2] Petroleum production and consumption of the Communist countries are excluded from the analysis, but petroleum trade with the Free World is included. This trade is relatively small. [Footnote in the original.]

278. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, January 3, 1974, 1023Z.

19. Subject: Letter From Saudi Minister of State for Foreign Affairs to the Secretary. Ref: Jidda 5770; Jidda 0011.[2]

1. Omar Saqqaf gave me late last night (Jan 2) his reply to your message of December 28.[3] As stated earlier, and in spite of its Jan 1 date, it was drafted before his receipt of your message of Dec 30,[4] and before receipt of the letter from Sadat to King Faisal.[5]

2. The message is friendly but is not particularly significant except for the statement that the boycott could be lifted when the Israelis withdraw to the Sinai passes, and Saqqaf's statement to me that the King had read and approved the reply. The statement on oil prices is ambiguous at best.

3. Text follows; original being pouched to NEA/ARP.

4. "Mr Dear Dr. Henry: My Dear Friend: Ambassador James Akins has given me Your Excellency's letter wherein you called attention to his talks with me and with various Saudi officials concerning OPEC decisions announced on December 25, 1973;[6] the great frustration of your hopes; your dismay because those decisions preserved the oil embargo against the USA, especially while the USA is the only country trying earnestly to produce the just settlement which the Arab world is seeking and when oil supply to other countries not capable of playing any role has been increased. You point out that this has put President Nixon in a difficult position, in circumstances which are open discrimination against the United States, and therefore you will

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Secret; Immediate; Cherokee; Nodis.

[2] Telegram 5770 is Document 276. As reported in telegram 11 from Jidda, January 2, Saqqaf informed Akins of the contents of a long letter from Sadat to Faisal. Akins concluded that "there was no hint in the letter that the boycott could or should be lifted before disengagement." He added that Saudi Arabia and Egypt "have concluded that disengagement will take place soon; that this will give them sufficient reason to explain to other Arabs why the boycott should be lifted, and that President Nixon will not be done irreparable harm by a short delay." (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74)

[3] Transmitted in Document 273.

[4] See footnote 5, Document 276.

[5] Presumably a letter carried by Saqqaf after his meeting with Sadat; see footnote 4, Document 276.

[6] See footnote 2, Document 271.

be totally unable to continue on the course which you have set out for yourself.

5. "We know that the United States of America is trying now to reach a peaceful solution in the region, and His Majesty King Faisal has no doubt and nor do I, regarding your sincerity or that of President Nixon that you are expending every effort to realize peace in the region. But I should like to point out that all Arabs do not share this opinion. Looking back, perhaps it would be of benefit if we reminded you of President Kennedy's statements about the necessity of arriving at a just settlement in the Middle East, and what he mentioned in his letter to His Majesty King Faisal in 1963 concerning America's commitment to the territorial integrity of all countries in the region and to the preservation of their borders.[7] Along with that, the affirmations President Johnson issued to the world that there would be no changes in the Middle East brought about by force. Similarly, your predecessor Mr. Rogers many times declared that the United States of America viewed peaceful settlement as based on the situation existing prior to 1967. With all that, the situation continues as it has for more than six years.

6. "Ambassador Akins has affirmed more than once to His Majesty King Faisal and to me personally that you are different from those before you. He has emphasized your brilliance and the fact that President Nixon supports you and backs you, that President Nixon will not retreat from assurances already given, and that even his adversaries know this very well.

7. "We have two important personal letters from President Nixon to His Majesty King Faisal[8] which affirm his strongest personal concern for a just solution to the problem. Similarly we have your personal assurances of your acceptance and understanding of Security Council Resolution 242 of November 22, 1967, which do not differ in any way from my interpretation and understanding of that Resolution. But I must make it clear to you that I until now have not seen or found anything declared which will appease the Arab people; your understanding and interpretation of Resolution 242 must be demonstrated clearly so that we can discuss it with our Arab brothers, particularly those who believe that America is not separate from Israel but that it is the open enemy of the Arabs.

8. "I should like to review what took place at the time of your first visit, and at the time of the second.[9] When you were in our midst in November, His Majesty King Faisal informed you clearly that he would

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[7] See *Foreign Relations*, 1961–1963, volume XVIII, Near East, 1962–1963, Document 346.

[8] Documents 258 and 274.

[9] See Documents 238 and 267.

only lift the embargo and increase production when Israel withdrew from lands occupied on June 5, 1967. In your second visit, His Majesty said to you that we were prepared to lift the embargo if a schedule for Israeli withdrawal was fixed according to a timetable guaranteed by the United States of America.

9. "The Kingdom of Saudi Arabia is fully aware of the suffering in the United States of America brought about by the oil embargo.

10. "The embargo on Europe was raised for reasons which you know, and I do not believe you have any doubt about the intention of the Kingdom to raise the embargo on the United States of America completely when it perceives Israel prepared both to withdraw completely and to recognize the rights of the Palestinian people. If Israel carries out, in principle, the disengagement which you explained clearly to me as being withdrawal from the West Bank to the Mitla Pass as a first line, then it would be possible to lift the embargo on America.

11. "Indeed I fully appreciate the significance to you of resolving the matter quickly, just as you mentioned in your letter. But the matter is of no less importance to us and I must say to you that we strongly suspect Israel's designs. For that reason His Majesty's instructions to me affirm the inconceivability of lifting the embargo and supplying the United States of America with oil while Israel remains in its present position. We too are seeking the best means to return our mutual relations to their well-known natural state. Therefore, I offer to you His Majesty's guidance, which to me signifies the only ideal way to clarify our positions to each other. That guidance is that we will wait for your pressure on Israel to be successful, whereby Israel withdraws to the Mitla Pass in Sinai as the first stage of full withdrawal from the occupied Arab lands, and gives the Palestinians their rights to self-determination. At that point the embargo can be raised, after preparing the ground with appropriate declarations and reciprocal visits.

12. "Regarding the subject of raising the prices of oil. Certainly you more than anyone else know the moderate stand of His Majesty regarding prices. Just as I know very well that the Kingdom and then the Arab countries were the last to study this subject, because another country raised prices first. His Majesty will accept what the Arabs agree on within reason concerning prices because he does not believe that the Kingdom should adopt a unilateral position in this matter.

13. "I reiterate to you my felicitations for the New Year and I forward to you my warmest personal wishes. Your friend, Omar Saqqaf, Minister of State for Foreign Affairs (title crossed out)."

Akins

279. Summary of Decisions From Secretary of State's Staff Meeting[1]

Washington, January 8, 1974, 3:10 p.m.

SUMMARY OF DECISIONS

The Secretary decided that:

p. 10–11 1. We would seek a multilateral solution to the problem of oil supply and oil pricing, but that under no circumstances will we give the Europeans or others a free hand to make bilateral deals; if they will not work multilaterally we will force them by going bilateral ourselves.

p. 12–13 2. The discussion in the C–20 meeting[2] should be confined to the monetary implications of the energy problems, leaving to the EAG the consideration of the energy problem per se.

p. 19 3. The EAG and not the C–20 be the forum for discussions of energy problems, including pricing rollback, adequacy of supply transfer of resources to the LDCs.

p. 34 4. The Legal Advisor should collect the documents relating to OPEC negotiations, requested by the Church Committee and by the Hart Committee[3] and evaluate their sensitivity if released or leaked to the public, with a view to discussing any problems with the Senators.

Thomas R. Pickering[4]
Executive Secretary

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[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 718, Secretary's Staff Meetings 1/74–2/74. Secret. Prepared on January 14. According to an attached list, the following people attended the meeting: Kissinger, Rush, Porter, Donaldson, Parker, Katz, Pollack, Leonard Weiss, Lord, Brown, Herz, Wright, Seymour Weiss, Ikle, and Casey.

[2] The C–20 met in Rome January 17. Shultz addressed the meeting. (Telegram 677 from Rome, January 16; ibid., Central Foreign Policy Files)

[3] The Church Committee was the Subcommittee on Multinational Corporations of the Senate Foreign Relations Committee chaired by Senator Frank Church (D–Idaho). The Hart Committee was the Subcommittee on Antitrust and Monopoly of the Senate Committee on the Judiciary chaired by Senator Philip A. Hart (D–Michigan).

[4] Samuel Gannon signed for Pickering above Pickering's typed signature.

280. Editorial Note

On January 9, 1974, President Richard Nixon invited all major industrial consumer nations to participate in an energy conference, writing:

"Developments in the international energy situation have brought consumer and producer nations to an historic crossroad. The world's nations face a fundamental choice that can profoundly affect the structure of international political and economic relations for the remainder of this century.

"Today, the energy situation threatens to unleash political and economic forces that could cause severe and irreparable damage to the prosperity and stability of the world. Two roads lie before us. We can go our own separate ways, with the prospect of progressive division, the erosion of vital interdependence, and increasing political and economic conflict; or we can work in concert, developing enlightened unity and cooperation, for the benefit of all mankind—producer and consumer countries alike."

The United States, he stated, wanted the conference to be held at the foreign minister level to facilitate agreement "on an analysis of the situation and the work to be done," to establish a task force drawn from the consuming countries to deal with exploding energy demands, and to develop a concerted consumer position to guarantee adequate supplies at fair and reasonable prices. Nixon called the proposed conference the first step in carrying out the Energy Action Group that Secretary of State Henry Kissinger had detailed in his Pilgrim's Speech (see Document 264). Nixon also proposed that all members of the Organization of Petroleum Exporting Countries (OPEC) be invited to a meeting between consumers and exporters, to take place within 90 days of the proposed energy conference. (Telegram 4153 to London, et al., January 9; National Archives, Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Energy Crisis, Part 3) OPEC nations were so invited in telegram 4156, January 9. (Ibid., RG 59, Central Foreign Policy Files)

A later itemization of the issues with which the proposed conference would deal included: 1) consumer cooperation to increase supplies and regulate demand, 2) "policy cooperation among the main industrialized countries to deal with the economic effects," 3) development of a "cooperative approach to consumer producer relations which will improve supply at reasonable prices and avoid confrontation," 4) development of a means to "deal with the financial aspects of consumer-producer relations so as to provide incentives for producers while protecting the international economy against disequilibrating flows," and 5) establishment of an international task force to prepare an action program that would include preparation for the meeting with producers, taking into account broad LDC interests and views. (Telegram 10351 to Jerusalem, January 17; ibid., Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Energy Crisis)

Under Secretary of State for International Security Affairs William Donaldson prepared "An Overview of the Forthcoming Energy Conference" on January 24 to address potential conference organization. Donaldson wrote that the two main results of the conference should be first, a communiqué on consumer cooperation in consumption, research, and economic and monetary mechanisms, and second, the establishment of a Task Force to continue the work of the conference. The attachments, which constituted the principal working papers, included Tab A, Impact of Project Independence on World Demand; Tab B, Energy Demand Restraint and Conservation; Tab C, Development of Alternative Sources; Tab D, International Cooperation in Energy Research and Development; Tab E, Economic Monetary and Investment Cooperation; Tab F, International Cooperation on Oil Prices and Production Levels; Tab G, Bilateral Petroleum Supply Arrangements; Tab H, A Strategy for Dealing with Producers; Tab I, Role of the International Oil Companies; Tab J, The LDC Question and Strategy; Tab K, France and the Washington Energy Crisis; and Tab L, OECD Assessment of the Economic Situation Created by the Oil Price and Supply Problem. (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 407, Subject Files, Washington Energy Conference Washington DC February 1974, Preparation and Background Books prepared by Donaldson, Jan 1974)

A Central Intelligence Agency memorandum, entitled "The European Communities and the Energy Crisis," January 11, concluded that many of the European states "are busily seeking bilateral deals with Arab producers and all of them are uncertain how much cooperation they want with each other or with the U.S. and Japan. The EC countries that have been invited by the President to a conference of consumers in Washington on February 11 are almost certain to attend, but prospects are not now bright that they will participate with a common point of view." (National Archives, Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Oil Crisis I)

Simultaneous with U.S. efforts to organize the energy conference, the French and Algerian Governments proposed alternative ways of handling the energy crisis. By January 31, President Houari Boumediene of Algeria had requested of Kurt Waldheim, Secretary General of the United Nations, that he convene an extraordinary session of the General Assembly to establish a "new equilibrium between developed and developing states and for non-aligned to assert greater control over their natural resources." (Telegram 206 from Algiers, January 31; ibid., RG 59, Central Foreign Policy Files) On January 18, the French proposed that a world energy conference be held under United Nations auspices. (Telegram 1652 from Paris, January 19; ibid.) French Foreign Minister Michel Jobert detailed the basics of an alternative energy proposal in a December 27 letter to Kissinger, transmitted in telegram 33095 from Paris, December 31, 1973. (Library of Congress, Manuscript

Division, Kissinger Papers, Box CL 139, Geopolitical Files, France, Chron File, 4 Oct–31 Dec 1973) Waldheim subsequently told Kissinger that "neither the consumer nor producer nations are very interested now in the French proposal," and that the French were "going slowly on the proposal, leaving it to the UN how next to proceed." Kissinger stated that the United States believed that a UN energy conference now "would produce chaos." (Telegram 17771 to Paris, January 28; National Archives, RG 59, Central Foreign Policy Files)

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281. Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to the White House Chief of Staff (Haig)[1]

Washington, January 12, 1974.

Attached is a report on Henry's first meeting with Sadat[2] which you could send to the President. As you can see, the report is fairly thin and, if you prefer, you could simply tell the President yourself that we have a promise from Sadat that the embargo will be lifted when we have a disengagement agreement.

For your information only, Henry says Sadat will work to bring the embargo to an end within a week after HAK's departure. Since there is still substantial negotiating to be done, I think it premature to get the President's hopes up by passing him that sort of optimistic estimate.

Still FYI, Sadat said that once there was a disengagement agreement, he would cooperate in getting the embargo lifted in almost any way which would be helpful to us. When I called George [Shultz] last night, HAK had thought he might need proposals for an embargo-

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, TS 35, Geopolitical Files, Middle East, 1974, 11–20 Jan., Memoranda of Conversations and Report Book. Top Secret; Sensitive; Exclusively Eyes Only.

[2] In an attached January 12 memorandum, Scowcroft informed Nixon that Kissinger and Sadat "had a long discussion on oil" and that Sadat "will exert every effort to bring the oil embargo to an end" without waiting for implementation of any disengagement agreement. The following day, January 13, Scowcroft sent Nixon a longer memorandum on the Sadat-Kissinger meeting, which is printed in full in *Foreign Relations,* 1969–1976, volume XXVI, Arab-Israeli Dispute, 1974–1976, Document 3. These memoranda were based on telegram Hakto 5, January 11. Kissinger was in the Middle East January 11–20 negotiating the Egyptian-Israeli disengagement agreement, which was signed on January 18. (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 43, HAK Trip Files, HAK Trip—Europe & Mid East HAKTO 1–65, 1/10–1/20/74)

lifting scenario today. He has since relaxed those time pressures, but would be interested in any suggestions you or I might have on how the lifting of the embargo might most usefully be orchestrated from our point of view.

The most logical scenario would be for an announcement at the conclusion of a meeting of the Arab oil states, but if we really want to make it dramatic, we could suggest that the producers send an emissary to Washington to announce it personally to the President. If you would give me any ideas you have in this regard, I will get them right back to Henry. I think we must hold all this extremely closely, however, because we are not there yet and the worst possible development would be the dashing of expectations built up as a result of a discussion on scenarios, etc.

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282. Message From Prince Fahd of Saudi Arabia to the President's Assistant for National Security Affairs (Kissinger)[1]

Jidda, January 13, 1974.

[Omitted here is information unrelated to oil.]

Prince Fahd [*less than 1 line not declassified*] totally supports the policy of King Faysal, which he defined as follows:

(a) The withdrawal of Israeli forces to the Sinai passes will not be considered sufficient grounds for the lifting of the oil embargo unless that step is accompanied by convincing assurances from Israel that further substantial withdrawals from Arab territory will be negotiated without delay, and unless there is evidence that the rights of the Palestinians will be taken into consideration in the final peace settlement.

(b) Withdrawal to the natural defense line of the Sinai passes, especially if accompanied by a thinning out of Egyptian offensive weaponry on the east bank of the Suez Canal and the interposition of a United Nations emergency force between the two opposing armies, would have the effect of greatly improving Israel's tactical military position, and would effectively destroy the credibility of Egypt's option to resume hostilities if peace talks stalemate. Prince Fahd commented in this regard that while he does not claim that Egypt could "win" another

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Secret; Sensitive. A notation indicates the message was received at 11:03 on January 14.

round of fighting, the important consideration is that the Egyptians have the firepower and the determination to inflict significant casualties on the Israeli bridgehead west of the canal, and the realization of this fact must be a critically important factor affecting Israeli willingness to be reasonable. Denied this option, Egypt would have virtually no leverage in future peace negotiations.

(c) If the oil embargo were lifted on the basis of unconditional disengagement, then the Arabs simultaneously would be denying themselves their major political leverage as well. In Prince Fahd's thinking, the Arabs possess only a theoretical option of lifting the embargo now and of reimposing it subsequently if peace negotiations fall short of expectations; in reality, he believes, that for many practical as well as political reasons, this is not really a credible option.

2. Prince Fahd reiterated his previous assurances that lifting of the oil embargo is something that Saudi Arabia wants to accomplish as quickly as possible. He stated that "His Majesty and I want nothing more than to put into President Nixon's hand the weapon he needs when the Congress reconvenes." He added, however, that it would be a mistake to assume that this can be done before the United States produces tangible evidence of its ability to carry the process through to the final successful negotiation of a just peace. He indicated that neither he nor King Faysal doubt the complete dedication of President Nixon and of you to that object; the question simply remains one of tangible evidence to show their fellow Arabs of what "our friend America" has been able to accomplish.

[*3 lines not declassified*]

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283. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, January 21, 1974, 1325Z.

328. Subj: Oil Deliveries to U.S. Fleets Stopped. Ref: Jidda 5763.[2]

1. Ahmad Zaki Yamani, Saudi Minister of Petroleum, who is back in Saudi Arabia for 36 hours asked urgently to see me today.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Secret; Niact; Immediate; Cherokee; Nodis.

[2] Document 275.

2. He reviewed the decision that had been taken to resume oil deliveries to the Sixth and Seventh Fleets, said that the only Saudis who knew of the decision were the King and Prince Saud, Yamani's deputy. He had informed Frank Jungers President of Aramco in the presence of Prince Saud of this decision and asked that all oil transfers be outside Saudi Arabia; i.e. that no books in Saudi Arabia would show that the deliveries had been made.

3. Jungers, however, called in the Minister of Petroleum staff in Dhahran, told them that Yamani had given orders that the U.S. fleet be supplied and instructed them to handle deliveries accordingly. The Petroleum Ministry staff denied that such an order existed; one senior staff member flew to Europe to question Yamani who promptly denied that there was any such order.

4. Yamani, who said he was furious, immediately summoned Jungers who met with him in Madrid.[3] Jungers admitted he had erred; but the damage was done.

5. Yamani said he will take the matter up again with the King "if I have time."

6. I said the action was deplorable and inexcusable, but the whole matter of supplies to the fleets was now academic as the fleets could be supplied normally when the boycott is lifted tomorrow. (Yamani said the boycott would not be lifted tomorrow. See following cable.)[4]

7. *Comment:* Frank Jungers is an excellent technician, but is not noted for his political astuteness. Aramco had not told us of this decision, and I assume the parent companies have not told the Department. It is just conceivable that Aramco is trying to conceal from us this action and Junger's role in it until the boycott is lifted, an action they are counting on very soon.

Akins

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[3] According to telegram 333 from Jidda, January 21, it appeared that by the time Jungers and Yamani met in Madrid, the highest levels of ARAMCO "may have known for more than a week that oil deliveries agreement derailed." (National Archives, Nixon Presidential Materials, NSC Files, Box 631, Country Files, Middle East, Saudi Arabia, Vol. V)

[4] Document 284.

284. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, January 21, 1974, 1332Z.

329. Subject: Yamani Says Oil Boycott Cannot Be Lifted Tomorrow. Ref Jidda 308.[2]

1. Ahmad Zaki Yamani, Saudi Minister of Petroleum, has just told me (Jan 21, 1100 GMT) that the King and his Council had decided that the oil boycott on the United States should be lifted and production raised approximately to September level but that this decision could not be implemented until it was ratified by the Arab Oil Ministers. This ministerial meeting could not take place until after his (Yamani's) return from Japan in early February. He said Hisham Nazir "obviously" would not have the stature to bring this off in Cairo.

2. I told him I was shocked; I had thought that the Arabs meeting in Cairo could take this decision tomorrow but if they could not, he should postpone or cancel his trip to Japan; this would be infinitely more important, not only to the U.S. but to Saudi Arabia, than explaining to the Japanese now why the production limitations were imposed in October. I said furthermore it was important that the world see that the Arabs were able to respond quickly and positively to events, as they responded negatively when the boycott was first imposed. The Arabs had seemed pleased with the U.S.; they had said this publicly. Not to lift the boycott now would be viewed very very hostilely in the United States and Europe, and probably even Japan.

3. Yamani replied that he was not suggesting a long delay; that it would be difficult to get the Oil Ministers assembled even if he cancelled his Japan trip which had been scheduled for a long time. (He offered a carrot on prices which I will describe in following telegram.)[3]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Secret; Flash; Nodis; Cherokee.

[2] In telegram 308 from Jidda, January 20, Saqqaf informed Akins that Faisal had agreed the boycott should be lifted immediately with the understanding that it would be reimposed if further moves toward permanent peace were not made, that Saudi Arabia would take this action regardless of the position taken by other oil producers, and that written instructions would go to the Saudi delegate at the Cairo meeting of Oil Ministers on January 22. (Ibid.)

[3] Yamani told Akins that if the United States launched a strong diplomatic offensive with other OPEC producers, he would give it his "full support" upon his return from Tokyo in February. "In fact he said he would 'join' us in such démarches, but I assume he did not mean literally a joint approach." Yamani thought the price of oil could be brought down from $7 to $5 per barrel with strong démarches made by consumers. (Telegram 330 from Jidda, January 21; ibid., Box 631, Country Files, Saudi Arabia, Vol. V)

4. *Comment:* There is little doubt that there is a fight inside the SAG on who sets oil policy.[4] Saqqaf rarely misses an occasion to stick the needle into Yamani. Others here are also annoyed at the world publicity given Yamani. Yamani is determined to be recognized in the West as being responsible for lifting the boycott and he doesn't want the decision to be taken and announced while he is out of the country. Why he insists on going to Japan now is beyond me.

5. Haile Selassie is here on a state visit and it is hard to see officials, but I have asked urgently to see Omar Saqqaf and Prince Fahd today. I will tell them that we had heard explicit statements from both of them and from President Sadat that the boycott would be lifted when the disengagement agreement was reached. We took them at their word and we expected this to be done. The Arabs must be able to show that they can react quickly and favorably to actions they approve of. I will not say directly, but I will also intimate that what is also at stake is the reputation of the King; that is, who makes oil policy, His Majesty and his political advisors or Yamani, whom they frequently characterize as a "technician"?

6. There is a danger that Yamani will be hurt in any intergovernment fight but I believe this is a risk we have to take. If the boycott is not lifted now, there will be some further excuse not to lift it next week, e.g. let's wait until the Israelis are actually back to Mitla, or the Egyptian oil fields are given back, or phase two begins. If Yamani is overruled, I will be most solicitous in thanking him for having changed his mind.

7. I probably won't be able to see Saqqaf or Fahd before 7:00 this evening (1600 GMT). If you do not approve of the approach I've outlined in paragraph 5 above, please let me know.

Akins

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[4] According to telegram 331 from Jidda, January 21, Saqqaf and Fahd favored an immediate lifting of the boycott, while Yamani and Prince Musa'ad, Minister of Finance, agreed that the boycott should be lifted but insisted that Saudi Arabia could not act alone, that other Arabs had to be consulted. King Faisal had agreed with Yamani, indicating that for the time being, Yamani had won the power struggle over oil policy. (Ibid., Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74)

285. Telegram From the Department of State to the Embassy in Saudi Arabia[1]

Washington, January 21, 1974, 1544Z.

12869. Subject: Oil Boycott. Ref: Jidda 329.[2]

1. Approach taken in reftel is absolutely correct.

2. In addition, you should tell Saqqaf and Fahd that if the boycott is not lifted by the time the Israelis are ready to withdraw, we may very well recommend that Israel not commence its withdrawals. In addition, under these circumstances we would be forced to stop all further efforts toward peace in the Middle East. You should emphasize that we have fulfilled every promise that we have made. It is now up to the Saudis and their Arab colleagues to keep their own commitments. You cannot be too strong in your representations.

3. The above has been personally approved by the President.

4. If it is not possible to deliver message in Saudi Arabia January 22, it should be delivered as soon as possible January 23.

Kissinger

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 207, Geopolitical Files, Saudi Arabia, 4 Jan–6 Feb 74. Secret; Flash; Cherokee; Exdis; Handle as Nodis. Drafted from a text by Kissinger received from the White House. The White House draft, January 21, is in the National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74.

[2] Document 284.

286. Memorandum From Charles A. Cooper of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, January 21, 1974.

SUBJECT

The Energy Crisis and the February Conference

As far as I can tell, nearly everybody in the U.S. Government is beavering away on some aspect or the other of the February Conference.[2] For the life of me I can't figure out what they think they are doing. We need a simple conference to establish a simple political point, not a complex conference which by attempting to resolve a host of technical issues not only fails to make its political point but makes the real problem worse.

The Problem

How serious the energy crisis turns out to be in 1974 depends on when and by how much Saudi Arabia and other Arab oil producers relax their present political constraints on oil production. While it is true that economic growth has now come to a near standstill because of the supply restrictions and their price consequences, once the restrictions are lifted there will be enough oil available to support both substantial price reductions and a return to more normal rates of economic growth by at least the second half of 1974. (See preliminary analysis at Tab A.)[3]

The U.S. has already made a decisive contribution to resolving the 1974 energy crisis:

—First, through your diplomatic efforts in the Arab-Israeli negotiations which, I understand, promise to resolve the political blockage to increased Arab oil production;

—And, second, through the President's apparently successful effort to commit the U.S. to Project Independence[4] which, if it can be sustained, will reduce the U.S. claim on OPEC oil supplies as a result of both continued conservation measures and increased domestic production both of which will serve to reduce U.S. import demand in 1974 as well as in future years.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Energy Crisis, Nov 73–Feb 74. Secret. Sent for information.

[2] The upcoming Washington Energy Conference.

[3] Attached but not printed at Tab A is a January 21 memorandum from Cooper, "Assessing Probable Conditions in the International Petroleum Market in 1974."

[4] See Document 237.

Even though the short-run market situation is favorable, international cooperation is needed both to avoid unnecessary problems in a very unsettled period and to ensure that favorable market developments translate themselves into lower prices as soon as possible. Prices could be sticky even after production is increased if:

—Inventories are permitted to build up.
—Conservation measures are prematurely relaxed.
—The interaction of international companies and producer companies results in keeping oil in the ground rather than being produced (especially in the U.S.).

What is needed above all in the short run is a continued conservation program in the industrial countries; this requires some rough and ready distribution of the burden since any single country could benefit by relaxing before others do. Our own commitment to Project Independence should give us a political base to sustain conservation efforts here, and other countries should be able to do so as well if the February Conference results in a public commitment to continued conservation efforts. Some discipline also needs to be imposed on the international oil companies—to limit their profit margins, to hold down inventories, and to maintain production in the U.S.

There are also a series of very difficult longer term problems of energy policy. These involve:

—Development of a new role for the international oil companies;
—Limiting bilateral oil barter deals so they do not disrupt the oil market, the world trading system, or the arms balance;
—Some moderate harmonization of energy policies so they do not give one or another country large trade or political advantages;
—New arrangements for investments of the Arabs and to help LDCs;
—Whatever cooperation is feasible on R and D and investment in energy conservation and oil substitutes and oil production.

All these problems require much more study and analysis before we or others know where we are going. They do *not* require solutions next month. If we manage this year's supply/price problem well, they will all be much easier to resolve. If we manage poorly this year, they will be extremely difficult to solve.

We do *not* need, nor should we want, to develop a common position on price and supply with other major consumers. This would be extremely difficult to do, and were we successful we'd be sorry. The whole notion that we are confronted with a producers cartel is just plain wrong. (See Appendix at Tab B[5] if you're interested in why.)

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[5] Attached but not printed are two short undated unattributed papers, one entitled "The Scramble for Oil: A Red Herring?" and the other "OPEC is Not a Threat—Yet."

We do not now have a producers' cartel in the economic sense. We have politically motivated production cuts by some countries with all producers taking advantage of this situation for a price increase, part of which was overdue and part of which is excessive and internationally disruptive. Because we want to avoid the types of major economic problems that spill over rapidly into political and security problems, we want to get prices rolled back somewhat even though we are less affected by higher prices than other industrial nations (except Canada). We are in a much better position to do this if we are dealing individually with producers who do not trust one another than if we force formation of an economic producers cartel by appearing to form a consumers cartel.

In short, we should attack the price problem by cooperating with other consumer countries and the companies to make the market work. In an area as essential to our economies as energy it would be both political and economic folly to try to replace the market with administrative decisions and government controlled cartels. It will take careful management to reach agreement in the February meeting on further cooperation to adjust to the new situation that will contribute to maintaining an orderly market and yet avoid the appearance of ganging up on the producers.

The Conference

Since the energy crisis is new, all governments are unsure of what the correct policies are; there is a wide variety of opinions; everyone is concerned that he not foreclose future options on an issue which obviously is very capable of throwing governments out of office. What is right for domestic political reasons may be wrong for international relations. Thus, we should not be too ambitious for the February Conference. The Conference is extremely important as a means of setting an atmosphere and framework for cooperation with our major allies. It should focus on establishing this general principle of cooperation, not at this stage on coming up with specific solutions for problems which are still only poorly defined.

There are two issues which aren't so clear: what should be said about a broader conference, and what sort of follow-on mechanism should be established (if any).

My own view is that there is little to be gained from another broader conference including producing countries and LDCs. The one area where cooperation among industrial countries, producers, and LDCs is needed is financial management—but here the C–20 group is an almost ideal vehicle and could arrange ad hoc consultations with producers and other LDCs as well as with the World Bank and IMF. My own recommendation would be to be passive about another con-

ference and to urge that the C–20 group continue the efforts it already has underway to chart how Arab surpluses can best be managed.

Another possibility is to endorse the idea of a large UN conference—making 1974 the Year of the Large UN Conference (Food, Population, Law of the Seas, the Energy). This strikes me as a relatively harmless way to occupy a lot of people's time, but I can't imagine it actually contributing to solving any real problems.

The idea I like least is a limited conference held within 60 days at which, presumably, consumers, producers, and LDCs would try to resolve all sorts of issues nobody understands very clearly. This one could really go sour: either it would fail and make the situation worse by poisoning the political atmosphere, or it would succeed and result in mutually agreed rules and regulations which at best would be irrelevant and at worst could create real chaos, and at the same time give implicit consumer endorsement to high prices thereby laying the basis for future OPEC production cutbacks.

Even if a decision is made to call a broader conference, I don't like the idea of an International Task Force to develop a common industrial consumers' position. If we must have an International Task Force, I think we should go back to the Pilgrim's Speech idea[6] and have some sort of wise men's group that writes a report on whither the world energy situation which can be duly considered by all concerned.

There is work not being done which needs to be done—namely, improving our ability to manage to day-to-day problems of bunkering, ship speed regulations, stock management, refinery supplies, etc. The right place for this sort of work is the OECD, in spite of all of our prejudices about that institution. Reinvigorating the OECD High-Level Energy Committee and charging it publicly with responsibility for surfacing problems and making sure they are attended to (perhaps in some other institution) could make quite a big difference. In addition, the same Committee could begin to look in earnest at the kinds of longer run problems mentioned earlier, and try to clarify the issues so that they can be dealt with politically.

[6] See Document 264.

287. Messsage From Royal Adviser Adham and Prince Saud ibn Faisal of Saudi Arabia to the President's Assistant for National Security Affairs (Kissinger)[1]

Jidda, January 22, 1974.

[Omitted here is material unrelated to oil.]

2. President Sadat conveyed the following to Saudi Arabia on 18 January 1974. All Arabs (not just Saudi Arabia) should agree to grant the United States "most favored nation" status in oil supply "coincidental with disengagement." Sadat will visit all the Arab states, including Kuwait, the Gulf, Algeria and Morocco to explain why this gesture is justified. When he has obtained the approval of the other Arabs, he will report back to King Faysal. At that time, a meeting of the Arab oil ministers can be called immediately to endorse this decision. Sadat said he had told Dr. Kissinger what he planned to do, and Dr. Kissinger has agreed that "most favored nation" status (equal to Britain and France) would be perfectly satisfactory to the United States. Dr. Kissinger also understands diplomatic mission and for another oil ministers' conference (sentence garbled, as received).

3. The Saudis have decided that for reasons of technical convenience, combined with their desire to achieve maximum favorable political impact in the United States, they will advocate a different formula: immediate total lifting of the oil boycott (on everyone) and return to September production levels for a fix period of 90 days. After that, the boycott would be reimposed if "satisfactory" progress is not being made.

4. On Monday night, 21 January, 1974, the Supreme Petroleum Council took a decision approving this course, and on the morning of 22 January 1974 the King signed an instruction authorizing Zaki Yamani to support either of two positions at the next oil ministers' conference: Sadat's formula for granting "MFN" status to the U.S. alone, or the alternative Saudi formula for total lifting for a limited period of 90 days. Saudi Arabia would abide by majority preference.

5. Yamani's trip to Japan has been held in abeyance temporarily, and he is going to Europe today on another short errand.

6. Adham made the comment that the foregoing information indicates clearly that both Sadat and Faysal are trying to get the embargo lifted as fast as is humanly possible, given two essential requirements: completion of Sadat's diplomatic mission to the other Arab states to persuade them that the embargo must now be lifted; and calling of another meet-

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Secret; Sensitive. Received in the White House at 1:15 p.m.

ing of Arab oil ministers to give the action their official approval. Adham pointed out that the next regularly scheduled (repeat regularly scheduled) Arab oil ministers' meeting will be 14 February. He said that there is every reason in the world, however, to expect that if Sadat completes his Arab tour today or tomorrow, an extraordinary meeting of the oil ministers could take place on Saturday or Sunday[2] and President Nixon could announce the end of the oil embargo to the Congress in his State of the Union speech next week. Kamal Adham stressed again that the King was agreeing to support the lifting of the embargo despite (repeat despite) the fact that the disengagement agreement failed to mention Jerusalem; he was doing this because Anwar Sadat had assured him of two things: the Americans were sincere in their intention to pursue with equal energy every step toward "full implementation of SC 242" (which by Saudi terms means denial of Israeli sovereignty over old (formerly Jordanian) Jerusalem)) and second, that Sadat would take it upon himself to mobilize an Arab majority behind King Faysal's decision to lift the embargo.

[*3 lines not declassified*]

[2] January 26 or 27.

288. Draft Message From the President's Assistant for National Security Affairs (Kissinger) to Royal Adviser Adham and Prince Saud ibn Faisal of Saudi Arabia[1]

Washington, January 22, 1974.

[Omitted here is material unrelated to oil.]

"The United States cannot accept a formula for lifting the oil boycott for a fixed period of 90 days only. The lifting of the boycott must be on the basis of that proposed by President Sadat; that is, on a 'most favored nation' or equivalent basis and without time limit.

"The United States would be appreciative if, as indicated by Shaykh Adham and Prince Faysal, action to lift the oil boycott could be taken in time for the President to announce the end of the embargo to the Congress in his State of the Union address on January 30."

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. No classification marking. This draft bears markings indicating it was sent to Jidda.

289. Transcript of a Telephone Conversation Between Secretary of State Kissinger and President Nixon[1]

Washington, January 23, 1974, 3:05 p.m.

K: Mr. President.

N: Anything new on the embargo front?

K: No, and I have been waiting for some word from Jidda and I cannot figure it out. We sent our Ambassador in there[2] and I think we should send a letter to Sadat to point out to him that they had better not play around.

N: I don't know whether Sadat can do it. Should we send it to Faisal?

K: We have sent strong representation to Faisal. Our Ambassador had an appointment to see him. After we have heard from him, I think you might consider sending a letter.

N: All right. A letter to him and to Sadat. Maybe he cannot deliver.

K: If he cannot deliver, Mr. President, then we should make them pay for it.[3] They will just drive us crazy if that happens. It has always been understood that the embargo would be lifted when disengagement took place. If that does not happen they will jack up the price until it becomes impossible. I don't think it will get to that point.

N: Maybe it is the usual bureaucratic elements, etc.

K: They have to bring along Libya and Iraq and that may be the big obstacle.

N: We have no contacts with either of those?

K: Not that would do any good.

N: Yep. O.K. Whatever you think. We will do.

K: Right, Mr. President.

N: Fine, Henry.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files. Unclassified.

[2] See Documents 284 and 290.

[3] In an earlier telephone conversation that day with Atherton, Kissinger stated that he wanted "a very tough statement . . . [ellipsis in original] to the effect we could understand it [the embargo] at first, and it was becoming increasingly inappropriate that in the light of recent events it would be hard to reconcile a continuation of the embargo with friendship with the United States, and it would raise the most serious questions about whether we could continue our effort." Atherton agreed but thought it prudent to await King Faisal's response. (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files)

290. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, January 23, 1974, 1515Z.

379. Subject: Saudi Position on Lifting of Embargo. Ref: (A) Jidda 329; (B) Jidda 331; (C) State 012869; (D) State 013410.[2]

Summary: On January 22 and 23 Ambassador discussed need for prompt lifting of oil boycott against US with King Faisal, Minister of Interior Prince Fahd, Minister of State Omar Saqqaf, and Royal Intelligence Advisor Kamal Adham. King's initial view was that Saudi Arabia wished boycott to be lifted promptly, but would have to wait until Israeli evacuation as prescribed by disengagement agreement was complete, and US had announced that this was only the first step toward bringing Israeli occupation to an end. In course of hour and a half's debate, Ambassador repeatedly pointed out that any further delay in lifting boycott would weaken position of President Nixon, embolden critics of the administration and its Middle Eastern policy, and suggest lack of faith by Arabs in reality of US commitments and Secretary Kissinger's negotiating achievements. In view of imminence and importance of State of the Union message—due to be delivered on January 30—it was essential that President by then have some positive word to report to Congress and the public. King finally agreed that (A) as soon as Israel has begun its withdrawal from Arab territory, i.e. tomorrow or Friday, he would immediately contact other Arab governments, (B) a favorable decision on the boycott should at that time be possible, and (C) President could therefore expect to affirm in State of the Union message that Arab boycott will be lifted. King agreed that announcement of boycott's lifting should be made simultaneously by President and Arab governments, and will see that Embassy remains closely informed. During meetings with Saqqaf and Adham—which preceded audience with King—both urged that arguments for lifting of boycott be kept free of threat or menace. Otherwise, they were certain King would freeze into a negative and unhelpful posture. Saqqaf, moreover, advised that presentation would be most appealing to King's amour propre if it involved no mention of efforts or achievement of

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Secret; Niact; Immediate; Cherokee; Nodis.

[2] Telegram 329 from Jidda is Document 284. For telegram 331 from Jidda, see footnote 4 thereto. Telegram 12869 to Jidda is Document 285. Telegram 13410 to Jidda, January 21, provided Akins with talking points for use with Faisal and other senior Saudi officials as appropriate. (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Feb 74–July 74)

President Sadat. Saqqaf stated also that SAG debating whether lifting of boycott—when it takes place—should be complete or up to level of September liftings (in either case for limited trial period of 90 days); alternatively, it could be lifted partially (50 percent) without terminal date and with production to rise further as steps towards peace are implemented. On January 22, Prince Fahd expressed his full support and sympathy with USG position on boycott, but noted that decision involved other figures in SAG as well. He promised his follow-up support to Ambassador's démarche with King. Ambassador recommends letter be sent from President to King reaffirming our understanding of SAG position on boycott. This may keep SAG from slipping backwards; draft follows septel.[3] *End summary.*

1. On January 22 and 23 I called on King Faisal, Minister of Interior Prince Fahd bin Abd al-Aziz, and spoke also with Minister of State Saqqaf and Royal Intelligence Advisor Kamal Adham, about necessity that SAG act promptly to relieve or lift oil boycott. Summary account of conversations follows.

2. Audience with King Faisal: at 1100 hours local (0800 GMT) January 23, I had hour and a half audience with King Faisal (DCM Horan accompanied). In my introductory remarks I thanked His Majesty for the courtesy and attention he had shown to numerous recent congressional visitors, and added that I believed these visits—especially most recent Codel headed by Senator Paul Fannin of Arizona—had been of considerable value to US-Saudi relations. King stressed that it had been his pleasure to receive U.S. legislators and that he hoped to meet more in the future.

3. I then took up question of the oil boycott. USG believed the time was propitious—now that we had obtained Egyptian and Israeli agreement to a disengagement of forces along the canal—for the Arab oil boycott immediately to be lifted. We knew that the disengagement of forces along the canal would only be a first step, but that so long as the boycott continued, the President would continue to be under pressures which in the long run could only weaken him politically. The King replied Saudi Arabia wished it could lift the boycott immediately; he hoped, therefore the U.S. would announce that the disengagement of forces along the canal was simply the first step toward the complete end of Israeli occupation. Once this announcement was made, Saudi Arabia would have what it needed to influence other Arabs to join it in a lifting of the boycott.

4. I replied that the agreement of January 18 itself had made clear that disengagement was only a first step toward a more complete

[3] Telegram 380 from Jidda, January 23. (Ibid., Box 631, Country Files, Middle East, Saudi Arabia, Vol. V)

resolution of differences between two sides. In view, also, of Israeli resistance to our efforts for solution, a prompt lifting of the boycott was important to the continued momentum of the President's efforts. We understood of course this decision might require consultation between His Majesty's Government and that of some of the Arab states; I was concerned, however, to learn from Minister of Petroleum Zaki Yamani that this consultation could not take place until sometime in February, after conclusion of his current trip to Japan. Could not this consultation be accomplished by the meeting of Arab Oil Ministers now going on in Cairo? Could not Minister Yamani be brought back to attend such an important occasion? I told His Majesty that when factories were closing and people were freezing in the United States, my government could not understand why such a routine matter as a trip to Japan had to take precedence over the much more important issue of lifting the boycott.

5. King Faisal said the conference in Cairo was aimed primarily at coordinating oil policy between the Arab producers and the African states; the boycott would not be one of its responsibilities. In any event, the presence or absence of Zaki Yamani was irrelevant, since decisions on petroleum were taken not by individual ministers but by His Majesty's own government. The King then added that all that was necessary for the Arabs to lift the embargo was for the Israelis to complete their withdrawal as specified in the disengagement agreement. Once this was accomplished, Saudi Arabia would be better able to win the other Arabs to its own views on the boycott.

6. I replied that I had no doubt that Israel would withdraw as called for by the agreement, and that for the Arabs to put off acting on the boycott until withdrawal was complete would place the President in an impossible predicament. Indeed, it might hazard all that had so far been achieved. The State of the Union message—the President's most important address of the year—would be delivered on January 30. At such a time the President could not avoid mentioning the boycott, and both his friends and his enemies would be listening eagerly for what he had to say. Could he not announce at that time that the Arabs have assured him they would lift the oil boycott since Israel had begun to withdraw from occupied territories? Once again the King replied that it was his understanding that when evacuation called for by the January 18 agreement was complete, the Arabs would decide to lift the oil boycott.

7. This, I pointed out, would entail a delay of at least 28 days. It was clearly necessary that urgent action be taken to alleviate this situation now. Could there be any doubt on the part of the Arabs that the United States—having achieved so much—would allow Israel not to live up to its formal, written commitments? Especially since the oil weapon was always handy and could be used again? I was most

reluctant to report to my government that despite the assurances that had been communicated to His Majesty by both President Nixon and Secretary Kissinger and despite the considerable achievement of the disengagement agreement, the Arab side was apparently uncertain that we would abide by our commitments.

8. The King appeared troubled, and remained silent for a time. He then said that Saudi Arabia of course wanted to do what it could. He was in fact working with the Arabs to win their support to the lifting of the boycott, but without actual withdrawal how could Saudi Arabia induce other Arabs to follow its lead?

9. I told the King the logic of the case his government could make to fellow Arabs was powerful: His Majesty had repeated American assurances of support for an overall settlement; a disengagement agreement—most significant in itself—was now in hand. If Israel subsequently refused to withdraw, Secretary Kissinger, President Nixon, the United States would be revealed to the world as powerless. I could not envision any American administration allowing this to happen. Therefore, should not the agreement to disengage be a sufficient pretext for an Arab lifting of the boycott? If the boycott continued, moreover, I could—speaking as a good friend—again most earnestly assure His Majesty that the position of the President would be weakened, and that critics of the administration would expand their attacks to our policy and relations with Saudi Arabia, and to those Americans responsible for its execution.

10. Accordingly, in view of the importance and imminence of the President's State of the Union message, would His Majesty agree to my telling the President (A) as soon as Israel has begun its withdrawal from Arab territory (on or about January 25), His Majesty will begin to contact other Arab governments; (B) a favorable decision on the boycott will at that time be possible; and (C) the President should therefore be able to affirm in the State of the Union message that the Arab boycott is being lifted? I repeated this statement twice to the King through his interpreter, so that there could be no misunderstanding. The King agreed. He said what I had proposed sounded possible, and that if the Israelis in fact begin their evacuation as scheduled, the SAG would begin contacts—aimed at lifting the boycott—with the other Arab governments this Friday.[4]

11. I thanked His Majesty for his decision. I asked if I could be informed in advance when the decision to lift the boycott had been made. Because for it to have the most favorable impact, the announcement should be made simultaneously by the President (perhaps in his "State

[4] January 25.

of the Union" address) and by the Arab governments themselves. The King assured me I would be kept informed.

12. Meeting with Sayyid Omar Saqqaf, Minister of State for Foreign Affairs: at 1000 hours local time (0700 GMT), just prior to my meeting with King Faisal, I met with MinState Omar Saqqaf. Saqqaf said he had given the King the full account of his earlier conversations with me (all points in ref D—which was received after the meeting—were covered except the statement Israel might not start withdrawal unless the boycott is lifted). He also had an urgent request to make: go easy on the King; make no threats; only point out the difficulties the U.S. and President Nixon would have with a continuing boycott. Under no circumstances, moreover, should I mention any commitments made by Egyptian President Sadat to Secretary Kissinger. Saqqaf said that the boycott was the most effective weapon the Arabs had; it was imposed by the King and would be lifted by the King. For me to imply that the decision on lifting the boycott could be made by anyone else would not help my case.

13. Saqqaf said that the King had given written orders to Yamani on the Saudi position on lifting the boycott: there were two possibilities; the first would be to give the United States "most favored nation treatment," i.e., to allow the U.S. its September liftings or just to lift the boycott completely (the Saudis favored this latter variation) but in either case the boycott would be lifted only for a specific period, i.e. 90 days; the second possibility would be to lift the boycott partially, i.e., 50 percent with no terminal date and with the understanding that as further steps toward peace were made the percentage would be increased.

14. I said I thought the boycott should be lifted with no terminal date; that we would have great problems with any specific timetable, and we certainly would be amazed and hurt if there were only a partial lifting. As the Secretary had said repeatedly to His Majesty, the boycott could be reimposed if there were no further steps toward peace. Why spell this out?

15. Meeting with King's Intelligence Advisor Kamal Adham: minutes before my meeting with the King, Kamal Adham, King's Intelligence Advisor, asked me if message for the King were as tough as had been relayed to Saqqaf the day before.[5] I told him it was. Adham said the points had already been made to the King, and he would strongly advise me to treat the King with honey not onions; the King, he assured me, would simply stiffen and freeze in a negative posture if he

[5] Presumably the message in Document 288.

detected any sense of threat or menace in my message. I said I would bear this in mind.

16. Meeting with Minister of Interior, Prince Fahd bin Abd al-Aziz. During meeting with Prince Fahd 2100 hours local (1800 GMT) Jan 22, I explained to him our feeling of urgency that the oil boycott be promptly lifted. My presentation more or less followed the lines of that which I was to make to King. I stressed how important it was that decision be taken to permit its announcement in President's State of Union message. Fahd was in complete agreement. "God willing," he said, "lifting of the boycott will take place by the end of the week." He said I knew how favorably disposed he was on this matter and added if the decision had been his, I could be sure that Minister of Petroleum Yamani would be back in Cairo now coordinating with the other Arab ministers a prompt ending of the boycott. Fahd added, however, that he was "only one person," and that "there were others." He was happy that I would be seeing King on Jan 23, and urged me to argue the USG's case with the same persuasiveness I had with him. He was leaving that evening for a couple of days in Riyadh, but I could be assured of his continued support as matter debated by SAG.

17. *Comment:* Fahd's support and sympathy—as always—cannot be questioned. I have some doubt, however, of how effectively he can deploy his influence and argue his case before King and other ministers—especially when he is opposed by aggressive and well-spoken commoners such as Zaki Yamani and Minister for Planning Hisham Nazer. The King's initial positions obviously reflected the concern of these latter two ministers for Saudi Arabia's standing in the eyes of its fellow Arabs. By the end of my audience with him, the King had allowed himself to be persuaded to adopt a more forthcoming position (though still not as forthcoming as we might have hoped). Yamani and Nazer are both out of the country, but at least Nazer is expected to return soon. It may therefore be important for us to act so as to keep Faisal from sliding back into his original position. I strongly recommend that the President send the King a message that will express gratification with understanding reached para 10 above. Proposed text for such letter follows septel. This will help to freeze the Saudis into this position.[6]

Akins

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[6] After receipt of this telegram, Kissinger told Nixon, "If you write a letter tomorrow that, then, over the week-end we can work out so that you can announce it [the end of the embargo] in your State of the Union address." Nixon responded: "This is the greatest thing we could possibly do. Apart from the damn embargo, it [the State of the Union address] wouldn't amount to anything anymore." (January 23, 7 p.m.; National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files)

291. Letter From President Nixon to King Faisal of Saudi Arabia[1]

Washington, January 24, 1974.

Your Majesty:

I was gratified to hear from Ambassador Akins of his long and fruitful audience with you on January 23.[2] It is heartening to me, and a measure of the strength and depth of the friendship between our two countries, that we can exchange views in a spirit of mutual understanding and respect when differences arise between us, and together overcome those differences.

In earlier messages to Your Majesty I have said that events have proven the wisdom of your counsel over the years. My Government is now embarked upon and committed to a course of action that can, I am convinced, bring a just and durable peace to the Middle East. The first fruits of that commitment are reflected in the agreement on the disengagement of forces signed last Friday,[3] under which Israeli forces will withdraw into Sinai as a first step toward a final peace settlement in accordance with Security Council Resolutions 338 and 242.

The disengagement of forces provided for in the agreement will begin this Friday[4] and will, I am confident, be completed within the period prescribed in the agreement. In addition, during Secretary Kissinger's last visit to the Middle East[5] we have initiated efforts looking toward parallel progress with respect to the Syrian-Israeli and Jordanian-Israeli aspects of a settlement.

I was pleased to hear from Ambassador Akins of the positive view Your Majesty has taken of these achievements on the road to peace, which are in accordance with our earlier assurances to you. It is a source of satisfaction to me that for your part you intend, as soon as the withdrawal of Israeli forces begins, to initiate contacts with other Arab Governments and that you think a favorable decision on lifting the boycott will then be possible. I know the respect in which Your Majesty's leadership is held among the Arab nations and have full confidence in the outcome of your efforts.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. No classification marking. The text of the letter was transmitted in telegram 15511 to Jidda, January 24, for immediate delivery to Faisal. (Ibid.)

[2] See Document 290.

[3] January 18.

[4] January 25.

[5] During his January 11–20 trip, Kissinger was in Egypt, Israel, Jordan, and Syria.

I would plan to announce this decision when I deliver my State of the Union Message the evening of January 30. This decision by Your Majesty and other Arab Governments will accord with our common interests in working for a free, prosperous, and peaceful Middle East. It will have a most favorable impact on the members of Congress and the American people and will enable the United States to continue our efforts in the search for peace with justice. I look forward to remaining in close touch with Your Majesty during the period ahead which I view with new hope for the future of the Middle East and for the future of the relations between our two countries and peoples.

Sincerely,

Richard Nixon

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292. Editorial Note

At the end of January 1974, Secretary of State Henry Kissinger and President Richard Nixon received assurances from both President Anwar Sadat of Egypt and King Faisal of Saudi Arabia that the embargo was to be lifted. It was eventually determined that Nixon would announce the end of the embargo in the State of the Union address scheduled for January 30.

On January 19, Kissinger, in Jordan, informed Brent Scowcroft, the President's Deputy Assistant for National Security Affairs, that Sadat had given him assurance that the embargo would be lifted "no later than" January 28, and that Sadat would himself make the announcement based on a message prepared by Kissinger. Kissinger wanted Scowcroft to emphasize to Nixon that "our best hope is Sadat, and that we must keep our oil men out of this affair, their interests are parochial and they clearly do not have the ear" of King Faisal. (Telegram Hakto 56; National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 43, HAK Trip Files, HAK Trip—Europe & Mid East HAKTO 1–65, January 10–20, 1974) Nixon immediately wanted to announce the embargo's end in the State of the Union address, but Kissinger noted that it was "impossible." Kissinger wrote to Scowcroft:

"We have gotten where we have in this exercise by dealing from (or appearing to deal from) a position of strength. Should the President now indicate to the Arabs the vital importance to the U.S. and to him of ending the oil embargo—and ending it with an announcement from Washington—we will give strength to the Arabs in their determination to deal with us harshly. We may get the oil embargo removed for the moment, but you can be sure it will be reimposed the first time

we take a position inimical to Arab interests. We will then be driven from concession to concession." (Telegrams Tohak 119, January 19, and Hakto 60, January 20; ibid., HAK Trip—Europe & Mid East TOHAK 71–124, January 10–20, 1974 and ibid., HAK Trip—Europe & Mid East HAKTO 1–65, January 10–20, 1974)

By the end of January, however, President Nixon had determined to make the announcement himself. On January 27, Sadat wrote Nixon that he had dispatched a special envoy to King Faisal and other Arab countries and "I am glad to inform you that, as a result of this visit, King Faisal has agreed to lift the embargo." Sadat thought Nixon could "declare in your message to Congress on January 30 that this discrimination against your country is lifted." He wrote that Bahrain, Abu Dhabi, and Qatar agreed with this decision, and that Kuwait hoped Nixon would state in this message that the United States was committed to the full implementation of UN Resolution 242. Sadat added that his envoy was on his way to Algeria to discuss the embargo with President Houari Boumedienne, but did not expect any difficulty. (Telegram 422 from Cairo, January 27; ibid., Box 133, Country Files, Middle East, Egypt, Vol. 9)

On January 28, King Faisal wrote Nixon that "in keeping with our promise to Your Excellency that when a withdrawal of the Israeli forces begins, we shall undertake to contact the Arab states to obtain a lifting of the boycott against America. I should like to inform Your Excellency we have begun to do just this. We hope that we will soon achieve positive results toward the realization of this goal." Faisal did not want to be quoted in the State of the Union address by name or as urging this action, but thought Nixon could say that "he was in direct contact with an important Arab leader (or leaders) who had called for an urgent meeting of the Arabs to arrange the lifting of the oil boycott and that he (the President) had every reason to believe that this action would be taken very soon." (Telegram 440 from Jidda, January 28; Library of Congress, Manuscript Division, Kissinger Papers, Geopolitical Files, Box CL–207, Saudi Arabia, 4 Jan–6 Feb 74)

Kissinger relayed this information to Nixon, suggesting that Nixon "jazz it up a little bit more." Nixon suggested the statement be brief. (Telephone conversation, January 28, 11:23 a.m.; National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files) Later that afternoon, Saudi Royal Adviser and Minister of Intelligence Kamal Adham and his deputy, Prince Turki, informed Kissinger that in order to appease the Kuwaitis, who doubted Nixon's personal commitment, Nixon should insert the following "key sentence" into the State of the Union address:

"The first fruits of that commitment are reflected in the agreement on disengagement of forces signed last Friday, under which Israeli

forces will withdraw into Sinai as a first step toward a final peace settlement in accordance with Security Council Resolutions 338 and 242."

Adham and Prince Turki stated that the words "first step" would satisfy Kuwait and Syria. (Ibid., Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74) Sadat wrote Nixon again on January 28 that he had assurances from Faisal that the embargo would be lifted in time for Nixon to announce it during his State of the Union address. (Telegram 18387 to Jidda, January 28; Library of Congress, Manuscript Division, Kissinger Papers, Box CL 207, Geopolitical Files, Saudi Arabia, 4 Jan–6 Feb 74)

In their discussions on these proposed insertions, Kissinger told Nixon: "The text we have given you has been cleared, in fact suggested by Saudi Arabia and has been approved by Sadat. It would be a hell of a risk for them if they disavowed you." (Telephone conversation, January 29, 1:25 p.m.; National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files) Both Prince Turki and Adham re-affirmed that Faisal wanted the terms "first steps" inserted as a "sign" of reassurance "that the United States is not afraid to characterize disengagement as only the beginning of a process which will continue until Security Council Resolutions 338 and 242 are implemented in full." Both also "voiced their conviction" that if Nixon did not insert those key words, then Faisal would "feel isolated and may well feel resentment towards both the United States and Egypt for asking more of him than they were willing to give in return." (Message from Adham and Prince Turki to Kissinger, January 29; ibid., Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74) Kissinger informed Sadat that the United States "was pursuing the matter with King Faisal directly so that President Nixon can make a positive statement on this matter in the State of the Union message on January 30." (Telegram 18486 to Cairo, January 29; Library of Congress, Manuscript Division, Kissinger Papers, Box CL 127, Geopolitical Files, Egypt Chron File 1–31 Jan 1974)

Kissinger told Scowcroft that he was unsure of putting any kind of assurances in the speech because it might make Nixon "look silly." Kissinger stated it was a "revolting performance," adding: "If I was the President I would tell the Arabs to shove their oil and tell the Congress we will have rationing rather than submit and you would get the embargo lifted in three days but I am not President until this GD constitutional amendment." (Telephone conversation, January 30, 9:35 a.m.; National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files) Kissinger then told Nixon that the draft was "a great and courageous speech." Nixon said he had "coppered down that Arab part. The coercion bit bothers me, but Al [Haig] said you thought it was important. It's a shot across the bow. We gotta let them know we don't have to

have them." Kissinger: "You'll get more credit for having said it." (Telephone conversation, January 30, 10:03 a.m.; ibid.)

Both Saqqaf and Adham read the draft of the speech. They specifically suggested that the penultimate sentence be "calling an urgent meeting to 'discuss' (vice 'arrange') lifting the embargo on oil shipments" and the last sentence be "I have been assured that as a result of the meeting, the chances of lifting the oil embargo very shortly are excellent." Akins, who thought Saudi Arabia would do its best to end the embargo and increase production, urged that the Saudi wishes be accommodated if at all possible. (Telegram 479 from Jidda, January 30; ibid., Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74)

In his State of the Union address, delivered January 30, Nixon inserted the phrase "first step" but refrained from using the sentences suggested by Saqqaf and Adham. Nixon went on to report a "new development:"

"As you know, we have committed ourselves to an active role in helping to achieve a just and durable peace in the Middle East, on the basis of full implementation of Security Council Resolutions 242 and 338. The first step in the process is the disengagement of Egyptian and Israeli forces which is now taking place.

"Because of this hopeful development, I can announce tonight that I have been assured, through my personal contacts with friendly leaders in the Middle East area, that an urgent meeting will be called in the immediate future to discuss the lifting of the oil embargo.

"This is an encouraging sign. However, it should be clearly understood by our friends in the Middle East that the United States will not be coerced on this issue."

The address on the State of the Union, delivered before a joint session of Congress, is printed in full in *Public Papers: Nixon, 1974,* pages 47–55.

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293. Minutes of the Secretary of State's Staff Meeting[1]

Washington, January 31, 1974.

[Omitted here are the Summary of Decisions and discussion unrelated to oil.]

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[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 718, Secretary's Staff Meetings, 1/74–2/74. Secret. According to an attached list, the following people attended the meeting: Kissinger, Rush, Brown, McCloskey, Kubisch, Sisco, Hummel, Hartman, Parker, Weintraub, Herz, Easum, Maw, Lord, Wilhelm, Bremer, Eagleburger, and Pickering.

Secretary Kissinger: Well, what is your judgment of what their [the Japanese] behavior is going to be at the energy conference?

Mr. Hummel: Cautious but cooperative.

Secretary Kissinger: Could you get that out of the cable with me or Kosaka—whatever his name is?[2]

Mr. Hummel: When they are here on the ground attending the conference, it will certainly be interesting to be involved in what's going on. They will not be out front.

Secretary Kissinger: But will they be involved in what's going on rather than simply procedural matters? That's what I got out of the cable.

Mr. Hummel: I think, despite those messages, they will be heavily involved in substantive discussions; yes. They will really want to be.

Secretary Kissinger: Can we get across to them that that is what we expect?

Mr. Hummel: Yes. I'll be back with Kosaka, that is.

Secretary Kissinger: And, you know, I'll say this to the energy group—the participants should have no doubt that if it isn't going to be multilateral, we're going to go our own way; and let's see who's going to win a bilateral contest. It would be a disaster for everybody, but at least—I mean they cannot have us tied to a multilateral arrangement while they each go their bilateral way. And that should be conveyed to them before the meeting.

Mr. Hummel: Yes, sir.

Sir, one of the things that worries the Japanese and others—not just the Japanese—is whether or not we have made it crystal clear to the producing countries that had we said it enough times at this consumer meeting; it's not directed at lining up a united front against them. Now—

Secretary Kissinger: We have said it a hundred times and it's bull . . .—excuse me for using that language. It is, of course, designed to create a united front. That's the only purpose of a consumer meeting. And we can waffle around this and we can say elegant things. And, of course, we should say it—but, for God Sakes, in a senior group here, let's not kid ourselves. The purpose is to create a consumer group that improves the bargaining position of the consumers. And if the con-

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[2] Telegram 1338 from Tokyo, January 30, reported the cautious Japanese reaction to U.S. views on the Washington Energy Conference. (Ibid., Central Foreign Policy Files) The Japanese Government appointed Zentaro Kosaka as special envoy to explain Japanese Middle East policies to the governments of the region. He was in the Middle East January 15–February 1. (Telegram 7385 to Middle Eastern posts, January 12; ibid.)

sumers, in the case of a crisis that is absolutely predicted, have no clear bilateral solution, in which they have no other choice except common disaster or a multilateral approach—if we cannot organize ourselves, then we really are in the condition of Greek cities facing Macedonia or Rome.

What is the bilateral solution? And we are not going to tackle prices head on right away—although why we should, why consumers should be embarrassed to say this—we will not try to create a bargaining mechanism for a variety of tactical reasons, most of them connected with the weakness and cowardice of the governments we're dealing with. But the fact of the matter is that to the extent that we can get consumer restraint, common exploration of alternative resources, we are improving to the extent that we share our statistical information—by which I mean to the extent that we make our information available to them, since none of them is capable of making an analytical study.

To that extent, we are going to improve the bargaining position of everybody; and I think we can go ahead. I mean we will say all the appropriate platitudes about this not being a confrontation with producers. The fact of the matter is that the only way the consumers can protect themselves against what is a revolution in international finance, in international economics, is to share a common perception of the problem and to organize it. If they can't do it—I mean tactically—we will use your language. But in this room let's not delude ourselves about what we are doing (to Mr. Hummel).

Mr. Hummel: I have a feeling we haven't used that language often enough. This is one of the things that could help the Japanese to come around and be more cooperative, if we use it often enough.

Secretary Kissinger: If the Japanese are determined to commit suicide, if the Japanese insist on a bilateral deal at current prices, they're going to exhaust their reserves in two to three years. And we have the choice then of either outbidding them or of letting them exhaust their reserves—after which we will either be able to bid on the surplus that's going to exist or we're going to be able to bid after their reserves are exhausted as the only country that has financial resources left.

So it's not a condition in which we need to be terrified. We're not asking them to do us a favor. We are trying to help—our primary interest in this is the structure of the international system. We have no overwhelming interest in this.

Joe?

Mr. Sisco: There is a tactical question, Mr. Secretary. You probably covered it in your meetings.

Secretary Kissinger: But you can say to them we're not going to seek a confrontation.

Mr. Rush: But the trouble is: If you say it too often, you may not convince them.

Secretary Kissinger: The facts are going to create the confrontation.

We don't have to say we're seeking a confrontation. If we can bring off a consumer organization on anything, that will be a fact that the producers have to keep in mind—because once it exists on consumer restraint, it can be used on a lot of other things. And, therefore, we are not going at this conference to die on the barricades with respect to what it is that this consumer organization is supposed to do. And, if we can't get it, they'll be forced to come to us within a year.

Joe?

Mr. Sisco: The question is a tactical one. Obviously, the French gambit is to try to limit this thing to procedure rather than substance. They sent a telegram on the EC thing that came in this morning.[3]

Secretary Kissinger: Put him on the distribution list (to Mr. Eagleburger)!

(Laughter.)

We'll change this. You may not get confirmed, Joe:[4]

(Laughter.)

Mr. Sisco: I was going to say: If you ask me about this, I don't know anything about it but is there a European country, or two European countries, within the NATO framework that you feel we can work very closely together with—

Secretary Kissinger: Yes.

Mr. Sisco: —in the context of the actual maneuvering? This is important.

Secretary Kissinger: We have the British substantially lined up.

Mr. Sisco: Good.

Secretary Kissinger: And we will almost certainly get the Germans lined up.

Mr. Sisco: That's good.

Secretary Kissinger: That will, in turn, bring the GATT. So those four we'll almost certainly have.

I think when the Japanese come here and face the facts of life, we may keep them quiet. I don't think we can get them to do anything very constructive. And I think we can keep the French substantially isolated—particularly when they look at the statistical analysis of the facts of life.

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[3] Presumably a reference to telegram 2661 from Paris, January 30, which reported French comments on an EC paper on the Washington Energy Conference. (Ibid.)

[4] Sisco was appointed Under Secretary of State for Political Affairs on February 11.

You see, it's going to become overwhelmingly evident that no country can solve its balance of payments problem by trade. And if no country can do it alone, even less can a group of countries do it. The British started down the road of bilateral deals. And since you seem to be on the distribution list, you will have seen that they have now concluded that they can't do the bilateral deals—that they can't go beyond the one they have with Iran.

Mr. Hartman: I think it also might help, since the Japanese are coming around to us at all times about this declaration, to tell them, each time they come in, about the declaration of what this energy problem does. It illustrates the relationships we were talking about in the declaration—whether there's inter-dependence, whether we have a cooperative system.

Secretary Kissinger: But what they want to know from us is whether we will sign a bilateral declaration with Europe if Europe refuses to sign a trilateral declaration with them.

Mr. Hartman: Well—

Secretary Kissinger: So what's your view on that?

Mr. Hartman: I think we ought to tell them now that at the moment we're sticking with trilateral—although you mentioned yesterday that perhaps the bilaterals—but, in any case, we're sticking with that position—that if we see that that cannot be accomplished, we'll be back in touch with them first before going to anyone else so that they don't feel it's apart from them. But I don't think we ought to tie ourselves completely to it. We may decide to do it a different way at the end.

[Omitted here is discussion unrelated to oil.]

Mr. Herz: Can I bring up another item, sir? We have another proposal for a conference involving energy that we don't need.

Secretary Kissinger: With the French?

Mr. Herz: No; we made it come out this morning with a proposal for a Special United Nations Assembly—as we call it—on raw materials in general. And it superficially looks like an endorsement to the French proposal, saying, "Yes, let's discuss energy worldwide, but let's expand it by discussing a lot of other things."

It seems to me we have really a phenomenon here where we first make a proposal and then the French try to widen the focus by expanding the number of participants and now the Algerians come out and want to widen the focus still further with a number of subjects.[5]

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[5] See Document 280.

Tito,[6] within hours, came out in Dacca addressing the Bangladesh assembly, endorsing this proposal. And Tito and others are in favor of it. It looks like there may well be some jamboree of everything—

Secretary Kissinger: But they won't be able to agree on anything.

Mr. Herz: That's the point. It seems to me that—

Secretary Kissinger: I don't think we should block it.

Mr. Herz: Exactly. This will take a long time to prepare. If it meets right away, it would be utter confusion.

Secretary Kissinger: I think we should be in the rear guard of those who are joining it, but I mean we shouldn't throw any sand in.

Mr. Herz: Right.

Secretary Kissinger: We should point out what we take to be the problems, but we should never be in a blocking position.

But could somebody do some staff work on it? What is happening to your paper?

Mr. Lord: NSSM?[7]

Secretary Kissinger: Yes.

Mr. Lord: That's the Under Secretary's committee.

Secretary Kissinger: Under Secretary's committee.

Mr. Lord: I want the committee to follow up on it.

Secretary Kissinger: Keep that in mind, but I want a paper on it too.

Mr. Lord: That's right.

Secretary Kissinger: When is that due?

Mr. Wilhelm: It's due on the 1st of March, sir.

Secretary Kissinger: After I've spoken on the subject!

(Laughter.)

It adds to the suspense for me!

(Laughter.)

O.K.

(Whereupon, at 3:58 p.m., the meeting was concluded.)

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[6] Josip Broz Tito, President of Yugoslavia.

[7] Possibly a reference to Document 310.

294. Memorandum of Conversation[1]

Washington, February 1, 1974, 8 a.m.

PARTICIPANTS

Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Dr. James R. Schlesinger, Secretary of Defense
Major General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs
Major General John Wickham, Military Assistant to the Secretary of Defense

Schlesinger: Ten quick subjects. You talked to Clements about a visit to the Saudis.

Kissinger: No, no.

Schlesinger: The Saudis are behaving like shits. We shouldn't cater to them.

Kissinger: They are adolescents. They think they can ship oil through the back door and still maintain the embargo. But I turned Clements off. Get a scorcher off to the Kuwaitis.

Schlesinger: We have been too easy on the Kuwaitis. We should tell them the next time they get a problem with the Iraqis, forget it.

Kissinger: The conservative Arabs have decided they can kick us around and get credit with the radicals and not suffer.

[Omitted here is discussion unrelated to oil.]

[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, TS 35, Geopolitical Files, Saudi Arabia, Oct 73–Dec 74. Top Secret; Nodis. The meeting took place at Schlesinger's office at the Pentagon.

295. Memorandum of Conversation[1]

Washington, February 1, 1974.

SUBJECT

Energy

PARTICIPANTS

Egon Bahr, FRG Federal Minister without Portfolio
Ladisaus Von Hoffman, Vice President, International Finance Corporation (IBRD)
Berndt Von Staden, FRG Ambassador to US
Walter Gehlhoff, FRG UN Ambassador

The Secretary
The Deputy Secretary
Counselor Sonnenfeldt
Assistant Secretary Hartman

Secretary: I would like to go over some of our thinking on the energy situation and what we plan to do in the meeting next week. There is a large political component in that we must decide whether or not we are going to live in a cooperative world system. On the energy problem, demand has been going up faster than the incentive to produce. Bilateral agreements cannot be any solution to the problem. No country can solve its balance of payments problems by increasing trade. We can come close to handling the problem but Europe and Japan cannot.

What we need from this meeting is a common understanding on consumer restraint, tactics on prices, and an agreement to cooperate on research and development and the bringing-in of new energy sources. We also need to talk about emergency allocations and the monetary problem. We will put forth a detailed analysis as to how we see the present situation. We want to take the mystery out of the way the problem seems to be viewed around the world. There has been near panic which we believe is based on ignorance of the basic facts.

At present world prices it is clear that the world system will not work; even if prices are reduced somewhat, there will be future crises. We can survive. But Europe, Soviet, and the LDCs have no chance unless cooperative arrangements are developed. We take the lead, not because of any egotism on our part, but because we realize what the impact would be if friendly nations around us were to collapse. The only alternative to international cooperation is a policy of "beggar thy neighbor." Bilateral agreements support the present price level and therefore

[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 142, Geopolitical Files, Germany FRG, Chron Files, Jan–Feb 1974. Secret; Nodis. Drafted on February 2 by Hartman. Brackets are in the original.

compound the problem. This will be difficult to organize and if we fail to achieve agreement on a cooperative effort, we will have to go our own way and make our own bilaterals. We are in a far stronger position to do this.

We hope to organize some task forces to continue examining the problems after the February 11 meeting. Then we should invite some LDC consumers to join us before the next conference, perhaps by mid-March. After mid-March, we should invite the producers to make contact with this group.

Bahr: (He began in German and then switched to English.) The Federal Republic can also afford these prices for a short time but cannot afford them in the long run, but unlike the US we cannot afford to become autarkic. We depend on Arab oil. If we cannot receive adequate supplies it can produce real resentment against the Arabs and the multinational companies. The question is, can the consumers agree on the necessity of cooperation to protect their basic interest? Will they share, or no? The Soviets can afford autarky but the remainder of the world must depend on cooperation and solidarity. I am not sure that the producers will continue their unity.

Secretary: We are divided internally on this matter of sharing. From a domestic political point of view, sharing is obviously not a popular measure. But, from the foreign policy point of view, an organization of cooperation is a necessity, particularly to assure emergency allocation. Cooperation among the consumers ought to be possible if we can show the producers are engaged in blackmail.

Rush: Yamani is now saying that they will not export above certain levels.

Secretary: Yamani must be controlled. There is no reason why seven million Bedouins should dictate to the industrialized world on a matter of such vital importance. Yamani does not necessarily reflect the views of the King. When I visited Saudi Arabia, he seemed to be relegated to a position far from the King (physically), somewhere in the ranks of the technicians. He is not a policy maker.

Bahr: We seem to help him by paying so much attention to him during his trips.

Secretary: The Europeans and the Japanese exhibit an abject posture.

Bahr: We agree with your analysis of the problem. The key is the possibility of organizing a system of solidarity in emergencies. If we can do this, we will have success at the conference. Otherwise, we should consider this a first step in the process so that we do not give the appearance of a setback.

Secretary: There is no reason why we cannot get together as consumers with a serious problem. This is not a confrontation with the

producers. We are trying to bring about constructive efforts which will benefit all.

Bahr: I was in Paris in November and Jobert expressed his doubts about whether Europe could unite to deal with this problem. He was worried about a possible German reaction and therefore seemed to be of the opinion that France would have to go it alone. But we know the French will not be successful. We must look at the bilateral problem.

Secretary: Present prices are unworkable from a technical point of view. There is no way to run deficits of this size for very long without destroying the world system.

Bahr: The French floated the franc in order to protect themselves.

Secretary: But that will produce a monetary crisis.

Bahr: The French are interested in selling Mirage aircraft.

Secretary: You can also pay for a commodity that has no price, but that is not enough to carry even the French for very long. They are engaging in a policy of beggaring others. I have received a recent message from the British that they are not going to go ahead beyond their Iranian agreement with any more bilaterals because they believe this to be a losing proposition.[2]

Von Staden: What about a price rollback?

Secretary: This depends on the solidarity we are able to achieve. The Saudis talk of reducing prices but that is only a form of economic warfare. I think that in the end the Saudis will realize that they have no alternative to political relations with us. It is imperative for their own political stability. They know that revolutionary pressures on the King will increase. This presents them with difficult choices. It is the same in Iran.

Bahr: All of Europe has a maximum dependence on Arab oil.

Secretary: We cannot afford present prices. Germany can perhaps afford them more than others, but in the end no one can benefit; there will be economic chaos. Cooperation is an absolute necessity. No country, except the US, can come close to taking care of itself.

Rush: The US and the Soviets are in a strong position compared to Europe and Japan.

Secretary: We must end the Arab-Israeli confrontation as a first step. Then we can begin to get at the problem of inducing additional oil supplies from the area.

Bahr: If you decide to go it alone, it would destroy NATO.

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[2] Telgram 1376 from London, January 30. (National Archives, RG 59, Central Foreign Policy Files)

Secretary: That is why we don't want to go the route alone, but if we can't get multilateral cooperation, we have no choice. If we are forced to go it alone it is suicide for all of us. It would destroy the whole post-war system and undo 25 years of effort, but above all Europe and Japan would suffer the most. Therefore, we are making a general offer of full cooperation. This is of critical importance. We do not have all the answers; certainly not on the price issue. But, we believe we can achieve cooperation in consumer restraint, finding new sources, and R.&.D. Our studies show that the situation is not hopeless. We want to be able to stabilize it. We should not make our plans on the basis of complete Arab unity. Kuwait and the Saudis have not yet a clear perception of the problem. We are not going to go the bilateral route unless we are forced to. We hope for German cooperation in instituting a multilateral plan. The UK has agreed to go with us. The Japanese will come along. The three of us ought to be able to bring others.

Bahr: And the French?

Secretary: I am almost certain that they will come along because they will realize they will have no alternative. I told Jobert that we must move in this direction.

Bahr: We must keep in close contact.

Secretary: I have not spoken as frankly to others as I have to you today.

Gehlhoff: Aren't the less developed countries suffering most? Can't we make them our allies?

Secretary: That is what we should do in the next phase. We thought about trying to invite some LDCs but who would they be? You can't begin to deal with this problem in a large meeting. What concerns the LDCs is the financial problem. They do not have much to contribute in the areas of greater concern to the developed consumers, but the LDCs will benefit by our cooperation.

Von Hoffman: The IMF has concluded that there is no way to solve the financial problem of these high price levels through institutional means.

Secretary: That is right. You could only ease the problem, not cure it.

Von Hoffman: We are with you on the price issue.

Secretary: The problem with the LDCs is that they might be bought off by a two-tier price system or large amounts of aid.

Von Hoffman: The Arabs lack the unity to apply a two-tier system. It is very difficult to do. As far as aid is concerned, the OPEC countries are only offering development bank one billion dollars in capital. This is a drop in the bucket.

Secretary: What we are anxious to do is to draw in quickly, in the first phase, the countries which consume 85 percent of the world's supplies.

Rush: We would want, of course, to inform the LDCs of what we are doing.

Gehlhoff: The first phase should be to pressure for low prices. The majority of the LDCs can apply political and psychological pressures.

Secretary: All they can do is exhort.

Gehlhoff: There is a growing alliance between the Arabs and the LDCs, particularly in Africa. The Africans are under pressure not to cooperate. The LDCs should be a potent ally to get prices down.

Bahr: The Arabs are making some loans to Africa in order to achieve Israeli expulsion. Thus, they are able with our dollars to replace development aid. This is a very great danger.

Secretary: The Arabs may very well achieve a greater position in aiding LDCs but we want to be able to convince the LDCs that it is a better bet to follow us. Libya is too uncertain a partner and what about Amin?[3] Every time he insults us we throw out another of his diplomats. He is now down to three.

Rush: The Arabs seem to be subsidizing votes in the UN, but what good will that do them?

Secretary: We were tempted to invite LDCs from the beginning but decided that we could not get the high degree of consumer cooperation we need if the LDCs were present from the beginning. There is no disagreement about the next phase.

Von Hoffman: It is important not to let the impression grow that aid is linked to oil. The Arabs will be able to buy off the LDCs.

Secretary: If Congress gets the idea that these new price levels are being forced on us with the cooperation of LDCs, Congress will eliminate all aid. All aid amounts to $2 billion today but the LDCs are going to have to pay out $29 billion this year. Aid will be impossible after a year or two. To have some idea of the impact of what these price increases have done: if you had abolished the IBRD and rolled prices back to September levels, the LDCs would be better off than they are today. The Arabs have done that and yet these greater consequences seem to be hardly noticed by the LDCs.

The problem is 15 times greater than previous aid levels (2 billion versus nearly 30 billion).

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[3] Idi Amin, President of Uganda.

Von Hoffman: The LDCs cannot pay. The new prices are unworkable. What they demonstrate is that no country can solve this problem alone. Certainly not Europe.

Rush: Bilateral barter deals will not solve the problem either.

Secretary: Our analysis shows that the French may be able to afford this sort of thing for another year but they can't afford it for longer. Even if they are successful for a short time their neighbors will suffer.

Von Staden: What about the Shah?

Secretary: I don't understand his position at all. He is the only world statesman in the area. These prices will in the end ruin the producers as well. Constant devaluations are no solution. If Yamani gets his way and production is cut further, there will be an even more serious crisis.

Rush: If the Arabs industrialize subversion will grow.

Secretary: That's what they are doing in Saudi Arabia, building for a revolution.

Von Hoffman: They have all these billions of dollars and yet there is no commercial teletype in Saudi Arabia.

Bahr: Why can't they invest their money in the US?

Secretary: I don't think they will to any great extent, but if they would we could let them invest here and then expropriate their assets. That's really our secret plan. I hope you will go back and convince your colleagues of the absolute necessity of achieving results at this conference.

[The luncheon ended with discussion on German football and the coming World Cup matches.]

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296. Telegram From the Department of State to the Embassy in Saudi Arabia[1]

Washington, February 2, 1974, 0135Z.

22523. Subj: Oil Embargo. For Ambassador Akins.

1. We know that you are pursuing on a continuing basis with Saudis the matter of the prompt lifting of embargo and production

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 631, Country Files, Middle East, Saudi Arabia, Vol. V. Secret; Immediate; Cherokee; Nodis. Drafted by Sisco on February 1 and approved by Kissinger. Repeated Immediate to Cairo.

restrictions. We leave it to your judgment as to the most effective argumentation to reiterate in the days ahead. As you pursue your discussions we would like you at this juncture, if you agree, to underscore that failure on the part of the Saudi Government to bring about a very early end of the embargo and production restrictions will bring about an end to the US efforts to achieve progress towards an overall settlement. We know you have made this argument in the course of your discussions and our own feeling is that this is the time to begin to give more emphasis to it.

Kissinger

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297. Telegram From the Department of State to the Embassy in Saudi Arabia[1]

Washington, February 2, 1974, 2157Z.

22597. Subject: Oil Minister Yamani's Statements in Japan; Lifting Oil Boycott. Ref: Jidda 528 and 529.[2] For Ambassador from the Secretary.

1. Re Jidda 528, I leave to your judgment whether you take up matter first with Yamani as you recommend. However, it must also be taken up with Saqqaf and this cannot be delayed too long.

2. Re Jidda 529, we agree that you should see the trio mentioned—Saqqaf, Prince Fahd and Adham. Moreover, we agree with your judgment that if the Saudis wait until the February 14 meeting, they will face a very difficult situation indeed. Therefore, your efforts in the next few days should be directed toward getting the Saudis to move now with the others or alone so that a definitive decision on the lifting of the embargo and production restrictions can be announced before the opening of that meeting.

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 207, Geopolitical Files, Saudi Arabia, 4 Jan–6 Feb 1974. Secret; Niact; Immediate; Cherokee; Nodis. Drafted by Sisco and Atherton; cleared by Eagleburger, and approved by Atherton. Repeated Immediate to Abu Dhabi, Algiers, Cairo, and Kuwait.

[2] In telegram 528 from Jidda, February 2, Akins asked if he should discuss with Yamani the upcoming Washington Energy Conference before Akins discussed it with Saqqaf. (National Archives, Nixon Presidential Materials, NSC Files, Box 631, Country Files, Middle East, Saudi Arabia, Vol. V) In telegram 529 from Jidda, February 2, Akins wrote, "we must do everything possible to lift the boycott before the February 14 Arab oil conference." (Ibid.)

3. Re your suggested statement in para 6 Jidda 529,[3] here is a somewhat modified form which we would like for you to use in these discussions. You should say that you have heard explicitly from me that I will not be able to continue peace efforts if the boycott and production restrictions are not lifted promptly. You should say that this will become apparent immediately following Tripoli conference if by that time boycott and production restrictions have not been lifted. Furthermore, it seems obvious that Tripoli conference atmosphere is not the best place for such decision to be taken, and therefore it is essential that Saudis move now to firm up favorable decision, with as many others as possible, but alone if necessary.

4. FYI: We do not believe you should make the point contained in the last sentence of para 6 Jidda 529.[4] End FYI.

5. Rest of the points contained Jidda 529 are fine, with exception of reference to hardships boycott is causing;[5] neither now nor at any time in future should you make hardship a point.

6. In addition, you should remind Saudis of series of assurances I have had from them that boycott would be lifted—first if we would reaffirm Resolution 242, then if we would get Israeli commitment to disengagement, then if we would get disengagement agreement. We have done all these things, yet boycott continues. Saudis should be aware that USG also has its dignity and will not continue to work for settlement under pressure. They should also understand that what we have done so far has been in spite of pressures, not because of them. It is important not to underestimate seriousness and somber deliberation with which I have authorized you to convey foregoing. If situation remains unchanged, they should know that it cannot help but do damage to U.S.-Saudi relations, however deeply this would be regretted by both of us.

Kissinger

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[3] In paragraph 6 of telegram 529, Akins wrote that he would tell Saqqaf, Fahd, and Adham that "I have heard explicitly from you that you will not rpt will not be able to continue your peace efforts if the boycott is not rpt not lifted, and that you intend to announce this (or inform them privately) with great regret, immediately after the decisions of Tripoli conference are announced, if they are (God forbid) negative." The Arab Oil Ministers were scheduled to meet in Tripoli on February 14.

[4] The last sentence of paragraph 6 of telegram 529 reads: "I will say further that I hope you will be willing to reconsider and resume your efforts later, once the boycott is lifted, but I can guarantee nothing."

[5] In paragraph 7 of telegram 529, Akins suggested he say to the Saudis that "the boycott is causing unusual hardship and if we are forced to endure it much longer, not this administration or any successor will be disposed ever to suggest that Israel move an inch."

298. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, February 3, 1974, 1725Z.

552. Subj: New Arab Condition for Lifting Oil Boycott. Ref: A) Jidda 529; B) State 22597.[2]

Summary: King Faisal is sending a letter to President Nixon in which he says that Saudi Arabia has contacted other Arab states and has found no support for the Saudi proposal to lift the oil boycott now. Most of the Arab states agree with Syrian President Asad that this action cannot be taken until disengagement of troops begins on the Golan Heights. The Saudi Foreign Minister said that the Saudis were supported only by Qatar and Egypt, and said that Syria is now the key to peace in the area.[3] He said this letter does not mean that there will be an unending series of new demands, and agreed to send another letter to the Secretary or the President very soon stating explicitly that the boycott will be lifted when disengagement in Golan begins. *End summary.*

1. Sayyid Omar Saqqaf, Saudi Minister of State for Foreign Affairs, asked to see me at 1 p.m. this afternoon (Feb 3, 1000 GMT). He had just returned from Riyadh and gave me a message from the King. Its translation follows:

"His Excellency President Richard Nixon, President of the Republic of the United States of America.

Your Excellency, the President:

"We informed Your Excellency previously through your Ambassador in Jidda that we had begun our contacts with the Arab oil producing states; we have discovered, however, that most of these states are unwilling to lift the boycott on the United States of America until

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Secret; Immediate; Cherokee; Nodis.

[2] See Document 297 and footnotes 2–5 thereto.

[3] Asad told Kamal Adham in a January 30 meeting that he was firmly opposed to lifting the oil embargo on the basis of disengagement at Suez only, and that Boumedienne supported him. During their meeting, Asad called Boumedienne on the phone to get confirmation. On February 3, Asad told Faisal in Riyadh that he wanted disengagement on the Syrian front first, and that Kuwait, Algeria, and the United Arab Emirates "firmly supported" this stance. Faisal was "deeply disturbed" at having failed to get the embargo lifted in response to disengagement in the Sinai, but not willing to oppose Syria unilaterally. (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74)

after agreement (is reached) on the disengagement of Syrian and Israeli forces on the Golan front.

"We understand from President Hafiz al-Asad that the Syrians presented Secretary Kissinger a proposal for the disengagement of forces. Until now no reply has reached them. Since the review of the question of lifting the boycott at the meeting of Petroleum Ministers in Tripoli on February 14, 1974 will not be positive if agreement has not been previously reached on disengagement on the Golan front and implementation has begun, we strongly hope that you will attempt to attain this goal before the meeting of Ministers of Petroleum convenes in order to assist us in achieving that.

"Please accept, Excellency (my) best wishes for continued health. Faisal, Riyadh, 3 Feb 1974."

2. I told Sayyid Omar I was most distressed; I was sure that both you and the President would be alarmed and angered, and there would be no comprehension whatever in Washington of this new demand. I reviewed all earlier Saudi statements about lifting the boycott. I said that the lifting of the boycott, to have had its most positive effect in the U.S. and the world, should have been accomplished when the Egyptian-Israeli disengagement agreement was signed; the next moment would have been when disengagement began; and it certainly should have been lifted before the President gave his State of the Union message on January 30.[4] Every delay weakened Arab position in the U.S.; every further condition they imposed reduced the will of the United States even to try to reach a just peace in the area.

3. Omar Saqqaf agreed with every point but said that we had unfortunately not been so persuasive as other Arab capitals. He said that Algiers, Kuwait, and Abu Dhabi all agreed completely with Syrian President Asad's position that the boycott should not be lifted until disengagement begins on the Syrian front, that Asad had just come to Riyadh to reinforce his case with King Faisal. Saqqaf said Libya and Iraq do not want the boycott lifted at any time. In fact, the only support Saudi Arabia got was from Qatar, "which doesn't even count."

4. I asked about Egypt's position. He replied that Egypt would agree to lift the boycott immediately; "Egypt doesn't count crisis issue either." He said the Arabs were dismayed at the withdrawal agreement which left only token Egyptian forces on the East Bank of the canal. He said this came as a complete surprise to the Arabs; the Egyptians had told the Saudis in November that your understanding with the Israelis was that two-thirds or three-fourths of Egypt's Second and Third

[4] See Document 292.

Armies would stay in place. There was a widespread belief in the Arab world, he said, that the Egyptians had been had.

5. I said that the King's letter was exactly what I had reported to Washington might happen—we would meet one demand, and then another would be made. I was not pleased to have my prediction fulfilled so solidly. What guarantee could we now possibly have that a disengagement agreement on the Syrian front would not be followed by other demands?

6. Sayyid Omar said that President Asad of Syria had told the King explicitly that he would favor lifting the boycott as soon as the disengagement begins; that he was sure other Arabs would agree (excepting Iraq and Libya) and that he could give me his word that Saudi Arabia would lift the boycott at that time.

7. I said I was not questioning his integrity, but we had heard other Saudi expressions of goodwill before, and Saudi Arabia had shown that it could not deliver its Arab brothers. What would happen if Kuwait, for instance, would say that it wanted concessions to be made on the Jordan River? I asked if he or the King could send a letter to you or to the President referring to today's letter and stating explicitly that when disengagement on the Syrian front begins the oil boycott definitely will be lifted. He said yes, unequivocally, and asked me to draft a letter. He said he would fly to Riyadh with it; he would get the King's approval and we could have the signed letter in a day or two.

8. I said I had no idea whether the idea would be in any way acceptable in Washington. In any case I was sure it would be unreasonable to expect any movement on the Syrian-Israeli front before February 14, and that you had asked me to tell him explicitly that you would not be able to continue your peace efforts if the boycott lasted beyond the Tripoli meeting.

9. I told him I thought today's meeting had strong overtones of tragedy. The Syrian-Israeli disengagement was surely high on your list of priorities; and you had fully intended to continue working not only for this, but for the general peace settlement. I asked how the Arabs could risk such great stakes for such negligible potential gains. And I asked if he could think of any rational reason for continuing the boycott now or any way the Arabs could benefit by it. I said I would be pleased to report anything he told me. He said nothing.

10. There was some justification, I said, in the Arabs' accusations against the U.S. until six months ago that we didn't take the Middle East seriously, that we were not making adequate efforts to bring peace to the area. There was no way that they could continue this accusation. Now it was clearly up to the Arabs to take the next step.

11. I reminded him that we had both said repeatedly there was a real chance of peace in the Middle East now for the first time in 20

years. We must not allow it to be squandered now through the short-sighted actions of Algeria, which is irrelevant to the Middle Eastern scene, and the rantings of the pipsqueak Foreign Minister in Kuwait.[5] Saudi Arabia was in an extremely powerful position; it shouldn't be asking Kuwait, Abu Dhabi and Algiers for their concurrence to its proposals; it should be telling them what to do.

12. Again Saqqaf said he agreed with everything I said; he said the Saudis depended on me for advice and they certainly knew that everything I had told them about reactions in the U.S. public and Congress was correct. But I was asking too much, he said, in suggesting that they could stand up against all of their Arab brothers. He asked specifically that I remind you of his several statements that the key to peace in the Middle East lay not in the hands of the Egyptians but in Damascus. Saudi Arabia could not now do something by itself which Asad had asked the Arabs not to do.

13. Saqqaf said he was not suggesting a new U.S. initiative; disengagement talks in Syria had already begun as part of earlier talks. Asad had given you the details of the Syrian disengagement proposal and Saqqaf said he considered it very reasonable (he defined the Syrian proposal as Israeli withdrawal from the 1973 salient and a further withdrawal of 5 to 7 kilometers back from the 1967 truce lines). He said that many Arabs feared that the USG would never be able to move the Israelis on the Syrian front. They believed that this must be demonstrated before full confidence in the U.S. can be restored. The Syrian proposal was modest, Asad had told them and if the U.S. is unable to get Israeli agreement to it, the American inability to move Israel to serious concessions will have been exposed. This was the reason for Asad's insistence, and why most of the Arabs agreed with him.

14. I will see Saqqaf again tomorrow (Feb 4) and then will go to Riyadh on Tuesday (Feb 5). I will try to meet Adham (if he is back from Cairo), Prince Fahd (Minister of Interior) and Prince Musa'ad (Minister of Finance), who is also on the oil committee. I will make the points made in the reference cables unless instructed otherwise.

15. *Comment:* I believe Sayyid Omar has given me an honest account of events, and that the letter was written only after the Saudis

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[5] According to telegram 22524 to Kuwait, February 2, the Kuwaiti Foreign Minister had stated publicly that he was not aware of any impending meeting on the oil embargo, nor did he see any change until Israel left all occupied Arab territories. Kissinger conveyed his "strong concern," stating that Nixon's State of the Union address (see Document 292) was a "faithful and precise reflection of assurances" and that the Foreign Minister's remarks could only be interpreted as an attempt to dissuade other Arab countries from normalizing their economic relations with the United States, "an attempt which we find totally inappropriate." (National Archives, Nixon Presidential Materials, NSC Files, Box 620, Country Files, Middle East, Kuwait, Vol. I)

got negative responses to their initiatives. I do not know, however, with what vigor the Saudis pushed for an immediate lifting of the boycott. I fear that as soon as they were accused of being tools of the Americans they wilted. I also assume that Saqqaf's quotation of Asad's views is correct and that a disengagement on the Golan front could well result in the lifting of the boycott. I did not imply to Saqqaf that I would urge you or the President to take any further action before the boycott is lifted. In fact, I said I strongly feared that you could not or would not do anything. Every time I mentioned our withdrawal from peace efforts it was disconcerting to see him shrug and reply "so be it" or "perhaps there must be another war anyway." He also mentioned, as he has several times recently, that he was tired, that he didn't like fighting his own people, and perhaps he should resign.

15. *Action requested:* (A) Shall I continue to make the strong approach in Riyadh as suggested above and in reftels? (B) Is there any possibility of movement on the Golan front and what can I tell the Saudis? (C) If there is possibility of movement there, do you have suggestions on what could be included in the next Saudi letter to you? I expect to see Saqqaf tomorrow evening (Feb 4, 1500 GMT) and to leave from Riyadh at 0400 GMT, February 5.

Akins

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299. Paper Prepared in the Office of Economic Research, Central Intelligence Agency[1]

Washington, February 4, 1974.

[Omitted here are a title page and table of contents.]

A BRIEFING BOOK FOR THE WASHINGTON ENERGY CONFERENCE

Overview

Most consumer countries will come to the Washington conference with a positive attitude toward some form of international cooperation

[1] Source: Central Intelligence Agency, Office of Economic Research, Job 79–T01092A, Box 2. Secret; No Foreign Dissem. An encapsulation of the positions of the major countries involved in the conference is in telegram 21240 to Saigon, January 31; National Archives, RG 59, Central Foreign Policy Files.

on energy matters. Although some consumers have joined in the race to make bilateral deals with oil producers, they still support cooperation regarding oil prices and other issues. Even the Japanese, who are highly cautious toward joint consumer action, now believe that some form of cooperation between exporting and importing countries on oil prices is desirable.

The more receptive attitude toward cooperation that has developed recently does not mean that foreign participants will necessarily follow US initiatives. Still too shaken by recent events to risk antagonizing the oil-exporting countries, these representatives will avoid provocative words or actions. Some countries, notably France, will resist making any commitments on major policy issues.

Several countries believe that a Washington-led group is not the best forum for consumer cooperation. They view the Washington meeting only as an opportunity to exchange ideas and believe that the thornier problems will have to be hashed out at a consumer-producer conference. The French, unwilling to support any initiative that may strengthen US influence in Western Europe, have suggested a UN-sponsored world conference to deflect attention from the US-sponsored meeting. Several EC countries oppose this suggestion, preferring to avoid the bureaucratic clutches of the United Nations. Nevertheless, most countries would like to see either the Washington conference group or an OECD group of consumers join together with oil producers and representatives of the less developed countries to decide major policy issues.

The European Community—to be represented at Washington by EC Commission President Ortoli and by West German Foreign Minister Scheel, who is the current president of the EC Council—has been unable to develop a common energy policy. Because disagreements among members probably will not be resolved at the 4–5 February meeting of the EC Council, the Community is unlikely to speak with one voice in Washington. The West Germans and the Dutch would prefer to see the EC divided than give in to French intransigence on such issues as oil-sharing. The EC Commission itself has long advocated consumer cooperation.

Several of the West European participants will favor cooperative action to make oil supplies more secure. The Netherlands, still embargoed and with little hope of arranging bilateral deals with Arab states, is likely to push hardest for a united consumer front on the matter of assuring adequate oil supplies. West Germany has been visibly irritated by its EC partners' unwillingness to cooperate in solving energy problems and will come to Washington hoping to find a common course of action. Other countries that are unable to compete with the major industrial nations in making bilateral agreements also will support cooperation in obtaining supplies.

Nevertheless, an increasing number of industrial nations now are following the French and British examples in negotiating bilateral arrangements with oil producers. In response to domestic political pressures, even some countries that had adamantly opposed such deals—notably West Germany and Denmark—are joining in the scramble (see Table 1). Through bilateral arrangements, the governments are seeking not only to line up reliable oil supplies but also partly to offset their rising oil costs by expanding exports. France's Foreign Minister Jobert has delayed acceptance of his invitation to the Washington meeting until his current round of visits to Arab capitals in search of oil is complete. The British already have negotiated a deal with Iran, but a recent government mission to Saudi Arabia apparently returned empty-handed.

Table 1
Bilateral Proposals by Major Oil Consumers

Consumer	Producer	Details
France	Saudi Arabia	Agreement signed for 200,000 b/d for 3 years in exchange for a French-built refinery with Saudi ownership.
	Abu Dhabi	Agreement reportedly concluded for France to provide 35 Mirage aircraft for crude oil to cover the value of the transaction.
	Kuwait	Offer of French arms and industrial investments for long-term oil deliveries.
Japan	Iran	Agreement in principle to provide $1 billion loan for a 500,000 b/d refinery in Iran in return for most of the output.
	Iraq	Agreement initialed providing $1 billion loan for Iraqi refinery, an LPG plant, a petrochemical plant, and other projects in return for 180,000 to 200,000 b/d of crude oil and products and natural gas for 10 years.
	Saudi Arabia	Economic cooperation agreement to be signed in mid-February. Japan hopes to line up long-term supplies of crude oil in return.
	Algeria	Negotiations in progress for credits for industrial projects in return for crude and LNG.

	Kuwait	Kuwait says it is ready to negotiate oil sales as soon as a new participation agreement with Gulf/BP is signed.
United Kingdom	Iran	Agreement confirmed for 100,000 b/d of crude oil for one year in exchange for textile fibers, steel, paper, and other industrial products.
	Saudi Arabia	Negotiations in progress for 200,000 b/d for an unspecified period. Payment is through commitments for development contracts.
	Kuwait	Kuwait say it is ready to negotiate oil sales as soon as a new participation agreement with Gulf/BP is signed.
West Germany	Iran	Agreement in principle by the West German government on behalf of a German oil consortium to construct a refinery in Iran for $1.2 billion in return for the output.
	Iran	Negotiations in progress for delivery of 10 billion cubic meters of natural gas annually for an unspecified period. The deal involves Iranian deliveries to the USSR in exchange for Soviet deliveries to Germany.
	Iran	Proposal for 22 industrial projects in exchange for oil.

Most of the participants in the energy conference will favor discussion of a new oil pricing system and a non-provocative attempt to roll back the recent large price increases. For instance, most consumers would endorse a public statement emphasizing the potential of higher oil prices to cause a worldwide depression, damaging producers and LDCs as well as major consumers. Japan and several other countries favor postponing substantive work on a new oil pricing system until a joint consumer-producer task force can be formed.

Nearly all conference participants will favor discussion of oil company profits and of ways to channel massive Arab dollar holdings to consumer countries. All consumers, even the recalcitrant French and Japanese and the energy-rich Canadians and Norwegians, support cooperation in the development of new energy sources, in sharing energy technology, and in fostering energy conservation.

Although few countries now expect serious oil supply constraints, the extraordinary October and December oil price increases provide

considerable motivation for international cooperation. The oil price increases will add between $2 billion and $6 billion to the import bills of most consumer countries. For Japan, the increase is $11 billion, threatening the first trade deficit in a decade. Because of the deterioration in their trade accounts, the main consumer nations now face large current account deficits in 1974 instead of the near balance most were forecasting in October (see Table 2).

[Omitted here is Table 2: Changed Outlook for the Trade and Current Account Balances in 1974.]

The oil price increases also will slow economic growth and intensify inflation. The industrial nations were expecting slower growth and accelerating price increases in 1974 even before oil prices rose. With consumers facing the choice of curtailing living standards or escalating their wage demands to offset higher fuel bills, 1974 prospects for growth and prices are much dimmer now than before the oil crisis (see Table 3). Japan will be hard hit. The oil price increases will contribute to an expected 17% increase in consumer prices and to a decline in the economic growth rate to only about 4%, as against the 9% forecast earlier. The United Kingdom will come close to matching the Japanese rise in consumer prices and will probably experience a decline in overall output.

[Omitted here are Table 3: Changed Outlook for Economic Growth and Inflation Rates in 1974; and material on Country Situations and Attitudes.]

300. Telegram From the Department of State to the Embassy in Saudi Arabia[1]

Washington, February 4, 1974, 1514Z.

22671. Subj: Oil Boycott. Ref: Jidda 552.[2]

1. When you see Saqqaf February 4, you should carry out in full the instructions in State 22597.[3] You should tell him these instructions were received prior to your conversation with him reported reftel. And that they have been confirmed and reinforced in light of that conversation. You should make same points in your meeting in Riyadh February 5.

2. In addition you should say the following:

A. In view of the number of unfulfilled past assurances received from Saudi Arabia, we will accept no further assurances. In particular, we want no letter from Saudis that embargo will be lifted when Syrian-Israeli disengagement agreement concluded and implementation begun. You should leave Saudis with no doubt that President will not authorize a further American effort to achieve Syrian-Israeli disengagement unless embargo and production restrictions are lifted. Saudis must understand that President made statement in State of Union message, statement which reflected views which Saudis and others conveyed to US. If action is not taken by time of Tripoli meeting, President will have been put in an impossible position, will be charged with having misled American people. Saudis know that what he said in State of Union message was based on Saudi assurances; that an urgent meeting would be called to discuss lifting the embargo; and the chances of lifting the embargo very shortly are excellent (Jidda 479).[4] Yet now we are told decision has been taken prior to any such meeting to maintain embargo until Syrian-Israeli disengagement achieved. You should also note that unless affirmative decision taken, we would have no alternative but to make public exchanges received from Saudis and others which would clearly show that assurances were given which have not been carried out. We have carried out our undertakings fully and there is no satisfactory alternative other than for the Saudis to do the same. Failure to do so will inevitably have far-reaching consequences in our overall relationships.

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 207, Geopolitical Files, Saudi Arabia, 4 Jan–6 Feb 74. Secret; Flash; Exdis; Cherokee; Handle as Nodis. Drafted by Sisco and Atherton; and approved by Kissinger. Repeated to Cairo Immediate. Sisco sent a draft of this telegram to Kissinger, February 3. (National Archives, Nixon Presidential Materials, NSC Files, Box 631, Country Files, Middle East, Saudi Arabia, Vol. V)

[2] Document 298.

[3] Document 297.

[4] See Document 292.

B. As indicated above, you should strongly discourage the sending of any Saudi letter to US which would constitute a written assurance on their part to lift embargo and production restrictions at such time as Syrian-Israeli disengagement agreement achieved and implementation begins. This position is unacceptable to US; and is unrealistic.

C. USG is fully aware of fact that disengagement on Syrian front is necessary next step. We are as committed to work for this as we were for Egyptian-Israeli disengagement and as we are for a final overall settlement.

D. It is totally unrealistic, however, to expect us to continue our peace efforts under pressure. Even if US were so inclined, opinion in US would not permit us to do so.

E. It is also totally unrealistic to expect Syrian-Israeli agreement can be brought about in 10 days between now and Tripoli conference. Saudis need only to reflect on time and effort required before Egyptian-Israeli agreement achieved to understand how unrealistic this is, even if Secretary were able to devote full time to effort in days immediately ahead. Fact is, however, that much of President's and Secretary's time must now be devoted to preparations for energy conference convening in Washington February 11.

F. Saudi position conveyed to you by Saqqaf February 3, amounts to giving Syria veto over future progress toward settlement. Have Saudis pondered implication of Saudi policy becoming hostage to Syrian policy?

G. We hope Saudis will reflect on serious consequences of responsibility they are assuming in adding Syrian disengagement agreement as new condition for lifting boycott. Question of confidence, which Saqqaf raised with you, cuts both ways. Whereas he says Syrian disengagement needed to establish confidence in USG, he should understand that our confidence in Saudis is shaken by continued addition of new conditions. We would urge Saudis to convey full weight of USG position to other Arabs, including Syria in particular, in course of their continuing consultations re lifting boycott.

H. You should again lay great stress on point contained in para 6 of previous tel (State 022597).

3. FYI. We recognize that fact King has written letter to President, linking lifting of boycott to Syrian disengagement agreement, greatly complicates problem of getting Saudis to turn around. Tactically, we assume it is desirable to avoid addressing ourselves to King's letter at this stage, and foregoing presentation purposely finesses this question. If Saqqaf or others ask about reply to King's letter, you should say you assume reply will be forthcoming in due course but they should be under no illusions it will change anything you have said.

Kissinger

301. Transcript of a Telephone Conversation Between Secretary of State Kissinger and the Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs (Atherton)[1]

Washington, February 4, 1974, 6:35 p.m.

K: . . .

A: The short one?[2]

K: Yeah.

A: We're just got a quick reply.[3] I think all we need to do is reinstruct him [Akins] to carry out systematically all of the instructions he has and—

K: And also he had another cable of what he was going to say,[4] which I rather liked.

A: That he sent in?

K: Yeah.

A: Yes. And in our outgoing we told him that he should use those points with only one or two minor modifications.[5]

K: Like what?

A: Well, for example,—Let me think now—He had in there one point that if we didn't carry out our commitments within three months—within a few months, that they could then do what they wanted.

K: Yeah.

A: And we suggested he drop that.

K: Right.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files. Unclassified.

[2] Presumably telegram 22523, Document 296.

[3] In telegram 569 from Jidda, February 4, Akins reported that he would meet with Saqqaf on the following day to carry out the instructions in telegram 22671, Document 300. (National Archives, Nixon Presidential Materials, NSC Files, Box 631, Country Files, Middle East, Saudi Arabia, Vol. V)

[4] Presumably telegram 563 from Jidda, February 4, in which Akins suggested argumentation and approaches to Saudi officials. (Ibid.)

[5] In telegram 22834 to Jidda, Akins was told to elaborate the arguments he had suggested in telegram 563, except rather than saying the United States was expecting an Israeli response, he should say the United States is "actively engaged" in diplomatic exchanges with Israel. He was also told not to say the suggested sentence in paragraph 3(d) of telegram 563, which stated, "The Secretary has said repeatedly that he cannot afford to deceive the Arabs. If his commitments are not publicly realized within a few months, the Arabs could then do whatever they felt necessary." (Library of Congress, Manuscript Division, Kissinger Papers, Geopolitical Files, Saudi Arabia, 4 Jan–6 Feb 74)

A: But otherwise it seemed to me very good and we endorsed it. So that we've given him now the long one that went out this morning, the one previously that you cleared plus endorsing his points.[6] And I don't think there's anything more we can tell him except to systematically go through all these with each his interlocking them.

K: What do you think? Do you think we're being too hard?

A: With the Saudis?

K: Yeah.

A: No, sir. (laughs) No, I think we've got to—

K: Do you think they're going to cave?

A: I'm dubious frankly. I thought we had a better than 50–50 chance until I saw the King's letter.[7] And with the King having taken this position in writing to the President, I just have my doubts about how quickly he's going to be turned around. But I think that we're doing all the things that we can.

K: Yeah. But what do I do next? I can't participate anymore.

A: I think we have to establish credibility. I would say that if the 14th comes and goes and the embargo is not lifted, that we then let it be seen that we're going to stand back for a while. I don't think this will disrupt the Egyptian-Israeli disengagement. It seems to me that they both have an interest that's got its own momentum now. The Syrians really have no choice but to stew in their juice a bit.

K: Okay.

A: I think Akins has got all the arguments he needs, Mr. Secretary—

K: But should we do a letter to Boumedienne?

A: Well, my recollection is that the last word was that he was not going to be a problem providing he didn't have to take the lead.

K: Yeah, but here is a case—

A: He won't get out in front I don't think.

K: But there is a cable that claims that he is supporting the Syrians.[8]

A: Ah, that I haven't seen.

K: Yeah.

A: That I haven't seen.

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[6] Telegrams 22671 (Document 300), 23368, and 22834 (see footnote 5 above). In telegram 23368 to Jidda, February 4, Akins was instructed to proceed "on basis of all instructions we have sent you, going over all points thoroughly and systematically, in particular, you should make point in para 2(B) of State 22671, strongly discouraging any Saudi letter linking progress on Syrian-Israeli disengagement with lifting of boycott." (National Archives, Nixon Presidential Materials, NSC Files, Box 631, Country Files, Middle East, Saudi Arabia, Vol. V)

[7] See Document 298.

[8] See footnote 3, Document 298.

K: That Asad called him, in the presence of a Saudi. Why don't we do a letter to Boumedienne saying that we are near a fateful decision and we just want him to know what the consequences are, that he has my commitment, that we've kept every other promise, we'll keep this.

A: No, I see no harm and it might just help. We've certainly touched base with everybody else.[9]

K: Okay.

A: All right, sir. Thank you.

[9] In a personal message to Boumedienne, Kissinger expressed his disappointment that Boumedienne was supportive of Asad in the demand that disengagement of forces on the Syrian front precede the end of the embargo. (Telegram 23523 to Algiers, February 5; National Archives, Nixon Presidential Materials, NSC Files, Box 735, Country Files, Africa, Algeria)

302. Telegram From the Department of State to the Interests Section in Egypt[1]

Washington, February 4, 1974, 2115Z.

23000. Subj: Oil Embargo. For Ambassador from the Secretary.

1. Please see Fahmy and ask him to convey the following letter from the Secretary to President Sadat.[2]

2. *Begin text:* Dear Mr. President: As I know you are aware, President Nixon and I have appreciated your efforts to be helpful in bringing about an end to the oil embargo against the United States, and we also understand the problems you have faced in your contacts with the other Arab states. We have received with increasing encouragement assurances from you and personally from your advisors of the expectation that there will be a speedy end to the boycott.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 133, Country Files, Middle East, Egypt, Vol. X. Secret; Flash; Nodis; Cherokee. Drafted by Michael Sterner (NEA/EGY); cleared by Sisco; and approved by Kissinger.

[2] Ambassador Eilts delivered the letter to Fahmy on February 5. (Telegram 582 from Cairo, February 5; ibid.) Kissinger reiterated the basic message of his letter to Sadat in a February 5 letter to Asad on disengagement issues. Kissinger wrote, "I will only be able to initiate with Israel such efforts to solve the immediate problem of getting Syrian-Israeli disengagement moving after the oil embargo has been lifted." (Telegram 23475 to Damascus, February 5; ibid., Box 1181, Saunders Files, Middle East Negotiations Files, Middle East Peace Negotiations, 2/1–2/8/74)

3. I am now deeply disturbed, however, at word I have just received from King Faisal[3] that as a result of soundings he has taken with other Arab states and of his recent meeting with President Assad, a lifting of the embargo will not be possible unless a disengagement agreement is achieved and is being implemented between Israel and Syria. He therefore expresses the hope that this will be accomplished prior to the Arab oil conference on February 14, whose decision, he says, will otherwise be negative. This information is, of course, directly at variance with what we have heard from your government—notably your letter to President Nixon of January 27[4]—that, as a result of your diplomatic efforts, the King had agreed to lift the embargo, and that Bahrain, Qatar, and Abu Dhabi had also agreed to take this step.[5]

4. Mr. President, I am sure you are aware of the importance of what is involved here and are as disturbed as I am by this unexpected new development. His Majesty's Government originally told us that all that was required was a reaffirmation of our support for Security Council Resolution 242, which we have done many times. We were then told that some demonstration of good faith was needed, and we achieved the six-point agreement of November 6. Next we were told that a disengagement of forces was required involving some Israeli pull-back. This has also been achieved. Now we are informed that there is yet another prior requirement: disengagement on the Syrian front. It is of course entirely unrealistic to expect such an agreement by February 14.

5. I am sure you will understand it when I say that in these circumstances we cannot continue the role that you and I have so carefully and exhaustively talked about. From your own communications with us you know how important it was for President Nixon to be able to convey to the nation on January 30 favorable news about the lifting of the embargo. The statement he made on that occasion was much less then we wanted—or indeed that we had been led to believe he would be able to make—but in deference to the King's wishes it was worded in this manner on the basis of explicit assurances and in a genuine effort by us to be helpful. That effort by the President to be helpful now threatens to become for him a major political liability, which in turn would undermine much that Egypt and the United States have

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[3] See Document 298.

[4] See Document 292.

[5] Saudi officials in Egypt, including Kamal Adham, insisted to Eilts and Fahmy that Faisal had not reneged on his promises to Nixon but had simply passed on the position of other Arab leaders. (Telegram 602 from Cairo, February 6; National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 129, Country Files, Middle East, Middle East, 1971–1974)

accomplished in recent months. If the embargo continues the President will have no choice but to make public the nature of the assurances which we have received from the Arabs on this matter. The damage this would cause to Arab credibility and statesmanship, and to the President's and my own efforts to build support within this country for an active United States role to bring about a peace settlement, would be tragic, but I would be doing you a disservice, Mr. President, and it would not be in the spirit of the deep understanding of our talks if I failed to convey to you clearly the inevitable consequence of a continuation of the embargo.

6. The matter cannot wait until a disengagement agreement is achieved with Syria. You know that my government is fully committed, as you are, to achieving such an agreement as the next step. I gave you my personal commitment in this regard, on the assumption that commitments made to us with respect to lifting the embargo would be fulfilled. I believe the chances are good that we can get serious talks on Syrian-Israeli disengagement started by the time Egyptian-Israeli disengagement is completed in early March, if the embargo is lifted. A major effort with Israel will again be needed to achieve a Syrian agreement, and it will be impossible to proceed with this in the face of a congressional and public reaction in this country against the Arabs for maintaining an embargo against us in the light of what we have already achieved in the Middle East.

7. I hope you will make further urgent efforts to convey to King Faisal and to President Assad the need for a lifting of the embargo prior to or during the Arab oil conference on February 14. The United States has carried out its undertakings thus far, and you have my renewed assurances that we will proceed with the next stages toward a peace settlement according to the program we have talked about. It is now up to the Arab states to demonstrate that they too can live up to their undertakings. I am confident you will do everything in your power to make sure that what our two governments have so painstakingly built thus far will not now be placed in jeopardy.

8. With best wishes, Henry A. Kissinger. *End text*.

Kissinger

303. Backchannel Message From the Ambassador to Saudi Arabia (Akins) to Secretary of State Kissinger[1]

Riyadh, February 5, 1974, 1906Z.

1. Eyes Only Dr. Kissinger. Refs: A. Department 022671. B. DCI Memo Feb 4 "Arab Oil Policy."[2]

1. Sayyid Omar Saqqaf, Saudi Minister of State for Foreign Affairs, flew with me to Riyadh this morning (0600 GMT 5 February 74).[3] I told him I had received instructions from Washington yesterday after I had seen him. They were even stronger than I had told him they would be. I said I had considered giving him my interpretation of the message, with my paraphrases, but I was afraid that he might allow his personal feelings of friendship to put a rosier color on the message than Washington intended. Accordingly, I said, I wanted to read the message to him as written.

2. He said that the oral message I had brought previously was harsh enough;[4] that if he had reported it verbatim to the King, Faisal would have been furious. Saqqaf could not see how my formal instructions could be worse. I then read the telegram. He was silent for a long time. He asked if the drafter of the message had taken leave of his senses. The Secretary, he said, was far too wise to have drafted or even authorized the message which was so mendacious and so insulting that it could only be interpreted as a decision by the United States to terminate its influence and abandon its interests in the Arab world.

3. He said he was amazed at the suggestion to publish the exchanges of messages between the President and the Secretary and the Saudis. He had concluded that these messages in their hands constituted an immense power over American politics—a power, he said, which Saudi Arabia would under no circumstances have ever used. Every message from Washington, he said, every conversation with the Secretary or with me, was basically a plea to protect Richard Nixon; there was no reference in Washington's messages to the need to help

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Secret; Flash; Cherokee; Nodis.

[2] Telegram 22671 is Document 300. The memorandum transmitted an intelligence report; see footnote 3, Document 298.

[3] In telegram 720 from Jidda, February 12, Akins expanded on the impressions he received from his visit to Riyadh February 5–7. (National Archives, Nixon Presidential Materials, NSC Files, Box 631, Country Files, Middle East, Saudi Arabia, Vol. V)

[4] See Document 298.

the United States; there was not even any indication that the oil boycott was hurting the United States. It was just that the Arabs had to take action to protect the Presidency of Richard Nixon. How, he asked, could the administration seriously consider releasing these exchanges. But if they want to, the Saudis will have no objection. They will also release any parts of the exchanges which Washington omits.

4. Furthermore, he said, a reading of the messages and an account of the meetings with Secretary Kissinger will reveal how far the Saudis have moved in response to U.S. wishes. The King had started by saying the boycott will be maintained until the 1967 borders, including Jerusalem, are restored. He then said that it would be sufficient for the USG to form a plan for the complete Israeli withdrawal and then guarantee it. This was eroded further when the SAG said that Israeli withdrawal beyond repeat beyond the Mitla Pass in Sinai would be sufficient. Finally they accepted the Israeli Egyptian disengagement agreement and they agreed, as the King had informed you, to try to persuade the other Arab countries to approve lifting of the boycott now. They had hoped that this action would be taken; they had tried very hard to get acceptance of the principle but they had failed. (See also ref B).

5. They had thought that they had achieved a lot in getting general agreement from the Arabs to lift the boycott once disengagement on the Syrian front begins—particularly as the Syrian demands were modest. Sayyid Omar thought the suggestion that the SAG give a written guarantee of this would have been accepted eagerly by Washington. The Saudis will not of course or will they ever send such a message. He said he regrets my raising it with Washington.

6. He said that he and the King had trusted the Secretary and the President explicitly; but this trust was not widely shared in the Arab world. They had tried to convince other Arabs that they were right; that peace in the Arab Middle East depended on the efforts of the Nixon-Kissinger team, but they were quite obviously wrong to have tried to do so. This hostile reaction from Washington could only be interpreted as Washington's acknowledgement that it does not really intend to put pressure on Israel; and the USG will never be able (or even willing) to get Israel to withdraw. The other Arabs will have to draw their own conclusions.

7. After a long and painful pause he continued with an account of his regard for the Americans and for their institutions. He said he knew the Americans have often accused the Arabs of acting irrationally. I had myself, he said, accused the Arabs of behaving irrationally in not lifting the boycott last week. Now it was the Americans who were acting strangely. Never, he said, had the Arabs acted in a manner so obviously contrary to their own interests as were the Americans now.

8. He then asked if the United States had any idea of what it was about to lose. What other friends does the United States have in the Middle East? Only Israel, it seems. And Israel and the Soviet Union may be on the verge of achieving their long term goal of polarizing the area into two hostile blocs. Did not the United States understand what its political and economic interests were? Was it deliberately writing them off? Or was it just that the United States was even more totally enslaved to Israeli wishes and Zionist pressures then the Arabs had believed?

9. He said it would be difficult for the SAG to accept the contention that the U.S. could not move within ten days. It could do so in ten minutes if it wanted. The Arabs were not asking for Israel's destruction. They were only asking that it withdraw from Arab lands and there could be any manner of security guarantee the United States or Israel wanted. Why would the American public or the American Congress not accept this?

10. He said the Saudis too will have to start their own reassessment of their position. The US-Saudi military association will have to be reviewed—this will cause no problem; many European countries are anxious to replace the Americans. Saudi Arabia will have to consider starting withdrawing its funds from American banks, and the United States can forget about participating in any of the large development programs in the Kingdom. He said this last part pained him particularly; he reminded me of frequent conversations on the subject and said he had agreed with me completely on the desirability of forming a giant economic cooperative organization including the United States, Saudi Arabia and other Arab states. The United States would have been given a preferred position in Saudi Arabia, since it has the largest economy, the most developed technology and the most trustworthy businessmen. It was the United States that Saudi Arabia wanted to depend on.

11. Now he said it seemed this was now finished if the United States really is taking the position implied in the message. Saudi Arabia would also have to review its relations with Aramco. In any case Saudi Arabia would now contact those European countries and Japan who have approached them with proposals for bi-lateral deals and start working out programs for industrialization and investment in return for Saudi oil. "We can live without you altogether, you know."

12. He finished and we sat in silence again. I repeated that there was very little new of substance in the message. I had told him everything myself or I had warned them that it would be coming from Washington. The tone may have been harsher than I had used but the substance was not very different. We must not allow temper on either side of the water to destroy the first real chance for peace in the area we have had in over a generation. The United States must continue its

peace efforts or there will be no peace; and Saudi Arabia must also understand the political realities in the United States. The President had believed that Saudi Arabia would be successful in its efforts; he had also received very encouraging signs from Egypt to this effect. He had announced to the world that he had good reason to believe that there would soon be movement on the boycott. Now there was to be none. He would look foolish and he would be further weakened. Like it or not, the Nixon-Kissinger team was almost certainly the only combination which could bring off a peace in the Middle East with which the Arabs could live in dignity and honor. They must not be weakened. I repeated my plea, for the hundredth time, to lift the boycott now. There could be no rational reason for maintaining it.

13. Could the Saudis not inform Syria and the other Arabs that they had firm assurances from the Americans that they would work for peace, and specifically for a disengagement on the Syrian front? Could they not then ask the other Arabs to share the Saudi trust in the United States?

14. He replied that the letter had been written and sent to the President.[5] There would be no backing off. They still know that the United States would try to achieve the disengagement but if it stopped its efforts so be it.

15. He said that there was a wide and growing feeling in the Arab world—particularly in Egypt—that Sadat had been taken in the negotiations. Israel had given up nothing; it still held almost all of the Arab lands. It even had the Egyptian oil fields. Egypt was neutralized and Israel was in a very strong position vis-à-vis Syria and Jordan. This feeling of frustration was accompanied by a feeling that there must be another war, and another and another. Israel now too was losing its golden opportunity. The Syrians were spoiling for another round and so was the Egyptian army. The announcement of the new American policy would even endanger the government of Sadat.

16. He then paused for a long time and asked if I knew what the King would do when he informed him of the message. I said I thought it depended largely on how it was presented. He said there could be only one way as there was only one point. Hadn't we yet learned that the King reacts to gentle persuasion—and he asked if I had forgotten how he had mellowed during my last call. Threats turn him in on himself and he always reacts negatively.

17. He then asked if the United States could not reconsider; if it could not withdraw this message. I said I would ask Washington, and

[5] See Document 298.

asked that he not mention it to the King until I had a response. I said I would hope to have it by opening of business tomorrow (0500Z GMT, February 6).

18. I saw Saqqaf early this afternoon (1100 GMT) and read the foregoing to him to make sure it was an accurate reflection of his views. He suggested a few changes which were incorporated.

19. He seemed in a less tense mood; in fact he said I seemed too discouraged and told me to cheer up; things weren't all that bad. The United States would survive; and Saudi Arabia would probably survive too. There would just be another relationship.

20. I said the survival of either country was no cause for worry. What concerned me was that the sole chance of peace in the Middle East now seemed to be slipping away, for reasons which were so unimportant in the broad context of peace and war.

21. He then said he thought I should see the King. He said he didn't think I had any chance of moving him from this position, but "you never know." In any case, I should try. He said he would set up a meeting for tomorrow evening (probably around 1600 GMT, February 6).

22. I will see Princes Sa'ud (Deputy Minister of Petroleum) and Turki (Deputy to Kamal Adham), both sons of King Faisal, this evening. I am scheduled to see Prince Musa'ad (Minister of Finance) and Royal Advisors Prince Nawwaf and Rashad Pharaon tomorrow morning. I will make the same pitch. I should point out however that all the Oil Committee present in Riyadh and all the Royal Advisors approved King Faisal's letter to President Nixon of February 4.

23. *Comment:* Saqqaf again seemed tired and discouraged and again soundly condemned the Egyptians for yielding too much to Israel for too little in return. This view somewhat paralleled by Prince Fahd (see following telegram)[6] and we hear such talk increasingly frequently. I doubt if there is much chance of getting the King to budge now but I will try. I will not read him the message but will give him the points in reftel A, with as much force as I can while still retaining his attention.

24. *Action requested:* That the Department consider "recalling" the message. I can assure you that the points were very well made; in fact Saqqaf copied down fifteen specific points I read to him. They will not be forgotten regardless of any subsequent message.

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[6] Not further identified.

25. I hope I can have some new mitigating words to use with the King tomorrow. Ideally I would like to have a letter from the President in answer to his, thanking him for his efforts, but expressing our grave disappointment at his lack of success of his efforts, and the embarrassment it has caused him (the President) to have relied on the assurances he had received from the King and his other Arab friends. It was especially painful to learn that they had yielded to the pressure from the radicals who have never had Saudi Arabia's interests at heart. The letter (if there can be one) should include everything we have done on Syria and everything we are planning to do.[7]

26. In the absence of such a letter please send me urgently everything on Syria I can use in talking with the King. I have all the other arguments well in mind, but I do not know what we are doing in Syria, what we have told Asad, what position we have taken in Israel on this matter and what hopes we have. Asad has given the King a full briefing on what the Secretary told him, and I need our version to give the King.

Akins

[7] Kissinger and Nixon discussed a letter to Faisal that evening. Kissinger stated that Faisal "has himself locked in concrete" and that there was "absolutely no assurance" that Syrian disengagement would lead to an end to the embargo, adding: "We are there on a roller-coaster. We have their solemn assurance in writing that they would lift the embargo. This is not our imagination." He told Nixon, "I doubt, Mr. President, we should continue running around under these conditions." Nixon: "You mean you just leave the status quo?" Kissinger: "Who else is going to get disengagement?" (Telephone conversation, February 5, 5:35 p.m.; National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files) Kissinger then told Atherton to add a statement in the letter "that when all the tactical matters are said and done what the continuation of the embargo amounts to is an expression of lack of confidence in the personal assurance of the President of the United States on innumerable occasions." That, he said, "is the most unacceptable part to us." (Telephone conversation, February 5, 7:45 p.m.; ibid.) The letter was sent to Riyadh on February 6; see Document 307.

304. Telegram From the Department of State to the Consulate General in Riyadh[1]

Washington, February 6, 1974, 2335Z.

For Ambassador Akins from the Secretary.

1. In your current discussions with King and principal advisers we want you to get across the following:

We have it from excellent sources that the latest Syrian moves (Syria insisting that embargo not be lifted before Syrian disengagement; movement of Iraqi troops into Syria) are a result of Soviet machinations and backed by the Libyans. All of this in our judgment is designed to abort current Middle Eastern initiative toward peace. We want Faisal and others to weigh this very carefully in their considerations and, in particular, whether it is in the Saudi interest to give Syria the kind of veto over their policy which serves Soviet machinations in the area.[2]

[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 207, Geopolitical Files, Saudi Arabia, 4 Jan–6 Feb 74. Secret; Cherokee; Nodis. The only number on the telegram is 675. A draft of the telegram indicates that it was drafted by Sisco. (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74)

[2] The original has no signature.

305. Memorandum of Conversation[1]

Washington, February 6, 1974.

ENERGY CONFERENCE

IN ATTENDANCE

State
Secretary Kissinger (Meeting Chairman)
Under Secretary Donaldson
Mr. Sonnenfeldt
Mr. Lord
Mr. McCloskey
Mr. Hartman

Treasury
Secretary Shultz
Under Secretary Volcker
Deputy Under Secretary Bennett

National Security Council
Mr. Cooper

Federal Reserve Board
Chairman Burns

Federal Energy Office
Mr. Simon

[Omitted here is discussion of drafting Kissinger's speech before the conference.]

Mr. Burns: Henry, I don't have an opinion on this. And the reason I don't, I think, is that I don't have a map of where you would like to come out. If we had such a map, we should next assess the probabilities of getting there and then see what give there is in this original concept of yours. Maybe you have done this with the group earlier. I just haven't heard you on that.

Secretary Kissinger: To come out in research and development?

Mr. Burns: No, this whole damned conference. You are writing it, you see. You are writing your own. You are the czar.

Secretary Kissinger: Don't say that with Simon sitting here.

Mr. Burns: He can give up the title for a few moments.

Mr. Simon: I would even be willing to give it to him permanently.

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 406, Subject Files, Conferences, WEC, Washington DC, Feb 1974. No classification marking. The meeting convened at 5:35 p.m.

Secretary Kissinger: That is at separate levels. First, what I really want, what I think we will be driven to anyway whether I want it or not, is some kind of a consumer organization. It starts with the issues on which there is a high degree of cooperative interest, and which can gradually be used explicitly on the price issue. But I want to get it started on something which is relatively noncontroversial.

Secondly—and in this respect the French are right—I would like to use this to break this regional autarky concept, and by getting back to some of the more cooperative conceptions which underlay our policy at earlier periods and their policy at earlier periods. And for that I think we ought to be prepared to pay some price, as we did in earlier periods. We shouldn't do it stupidly so that five years from now they will become so powerful in energy that they too can turn on us like they did in the political and economic field.

Thirdly, I would like to use this conference and to avoid the sense of panicky impotence which is now motivating them, in which everyone feels he must run for the nearest exit or assure his own supplies because he doesn't know, because there is some stark spector that he has to avoid.

Those would be the principal objectives that I am trying to achieve. And for that we have to have a fairly conciliatory attitude.

Now, there are subsidiary things. I think what we should get out of it eventually is sort of a set of rules for deals in the energy field, then some of the financial and other considerations, and help the LDC's. I think we can use this, if we do it well, to show again what a human world could be like, and something no government can avoid.

That is the map I would like to get out of this. And in that we are in a peculiar leadership position because no one else is thinking in these terms. No one else has done the technical work to make it go. And no one who is thoughtful can really be opposed to it because we genuinely don't get a unilateral advantage out of it. And I would think that, except for the French, whose historic linking of themselves with extreme brilliance goes back a century at least, who should really be opposed to this conception?

Mr. Burns: All right, now what are you giving? You are giving them a concept of conservation which you think they should take seriously.

Secretary Kissinger: This is why I feel that in each of the sections we have to indicate what the United States is willing to do, and not just be exhortatory.

[Omitted here is discussion of drafting Kissinger's speech before the conference.]

306. Telegram From the President's Deputy Assistant for National Security Affairs (Scowcroft) to Secretary of State Kissinger in Panama[1]

Washington, February 7, 1974, 2351Z.

WH40378/Tohak 9. Following is a message to you from Donaldson, Sonnenfeldt, and Lord.

Begin text:

1. This will give you a brief run-down of our eight hours of confidential talks with the British and German emissaries on the energy conference. We met with Sir Jack Rampton, Carrington's deputy, Wednesday evening and Thursday afternoon, and with Poehl, Schmidt's deputy, Thursday morning.[2] Chuck Cooper joined us for the Thursday meetings. We outlined our approach to the energy situation and conference in their political as well as economic dimensions. We hit them hard on our ideas for the procedure, agenda, and outcome for the conference and the need for the allied nations to work cooperatively at this juncture in history. We told them we could stand bilateralism better than anyone else and would not accept being bilked by the Europeans of what we have to offer in return for business as usual.

2. Both the Germans and the British stated that they agreed with our general approach but freely admitted that they will be cautious publicly, and probably privately as well, because of the French. They are clearly in an unheroic mood and will need considerable bucking up over the coming days. The Germans seem even less willing to take on the French than the British. Our judgement is that both countries will try to be helpful to a point, but will not risk an open break with the French at least until they are made to fear an open break with us.

3. The key issue that seems to be shaping up is whether there will be an ongoing mechanism flowing from the conference and what it looks like. As we already knew, the French tactic will be to have this conference a one-shot affair and any on-going work buried in international bureaucracies, with a view to an early meeting with the producing countries and freedom to pursue bilateral deals.

4. We gave the British and the Germans draft texts no. 5 of the communiqué which you have with you.[3] We stressed the absolute re-

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[1] Source: National Archives, RG 59, Records of the Office of the Counselor 1955–77, Sonnenfeldt Lot Files, Box 4, Energy. Top Secret; Immediate; Sensitive; Eyes Only.

[2] February 6 and 7.

[3] Not found.

quirement for confidentiality and made it clear that this was only a working level draft which did not have your approval. We also had its contents passed orally to Soames in order to help him influence the EEC communiqué drafting process now apparently underway. The British know who has our communiqué draft but the Germans do not. The EEC Commission is probably patterning their draft after their public mandate; we emphasized to the British the desirability of moving the EEC draft if possible towards ours before the Sunday[4] preparatory meeting here.

5. We expect to get the German reaction to the communiqué tomorrow. The British said they had no basic problem with our text except on the crucial Articles 15 and 20 concerning follow-on machinery which they thought were very unlikely to be accepted. They recommended that we not table these paragraphs but merely indicate that language concerning follow-on procedures would have to be inserted at these places. They thought the most likely outcome on this issue would be agreement to continue work generally in forums like the OECD with perhaps ad hoc review by senior Foreign Office officials from the nations of this conference and mention of the possibility of another Ministerial meeting without a specified date. Even this they consider would be difficult to sell to the French. We made clear that this fell far short of what we had in mind. They said it would be important to emphasize the ad hoc rather than the permanent nature of any on-going mechanism and that some early contact would be made with the procedures as well as the LDCs. They did back away from setting a specific date for a formal meeting with the producers as suggested in the EEC mandate and accepted the general principle that consumers should coordinate their views first.

6. We stressed at length the crucial importance of there being follow-on cooperative work by the consumers and that it be given political impetus and oversight. We emphasized that wherever the work was to be done there had to be provision for reporting back to the nations of the Washington conference at the political level and that there be a timetable to ensure prompt action.

7. The British said they would be as helpful as possible generally and in influencing the communiqué, but on the latter point said that the EEC drafting might already be quite far along and could reflect the EEC mandate.

8. The procedures for the conference may not be a major issue. The Europeans will probably not want formal sub-groups, but we could probably work out the concept that following the plenary session the

[4] February 10.

Foreign Ministers could continue to meet as a group while the other officials assemble elsewhere to concentrate on their special areas.

9. The Germans are clearly upset at recent French [garble] actions, particularly their float of the franc. They see very serious worldwide consequences flowing from the present situation if unchanged but believe they will generally fare better than others like the British and French who will be the hardest hit. They also seem ready to take on the price issue frontally at the conference. But they clearly are in no mood to take on the French. Your meetings with Scheel and Schmidt Sunday shape up as real power plays to get the Germans moving. *End text.*

Warm regards.

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307. Letter From President Nixon to King Faisal of Saudi Arabia[1]

Washington, undated.

Your Majesty:

I want to reply without delay to your letter of February 3,[2] because in this difficult period in our relations it is important that there be full and honest communication between us.

Your Majesty will surely understand my deep concern and disappointment that your efforts to bring about a prompt end of the oil embargo against the United States have not succeeded. I have placed great confidence in the positive indications received from your government and conveyed that confidence to the American Congress and people. Continuation of the embargo in these circumstances will not only place me personally in a difficult position, it will also seriously undermine the support I need to carry on the efforts we have undertaken looking toward the just and durable peace the Arab world seeks and to which we have dedicated ourselves.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Top Secret; Sensitive; Eyes Only. Forwarded to Nixon on February 6 under a covering memorandum from Scowcroft. A handwritten notation on the letter reads: "Handed by President to Saudi Ambassador Al-Sowayel Feb 7, 1974, 5 p.m. to be hand-delivered to Riyadh." See Document 309. The letter was sent to Riyadh, February 6 in telegram WH40361; National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74.

[2] See Document 298.

Your Majesty, since undertaking our commitment to begin working actively for a peaceful settlement, we have carried out every assurance we have given—in spite of the embargo, not because of it. As recently as my State of the Union address on January 30,[3] I committed the United States to an active role in helping to achieve a just and durable peace in the Middle East on the basis of full implementation of Security Council Resolutions 242 and 338 and stated that the Egyptian-Israeli disengagement agreement was the first step in this process. Moreover, the Secretary of State and I have formally committed ourselves to work for disengagement on the Syrian front. In the final analysis, continuation of the embargo in these circumstances constitutes an expression of a lack of confidence in the President of the United States and in the assurance I have given.

I fear that if the ending of the embargo at the meeting of Oil Ministers in Tripoli on February 14 is now made dependent on conclusion of a disengagement agreement on the Syrian front, we shall be unable to play the role—which only the United States can play—that is necessary to achieve such an agreement. I am asking Ambassador Akins to inform Your Majesty of what we are doing and have pledged to do with respect to disengagement on the Syrian front. I believe we can succeed in this effort over the weeks ahead. Given the complexities of the problem and of our relationship with Israel, however, there is no possibility of achieving the results we both desire in the brief period remaining before the Tripoli meeting.

It pains me to write so somber a message to Your Majesty. I have always considered our relationship and the friendship between our two countries to be at the very foundation of the safeguarding of the interests we share in preserving stability, freedom and prosperity in your area. I know Your Majesty will receive this letter in the spirit in which it is written and that your wisdom will find a way to remove the shadow that has been cast over the relations between our two great countries.

Sincerely,

Richard Nixon[4]

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[3] See Document 292.

[4] Printed from a copy that bears an indication that Nixon signed the original.

308. Draft Telegram From the President's Deputy Assistant for National Security Affairs (Scowcroft) to Secretary of State Kissinger in Panama[1]

Washington, February 7, 1974.

1. Haig has just come back from talking with the President. The President wishes to call the Saudi Ambassador into the Map Room, hand him the letter[2] and tell him, in essence, that we have kept our commitments and we now expect the Saudis to keep theirs.

2. I told Al that this was a bad idea, that, as he had seen from the traffic I had shown him, the Saudis were coming along and that a move by the President himself could hardly be helpful. Al's response was that the alternatives he was facing were this or John Connally and that he thought this almost completely harmless by comparison.

3. Al has asked that we prepare some talking points for the President to use in meeting with the Saudi Ambassador.[3] I can probably stall until late afternoon, but Al says the President is quite determined to move today.

4. Would appreciate your thoughts.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Top Secret; Flash; Sensitive. The draft was approved by Scowcroft for transmission as a Tohak. The telegram as sent has not been found.

[2] Document 307.

[3] A February 7 memorandum prepared by Scowcroft, marked "The President has seen." (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74)

309. Memorandum of Conversation[1]

Washington, February 7, 1974, 5:10–5:45 p.m.

PARTICIPANTS

President Nixon
Amb. Al Sowayel, Saudi Ambassador
Major General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

The President: General Scowcroft will make notes and give you a copy for yourself. I have written a note to His Majesty, which will be sent by cable, and I want to give you the original.[2] I want to put it in context.

I would like you to talk to His Majesty personally so he knows from me, not just Secretary Kissinger. Tell him that I am talking to you as I would to him.

First, we have the disengagement agreement. We are working with the Syrians now, but there are prisoners and other knotty problems. We can't do it hurriedly.

You have my personal commitment to work for a disengagement with the Syrians. It should be fair to the Syrians, just as the Egypt-Israel agreement was fair to the Egyptians. It's the first time Israel has ever withdrawn.

This is a famous room. It's the Map Room. President Roosevelt used to plan the war here, during World War II.

What concerns me is, I know your government wants to normalize the situation, but you feel you can't get out in front of Algerians and the Syrians.

Sowayel: Or Kuwait.

President: Let me look at the big picture and see if there is a way to get it accomplished. Let me talk in terms of politics.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1028, Presidential/HAK Memcons, Memcons, 1 Jan 74–28 Feb 74. Secret; Nodis. The meeting took place in the Map Room. All brackets are in the original. A rather more diplomatic version of this memorandum of conversation is ibid. Scowcroft sent a one-page gist of the conversation to Akins, February 8. (Ibid., Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74) Scowcroft informed Kissinger that "all in all, I think the meeting went very well. This is especially so in light of possible alternatives. I found out that John Connally saw the President shortly after he had set up this meeting with the Saudis." (Telegram WH40377/Tohak 10 to Kissinger, February 7; Library of Congress, Manuscript Division, Kissinger Papers, TS 35, Geopolitical Files, Saudi Arabia, Oct 1973–Dec 1974)

[2] Document 307.

I am the first President since Eisenhower who has no commitment to the Jewish community, and I will not be swayed.

I didn't do enough in the first term, but I am determined now that the Middle East be settled. I know His Majesty has a concern over Jerusalem. That is a very difficult problem. Also his concern over disengagement. I have written a commitment to 242, but that is gobbledygook. What I want you to know is I have made a commitment. We will work out a permanent settlement as quickly as possible. The full prestige of my office is dedicated to that. You should know that I will catch it from some groups here.

I think "blackmail" is unfortunate.[3] I don't think His Majesty is blackmailing us. Whatever the embargo, I will continue to work for a just peace. I don't know what Jerusalem will be—you don't. You probably want more than I can negotiate. But I will have great difficulty negotiating under the pressure.

I will have three years. My successor may be beholden to the groups here.

In summary, I want the embargo lifted. It is very important. But I will move to get a just peace—it will be tough.

But my efforts are being hampered and will be seriously jeopardized if the embargo is the issue. The claim will be that we are moving only because of pressure from the Arabs. That is what Jackson and the others say.

There is no linkage. I will continue to work and the power of my office will be behind it. But any gesture His Majesty can make, even if he gets pressure from his Arab friends, will help me move a settlement along.

I will not drag my feet because of the embargo, but it will make it difficult for me to move it along—with Congress and the press.

Expectations were raised in the remarks I made in the State of the Union—which I made based on letters from His Majesty. I am on a limb—I have been there before—but I want us to work together for settlement. His Majesty has my personal commitment to work for 242 or a settlement and my commitment to work on Israel. You know what a problem that is in this country.

If His Majesty could help in the next few days, so it doesn't look like the embargo is being held over our head; otherwise opinion could

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[3] In his remarks before a combined meeting of the Harvard, Princeton, and Yale Clubs on February 6, Kissinger stated that to maintain an embargo in light of American efforts to bring about peace in the Middle East "must be construed as a form of blackmail, and it would be highly inappropriate, and cannot but affect the attitude with which we have to pursue our diplomacy." (*Wall Street Journal,* February 7, 1974, p. 5)

swing against the Arabs. I know that is not the case, but His Majesty should know he has a friend who will take great risks, but his movement on the embargo would be enormously helpful in helping me now.

Sowayel: Maybe I can go back personally to deliver the letter.

The President: Some have said to me that I should send a personal emissary. But we are good friends and I am doing this on my own. I am editing my letter. All this can't be put in a letter.

General Scowcroft has heard me say these things many times. I know some Arabs have said we have promised over the years, and nothing happened. But now, as a result of the war, it can be done, and it will be done. This is what I want His Majesty to know.

I don't know the Syrians or Sadat. But I do know His Majesty, who is so intelligent and has a sense of history.

Let me be candid. Gromyko was here.[4] We are not trying to drive out the Soviet Union and establish our own hegemony, but I think it is better if the U.S. continues to play a role and not leave Israel the only force in the area to counter the Soviet Union. The key to the whole problem is progress at Geneva. I will do my best, and that is a lot, to move the Israelis.

It makes it terribly difficult to move as quickly as I want, with the embargo. I understand it, but with lines at gas stations, and so on, I don't want our people to start blaming the Arabs.

I know His Majesty can't deliver without a commitment, but if he waits until our performance, that could be months.

Sowayel: If the U.S. could promise that if Israel would withdraw within a specific time to the '67 line, that would be helpful.

The President: I won't promise what I can't deliver, but there will be a settlement. I can't draw a line, but there will be a settlement. His Majesty can hold me to my commitment. I wanted you to hear it from me so His Majesty can convey it that I will use the full power of my office.

Sowayel: Secretary Kissinger's statement was not useful.

The President: "Blackmail" is a bad word. It should not have been used. His Majesty is not a blackmailer. I won't link the two, but the fact is it will make it much more difficult. It will give me clout to say: "We have the cooperation of King Faisal, now let's get on with the settlement." I would like there to be enough progress so I could visit the Middle East in the spring—Egypt, Jordan, Saudi Arabia, Israel (if they behave).

We need to keep the momentum so the situation doesn't freeze.

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[4] Nixon met with Gromyko on February 4.

Sowayel: I will try to go myself.

The President: This conference [the Washington Energy Conference] will not set up a confrontation with the producers. The consumers will just look at the problems to see what can be done to meet them.

Self-sufficiency is not designed against you. I want a world where we would trade with you. There are two threats in the area—the radicals and the Soviet Union. It is in both our interests for the United States to play a role in the Middle East to keep these two forces under control.

Sowayel: Yes. South Yemen and Iraq.

The President: Yes, the Shah said they are stirring things up in Iran also.

Sowayel: I have been telling the General that in 1948 all of the Arabs were friends with the United States. Since the creation of Israel, the Soviet Union is saying the U.S. always supports Israel against us. Look at Iraq. I was there during the revolution. Things were much better before than afterwards.

The President: If you could go and present it to him, fine. But it would be best if you would amplify, based on our conversation. I can't put it all in a letter.

We can't let it get in a position where a confrontation would develop because of the embargo. Where I would be hamstrung because of the embargo.

I didn't do enough during my first four years, but I am personally committed now to a settlement.

310. National Security Decision Memorandum 244[1]

Washington, February 8, 1974.

TO

The Secretary of the Treasury
The Secretary of Defense
The Secretary of the Interior
The Deputy Secretary of State
The Director of Central Intelligence
The Chairman, Atomic Energy Commission
The Chairman, Council of Economic Advisers
The Director, Federal Energy Office
The Director, Office of Management and Budget
The Assistant to the President for International Economic Policy

SUBJECT

International Energy Review Group

In view of the significance of recent changes in the international energy market, the President has directed the establishment of an International Energy Review Group (IERG), chaired by the Assistant to the President for National Security Affairs.[2] The IERG will analyze the international implications of U.S. and foreign supply and demand in the field of energy and formulate policy recommendations to the President in the international energy area. Membership will consist of representatives of the addressees. Representatives of other agencies will be invited to participate as appropriate.

A Working Group of the IERG, chaired by the Deputy Assistant to the President for International Economic Affairs, shall continuously review the international political and economic implications of the world energy situation and their linkages to U.S. foreign and domestic policies and programs. It will be responsible for direct-

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H–Files), Box H–244, National Security Decision Memoranda, NSDM 244. Confidential. Sent to the addressees under a February 16 covering memorandum from Jeanne Davis. A copy was sent to Secretary of Commerce Dent and Special Representative for Trade Negotiations William D. Eberle.

[2] On January 4, after a discussion with Shultz, Flanigan had proposed an ad hoc energy group chaired by Cooper, with representation from State, Treasury, CEA, and Simon. Kissinger concurred. (Memorandum from Scowcroft to Kissinger, January 4; Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 5, Chronological File A, January 1–7, 1974) On January 15, Scowcroft suggested that this option, now referred to as Option A, was bureaucratically cumbersome and that an Option B, suggested by Donaldson and Lord, be adopted. Option B placed the energy group under Kissinger's chairmanship. (Ibid.) Scowcroft repeated his recommendation for Option B on January 30 in a note to Kissinger. Option B was incorporated into NSDM 244. (Ibid.)

ing the necessary policy analysis and for formulating policy recommendations to the IERG.

The IERG shall also establish a subcommittee on policy implementation and operations to be chaired by the Under Secretary of State for Security Assistance. The subcommittee will be responsible for the implementation of policy, including interdepartmental coordination, and the preparation of the U.S. positions on energy related matters for international meetings and conferences.

Henry A. Kissinger

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311. Transcript of a Telephone Conversation Between Secretary of State Kissinger and David Rockefeller[1]

February 8, 1974, 10:32 a.m.

[Omitted here is discussion unrelated to oil.]

K: Another thing I want to talk to you about—you know that all say you are the chairman of the establishment, it may not be exactly true, but that you are the chairman of the trilateral commission.[2]

R: [laughs]

K: I really think we must take a look at our relation with Europe. We are now seeing on the energy issue exactly as we did on the Atlantic declaration and nobody can say we are not consulting with them that we are not cooperating—we are offering them things for nothing. We want nothing from them except cooperative efforts.

R: I really think this may be one area where I could be helpful.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files. Unclassified. Kissinger was in Washington; Rockefeller was in New York. All brackets, except those that indicate omitted material, are in the original.

[2] The Trilateral Commission was established in July 1973 to foster closer cooperation among the United States, Europe, and Japan.

K: I tell you if this conference next week goes the way the French are trying to steer it, and the other 8 have again caved to the French, then we have to reassess our policy. We cannot go on this way.[3]

R: I am very disturbed by it.

K: Because in the energy field, we want nothing from them, except not to pursue [harm?] thy neighbor policies. They can do next to nothing for us. If the French bought all the oil that they need at present prices that wouldn't cut into our needs and they would be bankrupt in 15 months so there isn't anything that bothers us, but we would then be in 1947 after 25 years of effort.

R: I just cannot imagine why they are doing it. One reason I wanted to call you was that I saw Walter Levy at the Council[4] and he is apparently working with Bill Donaldson—will be down there—he is not happy that the papers are being prepared and I thought you should know he is concerned about our position.

K: Our position is too soft in his view.

R: You might want to talk with him—he is really good.

K: He is outstanding—

R: He told me he was really rather unhappy with what was coming but—

K: Okay, let me talk to him today—

R: I think if you have a chance—at least to find out the nature of his concern.

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[3] Kissinger telephoned John McCloy at 11:10 a.m. that morning and made similar arguments, noting, "We cannot have the Community organized against us as anti-American." He added that the French "are pursuing a more active anti-US policy in the Middle East than the Russians." (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files)

[4] Rockefeller was Chairman of the Council on Foreign Relations.

312. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, February 8, 1974, 1305Z.

632. Dept pass Cairo, Algiers, Damascus. Subject: King Faisal's Response to President Nixon. Ref: Jidda 628; Jidda 629.[2]

1. *Summary:* King Faisal in a letter dated Feb 7[3] thanks President Nixon for his letter of February 6[4] and for his efforts to reach peace in the Middle East. He says he understands the problems the continued oil boycott causes the President and says he has tried to persuade other Arabs to agree with Saudi Arabia in lifting the boycott. So far, few have. He says the boycott resulted from an inter-Arab decision and will have to be lifted the same way. It has been difficult, he says, to convince other Arabs to take this positive step as long as the Israelis have not started withdrawal from Syria. He says disengagement in Egypt was relatively easy—the world had a great interest in opening the Suez Canal—but the world is less interested in Syria. The Arabs fear that sufficient pressure will not be placed on Israel to withdraw from Golan. He refers to the recent U.S. efforts in Syria and hopes that they are successful; the Saudis are now awaiting information from Syria for reaction to the proposal. He closes with the repeated hope that disengagement will have begun before the Tripoli meeting. *End summary.*

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 631, Country Files, Middle East, Saudi Arabia, Vol. V. Secret; Immediate; Cherokee; Nodis.

[2] A notation at the end of the telegram indicates it was not passed to Cairo, Algiers, or Damascus. According to telegram 628 from Jidda, February 7, Saqqaf, Royal Advisers Prince Nawwaf and Pharaon, and Faisal agreed at a February 6 meeting that the boycott should be lifted, although Faisal insisted that Saudi Arabia could not act alone. Faisal stated, "it had been difficult to build up an Arab consensus and he could not be the one to destroy it." (Ibid.) According to telegram 629 from Jidda, February 7, Akins reiterated to Faisal, February 6, Nixon and Kissinger's commitment to achieving peace in the Middle East, to which Faisal replied "repeatedly" that Saudi Arabia "could not move unilaterally." (Ibid., Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Feb 74–July 74) Asad also affirmed the "pan-Arab" character of the oil boycott. (Telegram 57 from Damascus, February 9; ibid., Box 1181, Saunders Files, Middle East Negotiations Files, Middle East Peace Negotiations, 2/9–2/15 1974)

[3] Scowcroft informed Nixon in a memorandum that Faisal's letter, a translation of which was attached, "was drafted before Ambassador Sowayel reached Saudi Arabia to deliver his report of the meeting with you." (Ibid., Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Feb 74–July 74) Both Akins and Scowcroft were concerned that Sowayel might distort Nixon's message. (Backchannel messages from Akins to Scowcroft, February 9, and Scowcroft to Akins, February 9; Library of Congress, Manuscript Division, Kissinger Papers, Box CL 207, Geopolitical Files, Saudi Arabia, Feb 7–Feb 28, 1974; and backchannel message from Akins to Scowcroft, February 11; National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Feb 74–July 74)

[4] Document 307.

2. The text of the letter dated Feb. 7, 1974, follows: "H.E. President Richard M. Nixon, President of the United States of America. Dear President: I am pleased to inform Your Excellency that I have received from Amb. Akins your letter dated February 6, 1974. I fully appreciate all the efforts which you have been exerting for the realization of a just and permanent peace in the Middle East area, and your government's commitment to a work plan which would reach that goal.

3. We noted with great satisfaction that this plan has begun to bear fruit on the Egyptian front, and we look forward to the same positive step (occurring) on the Syrian front, since this is no less important than the Egyptian front, both fronts being so interlinked.

4. Mr. President: I have as I have informed you started contacts with my Arab brethren for the lifting of the oil ban on the U.S. This I did because of my complete appreciation of the positive steps taken by Your Excellency for attaining a just peace in the area, and because of my knowledge of the embarrasing position—especially in these circumstances—this would put you in inside the U.S., if the ban is not lifted. But as you know, other Arabs would not go along with us and we are associated with our Arab brethren in a resolution from which it would be difficult to deviate. It is difficult to convince them to lift the ban if no agreement is signed for the disengagement of forces on the Syrian front. Their (the other Arabs') rationale in this is that Israel agreed to the disengagement of forces on the Egyptian front only under world pressure for the opening of the Suez Canal in order to facilitate international transportation, but that the world does not much care about the Syrian front because it doesn't have much influence on its commercial traffic. Also in their minds is the thought that the Soviet Union, although desirous of seeing the Suez Canal open for its own objectives in the Red Sea and for bringing closer its communications with the Far East, is not so anxious to have disengagement on the Golan front. The Soviet Union would like to see this front remain a hot, explosive point which would force the Arabs to fall back on the Soviet Union and continue to open their coffers to it in return for supplying them with the arms they need for their self-defense.

5. Mr. President: Initial indications of peace have begun to appear on the horizon of the area thanks to your efforts and those of your Secretary of State. We hope that you will continue your efforts to bring about a just and final peace in which the people of the area can enjoy security and stability.

6. We have given H.E. the Ambassador a verbal message for Your Excellency expressing our great concern that you exert your efforts, before the convening of the Arab Petroleum Ministers' conference in Tripoli on Feb 14, 1974, for agreement to be reached between the two sides on the Syrian front, so that our stand at the said meeting could

be strong and so that we might forestall any attempt by anyone who might desire to put up obstacles in the path of a quick solution.

7. H.E. the Ambassador conveyed to us at length at his meeting with us the evening of Feb. 6 Your Excellency's evaluations, and he explained fully to us the embarrassment you are facing as a result of the delay in lifting the ban. The Ambassador also mentioned that you had offered Syria a proposal for disengagement on the Golan front, and assured us of your determination to carry out the terms of the proposal, in the event that Syria agrees to it.

8. We are now awaiting Syria's views on this proposal so that we will be able to contact our Arab brethren in order to coordinate with them further steps to be taken.

9. We hope that you will exert efforts for disengagement on the Syrian front before the Arab Oil Ministers' meeting is convened so that we would have a strong argument to put before everyone.

10. We wish Your Excellency good health and success. God keep you. Faisal al-Saud. Riyadh."

11. Letter being pouched.

12. Sayyid Omar Saqqaf, Saudi Minister of State for Foreign Affairs, was scheduled to return to Riyadh late last night from Damascus (ref A). We understand he met with the King last night and early this morning. Both the Acting Foreign Minister and Sayyid Omar himself have promised to inform the Ambassador as soon as the Minister returns to Jidda. Although he has not returned yet (1200 GMT Feb 8), the Ambassador hopes he will be able to see him this evening.

Akins

313. Memorandum From William R. Smyser of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, February 8, 1974.

SUBJECT

Japan at the Energy Conference

I have seen countless papers telling you and the rest of us about Japan's positions with regard to the upcoming energy conference. I hope you have not had to read all of them.

The fundamental reality is the same as it was four weeks ago, when I wrote you that Japan would be helpful in moving toward the conference.

The Japanese are fundamentally on our side in energy matters. They are nervous about the Arabs, and they are nervous about the domestic impact of the energy crisis just before an election (as we would be). But they recognize, much more clearly than the Europeans, that in energy as in other matters they really cannot play a lone hand.

Of course, the Japanese may quibble about conference format and duration. They may be wary of participating in "working groups." Our intelligence community will pick up newsy little tidbits from the Japanese bureaucracy, where it plugs in, stressing differences with our views.

But in your total concept of the objectives of this conference you will find the Japanese to be with us much more often than against us, and where they do oppose us it will not be irreconcilably, for the sake of being different (like the French), but for real reasons that we can handle.

I think this means they will be easier working partners than the Europeans, and that at times we can use Japan's readiness to cooperate as a lever with the Europeans.

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 165, Geopolitical Files, Japan, Chron Files, June 26, 1972–April 23, 1974. Secret; Sensitive; Eyes Only. Urgent; sent for information. Kissinger initialed the memorandum.

314. Memorandum of Conversation[1]

San Clemente, February 9, 1974, 10:35 a.m.

PARTICIPANTS

President Nixon
Henry A. Kissinger, Assistant to the President for National Security Affairs
George Shultz, Secretary of the Treasury
William Simon, Administrator, Federal Energy Office
Maj. Gen. Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

SUBJECT

Washington Energy Conference

The President: I want to thank all of you for the work on the conference. We face serious problems in handling the conference. We may be forced to a position where the Europeans go into business for themselves or where it looks like confrontation with the producers. I hope not—although it is a confrontation, it would not be a good public position.

The Europeans, especially the French, are playing a lousy game. The British are in trouble, so it's easy out to kick the United States around. The Foreign Ministers basically represent their governments, some Finance Ministers, some Mineral Resources Ministers. At the technical level, there is no feeling of confrontation.

The Foreign Ministers want to cooperate in the military field, and some in the financial field, but on energy and the Arabs they want to kick us around.

In our private talks, we need to say I am pro-Europe. But in Congress there is a dangerous attitude: If Europe wants to go it alone, we will. This is true in several areas. This would be a bigger disaster for the Europeans than for us.

Don't get a feeling of bitterness or confrontation with the Europeans, but they must know they can't have it both ways.

Kissinger: This is a well prepared conference and there is unanimity among us. Our strategy is unified.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1028, Presidential/HAK Memcons, Memcons, Jan 1974–Feb 1974. Secret; Nodis. The meeting took place in the Western White House at San Clemente. In the February 9 Talking Points prepared for the President for this meeting, Kissinger stated that to avoid "ruinous competition" among consumers and to improve the U.S. bargaining position, "we need to demonstrate that the energy crisis is manageable through multilateral cooperation and to create a continuing obligation on the part of consumers to cooperate in restraining demand and developing new sources of energy." (Memorandum from Kissinger, February 9; ibid., NSC Files, Box 321, Subject Files, Energy Crisis, Nov 73–Feb 74)

We don't want anything from the Europeans except to contribute to a cooperative world, a multilateral approach. I will give them an overall pitch in the morning, Bill Simon will give the supply situation in the afternoon.

The President: Give the press something after each session so we get something positive on TV.

Kissinger: We will put an analysis of the situation before them—[more] comprehensive than any of them can do. It will show that the problem is manageable if we work together. If not, we will suffer the least. We can make the best deals bilaterally and we are really self-sufficient.

Simon: The situation is moving fast. This development about them having a meeting with the Arabs two days after the conference[2] is very dangerous.

Kissinger: Today I got a copy of this agenda and it's scary. This means the Europeans will add their weight to the Arabs in negotiations we have to carry.

Simon: So how do we position ourselves—with the Japanese and Canadians, etc.?

Kissinger: The present posture is we get nothing—what we propose is in the tradition of Atlantic cooperation.

The President: What are we proposing?

Kissinger: An international task force to deal with consumer restraints, R & D, conservation, preparations now, and then a consumer-producer conference.

A second meeting will be held and then within 90 days with the producers.

The President: What do the producers want?

Kissinger: The producers would get regularity of investment and long-term planning for development.

Half of the objections from the producers have been generated by the Europeans.

I saw the Algerian oil minister. He said: Our oil won't be as valuable after Project Independence."[3] He wants assurance of investment over the long-term.

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[2] According to telegram 1815 from London, February 8, the February 6–7 EC Political Directors' meeting approved an EC political dialogue with 19 Arab governments. The EC Foreign Ministers were expected to approve a report on such cooperation at their February 14–15 meeting. (National Archives, RG 59, Central Foreign Policy Files)

[3] Kissinger met with Abdesselam on February 8 at 7:45 p.m. (Memorandum of conversation, February 8; ibid., Nixon Presidential Materials, NSC Files, Box 1028, Presidential/HAK Memcons, Memcons, 1 Jan–28 Feb 1974) Their meeting is summarized in telegram 29047 to Algiers, February 23; ibid., RG 59, Central Foreign Policy Files. For Project Independence, see Document 237.

Simon: He needs access to capital.

Shultz: The tricky thing is to bring out that oil now is not more valuable than oil in the ground. For example, if you think oil in ten years will be $10, the price now must be $8.50.

The price is going down.

The President: Why?

Shultz: The price. People respond to price.

Kissinger: If the Arabs restore production, we predict a slight surplus.

The President: Looking at the long run in the U.S.—20 years—no question that coal, nuclear power, and shale will be competitive.

Simon: It's competitive now.

The President: We've got to show them that oil in ten years will be less valuable than now, so don't keep it in the ground. I told the Saudi Ambassador we want to keep buying oil in ten years—otherwise they would think we were planning to freeze them out.

Kissinger: We've got to show Project Independence is not our form of unilateralism.

The President: We want to show that Project Independence is not our way of saying we will go it alone.

Kissinger: Also to the extent that we reduce foreign purchases, we are easing the market for Europeans, and our offer for technical cooperation and sharing in an emergency is cooperative in nature.

Shultz: What should we tell the Europeans about their Arab conference? We have this great meeting and then they go off on another track.

The President: I think you and Bill can talk to the technical types and talk turkey to them—they don't have to posture like the Foreign Ministers. Tell them they can't do this and expect us to hold our military role in Europe—Congress won't let us.

If they keep going into business for themselves, it will lead to the U.S. turning against Europe and opening their weak states to the Soviet Union. That is not in their own interest.

We are acting in their interest.

Kissinger: That won't do it any more. If we say we are committed but Congress will force us, they won't buy it.

The President: But you know we shield the Europeans from the Soviet Union and China.

Kissinger: Right now if a war started in Europe, within five days, we would be in a nuclear war. If we started pulling our forces out, the argument has been that Europe would go neutralist. If they are going that way anyway, we could leave the trip wire and go nuclear like we would have to anyway. Our forces give Europe the security to bitch at us.

The Europeans are now picking at Japan in spite of us—led by France and others too weak to resist. We agreed with the Chinese not to compete in Japan—and now the Europeans are.

Shultz and Simon should talk—because the Foreign Ministers are idiots, except for Home. Moro, Scheel, Jobert—they're all bad.

In France there will be a popular front within five years. That will drag Italy the same way or there'll be a right wing coup.

The President: That depends on the guts of the Italian military.

Kissinger: And who our Ambassador is.

The President: Volpe[4] will do what he is told. We are agreed—it's only a matter of tactics.

Kissinger: Yes.

The President: What can the Europeans do for Japan? They won't open their markets—the Japanese would kill them. There is another reason for our agreement with the Chinese on Japan—the Chinese are afraid of them. We frequently focus on the wrong thing. Roosevelt at Yalta thought it was a choice of the UN or gobbling up Poland.

Our China policy succeeds because they need us. What the Europeans must understand is that the whole world will fall apart if we withdraw from Europe or Japan.

Kissinger: The Japanese at this conference will not be anti-American. The real problem is spitefulness of the Europeans. The Europeans are not united in the monetary field and Shultz can deal with them separately.

The President: The biggest thing we can get from the conference is private talks with the delegations. We have to talk in sorrow rather than anger if they continue—because I have been fighting a lonely battle to maintain our defenses in Europe: The President will have to reevaluate his policies—and there is strong support in the U.S. for such a reevaluation.

Kissinger: We should be harder on the Europeans than the Japanese.

The President: The Chinese are so clever you never know whether they are lying or not. The Soviet Union is not so good.

Kissinger: The Soviet Union spent $5 billion in the Middle East and Sadat and Asad don't want us to tell the Soviet Union anything.

The President: Do you really want us to tell the Europeans we lead or else?

Kissinger: I am an Atlanticist. But if we don't take tough action, we will lose the pro-American people in Europe, because they can't point out the bad consequences of anti-American actions.

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[4] Ambassador to Italy John A. Volpe.

The President: But can we follow through on our threat?

Kissinger: We've got to define the question. We keep forces there so they won't go neutralist. If we withdraw half our troops, how will they behave differently? I don't suggest troop withdrawal now, but honestly we don't need all these forces.

The President: We have such a lousy strategy that a trip wire is probably as good as anything. What might happen in five-to-ten years is a President might have to ask if he might risk Atlanta for Bonn.

Kissinger: Europe is organizing overall on an anti-American basis.

The President: They can have Africa—we will take South Africa and get out of the UN. Why does State hate South Africa?

Kissinger: I have abolished the Political Science division in State.

The President: I noticed the Lamizana group.[5] They can hardly wait for *The New York Times* editorial—like in Greece.

Kissinger: Look at Amin. He used to be ours and the Kenyans bought him.

The President: The problem with Amin is not something he ate but someone he ate. I feel sorry for the Africans, but it will take a long time.

I am sure the Europeans will try to give us the shaft everywhere, but we must concentrate on the critical areas.

Simon: I am even stronger than Henry. I don't think we can change the Europeans—they will call for the Arab meeting.

The President: What do we say?

Kissinger: Nothing publicly, but tell them if they insist on going it alone, we will.

The President: We must get this across. These are reasonable men—it's the press and leftist leaders who can't stand up to it.

Shultz: It will be a gay conference.

Kissinger: If we hold this position, we will be okay.

The President: George, we get back to linkage. A healthy U.S.-European relationship, is the best way to keep the Soviet Union and China in line.

Simon: I agree, but we have to shock the Europeans.

Kissinger: The last thing we want is a rupture. But now we are putting a bandaid on a cancer. We have tried and they have kicked us.

The President: Can we go to Europe in April?

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[5] On February 8, General Aboubakar Sangoule Lamizana dissolved the National Assembly and suspended the constitution of Burkina Faso.

Kissinger: Yes, if we stay on this course. We have never failed by being strong.

The President: Who would be at the NATO meeting? Foreign Ministers?

Kissinger: No, if the heads of government don't come, you can't.

The President: If Pompidou doesn't, we should hold a meeting in London.

Kissinger: It makes sense because NATO really started in London.

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315. Memorandum of Conversation[1]

Washington, February 10, 1974, 8 a.m.

SUBJECT

Energy Conference

PARTICIPANTS

British
Sir Alec Douglas-Home, Foreign Minister
British Chargé Richard A. Sykes
Sir Jack Rampton, Permanent Secretary, Department of Energy
Sir Oliver Wright, Undersecretary, Foreign Office

US
The Secretary
William H. Donaldson, Under Secretary for Security Assistance
Helmut Sonnenfeldt, Counselor
Arthur A. Hartman, Assistant Secretary for European Affairs

Secretary: You were asking about where we stand in the Middle East. We hope very much to have the Israeli POW problem out of the way by the end of the week so that we can get on with disengagement talks between the Syrians and Israelis. We have talked about the possibility of holding those discussions at Kilometer 101 or possibly in Geneva but the real problem is that the Syrians are just more difficult to deal with than Sadat. Of course, I can't rule out both parties asking me to take a hand but I am not pushing that one.

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 145, Geopolitical Files, Great Britain, Chron Files, Jan–Feb 1974. Secret; Nodis. Drafted by Hartman. The top of the first page of the document is marked "GSS Sensitive—Misc." The breakfast meeting took place in the Secretary's Dining Room.

Sir Alec: I want you to know how very much we have admired the way you have handled the situation and our strong desire for your continued success. I am personally unhappy that you apparently feel some of our recent considerations of approaches to the Arabs have not helped. You know these fellows just turned up in Copenhagen and we could not refuse to see them, but I want you to know that we will handle that situation with great care.[2] There are some lower level suggestions for studies on technical problems but we will keep you informed as the situation develops.

Secretary: Let me emphasize what my real concerns are. It seems to me this whole idea of an EC-Arab conference[3] is symptomatic of the general problem that we have had with the EC. Here is a proposal for a major initiative with all the Arab States—an initiative that is bound to have political repercussions on what we are trying to do to achieve a political settlement and there was no consultation with us. No Member Government of the EC came to us and said "Is this idea going to affect your negotiations in any way?"

Sir Alec: But nothing has been started. We haven't begun anything.

Secretary: But I understand that you are going to have a Ministerial meeting as soon as you leave the Energy Conference Thursday[4] in Bonn. This will be the major item on the agenda. We may be faced with the situation that the Energy Conference is aborted and then the Nine can offer and make extensive preparations for a meeting between the EC Foreign Ministers and the Arabs. I just wanted you to know that any getting together of all the Arab States—moderates and radicals—would have most unfortunate consequences. It is bound to lead the radicals to make extreme statements which will be very difficult for the moderates to resist. This will immediately lead to pressures on the European leaders to endorse every point on the Arab radicals' program. Second, they will link all the issues together and this is bound to have a negative effect on our political negotiations. Sadat has told us that the only way to deal with this situation is piece by piece. First we start with disengagement on the Egyptian side. Then we talk disengagement with the Syrians. Then Sadat will feel strong enough to move on to territorial problems. Then we get the Syrians and Jordanians to talk about territory and only then do we get to the tougher issues like Palestinians and Jerusalem.

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[2] A delegation of four Arab Foreign Ministers attended the EC Summit meeting in Copenhagen December 15–16, 1973, to urge the Europeans to play a larger role in the peace process, including applying pressure on Israel, in return for increased oil shipments. (Telegrams 3185 and 3194 from Copenhagen, December 15 and 16; National Archives, RG 59, Central Foreign Policy Files)

[3] See footnote 2, Document 314.

[4] February 14.

If you go ahead with this EC initiative it is bound to upset things and then we will have to go in and pick up the pieces.

Sir Alec: There is no special deal planned here. There are no agreed concrete ideas which have been taken up with the Ministers. I can assure you of that.

Wright: We have been taking our time on this. We saw the Arab Ministers in Copenhagen and we have been developing, both in Brussels and among the Political Directors, some ideas about how we should respond to initiatives of the Arab Ministers. We had thought that perhaps we could delay matters further by having the Chairman of the Council talk to some of the Ambassadors from Arab States, and see what they have in mind.

Sir Alec: We are really now at the stage of seeing what content there might be in any arrangements we negotiate with the Arabs. You can see that there is a squeeze here with the Arabs and the Israelis trying to put pressure on us.

Secretary: If you go ahead we will have to make publicly clear again, as we did last fall, that we will not be squeezed by pressure on Europe. We have no choice in this matter.

Sir Alec: This is also something that maybe we could talk about to the Secretary-General of the Arab League.

Secretary: I want to stress to you again what my concern is. We have no problem with Europe having long-term relations with countries of the Middle East but move now in this manner cuts across the strategy of achieving partial settlement and also raises the question of whether Europe is moving into an adversary position against the US.

Sir Alec: I can assure you that this thing won't fly on Thursday. A Foreign Ministers' conference is months off.

Secretary: Let me give you some general thoughts. When we suggested earlier that we rethink our relationships, we were thinking in terms of the necessity of a world structure which would play down regional and national conflicts. People have magnified the problem because for years they had the Atlantic Declaration but what we were looking for was some means to create a framework within which our relations would take place in the future, recognizing that the underlying basis for our relationship has certainly changed over the past 25 years. But we still have many things that we want to do; we still face many common challenges.

It is not that we are against a dialogue between the European Community and the Arab nations. We are in favor of that but we must work together in parallel on these matters.

Sir Alec: We had been discussing this thing for many weeks now and I would like Oliver to tell you where it stands.

Wright: You'll recall that when the Arab Ministers came and we did not know they were coming to the meeting of Ministers in Copenhagen on December 18, they put the question to us what kind of a relationship did we want to have with the Arab States and they indicated that they wish to see a more cooperative relationship between Europe and the Arab world. Then on February 14 we will indicate that we will be able to answer the Arabs in the first instance. There are some specific questions and we must answer them.

Secretary: It is just suicidal for us to get into a bilateral competition. If Europe moves to institutionalize bilateral frameworks and to avoid any multilateral cooperation with us there is going to be a competition which is bound to affect our relations in other fields.

Sir Alec: The question is how should we keep in contact. Should we use existing machinery or should there be other machinery that allows us to keep in touch so that we can take the steam out of some of these issues.

Secretary: Jobert is trying to move the whole thing in a different direction. First, he says that this is a maneuver in order to establish American leadership. Second, he is looking to establish a mandate which would prevent the establishment of a continuing body. Third, he told me that he is prepared to stay the rest of the day but not beyond that. Let's be clear about this issue. I tried to draw attention to this in my Pilgrim speech.[5] The United States perhaps has the biggest reason for trying to make a contribution to a cooperative solution to this energy problem. We don't see any real way to approach the problem in isolation and yet we have perhaps the least economic reason for pursuing cooperative plans. Look at the Atlantic relationship. We don't seem to have been able to succeed in anything. We are trying to find some body in which we can address these issues. It never occurred to us that we would get down into a jurisdictional and legal fight over words. In effect, what everyone seems to be saying is "How little can we get away with?"

Sir Alec: The difficulty is that there can be no European unity without France. We must build on a solid Franco-German relationship and we have to pull France along in order to achieve these goals and in the end this is going to be in your long-term interest.

Secretary: The point is that the way that the Community is presently constituted France determines what EC policy is. The real question is how do you isolate France so that they can see some sense.

Sir Alec: If that is possible then we should move in that direction.

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[5] See Document 264.

Secretary: On the substance of the problem we all ought to be doing what makes sense. We ought to be establishing some kind of machinery which will enable us to prepare common positions among the consumers. We need this. Second, thirty million producers seem to have gotten together and established their own position. They have a cartel. Why should they be able to order around the eight hundred million consumers? Why should we assume that the consumers shouldn't talk together? The important countries in the area are Iran and Saudi Arabia. Both of them are completely dependent on American political support. Why shouldn't Europe want to use this American political power in the energy field? What we have here is an opportunity for a moral demonstration of what the West can do when it wants to get together and how it cannot be pushed around. We have to have a perception that it is a common problem and that we must work for common solutions. We are in a position now where we must get together, politically, economically, and technically; we must have cooperation in some kind of international system. If we go in a bilateral direction, we can certainly drive everyone else to the wall. Jobert is childish in thinking he can have an independent policy in this area. In Iraq he tried to make all kinds of overtures. What we need is the machinery to get at the facts and to prepare ourselves for whatever the eventualities might be.

Sir Alec: I agree with you that we certainly ought to rule out any sort of bilateralism.

Secretary: That's right.

Sir Alec: We ought to think about something like the GATT where the consumers have some rights as well. After all they must jointly affect the prices.

Secretary: There are seven topics that we ought to be discussing. We ought to analyze and collate the information we have on the short-term energy situation. Once we do that task, then we ought to look at what measures we ought to be taking in common as consumers. And then we ought to look at the next step which is the preparation of the consumer-producer meeting. Perhaps at our next conference we ought to invite some of the LDCs to be present.

Sir Alec: That sounds fine to us and I assume you are going to have these meetings at a high level, something with Donaldson in the chair for you?

Secretary: Yes, and we don't have to have the next meeting here. What we need is practical machinery. Donaldson and Simon will get together at the next stage and discuss what our plans are.

Rampton: We ought to continue looking at this problem through a series of meetings and hold open the question of whether we have another conference of consumers. We will probably need it.

Secretary: Yes, we can later decide whether the next conference is necessary.

Donaldson: What we need to do is to work out a strategy to deal with the producer-consumer relationship.

Secretary: We need continuing work and preparation for the next conference. We can finesse whether or not there will be need for another consumers' meeting. But what we want is real cooperation. If that is going to be impossible, we want to know it and we want to know it now. That's what it really comes down to.

Sir Alec: We are going to make our choices. This is the general case of the difficulties that we have been having with Jobert. We will try to make our peace with him, but in the end we are going to have to choose whether or not we go ahead with the cooperative program.

Secretary: It will be a real blow to Atlantic relations if we are not able to handle this particular situation in a cooperative way. In a strange way, the Watergate affair seems to be holding back many of the sources in this country which would normally be anti-Atlantic and which would attack the President on the Alliance. They are not blaming him now but just as soon as Watergate passes, you can be sure that these people are going to return to the attack.

Sir Alec: I think if we can get agreement here Jobert will come along.

Secretary: The main question here is will the Eight stand up strong enough and not give in to France. Then perhaps the French will come along.

Sir Alec: We may have to overrule France in this case.

Secretary: We don't want to reach a point where the French can agree because we've watered the whole thing down and it amounts to nothing. That would be worse than a disgrace. The French have already managed to kill the original idea which was to get together a consumer group that would really be a continuing body and it would work its way through the two conferences.

Sir Alec: But the Eight have accepted the idea now that we need to have careful preparatory work.

Secretary: The French may accept some of this but the idea of having another conference is important; but we will not push it now.

Sir Alec: We ought to be moving ahead and try to shorten the period of preparation. I think six weeks ought to be enough.

Wright: What they seem to want is to kill off the proposal in the next preparatory stage.

Sonnenfeldt: If we get the work done in the working group, we will prove the validity of this whole process.

Secretary: We don't have any interest in the machinery as such. What we think we have to do is to get some work done.

Sir Alec: We can get a lot of this work done in international bodies. There is plenty to be done. In addition to that, we need a group that will keep things going and make sure that our preparations are moving ahead. The best thing to do is to have people highly placed in governments to sit on this group or a high-level group at Ministerial level.

Secretary: We think we can have some of the work done in the OECD, some of the things that have to do with energy, R and D, consumer restraint, etc. Jobert told me that the French are not objecting to the fact that they can receive some technological information from us and they are not objecting to the proposal of having oil sharing. What they object to is the principle and the principle is that this initiative was taken under US leadership.

Sir Alec: We have to play the game with the French and try to bring them along.

Sonnenfeldt: We have been playing this game for five years.

Secretary: That's right and, as my staff well knows, I have insisted for the last five years that there be nothing done against the French. We have tried to work with the French all this time. It was a very painful experience for me to have to leave the Kennedy Administration in the sixties because I thought that they were trying to go against De Gaulle. It has been an extremely painful realization.

Sir Alec: In the end they will agree. The main thing is that we have to bring them along. They are the only ones who have taken an intellectual look at defense problems. They have a perverse foreign policy. We have just got to convince them that this is a worthwhile effort. If the Eight stay solid, then we can bring them along.

Rampton: In the follow-up, we ought to appeal to the French in their natural interest in order to bring them along. In the past, the Germans have been subservient to the French, but now they, too, are turning. They are coming to the point of agreeing that it is very dangerous to follow the French not only in terms of Europe, but also on Atlantic issues.

Secretary: Why did the French try to warn the Syrians that they should not take part in a partial solution in the Middle East, but insist upon a global solution? The people in the area, and particularly Sadat, have told us that it is only possible to move ahead piecemeal in this situation. It was a totally mischievous speech and then we have to pick up the pieces. If war starts, France isn't going to have to take any responsibility. If Gromyko were to come out with a statement like this, it would be cause for fighting. We certainly wouldn't go on with détente.

Sir Alec: I think it's worth the effort to try to bring the French along. I think we can overrule them.

Secretary: We will certainly try, but if we fail, there is going to be great risk to the Atlantic Alliance; and, furthermore, it's going to have a tremendous impact on the producers which is going to be unfortunate.

Sir Alec: We will try.

Secretary: Should I preside at this meeting? It doesn't necessarily have to be me.

Sonnenfedlt: We have to recognize that most of the work up to now has been done here.

Secretary: I would think that Europe would see it in its interest to have an embryonic consumer group. It would make the producers think more carefully about the future.

Sykes: We have to be careful how this is played publicly though.

Secretary: Everyone seems to watch the public situation. They all seem to be afraid of what Yamani might say or think. When I visited King Faisal, Yamani was yards away from the King. In fact, he was only half a yard from the door. He was never present in any of my political discussions with the Saudi leadership. I don't think it's important what Yamani says. Everybody criticized me when I wouldn't take any steps to counteract the Schlesinger statement about the possibility of using military force.[6] Our Ambassador in Saudi Arabia then cabled me and said "Please, can I use it once more; I think it's having some effect here." The Arabs have been trying to blackmail the West. We somehow have to get the consumers together to resist this pressure.

Sir Alec: But we don't want a confrontation.

Secretary: That's right. We want a completely conciliatory stand. We want to show that there is a mutuality of interest.

Sir Alec: Scheel will be sitting in for us and speaking for the Community.

Secretary: I plan to open the meeting and then Shultz and others and perhaps Simon will talk about the energy situation and the financial question.

Sir Alec: I think Scheel will speak for us all; and then maybe after the Japanese and Canadians say something, we can get down to work.

Secretary: We can have a general discussion and then get into the main issue by mid-afternoon and talk about how we are going to deal with the follow-up. I propose that we begin this discussion right after lunch.

Sir Alec: Before the lunch, I will intervene and pick up some of these basic points.

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[6] See Document 244.

Secretary: Shultz will speak about the financial impact and Simon will speak about the energy situation for about 20 minutes.

Sonnenfeldt: I think you should take a look at our draft.

Sir Alec: Maybe we can marry the two.

Secretary: We have to finish by late tomorrow. I understand that you have to leave by tomorrow to get to your next meeting. We can get into the detailed analysis and the follow-up. But we do need some machinery for following up.

The breakfast broke up at 9:05.

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316. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, February 11, 1974, 0909Z.

682. Subject: Arab Mini-Summit Conference; Lifting of Oil Boycott. Ref: A) Jidda 628; B) Jidda 629; C) Jidda 632.[2]

Summary: Saudi Foreign Minister Saqqaf has come back from Syria where he tried to convince Syrian President Asad that the time had come to lift the oil boycott. He thinks Asad understands the Saudi rationale. Saudi Arabia has proposed a "mini-summit" of Faisal, Sadat, Boumedienne and Asad in Aswan February 14—or in Damascus if Asad insists.[3] Asad wants to include the Ruler of Kuwait—this does not enthuse the Saudis. If the group agrees that the boycott should be lifted they will advance a united position at the Tripoli meeting (which may be postponed few days from February 14) and the action will then be announced. *End summary.*

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Feb 74–July 74. Secret; Immediate; Cherokee; Nodis.

[2] See Document 312 and footnote 2 thereto.

[3] According to telegram 721 from Jidda, February 12, the proposed Arab Summit would take place in Algiers February 13 and 14. (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 207, Geopolitical Files, Saudi Arabia, Feb 7–Feb 28, 74) According to telegram 323 from Algiers, February 12, Boumedienne asked Kissinger not to make any statements or take any initiatives that could create problems for summit deliberations, in order to create the "right atmosphere."(Ibid., Box CL 101, Geopolitical Files, Algeria, Oct 1973–Mar 1974)

1. Sayyid Omar Saqqaf, Saudi Minister of State for Foreign Affairs, told me this afternoon (Feb 10) that he had made the same points to Asad on Feb 8 I had made to the King (ref A). He had done this because Saudi Arabia, and especially the King, now accepted them all without reservation. They were as follows:

A. Only U.S. has the ability to bring a just peace to the Middle East;
B. In the U.S. only the Nixon-Kissinger team has the will to take on this task;
C. The continuation of the oil boycott does not put pressure on Nixon-Kissinger to take further action on behalf of the Arabs; to the contrary, it weakens them and reduces their flexibility;
D. Continuation of the boycott therefore is definitely not in the Arabs' interest;
E. Accordingly the boycott should be lifted immediately.

2. He said Asad found your recent proposals (ref B) a sound basis for opening negotiations, and he (Asad) was pleased with your efforts. Saqqaf also said that, contrary to the information I had given him about the Russians trying to block the negotiations, Asad had told him the Russians were urging Syria to be forthcoming.

3. Saqqaf (speaking for King Faisal) proposed to President Asad that the four heads of state: Faisal of Saudi Arabia, Asad of Syria, Boumedienne of Algeria, and Sadat of Egypt, meet before the Tripoli meeting to decide on lifting the boycott.

4. Saqqaf said Asad tentatively agreed to go to the "mini-summit" but insisted if it be held that Kuwait also be invited. Saqqaf said this was bad news but he thought he would be able to arrange the meeting for a time when the Emir of Kuwait would be tied up with the Mobuto (of Zaire) state visit.

5. Kamal Adham, Royal Intelligence Advisor, flew to Damascus this afternoon (Feb 10) with the proposal that the four or five meet in Asuan this Wednesday or Thursday, i.e., the 13th or 14th (or in Damascus if Asad insists), that this was the only time Faisal could be out of Riyadh, that the Tripoli meeting be postponed a few days and that the decision to lift the boycott be announced then (provided of course that this was the consensus of the four).

6. Saqqaf said Saudi Arabia must decide its own oil policy; and while they must also do everything possible to preserve Arab unity, this is a time when Syria and Algeria must yield to Saudi wishes.

7. Saqqaf thought that there probably rpt probably would be no problems in the Asuan meeting, provided the Ruler of Kuwait can be kept away (he thought that Sabah might get up on a nationalist soap box and try to win a name for himself by being more Arab than Syria or Egypt).

8. In a separate conversation, Zaki Yamani, Saudi Minister of Petroleum, was far more optimistic. He said categorically that "your problems are over; you can relax; the boycott will be lifted." Both Saqqaf and Yamani, while apologizing for seeming to be saying something in favor of "godless Communism," suggested that it might be useful, particularly in Syria, to let the Russians share part of credit in the next go-round of negotiations.

9. All the [garble—men?] I saw February 10 (Kamal Adham, Prince Saud, Saqqaf and Yamani) asked that the President and the Secretary try to understand what Saudi Arabia and other Arab friends of America are trying to do: that the President and the Secretary not lose patience. They asked particularly that we institute a moratorium on the use of the word "blackmail."

10. *Comment:* I will not again cry "sheep," until it is in the fold. But there are new reasons for optimism. Saudi Arabia and Egypt are now clearly in favor of lifting the boycott. Saudi Arabia, for the first time, seems willing to insist that its view be accepted. Asad seems close to an agreement. Boumedienne is vacillating but if he is about to resume diplomatic relations with the U.S., he could scarcely maintain that the boycott should continue.

Akins

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317. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, February 11, 1974, 0910Z.

683. Subject: Petroleum Supply to U.S. Fleets. Ref: A) Jidda 328; B) Jidda 333.[2]

1. Ahmed Zaki Yamani, Saudi Minister of Petroleum, told me February 10 that after our last conversation on January 21 (ref A), he calmed down somewhat. He went back to the King, told him the whole story and said that Jungers' stupidity should not be allowed to provoke Saudi Arabia into taking action which would cause severe harm to the U.S.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Dec 73–Feb 74. Top Secret; Immediate; Cherokee; Nodis.

[2] See Document 283 and footnote 3 thereto.

2. Yamani said the King agreed. Yamani then informed Aramco it should resume shipments to the U.S. fleets. He has told the company manager, however, (and he again reminded me) that any leaks or additional gaffes would destroy him and would certainly severely affect our relationship with the Kingdom.

3. He was surprised that I hadn't been informed. I told him that if only the King knew this in Saudi Arabia, I could scarcely expect to be told by him. I was, however, surprised that neither Aramco or Washington had mentioned this.

4. *Action requested:* I assume fuel deliveries to the fleets have been resumed and are continuing normally. Please let me know immediately if this information has been transmitted to DOD, and if the supply to the fleets, in fact is progressing without hitch.

Akins

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318. Editorial Note

The United States hosted the Washington Energy Conference from February 11 to 13, 1974, at the Department of State. The Foreign Ministers of Belgium, Canada, Denmark, France, the Federal Republic of Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, and the United Kingdom attended. The Finance Ministers of Canada, the Federal Republic of Germany, Italy, and the Netherlands also attended. François-Xavier Ortoli represented the European Commission and Secretary General Emile Van Lennep represented the Organization for Economic Cooperation and Development (OECD). (Memorandum from Springsteen to Scowcroft, February 10; National Archives, Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Energy Crisis, Nov 73–Feb 74)

As Secretary of State Henry Kissinger recalled in *Years of Upheaval,* pages 907–911, he met privately with British Foreign Secretary Sir Alec Douglas-Home, German Foreign Minister Walter Scheel, Canadian Secretary of State for External Affairs Mitchell Sharp, Japanese Minister of Foreign Affairs Masayoshi Ohira, Ortoli, FRG Minister of Finance Helmut Schmidt, and French Minister of Foreign Affairs Michel Jobert. For his meeting with Douglas-Home, see Document 315. The memorandum of conversation with Ohira, February 10, is in the Library of Congress, Manuscript Division, Kissinger Papers, Box CL 165, Geopolitical Files, Japan, Chron Files, June 26, 1972–Apr 23, 1974. The memoran-

dum of conversation with Scheel is ibid., Box CL 142, Geopolitical Files, Germany FRG, Chron Files, Jan–Feb 1974. No records of the other meetings have been found.

According to Kissinger, there were no other participants in his February 10 meeting with Jobert, which occurred at 9:30 p.m. at the French Embassy. Kissinger recalled that Jobert voiced his opposition to American leadership, but expressed his willingness to support the use of existing OECD energy committees to continue the work of the Washington Energy Conference. Jobert would not pledge in advance to an agreed upon outcome of the conference, and in Kissinger's opinion, sought to "torpedo" the conference. (*Years of Upheaval,* pages 909–911, 913) According to telegram 4642 from Paris, February 22, Jobert thought Kissinger used an "abusive" tone at this meeting for which Jobert chastised Kissinger. Additionally, Jobert stated that the United States "browbeat" the Germans by threatening the withdrawal of U.S. troops, and pressured the British by promising to support the pound in return for British support at the conference. A French Foreign Ministry official said "the heart of the current French analysis of U.S./European relations is that the U.S. is attempting either to dominate Europe or break up the Community." (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 139, Geopolitical Files, France, Chron Files, 8 Jan–29 May 74)

Kissinger, Federal Energy Administrator William E. Simon, and Secretary of the Treasury George P. Shultz addressed the conference on its opening day, February 11. In his speech, Kissinger stated:

> "The United States has called this conference for one central purpose: to move urgently to resolve the energy problem on the basis of cooperation among *all* nations. Failure to do so would threaten the world with a vicious cycle of competition, autarky, rivalry, and depression such as led to the collapse of world order in the thirties."

He noted that the U.S. views were that 1) "isolated solutions are impossible," 2) the situation required "concerted international action," 3) "developing countries must quickly be drawn into consultation and collaboration," 4) "cooperation *not* confrontation must mark our relationships with the producers," and 5) the United States recognized its responsibility to contribute to a collective solution "as a matter of enlightened self-interest—and moral responsibility—to collaborate in the survival and restoration of the world economic system." He also suggested that the conference consider seven areas for cooperative exploration: conservation, alternative energy sources, research and development, emergency sharing, international financial cooperation, the less developed countries, and consumer-producer relations. He concluded by urging that a coordinating group be established "to relate the tasks that are assigned to existing bodies to our future work, to un-

dertake those tasks for which there are presently no suitable bodies," and "to prepare for the next meeting." Kissinger's, Shultz's, and Simon's addresses are published in full in the Department of State *Bulletin,* March 4, 1974, pages 201–220.

For Kissinger's account of the conference, see *Years of Upheaval,* pages 905–925.

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319. Transcript of a Telephone Conversation Between Secretary of State Kissinger and the White House Chief of Staff (Haig)[1]

Washington, February 11, 1974, 3:40 p.m.

H: How is it going?

K: So far so good. It is going to come out alright. Nevertheless, the situation, and we should not kid ourselves is exactly as I described it and I hope he does not dribble over them too much tonight.[2]

H: I don't think he will. I told him he can't.

K: There is no confrontation. The French are isolated but we are not getting what should be happening—a response of united action. They are all looking for ways of getting into talks with the Arabs/producers before they know what they want. The basic theory they are not willing to buy. We will get enough to make it look respectable. There is no strategic conception there.

H: Yes.

K: It will end respectably. We can claim it a success.

H: Right. Right. When will they be finished Henry?

K: Tomorrow night.

H: He is not going to speak formally tonight. He will just draw from the remarks that were given to him and keep it informal.

K: The situation is much better than the press reports it. That is totally nonsense. Every speaker this morning more or less supported us and the French are going to be difficult but it will turn out to be manageable within a basic long-term framework but it does not have what you need if you want to do—not NATO of the 50s.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files. Unclassified.

[2] A reference to Nixon's planned toast to the gathered Foreign Ministers at a White House dinner.

H: Right. Right.

K: The embargo is almost certainly going to be lifted this week or early next week.

H: Have you gotten that from the Saudis?

K: Yes. Not as a result of the letter but as a result of our threat of stopping all diplomatic efforts.[3] The Syrians have accepted the Israeli procedure proposal[4] and I have refused to transmit it to the Israelis until the embargo is lifted. I have told the Israelis informally. It is not an Israeli proposal. It is my compromise between the Israeli position and the insane Syrian position. It is so complicated that it is essentially crooked but each can claim—there are about seven steps that have to be taken in a 72 hour period before the negotiations start but each can claim he has backed the other one down.

H: That can give lip service to the conditions for the embargo.

K: Now that the Syrians have accepted it and now that I have refused to do it until the embargo is lifted I think this will give them the vehicle.

H: Great.

[Omitted here is discussion unrelated to oil.]

[K:] It looks like it will be lifted. Sadat has called a mini-summit of the Arabs for Wednesday prior to the oil meeting on Thursday.[5]

H: Good.

K: Even Yamani has said it is going to be lifted.

H: That is good.

K: It proves that the only thing these guys understand is toughness. When we were sucking around them, they kicked us in the teeth.

H: I think that is right.

K: You will tell this to our leader.

H: Yes I will be seeing him in a few minutes.

K: Tell him to stay steady. Be conciliatory but not groveling but not to believe the bullshit about the great cooperation they are extending.

H: O.K. You will be here tonight.

K: Yes. I will try to see him for a few minutes.

H: Good, Henry.

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[3] See Document 300. Nixon's letter to Faisal is Document 307.

[4] Reported in telegram 27119 from Jidda, February 11. (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 207, Geopolitical Files, Saudi Arabia, 7 Feb–28 Feb 1974)

[5] February 13 and 14.

320. Transcript of a Telephone Conversation Between Secretary of State Kissinger and the President's Deputy Assistant for National Security Affairs (Scowcroft)[1]

Washington, February 11, 1974, 5:35 p.m.

K: _____ and some horse's ass in the White House sent a message that there is to be no response to the President's speech tonight. Now, the Europeans have the President of the European Council of Ministers[2] there who failed and he prepared a response. They say they don't want to pick the guy. The Europeans have already picked a guy and so has the conference.

S: I don't know where that information comes from. But the President does not intend to give a toast.

K: But he's going to say something.

S: Well, he's going to—yes he's going to say something.

K: Well let him wind it up with a toast and somebody's got to respond for Christ's sake.

S: Al just came down and said the President does not want to have a toast.

K: Well go back to Al and tell him for Christ's sake they're all going to go back and consider it an insult. If somebody can't reply for them.

S: You mean whether or not it's a toast.

K: Look, all he's got to do is to toast cooperation or friendship or something.

S: I already sent him a proposed toast to do that, toast to the success of the conference and the end of his remarks. And Al just came back down and said the President decided he doesn't want a toast, he's going to finish his remarks and say let's go have coffee. I didn't know you were interested. I'll go back to him.

K: I wasn't interested until Scheel came to me all excited.

S: OK, well let me see if I can . . .

K: It just isn't worth it—do you think it's worth it?

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files. Unclassified. All blank underscores are omissions in the original.

[2] Walter Scheel.

S: No. Let me see if I can turn it around.[3]

K: If not, let me know. You know it's not the worse thing either. But any other problem?

S: No.

K: Now it looks as if the embargo is off again. I mean, they're going to take it off.

S: It looks good today.

K: Yes.

S: Looks very good.

K: Yes.

S: Do it again. We're not there yet.

K: He'll think it is because of the letter[4] he had. By the time he handed the letter we already had the reply.

S: That's right. I haven't pointed that out. OK, I'll get back to you.

K: All my team is mad at me because Jobert gave a really vicious speech.

S: Did he.

K: And I replied very gently.

S: Good.

K: I just figured I don't want to have those characters to go off and say he got my goat.

S: I agree with you.

K: Don't you.

S: Oh, absolutely.

K: In fact I didn't reply at all. He quoted a senator to criticize the President and I just said could he give us the name of the senator and let it go.

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[3] In his toast following the February 11 White House dinner for those attending the Washington Energy Conference, Nixon linked security, trade, and monetary issues to the growth of "isolation in the energy field." He stated that a sense of isolationism was growing within the United States, "not just about security—those, for example, who believe that the United States unilaterally should withdraw its forces from Europe and for that matter withdraw forces from all over the world and make our treaty commitments to other nations in the Far East and in Europe meaningless—but also with regard to trade, where those who completely oppose the initiatives we have undertaken in the trade area and who oppose even some of the initiatives in the international monetary area that you are all familiar with." He concluded that it was the "enlightened selfish interest of each nation here" to pursue cooperation in trade, developing energy sources, and acquiring energy to maintain industrial development. The text of his toast and Scheel's response is in the Department of State *Bulletin,* March 4, 1974, pp. 230–235.

[4] Document 307.

S: Good, I don't think you ought . . .

K: Right.

S: OK, I'll get back to you.

K: As soon as possible.

S: Right.

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321. Transcript of a Telephone Conversation Between Secretary of State Kissinger and the President's Deputy Assistant for National Security Affairs (Scowcroft)[1]

Washington, February 12, 1974, 7:45 p.m.

S: Yes sir.

K: I thought maybe you were out too.

S: No, I'm here.

K: Everyone else seems to be. Have you noticed, I think we are going to crack that embargo.

S: Yes. It looks awfully good. I just saw the latest one in, and I think we are too. I think that's great.

K: And on the conference, I can't reach the President. Can you leave a note for him.

S: Do you want to talk with him.

K: He's at Trader Vic's.

S: Oh, I guess that wouldn't be good to talk to him there. Sure I can leave a note for him.[2]

K: The Europeans have decided to go alone, not as the Community. As a result they are now working on our communiqué.[3] We will

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files. Unclassified.

[2] The note, from Scowcroft to Nixon, February 12, stated that a final meeting of the conference would be held February 13, and that "we are on the verge of making the Conference a substantial success. The Europeans have now agreed to act as individual countries and not as a Community. What this means is that there will be unanimity on all but three items in the communiqué and, assuming the French continue their obduracy, only their single voice of dissent on those three points. Faced with a collapse of Community support of this magnitude, it is even possible that the French may decide to relent, at least to some degree, tomorrow." (Ibid., NSC Files, Box 321, Subject Files, Energy Crisis, Part 3)

[3] See footnote 2, Document 322.

get a unanimous vote on all but one, on which there will be three negative votes. It looks very good. I think the French are going to cave overnight and come in with some zinger.

S: That's great.

K: We have broken the Community, just as I always thought I wanted to.

S: The thing is after having gotten them to agree at the Council, then to come in and go individual. I think it's great.

K: I think it's going to be a good lesson to the French not to monkey around with us.

S: That's terrific, just terrific.

K: The French tried out a compromise on me this afternoon which I rejected.[4] My worry is that if we cave this time, the next time nobody will be with us.

S: That's the problem. Then the next time. . .

K: Actually, what they proposed would be quite tolerable if I trusted the sons of bitches.

S: Well and if the others go along, you've got to keep the faith with them.

K: Well, we've got to have the conference again tomorrow. We're meeting again at 10:00.

[Omitted here is discussion unrelated to the Washington Energy Conference.]

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[4] According to an attachment to a February 13 memorandum from Scowcroft to Eagleburger, Jobert proposed on February 12 that a special meeting of the full OECD membership convene at the Ministerial level on March 1 to study the problems the Energy Conference could not solve, on condition that there not be any institutional form of coordination among the current participants in the conference. The OECD meeting would then decide whether to promote a permanent group which would prepare for a forthcoming meeting of consumer and producer countries, or prepare for two successive meetings (consumers then producers). Ultimately, no one power would be committed to anything more than taking note of any report drawn up by the President of the EC. (Library of Congress, Manuscript Division, Kissinger Papers, TS 26, Geopolitical Files, France, Chron Files, Jan 74–Jul 75) Kissinger recalled that the implication was that France would not exercise its veto at the OECD but work to support follow up machinery; he saw this as a potential way to undermine any permanent working bodies. (*Years of Upheaval,* p. 918)

322. Transcript of a Telephone Conversation Between Secretary of State Kissinger and President Nixon[1]

Washington, February 13, 1974, 11:55 a.m.

K: Mr. President.

N: Hi, Henry. How are you.

K: We are practically finished and we will have a good communiqué.[2] Everybody accepted in effect our draft almost verbatim with France abstaining from three paragraphs—the most operational paragraphs, but nevertheless, after the orgasm of our press for three days about that Titanic confrontation with Jobert he winds up having no votes and we have all of them. The communiqué is essentially the one we drafted. We got about, I would say, 90 percent of what we wanted.

N: Let's be sure we get a little credit for it. After all we worked these people hard, had them to dinner, told them the facts of life.

[Omitted here is unrelated discussion.]

K: On the Embargo, Mr. President, I am confident that it will be lifted in a week.

N: Sounds that way from the thing I saw last night and this morning that you sent over here.[3]

K: They are having a summit meet of Faisal, Boumedienne and Sadat today and tomorrow.

N: Incidentally, I got your message late last night[4] about the conference and I think that is just the way to handle the French—isolate them. They don't want to be isolated. The interesting thing is though that all the other countries would be willing, you know, to go along. The Europeans were supposed to have unanimous vote you remember. That is why I made the little crack that I made at the end of the

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files. Unclassified.

[2] The communiqué noted the specific steps that conference participants agreed would provide for effective multilateral cooperation in the field of energy. It also noted their concern over the impact of increased oil prices on the structure of world trade and finance, particularly for the developing countries. Of the 17 points listed in the communiqué, it was acknowledged that France objected to point 9 (an action program through the OECD), those parts of point 10 that concerned the maintenance of open monetary and trade policies; point 16 (the establishment of a coordinating group to carry on the work of the conference), and point 17 (the need to involve developing countries, consumers and producers in the preparations for future meetings). The communiqué is published in full in the Department of State *Bulletin,* March 4, 1974, pp. 220–222.

[3] Not further identified.

[4] See footnote 2, Document 321.

dinner because our friend the Canadian had told me that we have to be unanimous. I said well you aren't going to do anything then. He was not mean about it.

K: Last week, Mr. President, the Community took a decision and today they have split apart on it eight to one. It is a lesson to everybody.

N: There is no confrontation with the Arabs, is there?

K: Absolutely none.

N: Make that point very clear will you in your—when are you going to brief?[5]

K: About 3:00.

N: Make it very clear that you and I have chatted, etc. and that the President particularly pointed out that this was not by way of confrontation with the oil producing nations. On the contrary it is in their interests to have first a market they can count on and at a price that is reasonable—whatever you want to say. And that we all want to do that. We look forward to working with them in the same cooperative spirit that we worked here and we look forward to working with them in their economic development—apart from oil. All that old jazz.

K: We meet again at 12:30 and we are down to a very few minor paragraphs.

N: You might tell the conferees you have talked to me and I was very pleased with the results. Tell them this—you might say that the President said—I did not include this in my toast—you can say in these days of summitry there is the tendency often to credit—for the attention to go and the credit or discredit to go only to the heads of government or heads of state because we meet in various things, but that I have always said that the real credit goes to the ministers and that I consider the foreign ministers, the economic ministers, ministers of finance, etc and their colleagues that they are basically the artisans—the peacemakers—the peacebuilders—without them there could be no success between meetings of heads of government and state and I particularly appreciate the hard work that they have gone to do to produce. Anything like—something like that might be helpful.[6]

K: Right, Mr. President. I will say this.

[Omitted here is unrelated discussion.]

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[5] Kissinger's press conference of February 13 is published in the Department of State *Bulletin,* March 4, 1974, pp. 223–229.

[6] President Nixon released a statement in Key Biscayne on February 13 expressing his satisfaction with the outcome of the conference. The text is in *Public Papers: Nixon, 1974,* p. 165.

323. Transcript of a Telephone Conversation Between Secretary of State Kissinger and the White House Chief of Staff (Haig)[1]

February 14, 1974, 3:30 p.m.

[Omitted here is unrelated discussion.]

K: Al, I am calling about something else. That mini summit in Algiers is sending the Egyptian and Saudi Foreign Ministers over here.[2]

H: Oh?

K: And we think it is going to be good news but we could . . . we can't be sure. I have to stay here and wait for them and then I think I should bring them to Key Biscayne.

H: If it's good news. That's fine.

K: If it is not good news, that's why I think I should greet them here with them arriving here. I'll stay here and wait for them and . . . what's the President's schedule.

H: He's going to leave here on Monday.

K: I mean, he isn't going over to Walkers Key. I'm assuming I can bring these guys down Saturday[3] afternoon.

H: I wish you could come down here so you get your rest.

K: And I wouldn't announce it at the St. Department but bring them down to the President and let him announce it with these two characters standing next to him.

H: Absolutely, good idea.

K: Let's not say the President is going to see them. We don't know what the news is yet.

H: We'll just stay cool until you assess it.

K: We'll just say we have reported to the President and he is aware they are coming. We will be in close touch. Because I don't know . . . the sons of bitches, they just sent a message, that Egyptian Foreign Minister, he thinks he's such a good friend, he just sent a message—I am

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 24, Chronological Files. Unclassified. Kissinger was in Washington; Haig was in Key Biscayne.

[2] As reported in telegrams 348 and 361 from Algiers, both February 14. (Ibid., RG 59, Central Foreign Policy Files) As related in telegram 363 from Algiers, February 14, Boumedienne stated the Ministers were being sent to remove "any ambiguities" and that he "personally believes another trip by Secretary to Middle East as soon as possible would be positive act and would help accelerate progress and further improve relations between U.S. and Arab states." (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 101, Geopolitical Files, Algeria, Oct 1973–Mar 1974)

[3] February 16.

coming and bringing Saqqaf with me—that's all. We don't know what he'll say, whether there are three more conditions, that they will do it in June or when.

H: Right.

K: So, it's a good thing to have us see them anyway because we can talk to them about the energy conference. It will teach a good lesson to the Europeans about who's got muscle.

H: The conference was . . . you performed a miracle.

K: We got 99% of what we asked for.[4] Keep the President's schedule free on Saturday afternoon.

H: OK.

K: I might bring them tomorrow night or on Saturday.

H: All right.

K: I will report immediately what they have to say. We've got no guarantee what they are going to say getting off the airplanes. I can't control that, but nothing will be said at the State Department.

H: Right. There is great sensitivity about how this is done.

K: I just think it is too dangerous to let them come without going . . . without knowing what they've got. It might be a slap in the face.

H: Right. I think it's the right way to do it exactly.

K: OK. I'm going to bing them down after we know what it is. You can decide how to handle the publicity. I would play it low key. We don't want to get into a position so they think they can slap it on again either.

H: All right, Henry. I'll wait to hear from you.

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[4] A note from Kissinger to Nixon, February 13, reads: "I am pleased to be able to inform you that our success at the Energy Conference was virtually complete. While the French reserved their position on some of the substantive issues in the communiqué, all the other participants were with us 100%. Even Jobert. At the end of the conference, [he] made a conciliatory final statement of friendship." (National Archives, Nixon Presidential Material, NSC Files, Box 341, Subject Files, HAK/President Memos, 1971–) EUR sent Sonnenfeldt a paper, "Impact of the Washington Energy Conference on Europe and the Alliance," February 24, on post-conference relations between the United States and France. (Ibid., RG 59, Records of the Office of the Counselor 1955–77, Sonnenfeldt Lot Files, Box 9, POL 2 EC) The paper is scheduled to be published in full in *Foreign Relations,* 1969–1976, volume E–15, Part 2, Documents on Western Europe, 1973–1976.

324. Memorandum From Harold H. Saunders and William B. Quandt of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Scowcroft)[1]

Washington, February 15, 1974.

SUBJECT

French Memorandum on Access to Saudi Oil

State has sent you an information copy of a paper that Foreign Minister Jobert handed to Secretary Kissinger during the energy conference.[2] The Secretary has asked Donaldson and Simon to give him their comments on the paper.

The *main points* are the following:

—Europe must have access to Saudi reserves, either through dealings with the Aramco share holders or through bilateral arrangements with the Saudis.

—France received about 8.6% of Saudi production through Aramco, of which half was delivered to French companies and half to foreign companies.

—France recommends that Aramco commit itself to a policy whereby Aramco would enter into long-term contracts to provide the same proportion of the share of Saudi production at their disposal to France as was the case in 1973, e.g., 8.6%, half of which would be sold to French companies.

Apart from political arguments for or against this type of agreement we would simply note that the issue may soon become quite irrelevant if Aramco agrees to 100% Saudi take-over in the near future. In any event, the oil situation is so much in flex that we would not think that deals of this type had much chance of surviving.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1230, Saunders Files, Chronological Files, 2/15–2/28/74. Secret; Nodis. Sent for information.

[2] Sent on February 14; attached but not printed.

325. Telegram From the Embassy in Saudi Arabia to the Department of State[1]

Jidda, February 16, 1974, 0110Z.

765. Subj: King Faisal: Progress Toward Golan Disengagement a Precondition for Lifting Boycott. Ref: (A) Jidda 0764; (B) Amb's Flash message to Sec from Riyadh CG 2030 GMT; (C) Secretary's Feb 6 message to Ambassador in Riyadh; (D) Jidda 0629.[2]

Summary: King Faisal told Ambassador Feb 15 Algiers summit conference had decided in principle to lift oil boycott against U.S.[3] Arab Oil Ministers conference postponed for two weeks, and King hopes U.S. in meantime will be able to achieve enough progress toward disengagement in Golan to allow Ministers to implement this decision by public announcement. Ambassador replied administration could not be expected to continue peace initiatives while boycott remained in force. He argued boycott now best weapon in hands of Israel and asked how could Arabs allow themselves to be stampeded into positions so harmful to their interests by Mrs. Meir's deliberately provocative statements? Basic question was did Saudis trust word of President Nixon or not? Saudis uncomfortable, and would probably work for announcement boycott to be lifted if even at least an agreement to disengage appeared imminent. *End summary.*

1. Ambassador accompanied by DCM had audience with King Faisal 1900 GMT February 15. Also present on Saudi side were Special Advisor Prince Nawwaf and Advisor Rashad Pharaon. Minister of Interior Prince Fahd entered mid-way through meeting which lasted one hour and fifteen minutes.

2. Ambassador began by expressing hope King's visit to Algiers had been useful; he had not heard of conference's results and would

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 139, Country Files, Middle East, Saudi Arabia, Feb 74–July 74. Secret; Niact; Immediate; Cherokee; Nodis.

[2] Telegram 764 from Jidda, February 15, recounts a meeting in which Yamani told Akins that the Algiers conference had failed because of Asad. According to Yamani, Asad had said that the "Israelis had just announced they would 'never' withdraw from Golan, that the U.S. was unwilling go on record opposing this, and that Arabs should not give up their strongest weapon—oil boycott—until U.S. shows it can force Israeli withdrawal from Syrian front." (Ibid.) The Ambassador's Flash message is Document 303. For the Secretary's February 6 message, see Document 304. For telegram 629 from Jidda, see footnote 2, Document 312.

[3] The heads of state of Egypt, Saudi Arabia, Syria, and Algeria met in Algiers after the Tripoli conference was postponed.

be most interested in any information or conclusions His Majesty would care to impart.

3. King said that at Algiers he had noted Saudi Arabia and others present were coming under considerable pressure and criticism from other Arabs. At same time, he believed that Arabs in general wanted good relations with the U.S. and only hoped U.S. would act in such a way as to give Arab good will a chance to manifest itself freely. Furthermore, he said that at one meeting (restricted to the four Chiefs of State) Sadat, Boumedienne and al-Asad had all strongly expressed their wish to improve relations with the United States and to distance themselves from the Soviet Union.

4. King also had some information of a special nature to impart to Ambassador: it had been decided in principle to lift the oil boycott. This decision, however, had originally been taken by the Arab Petroleum Ministers and by rights it should be countermanded by them. Saudi Arabia had insisted on postponing the Petroleum Ministers meeting (scheduled for Tripoli, Feb 14) and they would now reconvene in two weeks. It was King's hope that in the meantime enough progress would have been achieved toward disengagement on the Syrian front to enable the Oil Ministers to implement the Algiers decision and publicly announce the end of the boycott. If disengagement not begun, lifting the boycott would be difficult.

5. As an earnest of the SARG's serious intent, King stated Syrians had or would soon provide U.S.G. with list of names of Israeli POW's. It was hoped that with this step, the negotiation process with Israel which the Ambassador had outlined in his previous visit, could begin. (Ref C and D).

6. Ambassador replied that if he understood correctly the Saudi position was the same as at the last audience. The King agreed that it was essentially the same. In this case, the Ambassador continued, it would be impossible for President Nixon and Secretary Kissinger to work for disengagement on Syrian front as long as boycott remained in force. Both the President and the Secretary were being attacked severely by pro-Zionist elements for their peace efforts so far. Ambassador cited recent Harris Poll (USIS *Bulletin* 2/14/74) as showing substantial majority of U.S. public rapidly becoming more critical of Arabs and opposed any action by the U.S. that could be construed as a concession in response to pressure from the oil boycott. For the President to defy such strong and mounting anti-Arab feelings in the public at large would be to invite a setback to his personal prestige and a rebuff to his Middle East policies.

7. Ambassador said frankly he was distressed by news King brought him. He agreed with much of what His Majesty had said in past about Israel's reluctance to withdraw from occupied Arab territory.

Why then had the Arabs by their decision in Algiers played so openly into Israel's hand? Did they not know that Mrs. Meir—because she feared American pressure—hoped the boycott would go on forever; that the boycott was now the best weapon in Israeli hands because so long as it continued our policy toward the area would remain on dead center? Why had the Arabs allowed themselves to be stampeded into such a negative position by Mrs. Meir's provocative remarks on Golan? The Ambassador feared that if the Arab position must remain as described by the King, Israel had reason to rejoice.

8. The Ambassador fully understood the Arab position and even that of President al-Asad. But issue in its essentials was a matter of trust in United States and in the word of its President. His Majesty had President's oral and written commitment to work for a just and lasting peace in M.E. Several such assurances had recently been provided the SAG at its request; in particular, Ambassador referred to Middle East reference in the President's State of the Union message and the President's communication on the eve of the Algiers conference.[4] The Ambassador wondered what further assurances could one expect from the President of the greatest power in the world? At this point the Ambassador paused. The King, Prince Fahd, and Prince Nawwaf remained silent. Rashad Pharaon played with his beads.

9. The Ambassador went on: what kind of action moreover did His Majesty expect the U.S. to take in the next two weeks to justify the lifting of the boycott? Implementation of withdrawal? Beginnings of withdrawal? Or agreement to the form of a withdrawal—that would begin almost immediately? A short discussion ensued between the King and Rashad Pharaon. The consensus seemed to be that if agreement on the modalities of withdrawal could be reached, or were even imminent, this might be enough for the Arab Oil Ministers to announce a lifting of the boycott. The King added it would be most helpful also, if the Secretary could come out in person to the area in the next few days to lend his personal prestige to diplomatic exchanges between Israel and Syria. Rashad Pharaon agreed and said that in the two weeks before the Oil Ministers met again, much could be accomplished.

10. The Ambassador recapitulated the many difficulties the President and the Secretary would have in undertaking any peace efforts given the status quo. The King listened impassively. He then said that the Arabs needed some indication that United States diplomacy could

[4] The President's message on the eve of Algiers conference was not further identified.

be effective on the Syrian as well as the Egyptian fronts. As for the internal difficulties such an effort might cause the President, the King was sure that in the event God would succour and sustain him.

11. As Ambassador took his leave, King remarked that press accounts stating MinState Saqqaf and Egyptian FonMin Fahmy were stopping in Paris for consultations with French before proceeding to Washington were mistaken. The only reason, he said, Saqqaf and Fahmy were in Paris was to change planes.[5]

12. Post would appreciate receiving relevant telegrams from Algiers and State, including perhaps State 030197 and 030331.[6]

Akins

[5] Following his meeting with the King, Akins met with Kamal Adham and Prince Saud to get the details of the Algiers conference. They also explored means by which Saudi Arabia unilaterally could lift the oil boycott. (Telegram 766 from Jidda, February 16; Library of Congress, Manuscript Division, Kissinger Papers, Box CL 207, Geopolitical Files, Saudi Arabia, Feb 7–Feb 28, 1974)

[6] Telegrams 30197 and 30331 to Paris, February 14, provide details on Fahmy and Saqqaf's trip. (National Archives, RG 59, Central Foreign Policy Files)

326. Telegram From the Department of State to the Embassy in Saudi Arabia[1]

Washington, February 16, 1974, 1907Z.

32413. For the Ambassador from the Secretary. Subject: Oil Boycott.

1. You have done all that can be done up to this point, and we will now hear out Fahmy and Saqqaf. You should take no further initiative at this point with the Saudis.

2. You report that Adham and Prince Saud want to see you on Sunday.[2] You should say to them that obviously what has been con-

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 631, Country Files, Middle East, Saudi Arabia, Vol. V. Secret; Niact; Immediate; Cherokee; Nodis. Drafted by Sisco; cleared by Eaglelburger; and approved by Atherton. Repeated to Cairo, Algiers, and Beirut to pass to Damascus for Scotes.

[2] February 17.

veyed to us, including the various options which Adham indicated,[3] will be studied carefully and we will be in further touch with them. Therefore, you should avoid getting yourself involved in any negotiation, or further plea on the embargo, or giving weight to one option or another. You should get across to them that while various ideas they have explored with you obviously represent an attempt to be helpful, the fact is that outcome of Algiers conference raises serious questions which will require careful consideration. Your approach should be more in sorrow than in anger, reiterating gingerly results at Algeria playing into Israeli hands, and not raising or pressing them on the embargo any further.

3. Information addressees should not discuss any of these matters with host governments unless and until you receive guidance from us.

Rush

[3] The options discussed in the February 16 meeting were described in telegram 766 from Jidda, February 16: 1) the boycott is not lifted, the United States announces that peace efforts have ended, and makes threatening sounds toward Syria, 2) the boycott is maintained, the peace effort stops, and no announcement is made, 3) Saudi Arabia lifts the embargo unilaterally and the peace effort goes forward at a later date, 4) Saudi Arabia lifts the boycott unilaterally and the United States announces that Kissinger is leaving for the Middle East to start intensive talks on the Syrian-Israeli disengagement, and 5) Kissinger visits the Middle East secretly, and then announcements are made from Riyadh that the peace effort will continue and the boycott is lifted. The Saudis approved only of options 4 and 5. Both Kamal Adham and Prince Saud said the United States had to do something in other Arab countries, particularly Kuwait and Algeria. See footnote 5, Document 325.

327. Memorandum for the President's Files[1]

Washington, February 19, 1974, 11:09 a.m.–12:35 p.m.

SUBJECT

The President's Meeting with Foreign Ministers Fahmi and Saqqaf

PARTICIPANTS

President Nixon
Dr. Henry A. Kissinger, Secretary of State
Ismail Fahmi, Minister of Foreign Affairs, Egypt
Umar al-Saqqaf, Minister of State for Foreign Affairs, Saudi Arabia
Major General Brent Scowcroft, USAF

Secretary Kissinger: The last time Foreign Minister Fahmi was here was on the day he became Foreign Minister

Minister Saqqaf: It is very good to see you again, Mr. President.

The President: I was in Florida when you both arrived.

Secretary Kissinger: I gave the President a daily report of our various meetings.[2]

The President: I am always glad to welcome both of you. Your conversations with Secretary Kissinger have indicated the importance of this meeting. It is perhaps crucial in making a breakthrough on the issues confronting us. Just to make sure that we all have the same understanding of where we are, I would like each of you to sum up your understandings.

Secretary Kissinger: As I understood our conversation, the two Foreign Ministers reported on the summit meeting of the four heads of state as follows:

(1) They decided to lift the oil embargo at the next meeting of oil ministers—in about two weeks. This decision is unconditional.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1028, Presidential/HAK Memcons, Memcons, Jan 1–Feb 28, 1974. Top Secret; Sensitive; Exclusively Eyes Only. Prepared by Scowcroft. The meeting took place in the Oval Office.

[2] In a conversation on February 17 at 1 p.m., Kissinger told Haig that he had met with Fahmy and Saqqaf on February 16, and then with each one separately the morning of February 17. Kissinger suggested that Nixon meet with them, and that he be "disciplined and aloof," because "at this point, what has shaken them to the core is we are not asking them for anything." (Ibid., Kissinger Telephone Conversation Transcripts, Chronological Files, Box 25) Kissinger met with Fahmy and Saqqaf on February 17, from 1:30 to 2:30 p.m. (Ibid., Kissinger Office Files, Box 133, Country Files, Middle East, Egypt, Vol. X) He met with them again on February 18, from 11:35 a.m. to 12:50 p.m. (Ibid., Box 1028, Presidential/HAK Memcons, Memcons, Jan 1–Feb 28, 1974) Kissinger discussed the past and upcoming meetings with Nixon on February 18, at 10 a.m. (Ibid., Kissinger Telephone Conversation Transcripts, Chronological Files, Box 25)

The President: Who would participate?

Minister Saqqaf: All the Arab producers. The only one we are not certain of is Iraq.

Secretary Kissinger:

(2) The four heads of government strongly urged our best influence for a Syrian-Israeli disengagement.

(3) The President would agree to send me to the Middle East, hopefully even before the Mexico Conference,[3] to get Syrian-Israeli talks started. This is very important for President Asad who faces serious domestic problems. The ability of the four leaders to lift the embargo will depend on the maintenance of secrecy about this understanding. This is the way I understood our conversations.

Minister Fahmi: What Kissinger has told you is correct. We are pleased to come here on behalf of the four government leaders with the mandate which Kissinger summed up. I would like to add some background. There was unanimity in these decisions. In fact, there is no new change regarding the assurances which you had been given for the State of the Union Address. There were only some obvious apprehensions on the part of Asad. He is in a difficult spot, but there is no basic change in the content you had. You have said you are actively committed to a disengagement in Syria as you have done so effectively in Egypt. We want you to continue and the idea is we would like Kissinger to go—even before Mexico, but we realize that is not possible. We would appreciate it, if it is possible, that you could make Kissinger's visit known to the press at the end of this meeting.[4]

On the oil, the decision was final and unanimous to lift the embargo. The problems are Iraq and Libya. Iraq probably will not participate and Libya very likely will be all right. We do not expect trouble from Qadhafi, but even so it would not change anything. This decision should not be leaked to the press. The four leaders want you to know that there is no change in their commitment.

Minister Saqqaf: It is true there was no condition to the lifting of the embargo but you must bear in mind it will not be lifted for nothing. If lifted, something is going to happen. The idea of our friend going to the Middle East is to have something happen before the embargo is lifted. We had these three conditions, but I find it very hard not to

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[3] Kissinger attended the Tlatelolco Conference in Mexico, which was held February 20–24.

[4] In his remarks to the press from the Rose Garden at 12:42 p.m. on February 19, Nixon stated that he had asked Kissinger to go to the Middle East and meet with both the Syrians and the Israelis on disengagement. Fahmy and Saqqaf both stated their hope for a permanent peace in the Middle East. The remarks are printed in full in *Public Papers: Nixon, 1974,* pp. 179–180.

link the three. The embargo is not going to be lifted without something else happening.

Secretary Kissinger: That is not the way I understood it. First, there is the problem of us working under pressure. Secondly, all we can do next week is to get talks started. We must work at home here with the Jews and the Congress and it is not possible to make substantive progress next week. As you know, we went through terrible problems with the Egyptian-Israeli disengagement.

Minister Saqqaf: Let me read: "The four heads of state agree to lift the embargo and it will be discussed by the oil ministers at a meeting within two weeks. The heads of state feel it is a must that a disengagement agreement be reached and a decisive one in the Golan Heights."

The President: The critical question is what you expect with regard to timing on Syrian-Israeli disengagement. I don't want you to have any illusions that sending Kissinger out to get them talking will result in something happening in two or three weeks. It will be hard going. All that I can do is to say, without any regard to the embargo, we will do our best to get Syrian-Israeli disengagement—the best possible disengagement and as quickly as possible. But the Syrians we do not know so well. The Egyptians are very mature people. The Syrians are not so mature. Negotiations may move faster; they may move slower. Israel at the moment does not even have a government. I raise these points only because I do not wish any illusion that we can do this instantly. We have made a commitment—that is all I can do.

Minister Fahmi: No one would logically expect disengagement within two weeks. What they want is to help Asad and have movement and disengagement agreement after a reasonable time. What you have said is adequate and there will be no problem. Asad knows he cannot have a disengagement before the oil ministers meeting.

The President: We can't say what the disengagement will be. All we can say is we will work for a fair and just agreement.

Minister Fahmi: That is all we need.

The President: We will also need the influence of your governments to reach an agreement. We will need the help of each of you with Asad.

Minister Saqqaf: From our side we have done the impossible. Iraq is ninety percent Communist, Qadhafi is erratic, Algeria is far away. You have heard me talk about Asad. I think he is not in full agreement with us, but he is going up a little bit because of what is going on. We want help; we are not coming with conditions. King Faisal is your friend. And President Sadat is your friend. We think it is time for peace in the Middle East. If the Soviet Union once gets into the Middle East, it will be impossible to get them out. The masses of the Arabs are against the West.

Minister Fahmi: I disagree that the Arab people are against the West. But it is true that they cannot understand the positions the U.S. has taken in the Middle East over the past twenty years. But they are not anti-U.S.

Minister Saqqaf: We want no misunderstanding. We appreciate your difficulties. I will be the first to be seeing the other leaders but not as Arabs. There will be about thirty of them at the Islamic conference.

Minister Fahmi: As far as I am concerned, if the President will agree that Kissinger will travel on the 25th of February and go to Damascus and Israel once or twice, this will be an achievement and I believe that the four leaders will be content with this and with your statement.

The President: I would not want to leave the impression that Kissinger, after a tough trip to Latin America, and the others he has had recently to the Middle East and the Soviet Union that you will wait to see what happens before the embargo is lifted. We made a decision not to link our actions and the embargo. You go your way and we go our way. If we say we are working to get a disengagement without conditions and you say you will wait to see what happens—that is holding it over our heads. We will not link anything at all nor will we say anything. But if, after Kissinger travels, the question is asked did he make enough progress and an argument ensues, we will be in an impossible position. We will continue to work for an agreement, but as I told your Ambassador earlier,[5] it will be very difficult for us if the embargo is held over our heads.

Minister Saqqaf: King Faisal knows that.

The President: We don't want to do anything to weaken your two governments but look at our own situation. There will be no disengagement or moves toward a permanent peace unless the U.S. uses great influence with Israel. I am prepared to use it, as is Kissinger, but it will make it very difficult with the press and with Congress if they say we are doing it because there is a gun at our heads. But, as I have said, I do not wish to do anything which would hurt your two governments. Four wars in the Middle East is too much. The question is who will play a role. Many want to, including the Europeans, but none of them can hold a rein against the Soviet Union if they decide to support the radicals—and all of your countries have at least some. We want nothing out of the whole exercise except independence in the region and to work with you.

Many years ago I told Dulles that the decision on assisting in the building of the Aswan Dam was wrong. My point is this, here is U.S.

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[5] See Document 309.

policy as I have developed it and as Kissinger has carried it out. Kissinger has said nothing that does not have my complete support. We are committed to a permanent peace in the Middle East. We can not commit to when or to precise details—those are for the negotiators to work out. What is new in this situation is that the United States is committed—we are committed because we want peace, not only for Israel, but for all of your peoples. We do not wish to go back to our former restricted role in the Middle East, where we worked only with Israel, Jordan and Saudi Arabia, but we wish to be friends with all countries in the region. We do not wish to keep the Soviet Union out; we hope they will play a useful role, but we do not know. But no one here has a fear that the United States will try to dominate the Middle East so we will try to play a useful role.

The embargo is tough domestically—you have seen the cars lined up at the gas stations. It is hard on me personally, but we will handle it. But to enable us to play a powerful role quickly, it is important that our friends not be there with a club over our heads. Otherwise, the press and the Congress will resist and ask why we do these things when you are keeping the embargo. That is a fact. There is no linkage. We will work for peace and assist to the extent that you want us, including the provision of aid. If the embargo is lifted, you will be playing a decisive role towards hastening an agreement; if not, you will make it more difficult for us to play a useful role. The key question is: do you want us to play a major role, to get Israel to be reasonable, to work toward a reasonable peace? That is what is on the line—our help, economically, industrially, culturally. What is important is not the embargo or related conditions but the opportunity to build in the Middle East. It is a matter of trust between us. If Faisal moving alone on the embargo would endanger his survival, we do not wish that. We want all to see it to be in everyone's interest to allow the countries in the area to be independent and to avoid wars. Please convey this to your governments.

Minister Fahmi: What you have said is of historical importance for me and I will convey it word for word to President Sadat. The embargo will be lifted—there will be no linkage. But it is not being done in a vacuum; this is the real world. Blackmail is a word you all used. You are committed to disengagement. It is not easy, but the most immediate thing is that Kissinger will be involved in the area. President Asad will try to follow. This is why I am here and am not going to Lahore. Egypt will lead, having in mind their own situation.

Candidly, since you spoke of the future, we reciprocate your feelings in every way. Trust is important. I must say that before October 6th there was no embargo and no blackmail. But the U.S. had a destructive policy over twenty years with respect to Israel. If we establish a new relationship and if your previous relationship with Israel continues, you can never play the role you described. If this special

relationship with Israel continues, our security will be in jeopardy. Israel speaks of security in a hollow way. Our security is jeopardized because of this special relationship. In the last war the Israelis could not have done anything without you. We know we have made mistakes too but the Soviet Union got into the area only because of Dulles. We know how to deal with the Soviet Union. They were kicked out by Sadat independently. It is not tolerable to us that our security shall be at the mercy of the Israelis. I want to be clear on this, I am talking frankly.

The embargo will be lifted—that is the decision of the four. We are not asking you to pay anything. We don't like linkage. If you want to play a role, play it because it is right. The 6th of October made all the difference and we hope that this change between us will be cemented. The information in your State of the Union Address is correct. There are some difficulties but they are not basic. The meeting in Algeria was to show their support—they know you have difficulties.

Secretary Kissinger: If you will give us a chance to work on the Syrian side as in Egypt, we can get it done but we have to have room to maneuver. We have to be able to do such things as dividing the Israeli Cabinet and so forth. We do not want to make a frontal attack.

Minister Saqqaf: For the last three years, you have done much. We have never felt bad relations. Things are now relaxed because of what you have done in Egypt and what you plan in Syria. But we want from you on what basis this disengagement in Syria will take place.

The President: There will be thorny discussions but I am prepared to make hard decisions not only to move to talks but to move them to a successful resolution. That is what is new. I have written to President Sadat, to King Faisal, and to Prime Minister Meir.[6] I have been direct and firm and I will continue.

Secretary Kissinger: She felt you were giving her an ultimatum.

Minister Saqqaf: This is what we had in mind. We do not want to commit you, Mr. President, but this is what I wanted to hear.

The President: Our public position is like the tip of the iceberg. I will be doing much more than will be made public. I will work behind the scenes. That is the way I work.

Secretary Kissinger: I believe that the principles applied on the Egyptian front can also be applied in the case of the Syrian front. The same general procedures and the same scope will be effective. Syria has made a not very modest proposal. In the case of the Egyptian disengagement, President Sadat was wise enough to go through the steps necessary. We could use the same steps and principles as in Egypt. Even in the Egyptian case, Israel had not agreed to leave the Canal.

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[6] Not further identified.

Minister Saqqaf: This is the difference. Egypt is very astute.

Secretary Kissinger: I will try to explain this to Asad.

Minister Fahmi: You should not worry. Asad asked me to what extent the Soviet Union should be kept informed.

The President: I am thinking in long-range terms. The Middle East is the gateway to Africa and Asia. The United States is a world power. That is not our desire but it is a fact. We have no choice but to play that role. We have made major initiatives to the Soviet Union and China and we will be making one with respect to Europe this spring—but the key area for progress is the Middle East. We want to have a special relationship with Egypt, with Saudi Arabia, and with the other Arab states. We will tilt from now on not just to Israel but to peace and justice. We need a closer relationship. There can be no permanent peace in the Middle East without the United States. We want to be helpful and we can be helpful. Kissinger will go out there next week. The purpose is to get talks started looking toward a disengagement. We will continue, after disengagement, to work on a permanent settlement in Geneva and in every way.

Now we should decide what to say to the press. I will say that we had a constructive meeting about the steps to bring a permanent peace to the Middle East. The major part of the meeting was devoted to the question of Syrian-Israeli disengagement. At the request of the four Arab leaders, I have asked Kissinger to go to the Middle East to try to get talks started and we hope that this will be a useful step toward a permanent settlement.

Secretary Kissinger: We will let the press know that Israel was informed.

The President: Now what will you say?

Secretary Kissinger: Both should say the same thing in different words in support of the President's statement.

Minister Saqqaf: I will say we have been sent here with a mission by the four heads of state. We were very well met and had constructive discussions.

The President: It will be widely noticed that the embargo was not mentioned.

Secretary Kissinger: People will put two and two together.

Minister Saqqaf: And we are working toward permanent peace in the area.

The President: Does it sound all right, what I would say?

Secretary Kissinger: These two are both great orators. They will have no problem at all with the press.

There followed some small talk as the meeting broke up in preparation for the statements to the press.

328. Telegram From the Department of State to the Embassy in Saudi Arabia[1]

Washington, February 22, 1974, 0135Z.

222523. Subj: Oil Embargo. For Ambassador Akins.

1. We know that you are pursuing on a continuing basis with Saudis the matter of the prompt lifting of embargo and production restrictions. We leave it to your judgment as to the most effective argumentation to reiterate in the days ahead. As you pursue your discussions we would like you at this juncture, if you agree, to underscore that failure on the part of the Saudi Government to bring about a very early end of the embargo and production restrictions will bring about an end to the US efforts to achieve progress towards an overall settlement. We know you have made this argument in the course of your discussions and our own feeling is that this is the time to begin to give more emphasis to it.

Kissinger

[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 207, Geopolitical Files, Saudi Arabia, 4 Jan–6 Feb 74. Secret; Immediate; Cherokee; Nodis. Drafted on February 1 by Sisco and approved by Kissinger. Repeated Immediate to Cairo.

329. Telegram From the Department of State to Secretary of State Kissinger in Jerusalem[1]

Washington, February 27, 1974, 2356Z.

39712/Tosec 158. Subject: Jobert Note. From Donaldson to Secretary.

1. Paper on access to Saudi crude oil which Jobert left with you[2] during Washington Conference states that it would have been desirable for Europeans to have been permitted to participate in Aramco in same manner as open-door principle which led U.S. to participate in Iraq in 1924 and Iran in 1953. Whether or not such a solution would

[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 139, Geopolitical Files, France, Chron Files, 8 Jan–29 May 1974. Secret; Immediate; Cherokee; Nodis. Drafted by Katz and approved by Donaldson. Repeated Immediate to Tel Aviv.

[2] Summarized in Document 324.

now be possible it will remain necessary for Europe to have continuing access to Saudi oil. In 1973, for example, France received about 620,000 b/d of Saudi oil from U.S. companies making up Aramco. This represented 25 percent of French oil supplies and 8.6 percent of Saudi production.

2. With foregoing as background Jobert suggests that "if American Govt desires to avoid increased pressures on the interest of American companies in Saudi Arabia" USG should accept and support policy by American companies who are partners in Aramco to enter into long term agreements to deliver to France the same proportional share of Saudi production remaining at their disposal as in 1973. He notes that U.S. companies have been so far unwilling to consider such long term agreements.

3. Taken literally, paper can be taken as threat, i.e., if we don't get our fair share of Aramco production from American companies we will get it some other way. Moreover, paper makes no reference to govt. to govt. deals with SAG, suggesting that intention is to maintain some access to proportionate share U.S. company supplies while seeking more direct and additional access to Saudi production.

4. Given French policy both externally and in treatment foreign companies in internal market I can see why Aramco participants would be loathe to enter into long term arrangements with French Govt. Nonetheless, I think we should discuss with Aramco partners (Exxon, Socal, Texaco and Mobil) in general terms their intentions with respect to supply of European markets. In view of prospective discussions we will be having in Energy Coordinating Group on "the role of the international oil companies" we will need in any case to consult with companies. In light these consultations we will prepare suggested response for you to make to Jobert.

5. You have received memo from Simon[3] which comments at your request on "French allegation that they compelled seek bilateral deal for Saudi crude because American companies unwilling sell crude to French." This not precisely allegation in Jobert memo which is that Aramco partners won't enter into long term supply commitments. Simon memo correctly but irrelevantly states that French receiving less oil from American companies because of tight oil market rather than refusal deal with France.[4]

Casey

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[3] Not further identified.

[4] Telegram 965/Secto 64 from Cairo, February 28, for Donaldson from Kissinger, reads in full: "Secretary agrees with your proposed course of action." (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 139, Geopolitical Files, France, Chron Files, 8 Jan–29 May 1974)

330. Telegram From the President's Deputy Assistant for National Security Affairs (Scowcroft) and Charles A. Cooper of the National Security Council Staff to Secretary of State Kissinger in Damascus[1]

Washington, March 1, 1974.

Subject. Saudi Bilateral. Our interest in a bilateral arrangement with the Saudis is different from the Europeans' interest and even from our own interest before Project Independence. With our commitment to Project Independ-ence we are taking steps so that we could import less and less Saudi oil beginning within two years, with perhaps no imports by 1980. Thus while the Europeans want to tie up large amounts of Saudi oil for a long period into the future, our immediate economic interest is concentrated in getting Saudi production up in 1974 and 1975 in order to get prices down (while allowing more oil from the Saudis or elsewhere to reach the U.S. in 1974–5).

Because our short-term economic self-interest in Saudi oil is much less than others, we may be in a unique position to broaden and deepen our economic relationship with the Saudis on a basis of mutual self-interest.

We want to expand our exports to the Saudis and we would like for the Saudis to invest a substantial part of their excess earnings in the U.S. We also hope U.S. companies will continue to handle Saudi oil because their earnings are important to our balance of payments. We and the Saudis share an interest in developing a role for the companies that keeps their production and marketing skills available to the Saudis.

Because it is U.S. policy to keep most economic activity in private hands, we have limited legal authority to engage in a bilateral trading deal—oil for goods. At some point we might want to seek broader

[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 207, Geopolitical Files, Saudi Arabia, Feb 7–Feb 28, 74. Secret; Sensitive. The original is the copy of the Hakto telegram as approved for transmission. According to a February 28 covering memorandum from Cooper to Scowcroft, it was prepared in response to a request from Kissinger "for some thoughts on what would go into a bilateral. I have gone over this in substance with Bill Quandt and with Jack Bennett of Treasury." The request had been in telegram Secto 11, February 25. (Ibid., Box CL 420, Subject Files, Energy, Feb 1974–Feb 1975) A handwritten notation on the covering memorandum reads: "message sent 3–1–74 10:15 a.m." A copy of the final telegram has not been found. The Secretary was traveling in Europe and the Middle East February 25–March 4. He was in London (February 25), Syria (February 26), Israel (February 27–28), Cairo (February 28), Syria (March 1–2), Riyadh (March 2), Jordan (March 2), Germany (March 3), and Belgium (March 4).

authority perhaps in the context of an agreement with the Saudis requiring Congressional approval, but at this stage emphasis should be on *initiating an economic dialogue with the Saudis.*

Initially discussions might be held in four general areas.

1. *General economic.* We share with the Saudis the objective of avoiding dangerous pressures on western trading and security arrangements arising from the economic consequences of high oil prices. We can discuss such questions as costs of energy from alternative sources and our own plans under Project Independence. We have our own projections on oil supply/demand/prices which we could share with the Saudis. In short, we can help the Saudis decide what prices are in their long-term interest. (We can also lay a basis for subsequent discussions that might result in a secure role for Saudi oil in the long-term U.S. market despite Project Independence.) We have a major interest in their short-run production plans, particularly in getting production up to their present potential of over 10 million b/d. This area would include discussion of the role of the companies. Bilateral discussion with the Saudis would be a way of ensuring that later multilateral producer/consumer discussions would serve later U.S. and Saudi interests.

2. *Development technology.* We can offer to be helpful on a government-to-government basis on Saudi development. We can provide experts through AID in most development fields from agriculture and health to petro-chemicals. (Any experts not on AID rolls could be contracted through AID.) We can provide assistance in assessing the many offers being made by private firms and other governments. While we do not make investments as a government, we could assist the Saudis in making contact with U.S. investors who would be interested and in working out joint venture arrangements as desired. In view of Saudi income we would expect full reimbursement for development services—but under government-to-government auspices. (The Saudis presumably would not want to appear to be competing with poor developing countries for these resources.)

3. *Saudi investment.* We would like to have the Saudis invest their funds in the U.S. and we are prepared to work out favorable arrangements for them to do so. We could negotiate a favorable tax treaty. But the most interesting areas for discussion are probably new types of U.S. Government obligations tied to a mix of currencies, to gold or to some index to avoid loss of real value through inflation. We have never provided such instruments but Treasury has stated it is prepared to try to work something out with the Saudis (we have considerable legal authority). We can also provide guidance on Saudi investments in our private sector. Although we are not set up as a government to be particularly good in this field, government endorsement of certain Saudi investments might give the Saudis more security.

4. *Military supply and training.* We have few legal impediments to expanding our military supply and training arrangements. We can make long-term supply contracts. We would welcome greater Saudi participation in R&D costs of new weapons of interest to them—perhaps in exchange for a premium position on deliveries.

The process of developing an economic bilateral, a framework agreement under which specific agreements in the various fields above would be developed, might be for a U.S. mission including technicians in the various fields, with strong overall policy level leadership, to visit Saudi Arabia in the next couple of weeks for an initial general exploration to be followed up by more intensive negotiations in each field with a target for final agreement on the framework bilateral and several key elements by the end of April.

As our discussions develop, it is possible that we might eventually work out a special deal for Saudi oil to have a place in the future U.S. market despite Project Independence. We have the authority needed to work out a special arrangement to give Saudi oil special exemption from import charges on either crude or, probably more significantly, product. We now have a special relationship with Canada. One may be developed with Venezuela. Something special for the Saudis, despite Project Independence, might be held out as a potential benefit as our relationship deepens. A period in which the Saudis reestablish the position of their crude in our market over the next few months would be a prerequisite to any agreement to assure them possible moderation of Project Independence and share of our future market. This idea raises such a fundamental issue regarding Project Independence that I have not yet raised it with Simon.

[Omitted here is material on discussion items prepared by the Department of the Treasury.]

331. Memorandum of Conversation[1]

Riyadh, March 2, 1974, 12:55–1:55 p.m.

PARTICIPANTS

Umar al-Saqqaf, Saudi Minister of State for Foreign Affairs
Ibrahim al-Sowayel, Saudi Ambassador to the United States

Henry A. Kissinger, Secretary of State
Joseph J. Sisco, Under Secretary of State for Political Affairs
Ambassador James Akins
Peter W. Rodman, NSC Staff

[The meeting opened at luncheon, at which the above party were joined by Ambassador Bunker, Mr. Lord, Mr. Atherton, Mr. Saunders, Mr. Sabbagh, and additional Saudis. Following are excerpts from the luncheon conversation.]

[Omitted here is discussion unrelated to oil.]

Secretary Kissinger: One question I wanted to discuss with His Majesty is not oil but some long-term basic relationship between us not tied to oil.

Minister Saqqaf: Yes; the King likes to talk about this.

Secretary Kissinger: We won't need to discuss oil because we are assuming it will happen at the next meeting of oil ministers.

Ambassador Akins: What was that again?

Secretary Kissinger: My understanding is that at the next meeting of the oil ministers, it will be lifted.

Ambassador Akins: Regardless of anything that happens?

Minister Saqqaf: I told this to the President.[2] It will be lifted at the next meeting. I said there were no conditions.

Secretary Kissinger: That is right.

Minister Saqqaf: Those were my words.

Secretary Kissinger: That is right.

Minister Saqqaf: When I said it to the President, Fahmi wanted me to change it. I said, of course, when four heads of government send emissaries to you, they expect something to happen. But it is not a condition.

I am not quoting the heads, but my understanding is that we believe in the sincerity of the United States of America. So what for—this

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1028, Presidential/HAK Memcons, Memcons, 1 Mar–8 May 74. Top Secret; Sensitive; Nodis. The meeting occurred at the Guest Palace. All brackets, with the exception of those indicating omission of unrelated material, are in the original.

[2] See Document 327.

is our logic—do we complicate our relations with America and not help the Administration to be strong and to take more measures?

Secretary Kissinger: Exactly.

Minister Saqqaf: This is the right thing, I believe. We have to lift the embargo, help the Administration in America, and help the people there not be against the Arabs.

Ambassador Akins: That was the Saudi position before.

Minister Saqqaf: That was the message of the heads.

Ambassador Akins: When I saw the King, it was different.[3]

Secretary Kissinger: Let's not debate it now. We are operating on the assumption that Omar stated just now. The President sent me here because there was no condition.

Ambassador Akins: Then I don't think there is any need to take this up with the King.

Secretary Kissinger: We are operating on that assumption. I have to tell you, Omar, if it were not to happen, it would create a great crisis of confidence.

Minister Saqqaf: Yes. I am telling you what the King said in Algeria.[4] [to Akins] I heard you told the King that conditions were not enough. I heard that. But I told the President—I repeat—when Minister Fahmi wanted to make it a little bit loose, our understanding in the north, we wanted you to make it strong.

Secretary Kissinger: The major thing was you made the decision for the next meeting. On the basis of this, he sent me on a mission to make a major effort in the Middle East—not for the embargo, but as a sign of good will.

Minister Saqqaf: That is right. Did Fahmi say anything different?

Secretary Kissinger: No.

Minister Saqqaf: Then you need not raise it with the King.

Secretary Kissinger: Jim was carrying out his instructions exactly as he was told.

Minister Saqqaf: [To Akins] You told the King this doesn't help.

Secretary Kissinger: If the ministers' meeting is March 10, it is obvious that the Syrian disengagement won't be completed by March 10.

Minister Saqqaf: If you can tell us, it would help. By May?

Secretary Kissinger: By May, I think it can, yes.

We can get some withdrawal into the Golan, with tremendous effort. We have to agree on how to talk to the Syrians—because I think the principle of withdrawal is very important.

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[3] See Document 325.

[4] See footnote 3, Document 325.

Minister Saqqaf: I agree. This is what I say to others, to the French—we have to start with this step.

We are interested in economic relations.

Secretary Kissinger: We are prepared to do this, after the embargo is lifted, on a substantial scale.

Minister Saqqaf: I think Prince Fahd is expecting you.[5]

[The conversation then ended.]

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[5] Kissinger's meeting with Fahd is reported in a memorandum of conversation, March 2; National Archives, Nixon Presidential Materials, NSC Files, Box 1028, Presidential/HAK Memcons, Memcons, 1 Mar–8 May 74.

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332. Memorandum of Conversation[1]

Riyadh, March 2, 1974, 4:50–5:50 p.m.

PARTICIPANTS

King Faisal ibn Abd al-Aziz Al Saud
Umar al-Saqqaf, Minister of State for Foreign Affairs
Prince Fahd ibn Abd al-Aziz Al Saud, Deputy Prime Minister and Minister of Interior
Prince Nawwaf, Adviser
Ibrahim al-Sowayel, Ambassador to the USA

Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Ambassador James Akins
Joseph J. Sisco, Under Secretary of State for Political Affairs
Winston Lord, Director, Policy Planning Staff
Alfred L. Atherton, Deputy Assistant Secretary of State, NEA

[Omitted here is discussion unrelated to oil.]

Secretary Kissinger: I had occasion to tell your Foreign Minister[2] that in recognition of His Majesty's leadership we are prepared to coordinate our foreign policy with His Majesty in the Arab world.

King Faisal: Our sincere hope is that we will be cooperating and that we will be standing solidly together looking with the same eye.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1028, Presidential/HAK Memcons, Memcons, 1 Mar–8 May 74. Secret; Sensitive; Nodis. The meeting took place in King Faisal's Palace. All brackets, with the exception of those indicating omission of unrelated material, are in the original.

[2] See Document 331.

Secretary Kissinger: That is our intent. Indeed, I have instructed our Ambassador to begin talks with your Foreign Minister in this sense, especially with respect to the Emirates and the southern part of the peninsula.

King Faisal: We are certainly prepared to do so. At the same time we hope you will succeed in eradicating the problem of the dispute between the Arab States and Israel so that that frees us to devote all the time in the pursuit of this objective.

Secretary Kissinger: We will pursue our policy of bringing peace in the area, and simultaneously we are prepared to strengthen our relations with the Kingdom of Saudi Arabia.

King Faisal: We hope and pray to God that as soon as possible He grants success to this endeavor looking toward that goal.

Secretary Kissinger: Indeed we are prepared to begin talking about long-term cooperation in the military field, in the economic field, and in the scientific field, in each of which we would be prepared for substantial cooperation with His Majesty when he thought the time appropriate.

King Faisal: We are fully prepared to move along this path with all our capability.

Secretary Kissinger: I may point out that in the military field we are painfully aware that there have been some delays in dealing with the requests and we will overcome these technical obstacles. We would be willing either to receive a Saudi Arabian military mission or to send a mission here on a substantial program, including the Navy and the Air Force.

King Faisal: Whichever you prefer.

[The King talks briefly to Prince Fahd.]

We would like to see that happen as expeditiously as possible. And for the dialogue to be effective it would be useful if both those things occurred at the same time; you would send people here and we would send them there.

Secretary Kissinger: Why do we not begin, Your Majesty, by setting a date next week through our Embassy and your Foreign Minister.

King Faisal: We are ready any time you want.

Secretary Kissinger: We will instruct our Ambassador in the very near future.[3]

If I may say on a rather delicate thing, Your Majesty, we would not object if Your Majesty transferred some of these weapons to friendly countries, especially Egypt, to reduce Soviet influence there.

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[3] Done in telegram 45027 to Jidda, March 6. (National Archives, Nixon Presidential Materials, NSC Files, Box 631, Country Files, Middle East, Saudi Arabia, Vol. V)

King Faisal: The Soviets are not sending to Egypt arms or anything else.

Secretary Kissinger: This is why a way must be found to keep their capability; and we have temporary domestic difficulties so we are looking for alternative routes of supply.

King Faisal: We certainly hope that at the same time relations between Egypt and the US will be such so as to preclude their even needing to say hello to the Soviet Union.

[Omitted here is discussion unrelated to oil.]

[Kissinger:] In line with the cooperation I have been describing, we are prepared to send a mission to Saudi Arabia to deal with questions of economic and technical cooperation on a long-range basis.

King Faisal: We will welcome this with the greatest pleasure.

Secretary Kissinger: With Your Majesty's approval, I will instruct Ambassador Akins to begin talks with appropriate officials of your government.

King Faisal: I have no objection.

Secretary Kissinger: Our objective is to work with Your Majesty and to strengthen our friendship on a long-term basis.

King Faisal: These are hopes for whose success we pray.

Secretary Kissinger: We are prepared to transform them into reality in a spirit of friendship and far-sightedness.

King Faisal: These steps are bound to widen and strengthen relations between us.

Secretary Kissinger: I would like to touch on one other subject very briefly: the embargo. It was our President's understanding from the Foreign Ministers of Saudi Arabia and Egypt[4] that the embargo will be lifted at the next meeting of Arab Oil Ministers which will take place in the near future.

King Faisal: We will certainly work for this end. We are anxious to see it come out this way. But there is one obstacle: the separation of forces on the Syrian front. Once that is done, it will remove the last obstacle.

Secretary Kissinger: It cannot be done by the next meeting of Oil Ministers. It was our President's impression from the Foreign Ministers that the embargo will be lifted at that meeting. He would never have authorized me to come to the Middle East if he had thought any conditions were attached to our efforts.

King Faisal: We will do our utmost, but we sincerely want Syrian disengagement to take place. This will remove the arguments from the

[4] See Document 327.

hands of those who point an accusing finger at us and who do not want to go along with lifting the embargo. We have followed this course since the Algiers Summit.

Secretary Kissinger: We will do our utmost on disengagement. The embargo is not an economic problem for us, but it is inconsistent with our dignity to be pressed by our friends, especially after the great efforts we have made. Since the President has given his word, the continuing pressures help his political enemies and undermine his and my positions. No Secretary of State has spent this much time with Arab leaders or has tried to build so much friendship. The embargo is a political and moral problem, not an economic one. If it continues, it will weaken those who are pursuing the course Your Majesty recommends. But Your Majesty has heard all of this, and I don't want to have an argument.

King Faisal: This matter causes us much pain. We see some people in the United States who are against the President and you, contrary to the interests of the United States. We hope his friends in the United States will rally around the President.

Secretary Kissinger: That will happen, but with the embargo it becomes unnecessarily difficult.

King Faisal: Let us hope the difficulties will end soon.[5]

Secretary Kissinger: I have appreciated the opportunity to exchange views with Your Majesty.

King Faisal: Thank you very much. I wish you success.

Secretary Kissinger: We will continue our efforts to bring peace to the Middle East and our programs to strengthen the cooperative efforts between the United States and Saudi Arabia.

King Faisal: I appreciate your efforts and pray God for your success.[6]

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[5] In an April 26 meeting Kissinger said that Saqqaf told him that "it was a good meeting, one of the best he'd seen. I said, 'How do you know?' He said, 'Usually the King just stares at his lap; this time he was looking straight ahead.' He said, 'Usually the King sits there picking lint off his robe; this time he didn't.' Then Saqqaf told me it was clear the embargo would be lifted. I said, 'How? Because the King said it wouldn't.' Saqqaf said, 'The King was afraid you would leak it, so he told you the opposite.'" (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 145, Geopolitical Files, Great Britain, Chron Files, Mar–Apr 74)

[6] In his report to Nixon on his meetings with Saqqaf, Fahd, and Faisal, Kissinger emphasized the Saudi "laudatory" attitude toward the U.S. peace efforts, how anxious the Saudis were to "extend and deepen" bilateral cooperation, and the planned upcoming visit of Fahd to the United States. Kissinger also noted that the Saudis expected the March 10 meeting of Oil Ministers to lift the embargo. (Memorandum from Scowcroft to Nixon, March 2; ibid., Box CL 207, Geopolitical Files, Saudi Arabia, 2 Mar–27 Apr 1974) Kissinger also discussed these meetings in his March 5 staff meeting. (National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 718, Secretary's Staff Meetings 3/74)

333. Paper Prepared in the Office of Economic Research, Central Intelligence Agency[1]

8010/74 Washington, March 5, 1974.

[Omitted here is a title page.]

THE FUTURE OF OPEC AS A CARTEL

OPEC[2] is often described as a producers' cartel, and, although it has occasionally threatened to act as one, it has not yet been put to the test.

The group has never been forced to act in the traditional manner of a cartel by cutting production in order to raise or maintain prices. At most, it took advantage of the politically motivated Arab oil cutback. Thus, whether OPEC could or would act as a traditional cartel is still an open question. The answer to this question lies in the political and economic situation of each individual OPEC member. In some cases, the personalities of leaders and the traditions and national character of the country involved are also important.

The political imperatives that operate in these countries cannot be overlooked. No OPEC political leader can afford to appear to accept the dictates of Europe or the United States. This is especially true in the more democratic countries such as Venezuela, Kuwait, and Ecuador, where the appearance of "knuckling under to the imperialists" would create a domestic political situation very harmful to the party or person in power. The more autocratic rulers have less to fear from domestic rivals, but they have their international prestige to maintain. The Shah, for example, has identified himself so closely with the latest price hikes that any reduction in these prices would result in considerable loss of face. Moreover, all of the OPEC leaders have a high regard for OPEC itself; none would willingly put himself in a position where he alone would be accused of trying to "break OPEC."

Few OPEC leaders would risk serious domestic or international political problems for the sake of long-term economic gains. The horizons of most OPEC leaders—Saudi Arabia's King Faysal appears to be an exception—are limited to their lifetimes or their tenures in office. Immediate domestic or international popularity is more important than

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[1] Source: Central Intelligence Agency, Office of Economic Research, Job 80–T01315A, Box 38. Secret. Prepared as a report for the Working Group of the International Energy Review Group (IERG), and distributed at its March 8 meeting. The minutes of the meeting are ibid., National Intelligence Council Files, Job 80–B01495R, Box 5.

[2] The members of the Organization of Petroleum Exporting Countries are Algeria, Ecuador, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela. [Footnote in the original.]

nebulous benefits to future generations. Only if the welfare of future generations is a popular present-day issue—as it is in Venezuela, for example—would long-term economic arguments have much force.

On the other side of the international political coin, the OPEC leaders are sensitive to accusations that they are enriching themselves at the expense of their oilless Third World brothers. Some leaders foresee a situation wherein they will be isolated from both the Third World and from their traditional Western friends. King Faysal, for one, is also troubled by the possibility of an oil-induced world recession that could affect the producing countries. Fears of isolation are partly responsible for the various schemes for channeling funds toward the Third World, Iran's pledge of funds for the IMF, Libya's proposed three-tier price system, and Saudi Arabia's advocacy of lower prices.

We have seen no indications of an OPEC consensus that high oil prices will encourage the substitution of other fuels to the eventual detriment of the producer nations. The OPEC leaders' belief that there will always be an adequate market for oil at a high price as a petrochemical feedstock even if not as a fuel is apparently sincere. Furthermore, they believe that the price of oil substitutes is and will remain greater than the price of most OPEC oil and that each developed country will be reluctant to put itself at a disadvantage relative to others by relying too greatly on high-priced oil substitutes. These beliefs could change as the result of observed consumer country cooperation, technical breakthroughs, or rapid oil and gas development in non-OPEC areas.

In sum, we do not see any near-term groundswell building that would result in an OPEC consensus that the baseline prices agreed to last December are too high or unsustainable. Arguments and estimates that the present situation will result in depressions in the developed world and disasters in the developing world will fall on deaf ears. The OPEC countries' collective inclination is to wait and see while considering many and implementing some schemes to recycle a portion of their burgeoning revenues to the Third World.

However, an OPEC consensus that prices are too high is not an essential prerequisite to a general price rollback. The present OPEC prices were not set by a consensus arrived at through analysis of alternative prices. The Persian Gulf price was ramrodded through by the Shah against Saudi opposition; the other OPEC members later raised their prices to comparable levels.

Three countries—Venezuela, Iran, and Saudi Arabia—aspire to leadership roles in OPEC, and of the three only the Saudis have the ability and inclination to lower prices. In both Venezuela and Iran the leadership can see the time—within two decades—when their oil production will drop drastically and the economic future of their countries will have to depend on other factors. Given this time frame,

a policy of maximizing revenues now with little concern for the role of oil in the world economy in the next century is attractive. The idea that technology coupled with government policies in the major consuming nations may well relegate OPEC oil to a minor role in the energy equation at the turn of the century is of no great importance.

For the Saudis, however, the value of oil in the marketplace several generations hence is an important factor in their current thinking. They see themselves producing enormous quantities of oil well into the middle of the next century and very likely substantially beyond. Thus their appreciation of the impact of present policies and prices on the real value of their oil 25, 50, and 100 years hence has considerable weight.

In any event, OPEC will soon have to face its first cartel decision—perhaps as early as the meeting set for mid-March. We estimate that supply is already slightly in excess of demand and that planned increases in OPEC output will make the present price structure unsustainable. Within the next few months, either production or prices must fall. Any OPEC decision to hold prices at present levels would require active Saudi cooperation to be successful because of the size of the cuts required. According to our estimates, price resistance and conservation measures in consuming countries and projected production increases would create a potential surplus of at least 4 million b/d and perhaps as much as 7 million b/d by the end of the year if prices remain at current levels.

We doubt that the Saudis have carefully sorted out the implications of the forces already set in train by the embargo, the cutbacks last September, and the record price hikes in January. It is clear, however, that they feel uncomfortable on both counts. Beyond these constraints the Saudis have an additional reason not to join in an OPEC cutback scheme to maintain present price levels. The expected Saudi response to the successful conclusion of Secretary Kissinger's current diplomatic effort is an end to the embargo and some increase in output. We believe that it would be exceedingly difficult and probably impossible for King Faysal to appear to go back on these implied promises by cutting output not too long after having increased it.

There is a point, however, below which the Saudis would not like to see prices fall. This price could be based on the $5 a barrel government revenue figure that Shaykh Yamani proposed in the December OPEC meeting. It could also be a compromise price somewhere between that price and the current price. In such a situation, we believe that most OPEC countries would be willing to make at least token production cuts in order to maintain prices. However, only Saudi Arabia, Kuwait, the United Arab Emirates, Libya, Venezuela, and possibly Iraq would be willing to make cuts of the required size.

[Omitted here are a table and an Annex: Positions and Attitudes of OPEC Members.]

334. Transcript of a Telephone Conversation Between Secretary of State Kissinger and President Nixon[1]

Washington, March 6, 1974, 3:27 p.m.

K: Mr. President.

N: Hi Henry. Anything on the foreign policy front you want me to try to get out on board today. I don't think I'll be asked anything.[2]

K: On the oil embargo, the way it stands now, just to let you know—I wouldn't go beyond what we discussed yesterday. The Libyans don't want to hold it in Tripoli[3] so Sadat has invited them all to come to Cairo. Which at least gives us a fixed location. We have had a cable from the Saudis saying that the King after the meeting I had with him has now definitely decided to lift it,[4] but even that I wouldn't bet my bottom dollar on given their volatility. But this time it comes from the Foreign Minister which is higher than we have ever had it. We made a statement yesterday that we hadn't been consulted on that European thing.[5]

N: Right.

K: And I think you should just stick with that because that is true.

N: Should I say that we take a dim view of it or not.

K: I think what you said yesterday . . .

N: Well, we might say that they are obviously looking to their interests and we will of course look to ours.

K: Something like that. That would be fine. But otherwise—I am just leafing through my cables to see whether there is anything else that is likely to come up. On the European thing, they are obviously looking to their own interests; we have offered cooperative arrangements and it is up to them which way they want to go. If they look to

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 25, Chronological Files. Unclassified.

[2] Nixon's press conference was scheduled for that evening. Excerpts dealing with the oil embargo are printed in the Department of State *Bulletin*, March 25, 1974, pp. 294–295.

[3] According to Kissinger's Record of Schedule, he met with Nixon March 5, from 11:10 a.m. to 12:05 p.m. No other record of this meeting was found. The Libyan decision is in telegram 1086 from Jidda, March 5. (National Archives, Nixon Presidential Materials, NSC Files, Box 631, Country Files, Middle East, Saudi Arabia, Vol. V)

[4] Telegram 1085 from Jidda, March 5. (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 207, Geopolitical Files, Saudi Arabia, 2 Mar–27 Apr 74) For the meeting, see Document 332.

[5] *The Washington Post* on March 5 reported that Kissinger had told a NATO news conference in Brussels that he would not comment on the recent EC agreement to negotiate with 20 Arab countries on oil and other areas of interest.

their interests exclusively, then we'll look to ours. I would leave open the possibility of the cooperative.

N: Ok.

K: There is nothing else you don't know.

N: The meeting is tentatively schedule for the tenth, is that right?

K: It is tentatively scheduled now for the 11th but again I would not tie yourself to it because so many things can happen. I would just say that there is a meeting; it is their decision to make but we of course have indicated our view. Something like that.

N: As far as the Syrian thing is concerned we will simply say that it is a difficult problem that will be discussed further when the Syrians and Israelis come to Washington.

K: Yes, but you could say, Mr. President, that the United States will exert all its influence to bring about a just disengagement scheme between Syria and Israel. It would be well received in Syria.

N: Right.

K: And the Syrians have been actually in their public statements very restrained.

N: Alright. Fine Henry that is good. If you think of anything give me a call.

K: Right, Mr. President. All the best.

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335. Transcript of a Telephone Conversation Between Secretary of State Kissinger and the Deputy Secretary of Defense (Clements)[1]

Washington, March 7, 1974, 2:45 p.m.

[Omitted here is discussion unrelated to oil.]

K: We are going all out now with the Saudis. I worked it out with the King. We had to pick the right moment and we are going to send out a military mission and an economic mission and I thought you might want to go and head the military mission.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 25, Chronological Files. Unclassified.

C: That is a very, very nice thought of yours and one that I am most grateful to you for it.

K: It may take us another three or four weeks to get it worked out. We don't want to seem over anxious. The King liked the idea and we are now exploring it.

C: You said military and economic. I think that is marvelous and I am proud for you to get it done. I know how hard you worked on it. You worked your ass off.

K: We had to do it at the right moment.

C: Did you come away from the Saudi situation with a good feeling?

K: Oh, yes. I think they learned a good lessen on the embargo. They may put it on again but never again with the other Arab states.

C: Where their freedom of movement is restricted.

K: Right but I don't think they will put it on again.

C: I hope not and I sincerely hope that between these visits you have been able to come up with Faisal with a good solid feel and working relationship with the man.

K: I have a good one with Faisal and a superb one with Fahd.

C: That may be even more important.

K: We will keep you posted but keep it quiet.

C: I will and I am most grateful to you. It is great for you to take the time out as busy as your schedule is and I appreciate it.

K: You were pushing me in this direction and we had to pick the right time but I think we have it now.

C: Marvelous and I will help in any way I can. You know that.

K: Thanks.

336. Transcript of a Telephone Conversation Between Secretary of State Kissinger and President Nixon[1]

Washington, March 11, 1974, 9:40 a.m.

N: Hi, Henry.

K: Mr. President, I just wanted to bring you briefly up to date where we stand, on that oil embargo, because there have been so many stories around; most newspapers say this means the end of it.[2] This is not true. We have now heard not only from the Egyptians, but also from the Algerians. I have had a message from Boumedienne which says he will definitely support lifting the embargo.[3] And with that in the fold, I think it is going to work.

N: Yeh, I understand. Well the newspaper stories, they don't know what the hell is going on.[4]

K: They don't know what is going on, but on television and so forth, they keep saying this is an indefinite postponement. For once now I believe it is going to work.

N: Yeh. What is the date set for—

K: Wednesday[5]—in Tripoli, Mr. President

N: What does that mean indefinite. Why would they interpret it to mean indefinite?

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 25, Chronological Files. Unclassified.

[2] Presumably a reference to the Oil Ministers' meeting scheduled for March 11 in Cairo, which the media assumed would end the embargo.

[3] According to telegram 1155 from Cairo, March 9, Fahmy had been "actively engaged" in getting the Oil Ministers conference held in Cairo and not Tripoli. Fahmy also suggested that Kissinger write to Boumedienne. (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 128, Geopolitical Files, Egypt, Chron Files, 1–10 Mar 1974) Kissinger subsequently wrote Boumedienne that having the Oil Ministers meet in Cairo would strengthen Nixon and reflect the "major effort" the United States had put into a Middle East settlement. (Telegram 48020 to Algiers, March 9; National Archives, Nixon Presidential Materials, NSC Files, Box 735, Country Files, Africa, Algeria) Boumedienne responded that Algeria's position was "that oil boycott had served its purpose but had become counterproductive and should be lifted." (Telegram 524 from Algiers, March 10; ibid.) Colby informed Kissinger on March 11 that Sadat was pushing hard during the March 11 meeting of the Arab Oil Ministers in Cairo. (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 128, Geopolitical Files, Egypt, Chron Files, 11–16 Mar 1974)

[4] Telegram 1137 from Jidda, March 9, reported that Yamani had reaffirmed on March 8 that the embargo would be lifted during the March 10 meeting in Cairo and that Saudi Arabia would force oil prices down if necessary. (National Archives, RG 59, Central Foreign Policy Files) The *Wall Street Journal* reported on March 11 that his remarks lifted the Dow Jones average by 20 points.

[5] March 13.

K: Well they figure there will be another delay or no agreement.

N: That is the way they were going to have it too. But anyway what we can say about it are the results, but—

K: At any rate, I thought you might like to—

N: Having heard from both the Egyptians and Algerians—but at least the Egyptians said they were going to have the meeting for that purpose didn't they?

K: That's right, but for this purpose, Mr. President the Algerians are worth more to us than the Egyptians—because the Algerian oil minister is the head of that group, and secondly, the Algerians are known to be close to the Syrians and thirdly, they are radicals.

N: Of course. And they have indicated they are going to move to support it, are they?

K: That is right. We got a message this morning. That is what I thought you might like to know.

N: That they would support the lifting?

K: That is right.

N: The Algerian Foreign Minister, hm huh. Well we will wait until tomorrow. Okay. Nothing else to do.

K: No.

[Omitted here is discussion unrelated to oil.]

[N:] Well we will keep our fingers crossed—the embargo—I think maybe it is going to come off this time.

K: This is the closest we have come to anyway—

N: We have information that maybe the tv people don't have for once, okay?

K: Right, Mr. President. I'm impounding all these cables.

N: Sure, sure. Good idea, good idea.

K: Good.

337. Transcript of a Telephone Conversation Between Secretary of State Kissinger and President Nixon[1]

Washington, March 15, 1974, 11 a.m.

K: Mr. President

N: Henry, it is quite important, tell me in just a moment because I have some people waiting for me and I have to leave, but what should I say, as I will be asked about this embargo because of the Ford statement, your statement and then of course the leak out of Sadat about 2 months[2] etcetera, etcetera, etcetera. What is your suggestion?

K: My suggestion is that the reports we have is that we have had no official report.

N: I know, I know, that is a duck you can take—it is one I can't take. I can say simply that I am not going to comment on this because we have had no reports—which of course isn't true, alright second point.

K: No, it isn't untrue, because we haven't had an official report, but you could say our impression is that they have decided to lift the embargo.

N: I should say that, that they have decided and then when they lift it for two months . . . suppose Henry, the more likely question will be, of course, is suppose, Mr. President, the report is true that they lift the embargo but only for two months with a condition—what is your reaction. What do you say to that.

K: We have made a strong complaint to the Egyptians about this.[3]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Chronological Files, Box 25. Unclassified.

[2] According to the *Los Angeles Times,* March 14, Vice President Gerald Ford stated in a television interview that Kissinger had told him the Arab oil embargo would be ended. Kissinger then later "appeared unexpectedly" at the regular Department of State briefing to remark that "the only news we have had is the news on the tickers. We have the same conflicting reports that you people have." The same article noted that Kissinger denied a report from the Middle East that the oil producers had decided on an Algerian initiative to lift the embargo for a trial period of two months to see whether the United States continued to press for further disengagement. Nixon spoke the evening of March 15 at the Executives' Club of Chicago. His remarks are printed in *Public Papers: Nixon, 1974,* pp. 261–277.

[3] As reported in telegram 51983 to Cairo, March 15, Kissinger said that "Fahmy should know that such conditional lifting of embargo with threat to reimpose it in two months would meet with strong adverse reaction in this country and would be an affront to our dignity." He also stated that it would be "difficult, if not impossible" for Nixon to visit the Middle East if the embargo was not lifted prior to his scheduled visit. (Library of Congress, Manuscript Division, Kissinger Papers, Geopolitical Files, Box CL 128, Egypt, Chron Files, 11–16 March 1974)

N: Privately, what do I say publicly, that's what I am asking.

K: I would say lifting it for two months really doesn't solve the basic problem very substantially. Or I would say this, we move at the pace which is best suited to bring about a settlement regardless of the embargo and if they think they can affect us by it, that is not the right way of doing it. And I would handle it that way.

N: Ok.

K: But frankly . . .

N: We are not going to look at a gift horse in the mouth, we're going to take the two months at least and it will be awful hard for them to impose it again.

K: If they have to reimpose it they'll never reimpose it. If it lapses after two months then it is a different problem and I haven't seen what it is they have actually decided. But if you show too much receptivity they'll vote it they might not do the two months thing.

N: . . . show too much receptivity at all. That's what I am talking about. I am simply saying—I am thinking of sort of kicking them about it—about the two months.

K: I think the best way to say it is that we are moving at the pace that we think is most appropriate and that putting a deadline on the embargo won't affect our actions. Won't speed up our actions. And that will give some argument to those who want to lift it unconditionally.

N: Are there any that do, Henry.

K: Yes.

N: Still.

K: Definitely. We had definite word.

N: Has the decision been made that it is two months lifting, isn't that what we are talking about.

K: Yes, but we don't know whether that two months, Mr. President, means they'll review the situation after two months, which would be meaningless because they'll never agree on reimposing it; or whether they mean, it means that after two months, they have to take a new decision to lift it again. If it is just a review after two months, Mr. President, it would be a facesaving nothing.

N: That's right, I get your point. Fine.

[Omitted here is discussion unrelated to oil.]

338. Memorandum From Charles A. Cooper of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, March 15, 1974.

SUBJECT

Memorandum for Peter M. Flanigan Regarding Policy Announcements at Feb 11 Washington Energy Conference

Peter Flanigan has written you (Tab B)[2] to express his concern that certain of the policy proposals made at the Washington Energy Conference were not carefully considered and might damage U.S. economic interests. In particular, Mr. Flanigan states:

- the proposal to share U.S. domestic oil in times of emergency might lead to substantial reductions in oil available to U.S. consumers, and it would be very difficult, if not impossible, to get the necessary authority to do this from the Congress;
- the proposal to share centrifuge uranium enrichment technology threatens to undermine a long-established and painfully-constructed policy to move uranium enrichment from the sphere of public monopoly to that of private enterprise because the sharing proposal may reinforce existing uncertainty regarding U.S. Government intentions in the nuclear area.

Finally, Mr. Flanigan notes that the frenzied environment that preceded the Conference allowed these proposals to go through without full consideration at a senior policy level.

The points raised by Flanigan regarding emergency oil sharing and enriched uranium are essentially right if taken in isolation, but we plan to handle these issues in ways which will overcome these problems. Oil sharing by the U.S. which included U.S. domestic oil would have reduced U.S. domestic consumption noticeably last fall; it also does not currently appear that Congress would allow the export of U.S. domestic oil (prohibitions on exports are contained in the Alaska Pipeline Bill and Emergency Petroleum Allocation Bill). Regarding the sharing of enriched uranium technology, private industry has indicated that the uncertainty inherent in government offers to share its technology with foreign parties undermines U.S. industry attempts to attract private financing.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 251, Agency Files, National Energy Office, Vol. III, Aug 73. Secret. Sent for action.

[2] Attached but not printed is a March 5 memorandum from Flanigan to Kissinger.

In response to the Flanigan memorandum, the following points may be made:

- The realization that not all parties were consulted in a timely fashion prior to the Washington Energy Conference has led to the creation of the International Energy Review Group and the IERG Working Group under Charles Cooper.
- The IERG Working Group has agreed that sharing of domestic U.S. oil, as narrowly conceived in the OECD papers, is the wrong approach, and instead we should suggest tying oil sharing into a larger energy burdensharing scheme that promises much more for U.S. interests.
- The proposal to share U.S. technology in centrifuge enrichment is predicated and articulated on this being done through private channels. Hopefully, this will preserve (even encourage) the role of private industry, and alleviate a number of their concerns regarding government intentions.

Recommendation

That you sign the attached (Tab A)[3] memorandum to Mr. Flanigan incorporating the above points.

[3] Attached but not printed at Tab A is Kissinger's March 25 signed response to Flanigan, incorporating the points made by Cooper.

339. Transcript of a Telephone Conversation Between Secretary of State Kissinger and President Nixon[1]

Washington, March 18, 1974, 12:55 p.m.

K: Mr. President.

N: Hi, Henry.

K: I just want you to know we've had a message from Sadat saying that he has advance information that they are going to lift the embargo with a review scheduled in June.[2] That doesn't mean a thing, Mr. President.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 25, Chronological Files. Unclassified.

[2] In telegram 1361 from Cairo, March 18, the Embassy reported that the OAPEC meeting in Vienna decided to lift the embargo on the United States, that this decision would be discussed again at the Arab Oil Ministers meeting on June 1, and that every Arab country would raise its production in order to meet the requirements created by lifting the embargo. (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 128, Geopolitical Files, Egypt, Chron Files, 17–31 Mar 1974)

N: That's fine.

K: Because if it is just a review . . .

N: We will have—by that time we will have made some progress and that will also leave it open for me to make that trip before then.

K: Exactly.

N: I hope this is true. When will we know it.

K: We have had another report that we might know it by the end of the day today and that is also what Sadat indicated—by the end of the day in Europe and this might well be by 3:00 here.

N: O.K. You give me a ring. Good luck.

K: I will give you a ring immediately.[3]

[3] At 1:10 p.m., Kissinger called the President and told him that there was an unconfirmed "flash news ticker item" that the oil embargo was lifted without conditions. (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversations, Box 25, Chronological Files)

340. Minutes of the Secretary of State's Staff Meeting[1]

Washington, March 18, 1974, 3:10 p.m.

[Omitted here are the Summary of Decisions and discussion unrelated to oil.]

Secretary Kissinger: Bill, do you want to talk about the energy conference.[2] And then we will get to Rodger [Davies].

I'm afraid you are going to succeed.

Mr. Donaldson: The general climate of the conference two days last week was much more—

Secretary Kissinger: Never put a competent man in charge of something that you want to slow down.

[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 718, Secretary's Staff Meetings 3/74. Secret. According to an attached list, the following people attended the meeting: Kissinger, Rush, Sisco, Donaldson, Maw, Sonnenfeldt, Brown, Ingersoll, Davies, Lord, McCloskey, Hyland, Springsteen, Kubisch, and Vest.

[2] The OECD High Level Group met March 11–12; the Energy Coordinating Group of the OECD met March 13–14.

Mr. Donaldson: There were no—well, to begin with, if we had followed on as we had in the first meeting, we expected a lot of static from the French in terms of use of the OECD for some of the purposes that we had in mind. We had none of that in Paris. The French backed off totally and allowed the OECD to come up with the various study groups that we wanted. The rest of the people were extremely forthcoming. There was no antagonism from the higher echelons as there had been at our first coordinating group meeting here.[3] The meeting still was extremely procedural in nature. We did have a couple of good substantive discussions. All the work has been farmed out.

Secretary Kissinger: On what subjects?

Mr. Donaldson: The substantive thing was on basically, number one, the current condition in the oil markets, the current economic conditions, discussions led by ourselves and then chimed in on by particularly the Germans and the English, and the representatives from the IMF and the World Bank that were there.

So everybody was pretty much on the same economic wavelength, which envisioned a general softening condition of the oil markets as a result of the reduced demand that has come about as a result of the price levels—economics taking effect.

I think having said that everyone was cooperative, I think that the one thing that everyone is moving towards in varying degrees of urgency is a consumer-producer meeting—although I think there is general agreement that there is no agreement on what should be said at a consumer-producer meeting. I think they all, to varying degrees, with the British way out ahead, want to have a consumer-producer meeting as soon as possible. The British were pushing for one—

Secretary Kissinger: To discuss what?

Mr. Donaldson: Exactly.

Secretary Kissinger: What do they say when you ask them what they want to discuss there?

Mr. Donaldson: They revert to vague concepts of finding out what the Arabs are after—you know, just basically it is more back on that old theme of making sure that nobody thinks it is a confrontation, and just starting the dialogue going. When you press them, there is no concept of what anybody wants to talk about. But it is on the agenda for the next time. And when pressed in the corridors, the Germans keep saying although they want to push it ahead—they keep saying to us that we cannot push it too far ahead or we are going to throw the whole thing into the hands of the Arab-EC context. They say "We are with

[3] The ECG held its organizational meeting in Washington on February 25.

this group as long as it does something, but if it doesn't do something, then you are going to throw this thing right back into the hands—"

Secretary Kissinger: Would they mind telling us what they want to do? Besides, we are not going to play. Let them set up something competitive. What are they going to do—see what the EC-Arab dialogue brings them in contradistinction to what the energy conference-Arab dialogue brings?

Mr. Donaldson: This was what—every time—

Secretary Kissinger: That is exactly what we won't stand for.

Mr. Donaldson: We took the position, that the Germans supported, that if we really didn't know what we wanted to talk about, we shouldn't have a meeting until we knew what we wanted to talk about. Then in the corridors those that supported us on that view said, "Look, if you push this too far then—"

Secretary Kissinger: Then you say "Fine, have your conference. Either you know what you want to talk about, and then we can have it, or you don't know what you want to talk about, in which case go off and speak in another forum." We are not terrified by that.

Mr. Donaldson: Their answer, when you boil it down, is that if you sit down at a table and start exchanging views on what the problems are, what the economic impacts of the monetary situation are and so forth, you are advancing a dialogue with them.

Secretary Kissinger: Great. And therefore can we agree on an agenda, or does it help to go into a meeting without knowing what you want to say?

Mr. Donaldson: The agenda for our next meeting is an agenda for the Arab—for the—

Secretary Kissinger: Plus substance.

Mr. Donaldson: Yes. From the lack of substance will come the lack of substance on each one of the agenda items. But it is topic number one for discussion next time.

Mr. Hartman: One issue they are very concerned about is they think there is some movement developing among the Arabs actually to raise prices again. And one of the reasons for British pressuring to get some message to the Arabs, that we were in the process now of preparing positions, is to see whether or not some of the more moderate elements on the Arab side will hold off on any further price decisions.

Secretary Kissinger: They sure as hell won't do it just because you tell them you are preparing a position. They might do it if you tell them you have a position.

Mr. Hartman: That is our answer. Some of them at least are beginning to see that now. They are also seeing how difficult it will be if

they get into such a meeting without having anything positive to suggest. It may end up with the Arabs thinking they can just go ahead and raise the prices again.

Secretary Kissinger: Are we going to have a concrete idea of what we think a producer-consumer meeting ought to do?

Mr. Donaldson: Yes.

Secretary Kissinger: Okay.

Mr. Hartman: And one thing that ought to be examined at that time—and I think there was some sympathy for this—is that we ought to decide do we want to have a meeting with all the producers, because I think some of them are beginning to see that if they get them all in the same room, or if they officially deal with OPEC and OPEC alone, they may have a harder time and it may be that what we want to have at the end is a coordinated position, which we all take in our bilateral context. But so far their public discussion talks in terms of having a producer-consumer meeting—and I think the more we get into substance, the more second thoughts they may have about that as a tactic.

Secretary Kissinger: Only one of two things can happen at a producer-consumer meeting. Either the consumers have common positions or the consumers do not have common positions. Nothing else can happen. If they do not have common positions you are going to get bidding among the consumers, the objective tendency of which must be to enable the producers either to bid up prices or to bid up whatever it is that they want. There can be no other outcome. So the question to be determined at the next meeting is whether it is possible to get a common position among the consumers or if they want to go in there free-wheeling. If they want to go in there free-wheeling, it is fine with us.

Mr. Sisco: I think they were ready to go in freewheeling as an EC-Arab group, largely because in my judgment that aspect—

Secretary Kissinger: As an EC-Arab they would not go in free-wheeling.

Mr. Sisco: I know. They have a whole agenda there. But they still see the meeting per se in my judgment as primarily a matter of political symbolism in the sense that they were taking the initiative vis-à-vis the Arabs. Sure they have a specific agenda—

Secretary Kissinger: If they go in as the EC, Joe, then by their miserable constitution they are bound to one position. And that is one of the nightmares of seeing twenty Arabs with these bureaucratic Europeans. It absolutely boggles the mind how the dialogue will take place.

But if they want to do it in the EC-Arab framework, we are not going to be blackmailed with it. Our interest is in a common consumer

position. If we cannot get a common consumer position, we can be relaxed—whether we do our bilateralism in front of others or privately, we are relaxed about this. In fact, if we cannot get a common position, maybe we ought to have a consumer-producer meeting as quickly as possible, while we still have some leverage in the Arab world, and show them who is running things. And I would think that any time until the end of June we will be in good shape. So you better find out early in April. If we are not going to work towards a common position, if there is going to be a producer-consumer meeting, I don't mind having it as early as possible and get it over with. It is going to be chaos. I think our position in the Arab world can only decline in the second half of the year.

Mr. Hyland: There is some traffic that the French are trying to organize a common EC energy policy, put it on the Foreign Ministers agenda for April 1—I mean on the EC Foreign Ministers agenda for April 1.

Secretary Kissinger: I saw that—in order to forestall the April 4—yes, I saw that.

Mr. Hyland: They are promising a lot more cooperation.

Secretary Kissinger: I saw that.

Mr. Hartman: That is mainly related to their internal energy policy.

Mr. Hyland: It has been blocked by the French so far. Now the French are unblocking it.

Mr. Hartman: If it goes the way the French want it to go, there is going to be some German opposition, because they don't like their internal energy policy.

Secretary Kissinger: Okay. But this is our basic strategy—it ought to be to find out whether they are willing to develop common positions among the consumers. In that case, we can go slow, until we get the common positions. If not, I would let it go to a producer-consumer meeting—get it over with. Later on we will be in worse shape.

Do you think this should be at the Foreign Ministers level?

Mr. Donaldson: I don't think we really got that far, although I think that is—yes.

Secretary Kissinger: Well, first find out what subjects they want to discuss. Then we can make our decision at the next meeting—after the next meeting.

Mr. Ingersoll: Are the LDCs going to be drawn into this at some point?

Mr. Donaldson: Yes. This is part—we sort of melded this in as part of the total subject.

Secretary Kissinger: The LDCs are weak reeds.

Mr. Ingersoll: At least they should be kept informed.

[Omitted here is discussion unrelated to oil.]

341. Transcript of a Telephone Conversation Between Secretary of State Kissinger and President Nixon[1]

Washington, March 18, 1974, 6:28 p.m.

K: Mr. President.

N: Hello, Henry.

K: We finally got the official text.[2] What happened is basically it is lifted unconditionally by the majority. With the proviso that they would discuss it again on June 1. Which doesn't mean it goes back on June 1, it just means they will discuss it again on June 1.

N: Right.

K: The Algerians may say they agree to lift it only until June 1, so they make it conditional.

N: We don't care, we don't get any from them anyway.

K: That's right. I got a message from Sadat and he said he will help me get the thing concluded by the end of April,[3] which is also my plan. The Syrian disengagement, so then there won't be any problem, anyway.

N: Well, of course, there must follow not only the disengagement, as you know, but . . .

K: Mr. President, with all respect, we don't have to linger to any permanent settlement at this point. The major thing we need now is the disengagement. If we talk too much about permanent settlement, when I was there the last time I talked to Sadat, he isn't ready to discuss that. That will get us back into Geneva. We should be very careful in making promises on that.

N: This is one thing we're going to do though, Henry. Let's understand that. There is going to be a permanent settlement.

K: Of course, Mr. President. If we get into a forum where all of these issues get discussed together, we'll get killed.

N: I agree, but we don't want to leave any illusions here with our friends here that this is it, you know, and the Israelis think that they can just dig in and this is it.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Telephone Conversation Transcripts, Box 25, Chronological Files. Unclassified.

[2] The official OAPEC communiqué stated that, following "a series of meetings" between March 13 and 18, and because of continued U.S. efforts toward peace in the Middle East, the decision had been made to lift the embargo. (Telegram 2404 from Vienna, March 18; ibid., RG 59, Central Foreign Policy Files)

[3] Relayed in telegram 1371 from Cairo, March 18. (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 128, Geopolitical Files, Egypt, Chron Files, 17–31 Mar 1974)

K: No, no . . .

N: Because then this same thing will come up to haunt us next Fall.

K: No, the strategy that I see now, but which we shouldn't announce publicly, is that after the Syrian disengagement we should get a settlement between Egypt and Israel and then we've broken the back of it. Then we can work on . . .

N: I agree. Palestine and Jerusalem last.

K: It's one step at a time. That's our advantage over the Russians.

[Omitted here is discussion unrelated to oil.]

K: Yes. Because you'd get a tremendous reception. He could smooth the way for you and go to Morocco last. That way you'll have two tremendous receptions. You could go to Morocco first.

N: Morocco will be good. It should be Egypt first, they're the hard one.

K: If you go to Egypt first, you'll get a tremendous reception. You'll get a good one in Sudan and Saudi Arabia. You'll get a great one in Amman. What you get in Damascus, only the devil knows.

N: That's right.

K: Then Israel you'll get a good reception.

N: Maybe.

K: No, you'll get an excellent reception.

N: The point that I make is that—I might be asked about that—I doubt it, but if I am, I'll say we have a number of invitations we have under consideration.[4]

K: And now that the embargo lifted, we can explore them more fully.

N: We're looking at them, right. On the European thing, you want to stay about where we are.

K: Mr. President, it is going so well, the French Ambassador today made a public statement praising you, but you should stay tough. We've put the steam in the kettle and we're going to get everything. I think you should say you've made your comments. The Atlantic relationship is of course, the corner stone and now it is up to the Europeans. We have for a year expressed our views and when the Europeans have reacted, we will meet them more than halfway. If they ask you about a trip to Europe I think you should say let's wait how the discussions go. They will be on their knees begging you to come before too much time is over and when you come now you'll come as the strong man.

N: What I was going to ask though was on the trip to Europe, we put in terms that having laid down what we did, can we say the matters are now under discussion.

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[4] See footnote 2, Document 342.

K: On the trip to Europe . . .

N: No, no, not the trip. The matters of issue.

K: The issues are now being under discussion.

N: The matters are now under discussions, we hope to work them out.

K: It's up to the Europeans and we will certainly be conciliatory in working them out, or something like that. I would not let them off and say they have already met our demands.

N: They haven't, no.

K: But this is turning into a smash. The French Ambassador today held a public press conference in which he said there are no serious differences with the United States. France respects the U.S. as a great ally. Things we've been begging them to do for a year.

N: OK, Henry, thank you.

K: Right, Mr. President.

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342. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon[1]

Washington, March 19, 1974.

SUBJECT

Arab Lifting of the Oil Embargo

The Arab oil ministers yesterday announced their decision to lift their oil embargo against the US, saying that this decision would be reviewed at their June 1 meeting. Algeria explicitly made the lifting "provisional" until June 1, and neither Syria nor Libya associated itself with the official announcement.

A draft statement on this development is attached.[2]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 320, Subject Files, Energy Crisis, Part 3. Confidential; Outside System. Sent for information. The original is an uninitialed copy, but a note indicates that the President saw it. Saunders drafted the memorandum. (Ibid., Box 1230, Saunders Files, Chronological Files, 3/11–3/20/1974)

[2] Not attached and not found. Nixon announced the end of the embargo during a question and answer session before the convention of the National Association of Broadcasters at Houston, Texas, March 19. His remarks dealing with the embargo and the Middle East are in the Department of State *Bulletin,* April 8, pp. 367–370.

It is important in our public reaction that we not encourage any Arab government to think that the embargo can be successfully used to speed up the pace of our diplomacy. The impression we want to create is that our diplomacy will continue at a measured pace—not that we will accelerate our effort now that the embargo is lifted. The fact is that an oil embargo cannot speed up the preparatory work that needs to be done or the decisions for each agreement. These have a pace of their own, and we do not want anyone to think that we have control over them.

There is one other aspect of the announcement from Vienna that warrants special mention because you may get a question on it. There is a statement that the decision to lift the embargo is subject to review at an oil ministers' meeting June 1, and the Algerians have made their decision "provisional." This implies—but on the insistence of our friends avoids stating—that the embargo might be reimposed then if there is inadequate progress on disengagement. It is important that we not make an issue of this because our friends accepted it as a facesaving device for the hardliners and have promised to work to ignore or kill the idea. If we dignify it by comment, it will be harder for them. If you get a question, I suggest you say simply: "We understand that the embargo has been lifted without condition. This improves the atmosphere of our relations with the Arab nations, and we will act in that spirit."

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343. Memorandum From Charles A. Cooper of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, March 20, 1974.

SUBJECT

Energy Cooperation with Europe, Canada and Japan

It now appears to me that our chances are pretty good for working out a substantive, constructive program of cooperation in energy

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 251, Agency Files, National Energy Office, Vol. III, Aug 73. Confidential. Sent for information. On the first page, Kissinger wrote: "I think we should make major effort to organize consumers. Producer meeting is too uncertain."

with the Europeans, Canadians, and Japanese which will serve our interests as well as theirs.

However, realistically the substantive initiatives are going to have to come from us; we are clearly leading the pack, and will have to continue to do so. There will be pitfalls—technical as well as tactical—but on the evidence to date, I'm much more encouraged than I was initially.

Substantively, we are developing a two-track approach. The first track is cooperation among ourselves on, in effect, a common energy policy with cooperation on conservation, licensing production, inventories, and oil sharing. Our preliminary thoughts are outlined in Tab A.[2] There is still a lot of additional intellectual effort needed to turn this general approach into something concrete, but we now have at least the broad outlines of what we want.

The second track is the development of a concerted approach to the producers. We've made some intellectual progress here too (see Tab B),[3] but the tactical issues are still relatively obscure. At this point, it seems to me that if some basic approaches are made beforehand to the Saudis and the Iranians, and possibly the Venezuelans, that a conference in late June might be useful. It would presumably be structured more as a review of the implications for everybody of different producer strategies with any attempt at a negotiated agreement coming much later—if ever.

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[2] Attached but not printed at Tab A is a paper entitled "A Comprehensive Approach to Consumer Burdensharing and Emergency Sharing." It argued that the real cooperative issue was the establishment of a comprehensive package of domestic and international measures that would act as strong deterrents against producer curtailment of supply and would provide "equitable burdensharing" in an emergency. The paper also stated that ECG should take steps to assure energy self-sufficiency over the next several years.

[3] Attached but not printed at Tab B is a paper entitled "Elements for Consumer/Producer Consultations." It stated that the primary decisions were how much consumers were willing to spend on investment and what price they would base their energy decisions on. These decisions would then need to be protected by consumer governments even if it meant expensive energy. The paper established October as the date for Project Independence decisions.

344. Minutes of the Secretary of State's Staff Meeting[1]

Washington, March 22, 1974, 2:55 p.m.

[Omitted here are the Summary of Decisions and discussion unrelated to oil.]

Secretary Kissinger: Bill [Donaldson], we cannot have the Energy Action Group, or whatever we have, become a device whereby we are milked for technology that then goes into the European institutions for competitive policies. That we will under no circumstances have—that will wreck the coordinating group. If we cannot get political cooperation as a result of the Coordinating Group, we are not getting a damned thing out of it. And we are not in the business of giving away our technology. And therefore I want to find out at the next meeting what exactly these guys have in mind in terms of a producer-consumer meeting. If that producer-consumer meeting has a reasonable agenda, there should not be a need for an EC dialogue on the technical side. I mean don't say this—but that should be obvious. If there is an EC-European dialogue on the technical side, separate from the producer-consumer meeting, then I would like to know what its distinct quality is that is compatible with ours or that is separate from ours.

But we will be damned if we are going to give oil technology or cooperative ventures that they can use to set up a competing energy group and in which they pay us off with the privilege of getting our technology. So we will not do much more on this technical cooperation unless we know what their political intentions are.

Mr. Donaldson: There are two other straws in the wind.

Secretary Kissinger: Well, the French strategy is clear.

Mr. Donaldson: We received two messages today. One is OPEC is going to meet in New York during the United Nations Assembly.[2] And secondly that the Belgians—we got a message from Ockrent[3] today on behalf of the Belgian Government that they will approach us and the Germans and the English about approaching the Arabs in New York during this meeting for a consumer-producer conference.

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[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 718, Secretary's Staff Meetings, 3/74. Secret. According to an attached list, the following people attended the meeting: Kissinger, Rush, Sisco, Donaldson, Brown, Sonnenfeldt, Easum, Kubisch, Ingersoll, Hartman, Davies, Lord, Maw, McCloskey, Springsteen, and Hyland.

[2] Telegram 2540 from Vienna, March 21, contained the OPEC note verbale that OPEC would hold its next meeting in New York on April 10. (Ibid., Central Foreign Policy Files)

[3] Not found.

Secretary Kissinger: Our position remains what it was. We got to any consumer-producer conference as soon as we know what they want. If they impose a consumer-producer conference on us, fine, let's have it. We can waffle as well as they can.

Mr. Donaldson: I don't think it is just an accident that OPEC is going to be there during this thing. It smells just like Copenhagen.[4]

Secretary Kissinger: If there has got to be a producer-consumer conference when we don't have a unified consumer position, then I would like it now. Now we are in a much better position to have it than later. The worst time for us is when the French have scheduled the EC-Arab dialogue, which will be just when our peace moves are likely to run out of steam. So if they are going to organize a consumer-producer meeting, that is meaningless—if you find out on April 3 that we cannot get a common position, I would just as soon have an early consumer-producer meeting, and then let's have six months of economic warfare, and see where we are then. That doesn't bother me. The worst is to have an unorganized consumer-producer meeting in September–October. Don't you think?

Mr. Sisco: I have been talking to Bill about this early meeting for about two weeks now, and he knows what my feeling is on it.

Mr. Hartman: The more they get—

Secretary Kissinger: If it doesn't look as if we can have an organized consumer group, let's have a consumer-producer meeting as quickly as possible—for two reasons. If there is a consumer-producer meeting, then I would like to know why the Europeans have to have a separate one. And secondly, our position vis-à-vis the producers is stronger now than it will be six months from now.

Mr. Donaldson: If you take your six-month context—we will not have an organized consumer-producer agenda within the next two or three months, and certainly not before the UN Assembly.

Secretary Kissinger: So far you haven't even got the agreement that there will be an organized consumer negotiation.

Mr. Donaldson: Let me say it another way. I think the pressures are such to have that meeting at an early stage that we will not be organized.

Secretary Kissinger: Let's find that out formally. I want to find out what the people want who say they want a consumer-producer meeting—what is it that is going to happen at a consumer-producer meeting in the absence of an agreement among the consumers. What positions are the various consumers going to take in the face of the united

[4] See footnote 2, Document 315.

producers? That is not a trivial question to us. If they won't agree to cooperate, let them tell us what positions they are going to take—to what end a consumer-producer meeting.

Mr. Donaldson: I can tell you what they are saying.

Secretary Kissinger: That dialogue is useful. But they have got to take a position. Dialogue—

Mr. Donaldson: The British say you don't—just start a dialogue, that you don't have to have any position; you just start a dialogue, get everybody on a common wave-length—

Secretary Kissinger: You tell them that is a frivolous position.

Mr. Donaldson: That is what we have been telling them.

Secretary Kissinger: Look—either you will know at the end of April 3 and 4 that they will not tell you what they want to discuss, which is the best definition for an unorganized consumer-producer meeting, in which case let's have it, and we will go all out bilaterally. That gives us the best possible basis for going bilateral without being accused of double-crossing them. The worst thing for us is to waffle around for six months.

Mr. Donaldson: Okay.

Secretary Kissinger: The next worst thing is to be milked for technology while they get ready for their own bilateral deal. I haven't heard anyone say that the nine European states should meet with the producers without having a common position. So that is the major agenda item for the April 3–4 meeting.

[Omitted here is discussion unrelated to oil.]

345. Memorandum of Conversation[1]

Washington, March 29, 1974, 5:15 p.m.

SECRETARY'S MEETING WITH OIL COMPANY EXECUTIVES

PRESENT

The Secretary of State—Henry A. Kissinger

Industry Representatives:

W. R. Young, Vice Chairman, Texaco
Harold Haynes, Chairman, Standard Oil of California
J. K. Jamieson, Chairman, Exxon
William T. Tavoulareas, President, Mobil
Leon Hess, Chairman, Amerada Hess
B. O. Anderson, Chairman, Atlantic Richfield
Dr. John Kircher, President, Continental Oil
John McCloy, Milbank and Tweed
B. R. Dorsey, Chairman, Gulf Oil

U.S. Representatives:

Kenneth Rush, Deputy Secretary of State
William Clements, Deputy Secretary of Defense
William Donaldson, Under Secretary of State
Joseph Sisco, Under Secretary for Political Affairs
Brent Scowcroft, The White House
Carlyle Maw, Legal Adviser, State
William Simon, Administrator, Federal Energy Office
Charles Cooper, Deputy Assistant to the President, NSC
Thomas Kauper, Assistant Attorney General for Antitrust

Proceedings

Secretary Kissinger: Gentlemen, we haven't met in a while. I thought after talking with Jack McCloy that we might exchange ideas on where we stand.

The transcript taken here isn't going to go anywhere, except into my own personal files. If it makes you nervous, we will stop.

Mr. Jamieson: No.

[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 3, Secretary's Staff Meetings, March 1974. Secret.

Secretary Kissinger: You may not realize what an achievement it is in this building to keep notes from being made in 500 copies.

Mr. Jamieson: We are having a little of that difficulty on the Hill right now.

Mr. Rush: Jack, you make your notes, don't you?

Mr. McCloy: I just put down the names of all these characters across here so we are sure we know who we are.

Secretary Kissinger: You know everybody, don't you?

Do me a favor and say you don't recognize Simon.

(Laughter)

That's the only thing that will instill a measure of humility in the czar. (Laughter)

Everybody know the group that is on this side of the table?

Mr. McCloy: I didn't catch the name of the man with all the hair. I guess I'm envious.

Mr. Cooper: Chuck Cooper.

Secretary Kissinger: He has a combined position with Flanigan and me, in the White House.

Well, I can give you a brief wrap-up of where we stand on the political situation. And then Jack has told me of your concern with what some of our friends are doing in the various countries. I would like to hear about that from you—and tell you some of our tentative ideas in this direction.

On the diplomatic front, I think the situation has improved since we met in the fall. The big issue now is whether we can get disengagement between Syria and Israel; the big issue because, as you know, the Syrians are a more radical state than Egypt. If we can draw them into any agreement with Israel, it will make it easier for the moderates in the Arab world, among whom I count especially Sadat and Faisal, to pursue their course. And then we can keep the diplomacy going, hopefully, by getting Sadat concentrating on the Egyptian-Israeli settlement.

Our view is if we can keep this going, we can keep the situation substantially defused.

On the other hand, if the Syrian-Israeli disengagement should not come to pass, then I think we are in for another rough time. Then I think the Syrians are going to start fighting. I think the Saudis at a minimum will support them, whatever the Egyptians do. And we will be in a hell of a situation.

Now, an additional complication is that the Soviets feel that we are squeezing them out of the area, which is not exactly true. But it wouldn't break our heart if their influence were reduced in the area. And they are moving heaven and earth to get into the negotiation.

Now, the difficulty getting them into the negotiation is that the one thing that all the parties in the Middle East are agreed on, a point of perfect unanimity among the Israelis and the Arabs, is that they don't want the Soviets part of the negotiation. Not even the Syrians want them in the negotiation. I don't have to tell you gentlemen what Faisal's view is of Soviet participation. And Sadat is rapidly approaching Faisal's state of mind on this subject.

On the other hand, if we don't find some formula by which the Soviets can at a minimum save face, they have it in their power to make it very tough for any Arab government to settle.

Now, their strategy is to lump every issue together, get it back to Geneva, to maneuver us into a position where we become the lawyers of Israel and they become the defenders of the Arab point of view. And this achieves a dual objective for them, because it sort of isolates us and it forces Sadat back into the radical camp, and therefore interrupts the rapprochement between Sadat and us, which in turn is one of the chief bases of our Middle East policy, and that in turn brings enormous pressures on Faisal.

So this is one reason why we are insisting on doing one issue at a time, and why we will not be caught debating frontiers, Jerusalem, Palestine. Because this Israeli government can make only one decision a month, or one decision at a time. If we lump all these things together, and if our ability to produce gets linked to a big, sweeping program, we are licked.

Our strength with the Arabs is that we have kept every promise we have made. And that in turn has depended on the fact that we have never made a promise we could not keep. And that in turn depends that we don't get into too sweeping projects.

Jack and I have talked about the importance of Jerusalem and we have it in mind, and at the right moment we will surface.

But there is nothing to be gained by meeting formal extreme demands. That is playing the Soviet game. And we are now at the point where every Arab leader, even Asad, accepts that as our strategy. And as long as we can produce, that is the big thing, they will go along with it. This is why if we fall on our face at the Syrian disengagement, then that whole strategy goes down the drain, too. And then we will be in trouble.

But until that happens, I think we can get the support of Sadat and Faisal. I think even Boumedienne—whom we are going to see when he comes here.[2]

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[2] President Boumedienne made a private visit to Washington on April 11 while attending the UN General Assembly session in New York.

So this is the political situation.

I would just like to make the appeal I made to you before[3] and which, from my information, has been heeded. I have not got any intelligence reports of oil executives getting into politics. And I just would like to repeat again—please keep your executives from falling in with what seems easy but really is in the long term explosive—sort of pushing the Arabs into more than the system will absorb in any one month. None of them have done it. I have got no complaints.

Mr. Jamieson: I think to the contrary, Mr. Secretary. To the best of my knowledge, all of the oil people now are saying they are in complete support of everything you are attempting to do.

Secretary Kissinger: That is my impression. We haven't seen one single intelligence report of the kind that I mentioned to you when you first met with me. So this is not said critically. This is in a way said gratefully. If you can keep up that posture, I think we have a good chance of moving forward.

For those of you who know Faisal, at the last meeting with me, Saqqaf said afterwards it was the most successful meeting with a foreigner he ever had.[4] And I'll tell you the truth, that wasn't self-evident to me. I said "How do you conclude that?" He said, "Well, normally when somebody talks to him, he sits there picking lint off his robe. Did you notice—he didn't pick any lint off his robe, and he looked straight at you at all times."

Mr. Jamieson: You made an impression.

Secretary Kissinger: I am waiting now for the time he picks lint off my coat.

Then I said to Saqqaf—Saqqaf said, "I hope you understood that he told you he was going to lift the embargo." I said, "Frankly, I didn't understand that, because he told me he wasn't going to lift the embargo." Saqqaf said, "But that was because he intends to lift the embargo. He was afraid if he told you he was going to lift it, you were going to leak it to the press. And his whole manner of telling you he wasn't going to lift it meant he was going to lift it."

So you people who deal with him all the time now have my full sympathy. I didn't read him correctly. But Saqqaf was right. Faisal was very active in getting the embargo lifted.

So for the time being, particularly under the influence of Sadat, and supported to some extent by Faisal, we are not in bad shape in the Arab world.

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[3] See Document 243.

[4] See Document 332.

But a lot depends now on how we are going to do in the next month.

Mr. Jamieson: What about the radicals in Libya and Iraq?

Secretary Kissinger: The ones in Libya we hope that the Egyptians will take care of to some considerable extent. We are beginning to have some non-publicized talks with some members of the Revolutionary Council in Libya. With respect to Iraq, the best we can do right now is to isolate them—and there it depends on Syria. If we can get Syria into a disengagement with Israel, that will effectively split them from Iraq. Then we have to work with the Saudis to deal with the Emirates.

The Kuwaitis have invited me to visit them on my next trip to the Middle East—I will go there.

So the best we can do with Iraq is to contain them.

I do not exclude, however, that if we can keep this momentum, and it becomes fashionable to deal with us, that the Iraqis will not be able to resist seeing what dicker they can make.

For example, for some idiotic reason, because they were on some list, we sent them a letter explaining to them what we were doing at the energy conference. It was a pure mistake on our part. It shouldn't have been done. But we sent it to all OPEC countries, and of course they are one of them. Well, that led to a ten-page reply by their leader, which wasn't too friendly—but if he didn't want to have a dialogue with us, he didn't have to send a ten-page letter.[5]

That is not yet ready. I think this depends on, first, whether we can get Syria moving away from the Soviets a little bit. Second—what sort of relation we can establish with Saudi Arabia. Third—what we can do with Kuwait, Abu Dhabi and some of the areas into which we will begin moving on my next trip to the Middle East. And then I think we will be ready to see what we can do with Iraq.

But Libya—there are two members of the Revolutionary Committee with whom we are going to be in contact next month. But that is not to be talked about.

Mr. Jamieson: I understand.

Well, from our standpoint, Mr. Secretary, we certainly hope that you can keep this momentum rolling that you have got under way now, because that, as you say, is certainly the key to the whole situation out there. And if, unfortunately, that momentum is slowed down, what the reaction is going to be it is hard to predict, as we see it.

Secretary Kissinger: I agree.

Now let's talk about these various oil deals that Jack mentioned.

Mr. Jamieson: The bilateral deals?

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[5] Transmitted in telegram 39 from Baghdad, January 23. (National Archives, RG 59, Central Foreign Policy Files)

Secretary Kissinger: Yes.

Mr. Jamieson: All right.

I have a whole list of them here that are either being talked about or some of them presumably have been consummated.

Do you want me to run down kind of the laundry list?

Secretary Kissinger: Yes—just a few to get a feel.

Mr. Jamieson: We can start with Abu Dhabi, and probably the most important one there, and the one that perhaps led to a lot of our difficulties, was the original deal that Japan Lines made for an eight-year commitment. The volumes were firm in that report. But they were the ones that really triggered the prices originally.

Jumping down, over to Iran, there is a 100,000 barrel a day deal—I can give you a copy of this, Bill. I can leave this memo with you.

Mr. Clements: Good.

Mr. Jamieson: Or with the State Department.

There is a 100,000 barrel a day deal that the UK made for one year, starting in 1974. This is for $242 million of industrial products.

Secretary Kissinger: How are these deals made—for cash?

Mr. Jamieson: No. This is really a barter deal—crude for materials. Now, we understand that the Iranians have requested that the UK accelerate their liftings in the second quarter of '74, which leads us to believe they are having some difficulty in getting their auction oil lifted. People are starting to resist that price.

Mr. Clements: This would be through the consortium, Ken?

Mr. Jamieson: No. This is a direct deal with the Iranian Oil Company.

Mr. Tavoulareas: This is BP—handling the deal. They didn't make the deal, but they are going to handle the oil.

Mr. Jamieson: The next deal is the one that the Germans are presumably making. This is a consortium of West German companies dealing with the National Iran Oil Company, to build a 500,000 barrel-a-day refinery, plus a petrochemical complex. Our understanding of that deal is that every time the Germans go back, the ante is raised, and the Shah keeps raising the ante on them. So there is some doubt that the deal will be consummated.

We understand they have made a deal to supply some crude to a refinery in Madras and financially participate in an expansion of that refinery.

Austria has been in trying to get Iranian participation in an Austrian refinery, but so far they have not accomplished anything.

And then there is another report that there is a group of American companies, which includes Cities Service, Koch and several other smaller companies—building a 500,000 barrel-a-day refinery in Iran. We are not sure where that stands.

Mr. Hess: Ken, I understand that is dead.

Mr. Jamieson: Probably the same thing as the German project.

Secretary Kissinger: Is any of this supported by their governments, or how does that happen—these deals?

Mr. Jamieson: Well, the German deal, the German Government was pushing them on that. We have it from pretty good authority, from German Government people, they are getting cold in the deal.

Secretary Kissinger: Why are they getting cold on that?

Mr. Jamieson: Because the Shah keeps raising the ante all the time, making it less and less a target.

Mr. Clements: It is a moving target both ways. There is an element where these deals started when the price was extremely high, and there has been some dilution of that price. And so the thing is a moving target another way—that the world market price, Ken, as you well know, is moving down, and these negotiations started at a much higher level.

Mr. Jamieson: That is right. I don't think that applies particularly to this German deal, Bill. I think it is more the fact that the Shah keeps raising the commercial terms all the time, wanting more and more plant involved. It started off as really a rather simple plant. It is now up to $5 billion.

Secretary Kissinger: Are we as a government remiss in any of these things?

Mr. Jamieson: I wouldn't think so.

Secretary Kissinger: What are you gentlemen doing?

Mr. Jamieson: Well, there is not much we can do about deals as far as objecting to them, when it gets into a government to government relationship. When they are using some vehicle, like the Germans have used this consortium of German companies, there is not much we can do about it.

Mr. Tavoulareas: On the one we are talking about now, I visited the German Government. When they first talked it was a simple refinery. It looked like it was escalating because of additional equipment to $5 billion turned over to the government in, I think, a ten-year period. If they tried to put that cost into a barrel of product so that it is spread all over the Middle East, we would start a new round of escalation in terms of product.

Mr. Jamieson: We can move to Iraq. They have agreed to supply Japan with 180,000 barrels a day of crude and 140,000 barrels a day of products for ten years in return for a $1 billion credit for an LPG processing plant, a refinery, a petrochemical plant, and a fertilizer plant, and an aluminum plant. They have agreed to supply Sweden with 13.5 thousand barrels a day for the last three quarters of 1974. And France is to put up $1 billion to finance Iraqi armament and industrialization

plans. Iraq will submit lists of arms needs, industrialization, and technological assistance, especially in the field of oil industry, on a stage-by-stage basis. Iraq is to pay cash at the end of each stage and then deliver an equivalent amount of crude for which France is to pay cash.

Mr. Clements: On that one, Ken, are you and some of your associates encouraging that sort of thing through some of the French—like French Petroleum?

Mr. Jamieson: Encouraging the participation in this kind of deal? We are absolutely opposed to it.

Mr. Clements: Are you really?

Mr. Jamieson: Oh, yes. What they are doing is peddling oil that they have in essence stolen from us.

Mr. Clements: I know that. But I thought you might be using, you know, FPC over there—Francaise Petroleum—as a vehicle.

Mr. Jamieson: The French Government is using CFP as a vehicle. But certainly we are not participating in those deals at all, Bill.

Mr. Clements: I see. I want to make it clear, if you were, so Henry would know it. If you are not, it needs to be said so.

Mr. Jamieson: No. These are all French Government deals, using Iraq and CFP. CFP has been the prime one in Iraq, because they were partners in the old Iraq Petroleum.

Mr. Clements: IPC.

Mr. Jamieson: Yes.

In Kuwait, in January of this year France announced that she was on the verge of concluding a 20-year contract for 5.6 billion barrels of crude, but nothing has been announced confirming the deal.

Secretary Kissinger: Are these deals at prices that will turn out to be too high?

Mr. Jamieson: They could be. The French arms deal—

Secretary Kissinger: Couldn't happen to nicer people.

Mr. Jamieson: There is one later with Saudi Arabia.

Mr. Tavoulareas: Looks like it did.

Mr. Jamieson: There is a report of a barter deal with Japan, but we haven't got any information on the time or volumes involved.

Moving down to Oman, a Japanese trading company, C. Itoh, made a contract there for 30,000 barrels a day.

Going to Saudi Arabia, there is another French deal, which I am sure everybody is familiar with, including crude-for-arms and industrial goods, for a three-year supply.

Secretary Kissinger: The French claim that the reason they are behaving this way is because Aramco refused to sell them oil or guarantee them purchases in 1971. Is there anything to that?

Mr. Jamieson: Not to my knowledge.

Secretary Kissinger: You remember that paper?[6]

Mr. Tavoulareas: I can remember the French at one time came to us and asked us for an unbelievably low option price on Aramco, some years ago. "Will you take a commitment to lift for a period of time?" "No, we only want an option to buy from you in the event we get disturbed someplace else." That was about four years ago.

Mr. Jamieson: Speaking for our own company, we are certainly putting Aramco crude into France.

Secretary Kissinger: But their argument—Bill, do you remember—Jobert handed me a paper.

Mr. Simon: I sent you an answer to that. There was no foundation to that charge whatsoever that we could find.

Secretary Kissinger: All right.

Mr. Jamieson: Now, on this particular deal, we think the French—they agreed to buy it at five cents a barrel over posting, posted price plus a nickel, which was an awfully high price.

Mr. Tavoulareas: "We pay a very high price and we will overcharge you for our goods." But it raises the oil price.

Mr. Jamieson: It is hard to get any real commercial feel on these swap or barter deals.

Secretary Kissinger: They pay for it by charging exorbitantly for their own goods.

Mr. Jamieson: Right.

Secretary Kissinger: Then what benefit is it to the producing country?

Mr. Jamieson: He doesn't look at it quite that way. I think they are again probably looking at it in a political context.

Mr. Tavoulareas: They also set a very high price to hold up to other people.

Mr. Simon: That is the real danger.

Secretary Kissinger: So the producing countries use this as a means of getting a high price.

Mr. Jamieson: They say this is the market price for the oil.

Mr. Clements: It becomes a reference point.

Mr. Jamieson: Some of these ones I mentioned are speculative.

Taiwan is seeking an oil-for-refinery arrangement in Saudi Arabia. We think this is doubtful.

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[6] Possibly a reference to the paper Jobert gave to Kissinger during the Washington Energy Conference. See Document 324.

The UK began negotiations in January 1974 for 200,000 barrels-a-day for ten years, in return for industrial goods and services.

Thailand has been trying to negotiate for 30,000 barrels a day for the remainder of 1974. It has not been able to come to a price agreement.

SAG is seriously considering a a 50–50 partnership with Shell for a 500,000 barrel-a-day refinery to be located in Saudi Arabia.

India has made a deal—we think it is about 35,000 barrels a day for the remainder of 1974.

Secretary Kissinger: Can we get this list?

Mr. Jamieson: We will leave it with you.[7]

Italy concluded a three-year 65,000 barrel-a-day purchase.

Secretary Kissinger: What is the implication of that for the United States—of all these deals?

Mr. Jamieson: The implication is that more and more oil that was Aramco oil is being diverted to these other countries on government-to-government deals. So we are losing effectively oil that was under our control before.

Mr. Rush: Is there any price pattern?

Mr. Jamieson: Well, I would suspect that most of these deals are made right about posted price.

Mr. Tavoulareas: Or market value.

Mr. Jamieson: Or market value.

Mr. Rush: Then they don't have a reference point. If it fluctuates up and down, they have no reference point.

Mr. Jamieson: The Saudis are saying that the reference point is their sales—sales of the government oil company. And they are saying that that reference point is really 93 percent of posted.

Mr. Tavoulareas: Therefore if we buy crude from them, we should pay the same price.

Mr. Dorsey: They are attempting to use this device to establish a market price. I think that is their main purpose.

Mr. Jamieson: Jumping over to North Africa, we don't think there has been any bilateral agreement—there hasn't been anything announced in Algeria. Libya has agreed to supply Malta with 12,000 barrels a day. It has agreed to increase Italy's oil supply by 140,000 barrels a day for the remainder of 1974. The price of oil was only reported to be at "market levels." They are planning to sell Hungary 33,000 barrels a day after the trans-Yugoslav pipeline is completed, which would

[7] Not found.

be in 1976 or 1977. They are supplying Argentina 100,000 barrels a day for the remainder of 1974 in barter for grains and meat. They have agreed to supply Rumania 60,000 barrels a day from 1974 to 1978 in return for which Rumania is to build a 300,000 barrel-a-day refinery in Libya. They have signed a cooperation agreement with Poland which will give Poland crude starting in 1980 in return for tankers and other industrial equipment.

Secretary Kissinger: The practical effect of all these barter deals is that the purchasing country can avoid the result of the high prices by overcharging for its own products, and those who pay cash are the ones who get stuck.

Mr. Jamieson: That is right.

Secretary Kissinger: And in turn they cannot avoid the high price, because it is set by the barter deal.

Mr. Jamieson: Yes. And the producers say this is a market price.

Mr. Rush: If the barter deal is the market price, then the cash sales would determine the market price—these follow the market price, don't they?

Mr. Jamieson: No. They establish a price for the crude oil. Say they sell it at posted price—

Mr. Rush: But it fluctuates.

Mr. Jamieson: Posting is fixed.

Mr. Donaldson: Has this in fact happened? Have they pointed to these deals and used this? We hear about all these deals. We hear they are being used as a reference point. In fact, are they—

Mr. Jamieson: They keep telling us—the Saudis, as an example, keep telling us that they are moving their crude at 93 percent of posted. That would be their pricing in the barter deals. Therefore they are saying this is the market price.

Secretary Kissinger: Then what are we doing at this coordinating group, Bill? I mean what are we trying to prevent when we say we are trying to prevent bilateral deals, when all these governments say they agree? What exactly are we doing?

Mr. Donaldson: My next question was how many of these deals were made fairly early on in the game. Are any of these ones you are referring to recent deals that are actually done? A lot of them appear to be phantom deals that have not actually been done—except for the early ones. And the early ones were done in very small amounts.

Mr. Jamieson: All these deals, like the Argentinian deal for grain and so on, that is a firm deal. That is recent.

Mr. Tavoulareas: The Libyans made a deal about two weeks ago in France and tried to come to Germany, and Germany refused to make the deal.

When we have to buy back great quantities of oil, as buy-back oil, under the new participation agreement, they use 93 percent of posted price as the basis of it. We haven't settled. That is what they demanded.

Mr. Clements: You see, Henry—

Mr. Simon: You are talking about $11 oil.

Mr. Tavoulareas: We have not settled. We said we would not settle on that basis.

Mr. Dorsey: I think the one thing that is not being done is not barter deals, but auction deals, where countries and private companies went in and bought oil for cash on an auction basis and paid extremely high prices.

Mr. Simon: A lot of that wasn't picked up.

Mr. Jamieson: I have a little paper on that, if you would like to jump to that subject.

Does that cover the bilateral deals?

Secretary Kissinger: I am trying to understand—

Mr. Clements: Henry, as a matter of explanation, you should realize that the companies in the last several years have moved to participation by the host country. And what they are talking about is host country oil. They are entitled, in the case of Aramco, I think, Ken—is it 50 percent?

Mr. Jamieson: No—still 25.

Mr. Clements: Twenty-five—all right. So Saudi Arabia has a call on 25 percent of all the oil that Aramco produces. They are taking that oil that for a while they depended upon Aramco to market for them. So for any practical purpose, it was under Aramco's control. That is what Ken was talking about a while ago. They have now taken that oil and said "We want to use that oil to make these bilateral deals" that he is talking about.

Now, the thing that is wrong with those deals, long-term, is that they are long-term. You start talking about that refinery, 500,000 barrel-a-day refinery, and so forth—that is way off into the future at some time. And the Saudis or anybody else over there making these deals are going to see that they are in fact letting their oil go on a current basis, as produced, and they are buying pie in the sky at some future date. And this represents a real fuzzy area, believe me. There will be a deterioration in this relationship before they get all this buttoned up, in my opinion.

Mr. Jamieson: Of course, the basic question we ask is how good is the contract.

Mr. Clements: Exactly. That is what I am talking about.

Mr. Jamieson: Based on our past experience, the contract is not very good.

Mr. Clements: Exactly. The performance is miserable on that other side.

Mr. Sisco: How much of this 25 percent would ordinarily come to the United States, Ken?

Mr. Jamieson: Not a great volume. I guess pre-embargo it was probably 800,000 barrels a day of Saudi crude.

Secretary Kissinger: But is it worth exerting ourselves to prevent these deals?

Mr. Tavoulareas: I think to discourage them is a very good thing.

Mr. Jamieson: Yes. That is one of the things you were trying to do in the February 11 meeting, wasn't it?[8]

Secretary Kissinger: Yes. That is exactly what we were trying to do.

But my question is, is it worth the effort.

Mr. Tavoulareas: If you were successful, it would be.

Mr. Clements: I think the Secretary is really asking to what degree should this effort be made? Should it be a strenuous effort, should it be a discouraging effort in the sense that you are using the term? How strong should he go in really trying to do this? That is what he is asking you. Isn't that right, Henry?

Mr. Tavoulareas: Just discourage it. I don't think you can really stop them.

Mr. Jamieson: I think it is difficult to stop. We all know what the French are doing. They just say they are going on this course in spite of anybody.

Mr. Hess: It is going to be a further drain on the dollar. Posted prices are unilaterally set by the producing country. And on these bilateral deals, they keep raising their posted price, and everyone at this table is just going to have to pay more money for the portion they get.

Secretary Kissinger: How long can the French afford that sort of deal? Is their industrial base big enough to handle that?

Mr. Jamieson: Well, of course as long as they can make these deals for goods, make these barter deals, from their standpoint, I assume it is attractive.

Mr. Tavoulareas: I think more important is how long can the world live with the high prices. We don't think very long.

Secretary Kissinger: That we agree with. But are you also saying that these bilateral deals are keeping the prices up?

Mr. Tavoulareas: They have a tendency towards keeping the prices up.

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[8] The Washington Energy Conference.

Mr. Jamieson: That is the danger. They tend to put a floor under prices.

Mr. Tavoulareas: It is not only 25 percent. Saudi Arabia now is demanding 60. So much of the oil that is going to be acquired is part of that 60 percent.

Secretary Kissinger: So you buy 100 percent of your oil at these high prices?

Mr. Jamieson: No.

Mr. Tavoulareas: If we finally go 60–40—Ken should answer that.

Mr. Jamieson: If we finally make a 60–40 deal in Saudi Arabia, we would be getting 40 percent of the oil on a so-called cost basis. That is producing cost plus taxes and royalties. We would be getting 40 percent. The 60 percent we would be buying back presumably, if you can believe what they are saying—we would be buying back a portion of that 60 percent at posted price.

Mr. Simon: About $9.50, then.

Secretary Kissinger: And they are selling the rest—

Mr. Jamieson: They would be selling the rest at this same price.

Secretary Kissinger: The rest they just acquire from you. I mean they get your oil—

Mr. Jamieson: You see—

Secretary Kissinger: They get that at cost.

Mr. Jamieson: That is right—60 percent at cost.

Mr. Tavoulareas: Sell some to us and some to these [at this point in the document, a page is missing from the original] barter deals.

Secretary Kissinger: They sell it to you for cash.

Mr. Jamieson: Sell it to us for cash.

Mr. Rush: The cost is virtually nothing, isn't it?

Mr. Jamieson: The lifting cost.

Mr. Rush: Ten cents a barrel.

Mr. Jamieson: To them the cost is ten cents. So if they can sell it for $11—

Secretary Kissinger: So you get 40 percent for, say, $7.00.

Mr. Jamieson: $7.12 is the number it is today.

Secretary Kissinger: Then you get a portion of the 60 percent at posted, 93 percent of posted prices, and they get the rest, which they then—

Mr. Jamieson: That is right.

Secretary Kissinger: What could we really do about it?

Mr. Jamieson: I think the area where perhaps pressure could be brought, or attempted to be brought, would be in this whole pricing area.

Secretary Kissinger: How?

Mr. Jamieson: Well, that is a difficult problem. Our judgment is the one who has really been pushing prices the worst is the Shah.

Mr. Clements: I agree.

Mr. Jamieson: He is the one pushing hard.

Secretary Kissinger: He is also the hardest one to push. He is a tough cookie.

Mr. Jamieson: I know.

Secretary Kissinger: Simon is our specialist on treating with the Shah.

Mr. Simon: He is a tough cookie.

Mr. Jamieson: I have had a little experience with him myself. But that is really now I think our judgment, that the price problem is more critical than the supply problem.

Secretary Kissinger: Yes. But with these barter deals—it is very tough to get it down.

Mr. Jamieson: That is correct.

Mr. Tavoulareas: If the posted price went down, the barter deal price would go down. So would the price at which they sell. That would work.

Secretary Kissinger: How do we get the price down?

Mr. Tavoulareas: Someone has to talk to the Shah.

Mr. Donaldson: What is your inter-transfer price?

Mr. Jamieson: Our inter-company transfer price?

Secretary Kissinger: I plan to see the Shah the next time I go out there.

Mr. Tavoulareas: I think that is a very good idea, Mr. Secretary. From the reports we get, he finds himself not visited as much as other people.

Secretary Kissinger: I am in very frequent contact with him.

Mr. Jamieson: Of course you know you will get the speech, if you mention price to him that "When you stabilize prices in the western world, then we will stabilize crude prices."

Mr. Tavoulareas: But he can't think that a four-time increase in price in four months is justifiable.

Mr. Jamieson: He quotes soy beans.

Mr. Simon: Not to mention the dynamics of a particular commodity. You cannot compare soy beans and oil and meat and everything else.

Mr. Jamieson: He will use whatever he needs for comparison.

Secretary Kissinger: If we engage in bilateral deals with the Shah, will that have any effect on the situation in areas not directly related to oil?

Mr. Jamieson: You mean would that improve our situation?

Secretary Kissinger: Yes.

Mr. Jamieson: Actually, in Iran as such the present deal gives the consortium substantial volumes of oil, much better than we think we are going to get in Saudi Arabia.

Secretary Kissinger: How about the Saudis? If we went into substantial bilateral relations with them—commercial, military and other bases—would that help you?

Mr. Jamieson: Well, I think it would.

Secretary Kissinger: How?

Mr. Jamieson: Well, I think it would improve the whole U.S. image in Saudi Arabia.

Secretary Kissinger: But it wouldn't affect you directly.

Mr. Clements: Yes, it would, Henry.

Secretary Kissinger: How?

Mr. Clements: It will do several things. The most important is it will sop up this available resource that they have over there, either in money or manpower or time to handle the arrangements and the deals. They can only take on so many of these things. And you, in your negotiations with Faisal, never see below him the lack of depth in the bureaucracy. They just don't have any.

Secretary Kissinger: That has become clear to me.

Mr. Clements: So what Ken is talking about—if we started in some serious move, like through technology, industry, this sort of thing, just sop up whatever was available over there in that regard, it would help.

Mr. Jamieson: There is none available now, Bill. It is all sopped up for all practical purposes.

Mr. Clements: They are going to try, I guarantee. The Japanese and these others are going to try. They are going to make a strenuous effort.

Mr. Jamieson: What is happening over there now is that you have got every other—most of the nations of the world are doing their best to push in and in a sense displace the Americans in Saudi Arabia particularly. And I must say that all the attacks that the industry is suffering here in the United States is not doing us a bit of good in trying to hold our position foreign-wise. Because a lot of the companies I am sure are saying to themselves "The industry is under such attack here in the United States, why should we rely on an international oil company for our supply when we may be carved up at home."

Mr. Clements: I agree.

Mr. Rush: Unfortunately we cannot control that.

Mr. Jamieson: I know.

Secretary Kissinger: It would also reduce the scope of the barter deals, wouldn't it, if we managed to get in with industrial development schemes to the degree that we could—they will have less of a need to get it from elsewhere.

Mr. Clements: That is right.

Mr. Jamieson: That is correct. Of course you have got to watch this thing a little bit, because the bulk of that Saudi oil, of course, as we all know, is not coming to the United States. And one thing that all the other countries in the world are concerned about is the United States trying to pre-empt that—what they consider their traditional source of supply. So you have to strike a balance on that approach, too.

Secretary Kissinger: What would they do if they got concerned?

Mr. Jamieson: I don't know.

Mr. Dorsey: There are two distinct things in bartering. There is commodity bartering, as the French are bartering on munitions and armament, and the other is bartering plants, which I don't consider bartering—it is making an investment in the country. And that cannot be stopped, because I think it is the basic objective of these countries to industrialize their countries. And they are going to use oil as a mechanism to get European and Asian countries particularly to come in and build plants there, aluminum plants, petrochemical plants. So that objective, I think, is a legitimate objective.

Secretary Kissinger: But then should we care when the Europeans have bilateral deals and talks with the Arabs?

Mr. Dorsey: I think in this sense—that those kinds of deals, in the long run—leaving the price consideration aside—would tend to build some stability into that situation. I would view them as being more good than bad. I think the American companies are being discriminated against to some extent here; that they really are, for political reasons, looking for the Asians and Europeans rather than to us.

Mr. Rush: Who will finance and own these plants that are involved in the barter deals?

Mr. Jamieson: I think they take all forms. Most of them will have some form of government financing behind them.

Mr. Rush: It sucks up some of this money that comes in.

Mr. Clements: Government participation.

Mr. Jamieson: Let's take the Japanese going in there with a plant—who would be financing that. I think it will be a joint venture, in Saudi Arabia, with the Saudis putting up their share of the money, and some Japanese consortium, perhaps, with backing from the Japanese Government.

Secretary Kissinger: What I am not clear in my mind about is this. If it doesn't hurt us, then we should let them go ahead. If it does hurt

us, we ought to try to fight it. And if we fight it, we have to know how to do that.

Mr. Jamieson: I think the price mechanism is probably perhaps the only way—the only area perhaps where we can say we are truly being hurt, because it does tend to put this floor under prices. Anything that can be done to lower prices, that would be most helpful. I think it would perhaps discourage some of these barter deals. The Saudis so far are indicating that they are interested in a price reduction, as evidenced by the fact they restored this production level to a higher level than existed before the embargo. So if you can get the supply coming out, then the old law of supply and demand may take hold, and we may start to see some lowering of prices.

Mr. Simon: Are you encouraged by the fact they won't negotiate with you in Saudi Arabia now in your participation or not?

Mr. Jamieson: It is kind of a paradoxical thing, Bill. On the one hand they are lifting the production levels up, as I just mentioned. But as you say, at the same time they are refusing to sit down with us and negotiate on buy-back prices.

Mr. Simon: One might read into that they intend to reduce prices.

Mr. Jamieson: You could place that interpretation on it.

Secretary Kissinger: That they want to reduce prices?

Mr. Jamieson: Yes.

Mr. Rush: Ken, basically, the people making the barter deals are the ones hurt most by the higher prices. We do not import much of this oil ourselves. The oil goes to Europe and Japan.

Mr. Jamieson: Those high prices are translated into Venezuela, Canada, other places.

Mr. Rush: We are hurt, but we are not hurt relatively as much as they. They have to import most of their energy.

Mr. Jamieson: We are not hurt to the same degree. But the 30 percent we import, whether it is coming from Saudi Arabia isn't the point, because the price spreads right across the world.

Mr. Rush: They are the ones hurting themselves most of all by doing it.

Mr. Jamieson: Right.

Secretary Kissinger: That isn't clear to me from this exposition. As long as they can pay with their own products and then get—

Mr. Jamieson: It is still a relatively small amount of the oil that they are importing.

Mr. Rush: Maybe two or three percent. And the rest of it they pay the high price for.

Mr. Tavoulareas: Ken, isn't it right that Saudi Arabia, besides restoring production to slightly higher than September 1973, has also

asked the question "How much more will we have to increase production to bring prices down." I don't see how they are going to do it. That is a very encouraging question as far as we are concerned. It looks like they are trying to get the price down.

Mr. Simon: Yes.

Mr. Jamieson: If they do it unilaterally, it could be very damaging to OPEC as such.

Secretary Kissinger: Would we care?

Mr. Jamieson: No, we would not. We would be all in favor of it.

Mr. Clements: Faisal has dead aim on the Shah in this deal, Henry—I guarantee you.

Mr. Simon: They don't have to reduce the posted price—just raise the production and let the market take care of it.

Mr. Jamieson: They can do that—raise production.

Secretary Kissinger: Do we care?

Mr. Jamieson: The hard thing to forecast—

Mr. Dorsey: Our price is geared to their posted—

Mr. Tavoulareas: You asked before, Bill, why do you think Yamani is not negotiating. It is the theory of Saudi Arabia right now that the King is unhappy enough with the price negotiations last December and not quite certain himself how the Secretary's effort is going to come out, that he has pulled back authority from Yamani for a short period of time and he is watching it very closely himself.

Mr. Jamieson: I don't think you can isolate any of these things from the political aspect, I am sure. We have the feeling, as Tav has outlined here, that one of the reasons our negotiations are not proceeding in Saudi Arabia is that they are kind of waiting to see whether this momentum is going to be maintained in these Middle East negotiations.

Mr. Anderson: The Shah saw the $18 a barrel oil. All of a sudden it has evaporated. He is very unhappy about it. He thinks $18 should be the price. And of course that is ridiculous. He already had the money spent in his mind.

Mr. Jamieson: Would you like—

Mr. Dorsey: Ken, could I make a point here. I think there is a misunderstanding. If Saudi Arabia simply lets the production go up, then the presumption is that an over-supply of oil would drive down the price. It might. It might drive down the price of their oil. But it would be extremely damaging to the foreign oil companies who pay taxes and royalties based on the posting, and the posting would not be reduced. And our buy-back oil which we receive from them is based on posting. So if the price of the oil went down, the price of our oil would be artificially maintained at a very high level.

Mr. Simon: Implicit in my comments were if the world price began to come down through over-production, the renegotiation would have to immediately commence on the tax and royalties.

Mr. Tavoulareas: I would go to the next meeting and say "You have to bring the price down. Look at the over-supply."

Mr. Simon: Exactly.

Mr. Jamieson: Bill, as we know from bitter experience, it is awfully hard to predict how they are going to go.

Mr. Simon: I wasn't predicting.

Mr. Jamieson: If I can skim through the crude auction results now.

Abu Dhabi put 250,000 barrels a day up for auction and they felt the prices were tendered too low and did not accept any of the bids. The prices were reported to have ranged from $9.50 a barrel to $11.50. They have now requested several companies to rebid at 93 percent of the posted price, which would be $11.75 a barrel.

Iran auctioned 475,000 barrels a day for six months, starting January 1, 1974. The price was reported to be as high as $17 a barrel. Liftings from Kharg Island for the first quarter have averaged less than 300,000 barrels a day. They have requested the UK to accelerate their liftings of bilateral crude. Both these bits of information indicate Iran's customers are not lifting all of their auctioned crude.

Kuwait offered 460,000 barrels a day of crude for auction in February, but cancelled the auction because the prices of $8.50 a barrel to $10 were too low. They are reported to have subsequently sold a total of 100,000 barrels a day to Filoil, which is a Philippine Company, Petrobras, which is the Brazilian company, and an undisclosed U.S. company.

Libya auctioned 740,000 barrels a day at prices reported to vary from $16.00 to $20.00, with deliveries to start January 1, 1974. Reports indicate that the customers are lifting less than 300,000 barrels a day of this crude, at an undisclosed price.

Libya is also reported to have offered crude to Petrobras at $14.00.

Nigeria offered 300,000 barrels a day at an auction in December 1973 with delivery to start January 1, 1974. The crude was in 50,000 barrel-a-day lots for three months, renewable for three-month periods contingent upon accepting quarterly price adjustments. Price was reported to be $22.60 per barrel for the 150,000 barrels sold. Mitsubishi has since cancelled their 50,000 barrel-a-day without lifting and outside of two cargos to Ghana at $12.50 no crude is known to have been lifted.

So this indicates a clear buyer resistance to these very high prices.

Secretary Kissinger: If I understand you, gentlemen, you basically don't care whether we expand our bilateral deals with the producing countries or not.

Mr. Rush: Non-oil deals.

Secretary Kissinger: I am talking about non-oil deals.

Mr. Jamieson: I don't know whether I would put it quite that way, Mr. Secretary. I think anything done to strengthen the U.S. position in these countries is all to the good. And if bilateral deals will accomplish that, I certainly would be in favor of them.

Mr. Tavoulareas: I think the more inter-dependent the two countries become, the better chance you have of getting to be more reasonable on price.

Secretary Kissinger: The more dependent?

Mr. Tavoulareas: The more inter-dependent we become, the United States and Iran, the United States and Saudi Arabia, the better chance you have of getting them to be more reasonable on price.

Mr. Rush: These countries have said they are going to industrialize. Obviously that will involve a lot of people from the countries helping out going in there. I would think this of necessity would draw us closer to them.

Secretary Kissinger: It has no immediate economic impact.

Mr. Rush: That is right.

Secretary Kissinger: I can see the advantage in influence.

Mr. Jamieson: Taking Saudi Arabia as an example, they have had a very strong American presence there for all these years. I think right now they have an interest in getting Europeans and Japanese in there, in a sense diversifying.

Secretary Kissinger: Why?

Mr. Jamieson: I think it just gets more string to their bow.

Mr. Clements: Gives them diversification.

Mr. Rush: That is the reverse of what I was trying to say. They think they would be less dependent on us if they have other countries in there.

Mr. Jamieson: That is right. But I think they are also enjoying very much the role they are playing. They have a quota system. They say "We will deliver to Japan x thousand barrels a day of oil." And they are using this as a strong political tool, as I am sure you know, or hope to use it.

Mr. Anderson: Are you talking of some preferential arrangements for the U.S. out of Saudi Arabia—which is what they proposed about a year-and-a-half ago. Would that sit well with the world community? I think that would be—

Secretary Kissinger: The world community is doing a lot of things that don't sit all that well with us. I don't spend sleepless nights on that problem.

Mr. Tavoulareas: If the world community would cooperate, that is one situation. If they won't, I think we would look at it differently. Wouldn't you say that is right?

Secretary Kissinger: What do you mean?

Mr. Tavoulareas: I said if the initiative you took on February 11 would follow on through and everyone would have a united position, that is what we all would hope for.

Secretary Kissinger: But if they do not?

Mr. Tavoulareas: They will look out for themselves and I guess we better look out for ourselves.

Secretary Kissinger: I am saying we should not be the first ones to look out for the world community if no one else does.

What do you think, Jack?

Mr. McCloy: Well, as Ken says, I am very much concerned about this price thing. All these barter deals have a tendency to do two things—they keep the market in a very chaotic condition, nobody knows just what the situation is—and I think you have to have stability in this situation, if you are going to come out of it. You have to have some ability to plan ahead in order to supply the world with what it needs.

Secretary Kissinger: If you can't have a free market, aren't you better off having a maximum of interdependence, so that you have at least some leverage?

Mr. McCloy: Yes, I think that is right.

Secretary Kissinger: I mean that is the problem. Ideally we would like to achieve what we set out to do at the energy conference. On the other hand, if we cannot get that, and if every country in the world makes its own bilateral deals, should we then be the last ones to stand for multilateralism?

Mr. Rush: I would think you would be in this position. You have marketing companies in much of Europe and in Japan. You have the oil in Saudi Arabia, let's say. Now, the stronger our political position, the more non-oil deals we have, the less you are apt to be squeezed in terms of nationalization and take-over by the European countries where your companies are and by the Saudis working together.

Mr. Jamieson: I am a little confused as to what you contemplate—that this would be a government-to-government deal, to build a plant in Saudi Arabia?

Mr. Anderson: It could be cash.

Mr. Rush: No—the government cannot supply know-how. Private industry would have to do it.

Mr. Clements: It would be in my view the encouragement through the State Department of this strong transfer of technology and industry into Saudi Arabia at their invitation, where there would be participation on their side. That is really what we are talking about. It has to be. Because there isn't anything else that will work.

Mr. Anderson: In exchange for which we get a preferential position.

Mr. McCloy: In other words, pick up the Yamani offer.

Secretary Kissinger: But you wouldn't have to make that explicit. I mean that would be self-evident, wouldn't it?

Mr. Clements: Yes, sure.

Mr. Rush: The umbrella agreement could be government-to-government. The carrying out of the agreement should be by private industry.

Mr. Dorsey: Isn't the most we would ask for would be our government should support us in our position that we should not be discriminated against, which I suspect we are being at the moment.

Secretary Kissinger: How?

Mr. Dorsey: I think they are preferential to the Japanese, Asians and Europeans, to make their initial deals with, because if they make these deals, they are going to be making deals with the same oil companies they have been doing business with all the time. As Ken says, they want some independence from that.

Mr. Jamieson: The thing works two ways. We have all seen what they did and the pressure they used through their oil to get people to change their posture vis-à-vis Israel in the last few months. And with, say, the Japanese tied into them, or the UK or other people, it works the other way, too—gives them more of a club.

Secretary Kissinger: Well, I appreciate this meeting very much. You have given me a good insight into what is going on. We will continue our political efforts. We may try to get a foot in the door in a few of these other countries, just so we have something to talk about besides abstract exhortations.

Mr. Jamieson: One other area, Mr. Secretary—and I don't know whether anything can be done about it. We are in a position now where contractual relationships mean nothing. We consummate a contract with them, and it lasts maybe thirty days, in some cases—in Saudi Arabia, as an example, in our 25 percent participation deal, we never did get it signed up before it flew apart. So our whole trading throughout the world—this is not only confined to oil—is getting most unstable.

Mr. Anderson: There is no assurance.

Mr. McCloy: Have you given up, Henry, on the idea of your combined effort here, because of the moves that the Europeans made? Do you think there is any picking up—

Secretary Kissinger: My personal opinion is that we won't get any cooperation [until] we get some clout of our own. And if we exhort, we are just going to leave the field open to them. And that until we get something that we then agree to coordinate with them, they won't listen. And that until that happens, they are going to use this coordinating group to milk us for technology, but they won't give us any cooperation on price, on anything that has any risks to them.

That is my impression of what is going on now.

I think the British are going to start an industrial development program in Saudi Arabia soon. And to say it isn't oil—that is for yokels. They are not doing it in Gambia.

Mr. Jamieson: That's right.

Secretary Kissinger: You don't have to have oil written into these agreements.

So the problem we will soon face, Jack, realistically—Bill keeps going to these meetings. They are going great, as long as we are giving away technology and oil sharing. Take the consumer-producer meeting. There is only one issue as far as I see it—are the consumers going to have a united position. Anybody can organize a consumer-producer meeting. You don't need a government for that. But if the consumers don't have a common position—

Mr. Jamieson: I was looking at the anti-trust man over there.

Secretary Kissinger: If the consumers don't have a common position, they are just going to play out in front of the united producers all the dilemmas that got us into this fix to begin with. Therefore, if we cannot get a common and agreed agenda, and a common position, all that Bill Donaldson is doing is a unilateral sharing of American technology and some sharing of supplies with other countries.

If we can get a common position, if they are willing to cooperate with us in getting prices down, then that is by far our preferred course, without any question.

I don't have the impression that we are anywhere near this.

When I was in Britain yesterday, we talked about it[9]—and actually international affairs have reached a point where a Labor Government is more pro-American than a Conservative one. They are even eager to cooperate. And I made more or less the point you made, that we ought to cooperate in getting prices down. They say, "Oh, the Arabs won't like that." It's a funny world if the producers can organize but the consumers cannot.

So this is the problem we are going to be facing.

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[9] Not further identified.

Bill is going to the next meeting, which is April 3 or 4, and we are going to find out whether we can in fact get joint action.[10] If we cannot get joint action, strangely enough we will then go to a consumer-producer meeting fast, because the earlier we go, the better we can exploit our still strong position in the Arab world. We will go there fast, see what happens, see who has the muscle. If they are willing to cooperate, we will put off the consumer-producer meeting until we can develop joint positions.

This is roughly speaking the strategy.

The worst thing for us is to have a consumer-producer meeting taking place at a moment when we are stalemated in the Middle East.

So it is in our interest to get the damned thing over with while we are not stalemated in the Middle East, if we are not going to have an agreed consumer position.

Now, if we cannot get an agreed consumer position at this next energy meeting, then I think we are going to float for a while and see what we can tie up, and then see whether that will get them to cooperate, to coordinate these bilateral efforts. We can still use this enterprise that Bill is chairing for us to then coordinate these various bilateral deals, so that at least we can bring pressure on the price that way.

Those are the only courses we think we have open to us.

The worst is to go along for six months and talk about cooperation while our bilateral options are being foreclosed and our political clout gets dissipated.

Right now in Saudi Arabia we still have some unique assets. No one else can give them the intelligence, no one else can give them the political support they need, no one else can give them the military support they need. These are three assets we have that no one else can give them. The French can talk about what they want. But when Iraq and South Yemen start cooperating, we have got to be there.

Now, that is what we have to capitalize on. We would prefer the approach of the February 11 conference. But we have got to get a real consumer cooperation. If we cannot get a real consumer cooperation, it is not worth it.

Mr. Jamieson: Where is this next meeting?

Secretary Kissinger: Brussels.

Mr. Jamieson: With the same participants?

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[10] A report on the Energy Coordinating Group meeting, held in Brussels April 3–4, is in telegram 70073 to EC capitals and other posts, April 6. (National Archives, RG 59, Central Foreign Policy Files)

Secretary Kissinger: Yes. And they are all for cooperation as long as we give our technology. They are great on that. We can get unanimous votes on that all the time.

Well, unfortunately I must leave now.

Mr. Jamieson: Mr. Secretary, I would like to say how grateful we are for everything you have done to date on this problem.

Secretary Kissinger: I appreciate that.

Mr. Anderson: There is one paradox here you should be aware of. As a practical matter, oil cannot move from the wellhead in the Persian Gulf to the consumers all over the world without using the existing facilities of essentially the American oil companies. There is no practical way it can be done outside of that framework.

Secretary Kissinger: You would not play chicken with them—you would not refuse to move it.

Mr. Anderson: I am not one of them. That is a real paradox.

Secretary Kissinger: But would you refuse to move it? You could not risk that.

Mr. McCloy: I saw Burns just left here. Has he the solution to this recycling problem that Emminger says you don't have to worry about the monetary situation any more?

Secretary Kissinger: I don't know.

Mr. McCloy: Sorry he got away.

Secretary Kissinger: Well, I appreciate your coming down. In a couple of months maybe we can get together again.

Mr. Jamieson: We certainly appreciate your time, especially at the tail end of the week you have been through.

Secretary Kissinger: The week wasn't as rough as the newspapers have presented it. The newspapers say it was a terrible failure. None of us knew this until we had left.

Mr. Anderson: You had to get home to find out.

Mr. McCloy: Are you going to take a vacation now?

Secretary Kissinger: Yes. I am leaving tomorrow.

(Whereupon at 6:35 p.m. the meeting was adjourned.)

346. Paper Prepared by the Ad Hoc Group of the International Energy Review Group Working Group[1]

Washington, March 29, 1974.

THE LDC PAYMENTS PROBLEMS RELATED
TO HIGHER OIL PRICES

ALTERNATIVES FOR UNITED STATES TACTICS

[Omitted here is a table of contents.]

I. The Energy Crisis and the LDC's—The Problem

The increase in oil prices announced in October and December of 1973 will create severe balance of payments and economic growth problems for many LDC's. In order to finance the same volume of imports as in 1973, a much larger volume of capital flows will be required. Estimates of the increase of the oil import bill for the non-oil developing countries in 1974, for instance, are on the order of $9 billion at a $9–10 price (c.i.f.), while the projected current account deficit at this price is about $22 billion, compared with a $10.6 billion deficit in 1973.

The above figures overstate the magnitude of the "real" problem, however, in that most of the increased capital requirement could be on commercial or near-commercial terms. The more difficult financing problem is that presented by many of the poorer LDC's who are hard hit and who do not have access to world capital markets. For most of the countries of South Asia, Africa, and scattered countries in Latin America such financing would only be meaningful on highly concessionary terms. (Specific countries that are hard hit and which would require concessionary assistance are listed in Table A.) It is estimated that at current prices the amount of concessionary financing required would be about $2–3 billion, and that at a $6 c.i.f. price the figure would be about $1 billion.

In addition to the impact of higher oil prices, many of the poorer developing countries are also affected by the reduced availability and higher costs of fertilizer and by higher grain prices in general. The World Bank has recently estimated that LDC imports of cereals increased from an average level of about $3 billion in 1970–72 to over $8

[1] Source: National Archives, RG 56, Records of the Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker 1969–1974, Accession 56–79–15, Box 6, CIEP Meetings. Limited Official Use. According to an April 10 covering memorandum by Flanigan, this paper was part of a larger packet of materials to be discussed at the April 12 CIEP meeting. The Ad Hoc Group included representatives of the Departments of State and Treasury, AID, CIEP, CEA, and NSC.

billion in 1973. (Part of this rise reflects an increase in import volumes due to poor harvests in many of the LDC's, although most of the increase is due to higher prices.)

Price increases of other commodities, however, have also benefitted some LDC's. World Bank calculations of additional capital requirements for the LDC's, which take account of other commodity price increases as well as oil plus the adverse effect of lower growth rates in the developed countries on LDC export growth rates, are about the same order of magnitude as figures based on oil price increases alone. Estimates of additional financing requirements on intermediate and concessionary terms are $1.5 billion in 1974 and $3.1 billion in 1975. These figures represent the residual still to be financed after reserves are run down by 20 percent each year, and they also assume that an IMF oil facility is in existence in 1974.

[Omitted here is a table on "Estimated Increase in Oil Import Bill of Hard Hit LDC's Requiring Concessionary Assistance."]

II. Proposals on the Table

[Omitted here are sections A–D.]

E. *Debt Relief*

The higher oil import bill which LDCs will face can be expected to aggravate the debt service problems of many LDC's. For this reason it is imperative to obtain concessionary funds from OPEC producers, especially for those LDC's with debt problems.

While it may be expected that some LDC's will request rescheduling of debt payments, such requests should continue to be approached on a case-by-case basis, and rescheduling limited to cases of actual or imminent default. At least for the time being, U.S. policy is that the oil problem should be handled by other means.

III. Key Issues

[A.] *Effects of Aid to LDCs on Oil Exporters*

It could be argued that maximum pressure on oil exporters to roll back prices is maintained in a situation whereby minimal or even no supplemental aid is provided to LDCs hard hit by oil price rises. To the extent that international institutions or industrialized countries mitigate the oil-induced balance of payments difficulties of LDCs, the case for a price rollback is weakened and existing levels of oil prices are "confirmed"; conversely, if we do nothing, the full effects of the financial hardships on LDCs will be manifested in a strong expression of world public opinion aimed at a price rollback.

Such a policy could, however, also have drawbacks. If the economic situation worsens considerably, we might expect certain LDCs to be forced to default on their foreign indebtedness, and since the U.S.

is the principal bilateral creditor, we would be most affected. Therefore, it would be in our political interest to promote means to finance the LDCs through this difficult period while we still have some bargaining leverage, i.e., before the situation worsens. Since we will end up paying anyway, we might as well get the credit for it rather than be left holding the bag of an involuntary debt rescheduling.

Moreover, up to what point in human suffering can the rich countries withhold supplementary aid without this policy backfiring on them? The very wealth of the United States, as well as our world leadership role, creates pressures on us to provide some relief, particularly if the situation in some LDCs deteriorates seriously. Adverse effects on us of such a situation include (1) disapproval, condemnation, and possible withdrawal of cooperation on matters of concern to us in various international forums—by LDCs as well as certain industrialized countries strongly motivated by humanitarian concerns, (2) increase in terrorism and threats to security of travel, (3) internal disruption in LDCs, food riots, etc., possibly leading to local conflicts which could affect our own security.

Finally, we question the wisdom of forcing the LDCs into a condition of long range dependency upon the oil exporters for external assistance.

The problem is basically one of tactics, and requires both fairly precise knowledge of the situation in individual LDCs, and a fine sense of timing. Significant amounts of additional aid from the industrialized countries, beyond currently planned levels, appears unrealistic. The most that could be expected is a reapportionment of aid to the hardest hit LDCs, combined with measures for accelerated disbursement, program lending, local currency financing, etc. Even these techniques, however, should not be used indiscriminately pending concrete financial proposals from the oil exporters, in order to maintain maximum worldwide pressure on them. Moreover, these techniques should clearly be labelled as interim measures, to cushion the shock on individual, hard-hit LDCs, until a more lasting financial resolution of the oil problem is achieved in a global framework. Finally, the strongest efforts should be made to combine any such measures on behalf of the LDCs within a framework of supplementary financial assistance from the oil exporters themselves.

[Omitted here are sections B–C.]

D. *Proliferation of Institutions and Their Control*

A proliferation of international institutions, special facilities and staffs to channel oil producers' revenues could affect attitudes toward the oil crisis, impact on existing institutions and promote an uncoordinated scramble for resources. Highly visible new mechanisms for using oil producer surpluses could tend to become self-perpetuating,

adding certification to and a vested interest in maintaining current oil prices. Potential recipients, particularly LDC's will place increasing pressures on developed countries for significant additional contributions, while domestic legislatures become even more reluctant to sustain assistance to existing institutions. The very proliferation of proposals, with overlapping or conflicting objectives, could lead to an underfinancing of worthwhile proposals which cannot obtain adequate resources from other sources. And a race to line up oil producer funding commitments could lead to an unwarranted escalation of the terms on which producers ultimately make resources available.

[Omitted here are sections E–F.]

IV. U.S. National Interests

The oil price problems of many LDCs impact on three major aspects of U.S. national interests:

—Political-security interests in the stability and economic development of certain LDCs of particular importance to the U.S. such as South Vietnam, Chile, Korea, the Caribbean; these problems are particularly severe for countries such as those in Indochina, where foreign assistance finances a large proportion of imports.

—Political-security interests in the more general sense that economic deterioration in LDC areas could result in internal violence and local political tensions or wars which could threaten the structure of peace and draw in the major powers.

—Humanitarian interest in avoiding deterioration of living standards for very poor people anywhere and in contributing to improved economic conditions in LDCs more generally.

—Assuming a position of leadership on this issue to reinforce our general worldwide leadership role and cooperating with both developed and developing countries on economic assistance as a means of reinforcing the inter-dependency of economies worldwide in an open trade-monetary system increasing the welfare of all.

These three objectives must be integrated to determine the appropriate U.S. posture on special assistance measures for the LDCs.

Political-security interests in a few countries are an immediate priority for U.S. national interests. To meet these needs there is no requirement for a U.S. initiative or even U.S. support for additional multilateral efforts. In fact the U.S. could concentrate on supporting limited arrangements to funnel funds from certain oil producers to countries of particular concern to the U.S., for example special Venezuelan contribution to a compensatory financing window of the IDB could largely resolve the problem in the Central American and Caribbean area.

The extent of possible political-security problems from economic deterioration depends to a large extent on the internal domestic policies of the LDCs. We have little influence on these policies, but we should maintain a watching brief to assure that situations do not get out of hand.

Humanitarian concerns bring the problems of the Indian subcontinent to the fore and suggest a requirement for substantial additional international efforts, either from the oil producers, the DCs or both.

Concern with the U.S. leadership role suggests a U.S. initiative to offset the oil related balanced of payments problems on a multilateral basis. However, there are positions consistent with leadership which would not necessarily involve the commitment of additional U.S. funds. We could continue to press for continuation of DC aid levels at previously planned levels and urge a gradual redirection of bilateral and multilateral programs to those LDCs with the greatest needs. We could also take a position urging that the oil exporters assume their responsibilities in the existing international financial organizations.

U.S. efforts toward reduction of the oil price represent a major leadership role serving all three of the above national interests. Because price reductions are of much more value relative to the size of economies for both most LDCs and most other DCs, the U.S. leadership role on price reduction is more an effort to expand and improve the world trading system than to advance our immediate self-interest. Moreover, price reduction is preferable to financial transfers in resolving LDC problems because no more than a modest part of financial transfers are likely to be on a grant basis.

[Omitted here is Section V: Alternative Positions for April 3–4 ECG.]

347. Memorandum of Conversation[1]

Washington, April 10, 1974, 2–4 p.m.

PARTICIPANTS

Peter M. Flanigan, CIEP
William E. Simon, FEO
Charles A. Cooper, NSC
William E. Hale, CIEP
William P. Tavoulareas, Mobil
H. J. Haynes, Socal

Messrs Flanigan, Simon, Cooper, Tavoulareas, and Haynes discussed current and future developments relating to the international oil market and the role of major international oil firms within it. The discussion and comments may be summarized, by subject, as follows:

The International Oil Market—General

Mr. Tavoulareas stated that high prices were a serious problem for the world economy, as well as for maintaining a good public image for the oil companies, and that prices therefore need to be reduced. The necessary condition for a price reduction must be a surplus of production, and to get a surplus will require extensive exploration in all areas of the world and adequate incentives for production. Mr. Haynes added that another indispensable ingredient in expanded production is a favorable political climate in producing countries, as the U.S. has begun to reestablish, for example, in Saudi Arabia.

The International Oil Market—Near Term

Mr. Haynes disagreed with the other participants regarding the speed with which a potential surplus of oil might emerge. There was agreement that a two million barrel per day excess of supply over demand would generate great pressure on oil nations to reduce the general level of oil prices. For such a surplus to exist, however, would require: 1) continuation of the reduction in demand for oil; 2) excess capacity in place; and, 3) the ability of oil companies to use the excess capacity. The last condition appears to be the most critical, since significant unutilized capacity already exists, particularly in Saudi Arabia.

Mr. Cooper inquired as to the effects of inventory buildups in "artificially" increasing demand. Mr. Tavoulareas stated that inventory acquisition had been a major component of demand in the recent past,

[1] Source: National Archives, RG 429, Records of the Council on International Economic Policy, 1971–77, Central File 1972–77, Box 54, File 53508, Memcon major oil firms. No classification marking. Drafted by Hale on April 17.

but that current inventories in Europe were already enormous and could not physically be increased very much. Moreover, there were significant inventories at sea, particularly since tankers are now travelling at slower speeds. Mr. Haynes said that there was spare inventory capacity in Japan and the U.S., but that people were reluctant to buy for inventory now because they expected prices to fall in the future.

Role of International Oil Companies in Producing Nations

The consensus of the discussion was that oil concessions per se are increasingly meaningless from the standpoint of company operations. Rather, the companies are more concerned with the economics of their position, in particular regarding offtake agreements and profits. Increasing national control over concessions is meaningful in a political sense to the producing country, but it need not affect the profitability of company operations. For example, service contracting has worked well for Socal in Indonesia, as have the offtake rights the companies possess in Iran. Increasing nationalization of companies is a concern only to the extent that it affects economics, leads to competition for better conditions among producing states, and entails inadequate compensation for expropriated property.[2]

The ability of companies to secure satisfactory economic terms depends upon the value of the services they provide to the producing countries. One of the most valuable services, and one that is difficult to provide in other ways, is exploration. Both Libya and Algeria, for example, have been most concerned about maintaining exploration by using the majors. The international oil companies have proven indispensable in exploration not only because of their technical skill, but also because they remain willing to take large risks in exploration. In fact, exploration by the majors remains strong in high risk areas outside OPEC, as well as within it.

Other international company services that cannot easily be duplicated by national oil companies are distribution, refining, and marketing. In all these areas, international companies have proven essential. Production of reserves already developed, and transportation, are two areas of the oil business where producing country nationals can be expected to become more active in management.

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[2] Both Tavoulareas and Haynes received a copy of the memorandum of conversation. On April 24, Tavoulareas responded to Flanigan that nationalization "is a most serious detriment" to the "stability in contractual arrangements" necessary for growth in world trade. He added that unilateral nationalization should be discouraged and that "a history of nationalization creates an unfavorable climate for further investment." (Ibid.) In an April 22 letter, Haynes wrote Flanigan that he took "strong exception" to the statement that nationalization was only of limited concern. (Ibid.)

Role of International Oil Companies in Consuming Nations

In consuming nations the major oil firms serve valuable roles as sources of crude, refiners, distributors, and guarantors of supply in times of crisis. In certain consuming nations (e.g., UK and Norway) the majors are also indispensable in exploration. The most explosive political issues recently have involved alleged diversion of crude, and conspiracy in raising prices and reducing competition. Despite these criticisms, the operations of the majors are in relatively little danger of becoming uneconomic. The possibility of marketing takeovers is remote or non-existent; moreover, national oil companies are not making significant inroads into market shares, even in Italy or France. Finally, government-to-government bilateral arrangements are becoming much less attractive to consumer governments due to the high prices such deals entail and the lack of adequate assurances that bilateral oil purchases are any more secure than ordinary oil purchases.

Mr. Tavoulareas and Mr. Haynes indicated that they appreciated the opportunity to express their views, and they urged that the U.S. Government assist them in explaining their roles and functions to the public here and abroad.

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348. Memorandum From the President's Deputy Assistant for International Economic Affairs (Cooper) to Secretary of State Kissinger[1]

Washington, April 11, 1974.

SUBJECT

CIA Assessment of Recent Bilateral Oil Agreements

At your meeting with oil company executives there was considerable discussion of "bilateral deals" and their effect on oil prices.[2] I am skeptical that at the moment this problem is very serious.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 251, Agency Files, National Energy Office, Vol. III, Aug 74. Secret. Sent for information. Kissinger initialed the memorandum.

[2] See Document 345.

The CIA has recently completed a short review (attached)[3] of the bilateral oil deals arranged among major consumers and producers. The CIA study confirms what was becoming more obvious:

—Fewer bilateral oil deals are being sought by major consuming nations. Japan, Germany, the UK, and even France do not seem, any longer, to be in the market for bilateral oil.

—Some of the previous "agreements" have been cancelled, in certain cases negotiations have been suspended, and only in two or three cases have deals been finalized. Even in these cases, only 300,000 b/d is involved.

—Some LDCs facing large oil debts (e.g., India) are still seeking bilateral agreements, but their efforts have met with limited success. In fact, not many of the OPEC producers appear interested in bilateral arrangements, Iran and Libya being the salient exceptions.

The reasons for increasing consumer reluctance to enter bilaterals is clear: now that the initial shocks of supply cutbacks and high spot prices have been absorbed, consumers have begun to take harder looks at the costs of bilateral deals and have apparently realized that bilateral oil may be no more secure from disruption than oil derived from major oil firms.

In sum, the prospect of a dizzying rush towards bilateral oil deals has faded, and the international oil market is settling down into many of its older patterns.

[3] Attached but not printed is the undated paper entitled "Bilateral Oil Deals Fizzle."

349. Memorandum for the Record[1]

Washington, April 12, 1974.

SUBJECT

Minutes of CIEP Executive Committee Meeting, April 12, 1974 in the Roosevelt Room

ATTENDEES

List Attached[2]

[Omitted here is discussion of International Investment and International Capital Markets.]

3. U.S. Policy Towards Financial Proposals to Assist LDCs to meet oil and other import problems

Mr. Volcker led off the discussion on the Treasury Department paper by pointing out that the only agreement so far was the universal recognition of the problem and many suggestions for its solution. With respect to procedural aspects of the problem, he raised the question of whether the U.S. could contribute anything by suggesting a forum for discussion to sort out the various proposals. With respect to our substantive position, he said we needed to decide what contribution the U.S. could make and what our overall attitude toward the effort will be. He concluded by noting that if we had no U.S. position then Secretary Kissinger should finesse the question during his upcoming UN speech.

Secretary Shultz indicated that we did have a position—i.e. holding our level of support to the levels projected in the budget. He felt that we would be doing extremely well if we got the amounts for aid that we had requested and that we could not make further commitments because of the Congressional problem.

Mr. Cooper pointed out that it might be somewhat premature to discuss magnitudes of overall aid to the LDCs because of questions as to the magnitude of the impact of the oil price rise and also as to the

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[1] Source: National Archives, RG 429, Records of the Council on International Economic Policy, 1971–77, Records of Executive Committee Meetings 1973–74, Box 252, File 53487, April 12, 1974 meeting. Confidential. Shultz chaired the meeting. According to an April 15 memorandum from Flanigan to CIEP Executive Committee members, the decision reached at the April 12 meeting on LDC's was that, for the present, the United States "will do all it can to meet its past aid commitments, but that we could not now make any new commitments. Further work on institutional possibilities for considering the problem of particularly hard-hit LDCs, the extent and timing of the problem for specific countries, and options for a further U.S. response to the problem will be pursued through an interagency group chaired by Chuck Cooper." (Ibid.)

[2] Not attached.

precise timing of this impact. Mr. Flanigan noted that what was needed was careful country studies to assess the size and timing of the impact.

Mr. Volcker raised the question of whether the U.S. should accept a position of no additional aid. Mr. Eberle said in his opinion we should not lock the door on the possibility of additional aid but that we should not adopt a position that accepts the continuance of the current oil price. Mr. Flanigan noted that, on the basis of what was said so far, he would feel that it would be inappropriate to bring the issue forward in an international forum like the UN before we know our own position.

Mr. Cooper indicated that informal discussions were now underway and oil producers' indecision gave the U.S. some time to decide on its ultimate position. In his opinion what was needed was a better picture of the timing of the problem. Mr. Volcker expressed his uneasiness with respect to this kind of informal approach and Mr. Flanigan added that the U.S. would not exercise the appropriate leadership if it merely determined the parameters of the problem and waited for others to advance proposals or to take action.

The committee agreed to Mr. Flanigan's proposal that a working group under Mr. Cooper's chairmanship should be convened to examine the extent of the problem and timing issues and suggest options for U.S. policy.

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350. Memorandum Prepared in the Department of State[1]

Washington, April 16, 1974.

MEMORANDUM ON
"THE ROLE OF THE INTERNATIONAL OIL COMPANIES"

At the close of the April 2nd meeting in Brussels on the Role of the International Oil Companies, the Chairman of the Ad Hoc Group was asked to prepare a single document which would synthesize earlier USG, German and Italian submissions and reflect also the exchange of views among member governments.[2] The Chairman was encour-

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Energy Crisis, Part 2, April 74. No classification marking.

[2] The Ad Hoc Group on the Role of the International Oil Companies of the ECG met in Brussels on April 2 prior to the April 3–4 meeting of the ECG. The chairman of the Ad Hoc Group was Italian member Ristagno. Telegram 72419 to all OECD and OPEC capitals, April 10, reports on the meeting and the papers submitted by the United States, Italy, and Germany. (Ibid., RG 59, Central Foreign Policy Files)

aged to enlist others in the completion of this task; it is our hope the following will be of assistance. If all of us have far more questions than answers, that fact alone should be of interest.

First, as was suggested by a number of the delegates, the emphasis placed in all three submissions on the importance of the *international* aspect of oil supply could be the critical observation on which the study will center: whether one addresses the question of "transparency" or the role of national oil companies as part of the system, or the international oil companies themselves, or other issues—unless the interdependent character of the system is kept fully in mind, efforts to modify the system could prove ineffectual or harmful.

Second, in view of the range of questions raised at the first Ad Hoc meeting it is clear that a review in depth of recent changes and their probable consequences must be completed and discussed in the Ad Hoc Group before any "prescriptive" modifications can be advanced.

Our review could proceed by considering the related elements in the "system" in order to better understand the magnitude and complexity of its varied operations: the logistic component, exploration and production aspects, the marketing operation and the immense capital requirements. The international, interdependent character of the system should emerge clearly from such an analysis.

Having considered the elements of the system, we might then discuss the entities which operate within it—international private companies, and national companies, private and governmental—as they relate among themselves and with the rest of the international economic system.

Third, as was also pointed out in the Ad Hoc discussion, the changes which have occurred in the system come from actions of both producing *and* consuming interests, as well as from the private oil companies themselves—witness the significance of the so-called "independents"—and from the emergence of national (private and governmental) oil entities. The reasons for the changes are complex and varied and differ with time and circumstance. To describe recent changes which have been wrought largely by producing interests as if these interests were the principal engine of change would overlook the past three decades in which far-reaching changes were initiated through consuming government interests. We need to understand more fully the comprehensive nature of all these changes if we are to assess the present evolution, and then to appraise the future.

Fourth, an interesting similarity of the German and Italian submissions was their references to the likelihood of the continuing importance of the international oil companies. Even with the rapid pace of recent change, the international oil companies are going to have an on-going role of very considerable importance. Presumably, this is due largely to the risks which the companies have been willing to take and

to the very large volumes of oil which the internationals have been able to find, move, market and finance—essential requirements for many producing states and for expanding world oil supply.

International oil companies are thought to contribute significantly to the operations and efficiency of the world oil market through their willingness and ability to take risks and their market integrating functions. If this is the case, then transparency of company price might not prove as important to an understanding of recent events as transparency in regard to the functions served by the major international firms. Without an understanding of the rules by which the international companies play, there will be a tendency to focus on areas that may not be meaningful in safeguarding consumer interests.

As was suggested also—and it is an important observation—the hazards of the further politicization of oil should be a determining force in shaping the system and governments' role in it, as these political forces can overwhelm the economics of oil.

In *conclusion,* the *common denominator* of the three submissions and of much of the Ad Hoc Group's discussion was the implicit recognition of the *international interdependent* nature of the system; a national perspective may not be sufficiently broad to indicate where change could truly strengthen the responsiveness of the system to a single nation's interest or whether such change will in effect weaken a link. Serious analysis of the present and prospective roles of national oil entities and the international companies will be necessary to deepen our understanding of the system and to enable us to evaluate it.

351. Paper Prepared in the Office of Policy Development and Analysis, Bureau of Program and Policy Coordination, Agency for International Development[1]

Washington, April 16, 1974.

The Energy Crisis: A Review of the Additional Resource Needs of the Hardest Hit LDCs

[Omitted here are a title page and table of contents.]

I. The Effect of the Energy Crisis on the LDCs

The increase in oil prices announced in October and December, 1973, poses serious problems of economic adjustment for all oil importing countries. For the LDCs, the energy problem combined with scarcity of food supplies will create severe balance of payments and growth problems.

The first problem facing LDCs in the short run is how to finance the increased cost of petroleum and related commodity imports. Most LDCs have been able to assure themselves of oil supplies, but if present prices for crude petroleum are maintained, LDC payments to import the same volume of oil as last year would increase by $9 billion, at a $9–10 price (c.i.f.), while the projected current account deficit at this price is about $22 million.

In addition to the impact of higher oil prices, many of the poorer developing countries are also affected by the reduced availability and higher costs of fertilizer and by higher grain prices in general. The World Bank has recently estimated that LDC imports of cereals increased from an average level of about $3 billion in 1970–72 to over $8 billion in 1973. (Part of this rise reflects an increase in import volumes due to poor harvests in many of the LDCs, although most of the increase is due to higher prices.)

Finally, LDC exports to their markets in the U.S. and other industrial countries may suffer from the projected slowdown in economic activity in these countries in the next few months, thus reducing LDC capacity to meet their projected higher import bill.

The above estimates, however, overstate the magnitude of the real problem in the short run, because a good number of the LDCs may be able to manage financing their increased oil bill for a variety of reasons:

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Energy Crisis, Part 2, April 74. No classification marking. Drafted by Keith E. Jay and Constantine Michalopoulos (PPC/PDA/TP).

—Some LDCs are only marginal net importers or exporters of oil—for example, Mexico, Argentina, Colombia;

—Still others are likely to benefit from increased prices of other raw materials which will compensate them for the increase in the oil price—for example, Malaysia–rubber; Thailand–rice.

—Finally, a few LDCs are favored with both ample foreign exchange reserves and ready access to private capital markets which will help them to meet the higher payments for oil—for example, Brazil; Korea.

The problem is concentrated in a number of LDCs which, in addition to higher food and oil prices, have neither the reserves nor the capacity to borrow, nor do they expect offsetting price increases in their other exports. This short paper outlines the magnitude of the problem faced by these countries and makes an attempt to identify the timing over which this problem will become most severe. The overall discussion concerns only the short run and is limited to projections for 1974 and, in some instances where data are available, for 1975.

II. Problems Faced by the Hardest Hit LDCs

The group of LDCs which can be expected to suffer serious dislocations in the absence of short-run assistance include countries which suffer from a combination of problems. Either they are severely affected by the energy crisis, and/or they find themselves in such a precarious economic position that any adverse impact, such as an increase in oil prices, will generate significant economic dislocations, although the actual increase in oil cost may not by itself create a major financing problem. On the basis of information provided by a survey of U.S. Embassies and A.I.D. Missions abroad, as well as projections by the World Bank and the IMF and our own estimates, the twenty-five countries listed in Table 1 are going to be seriously affected, with the major impact of the financial crisis being felt in 1974 and 1975. The table also shows the amounts of additional outside financing needed for 1974.

Table 1
LDCs Hardest Hit by the Energy Crisis

Bangladesh	Honduras	Sahel Countries:	Sri Lanka
Botswana	India	Chad	Sudan
Cambodia	Ivory Coast	Mali	Swaziland
Chile	Jamaica	Mauritania	Uruguay
Costa Rica	Kenya	Niger	Vietnam
El Salvador	Lesotho	Senegal	
Guyana	Pakistan	Upper Volta	

Projections and a summary table of the financial situation in these countries can be found in the attached individual country tables. De-

tails on each of these countries can be found in Annex 1.[2] For some of the countries only limited data are available; thus it is impossible to provide any meaningful quantitative estimates of the magnitude of the financial problem that they face. However, these countries (Botswana, Cambodia, Guyana, Ivory Coast, Lesotho, Sahel Sudan, Swaziland) are all relatively small, so the total magnitude of their financing requirements is also small by comparison to the needs of the rest of the countries in the group.

On the basis of 1974 projections, the total amount of financing needed for the group of thirteen hardest hit countries on which detailed projections are available is approximately $3.2 billion; to this one must add approximately $200–250 million[3] to cover the needs of the countries on which information is scant, for a total of about $3.4 billion. This estimate is based on projections of exports and imports as well as long-term capital likely to be otherwise available to these countries. Estimates of long-term capital are based essentially on either what was available last year or on more recent 1974 projections for individual countries made by the A.I.D. Missions.

LDCs, however, have at their disposal some means of financing a portion of this gap. It was assumed that they could borrow from the IMF in 1974, at least through their gold tranche as well as one credit tranche. For countries whose IMF position is already in the credit tranches, it was assumed that they could borrow one more credit tranche through 1974. Similarly, it was assumed that countries would use up their reserves at a rate which would result in their holding, at the end of 1974, at most reserves equal to two months' imports (of goods only). These appear to us to be fairly drastic assumptions, but given the predicament that these countries might find themselves in, one could expect that they would take all possible measures at their disposal to address the financing problems they face. After taking account of these possibilities for financing, the *total remaining* amount to be financed is approximately $2.3 billion. Financing of this remainder must be undertaken on concessionary terms, because both the overall credit worthiness of the countries and their precarious financial position almost certainly preclude their being able to obtain this financing on commercial terms; and even if they were able to finance some portion of this through borrowing on commercial terms, it would be inadvisable for them to do so.

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[2] The tables and Annex 1 are attached but not printed.

[3] This estimate is based solely on the projected increased cost in financing oil imports for these countries. It was assumed that these countries would maintain the same volume of imports but that their price would rise from approximately $3.40 to $9–12 per barrel, depending on the country's experience. [Footnote in the original.]

For 1975 it is impossible to obtain quantitative estimates of the financing needs of the countries involved. However, it must be stressed that if in fact they draw down their reserves in a manner assumed during 1974 to meet their urgent financing needs, then they would obviously be less able to finance recurring deficits in 1975. The same, to some extent, holds true for obtaining financing from the IMF through 1975, although it could be assumed that one additional credit tranche could be obtained from the IMF for that year.

The largest financing difficulties will be faced by India, Pakistan, Jamaica, and Chile. These countries are likely to account for 80% of the total additional financing needed in 1974. For some of these countries there are some possibilities of obtaining financing from OPEC. Specifically, the most certain of these arrangements is the one between Iran and India, where India would be expected to obtain approximately $100 million worth of financing assistance for oil in 1974 and a similar amount in 1975. Additionally, a similar-sized credit is being negotiated with Iraq which, however, has not yet materialized. Chile is certain to obtain a major debt rescheduling this year. It is also possible that the Central American countries will obtain financing from Venezuela; however, since much of this funding is expected to be through the IDB, it is likely to be long-term and project-oriented. While preliminary discussions between these countries have already occurred, no actual credit arrangement has been concluded as of the present date. Pakistan may also obtain financing from some OPEC countries, but no agreement is known to exist at present.

III. Timing

It is expected that most of these countries will face a financing problem in late 1974, with the most urgent need arising in Chile, India, Pakistan, Jamaica, and Bangladesh. Additional details on timing of the problem can be found in the discussion of the individual countries in the attached tables and Annex 1. There are some countries which are likely to be able to manage through 1974, for a variety of reasons, but may face difficulties starting in 1975 if present import price levels are maintained. These include Uruguay, Kenya, and Central America.

352. Briefing Paper Prepared in the Department of State[1]

Washington, May 1974.

Background Paper

STATUS OF ENERGY COORDINATING GROUP ACTIVITIES AND PROSPECTS FOR PRODUCER-CONSUMER CONFERENCE

At the last ECG meeting,[2] broad acceptance was obtained for the US-proposed concept of an integrated emergency program (IEP) as the centerpiece of the ECG exercise. Although no country was willing to make an explicit commitment until the various elements of this approach are developed and agreed to in greater detail, all delegations accepted in principle the political desirability of an integrated package including emergency conservation measures, stocks, emergency production (where possible) and sharing. At the same time, there emerged a general sensitivity that an IEP agreement not introduce any new element of confrontation into consumer-producer relations. By the time of the next meeting, scheduled for mid-June, interim reports will be completed by OECD and ECG working groups on sharing, conservation, the petroleum market outlook and other subjects essential to the integrated approach. This will enable the ECG to have an in-depth discussion of all the issues involved with the objective of reaching intergovernmental agreement on the principles and elements of an IEP.

Problems have arisen in two areas. Major differences have emerged in the work of the group on the role of the international oil companies. The disparity between rising product prices and the major oil companies' sharp increase in profits have made this a political issue for several ECG governments and has reinforced demands for greater "transparency" in oil company operations. Some countries also seek to deal in this ECG Working Group with the issue of access to crude supplies by the non-integrated oil companies. There is also some concern within the ECG that the announced USG decision to transfer uranium enrichment technology from the public to the private sector might delay or even block implementation of the Secretary's offer at the Washington Energy Conference to share this technology with other ECG nations.[3]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 937, VIP Visits, Visit of Prince Fahd. Confidential. This paper was part of the briefing material for Prince Fahd's visit to the United States June 6–7.

[2] May 2; the meeting report is telegram 2731 from Brussels, May 3. (Ibid., RG 59, Central Foreign Policy Files)

[3] See Document 338.

At the May ECG several countries noted that their bilateral contacts with producers and discussions at the UNGA special session[4] had revealed an absence of producer interest in an early meeting with consumers. It was generally agreed that a producer-consumer conference did not appear likely in the near future. The ECG agreed, however, that it should maintain a public posture of preparing for such a meeting.

US Position

We are committed to a constructive, cooperative and well-prepared discussion between consumers and producers. We recognize that there are significant differences among producers, and we are willing to consider suggestions—such as the Yamani proposal for a preliminary meeting of a small group of producers and consumers—that will advance our objective of laying the groundwork for better understanding with producers.

[4] The sixth UNGA Special Session, requested by Algeria, on raw materials and development met from April 9 to May 2. It adopted Resolution A9556, a Declaration on the Establishment of a New International Economic Order and a Programme of Action on the Establishment of a New International Economic Order.

353. Memorandum From the President's Deputy Assistant for International Economic Affairs (Cooper) and Harold H. Saunders of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, June 5, 1974.

SUBJECT

Oil Discussions with the Saudis

Introduction

The economic and political problems caused by present high prices for oil in world markets are very serious. Saudi oil policy can almost certainly bring such prices down. We recognize your desire not to hammer on oil issues during Prince Fahd's visit,[2] but the issue is of such

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 631, Country Files, Middle East, Saudi Arabia, Vol. 6. Secret. Sent for information. A handwritten notation reads: "K has seen. BS."

importance that we believe you should find a low-key way of raising it both here and during the President's trip.[3] We believe that not mentioning oil will have an adverse effect since these talks are billed as a frank exchange on all matters on either side's mind. This memorandum sets forth why such an approach is desirable and how it might be accomplished.

Background

1. *Cheaper oil is needed.* Present oil prices are creating serious economic problems worldwide. They are a major source of serious inflationary pressures, and are creating difficult balance of payments problems. A general slowdown in world economic growth is occurring, and high oil prices are one of the underlying causes. While our own economic strength is relatively invulnerable, the open world trading and monetary system are less secure. Within the Administration there are varying views as to how serious the world's economic problems are likely to get during the next year, but there is no disagreement that a significant reduction in oil prices would be extremely beneficial.

Economic performance is not all that is at stake. Highly uncertain economic conditions which threaten to deteriorate provide an added cause for political conflict. We are already seeing a conflict between the so-called developing nations and the community of advanced industrial countries. Perhaps even more serious are the growing signs of political and social conflicts within countries. Present economic conditions—high rates of inflation, balance of payments difficulties, major structural adjustments, relatively sluggish growth—are a major source of the domestic political and social discontent evident in most developed countries, as well as in many developing nations. In many friendly countries, increased oil prices are wiping out the benefits of U.S. aid, and we are being asked to help meet deficits far beyond our aid appropriations. If we cannot respond, this will have a negative effect on our relationships.

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[2] Prince Fahd visited the United States June 6–7. According to telegram 121857 to Brussels, June 9, the "basic focus" of the meetings was to lay the basis for a long-term bilateral relationship. Additionally, "we were at particular pains to structure a dialogue on the medium and long-term evolution of demand and supply for oil, and expect to develop close exchanges in this area. Saudis are under no illusion as to the importance we attach to a movement toward lower oil prices. Equally, they are committed to maintaining OPEC." (Ibid., RG 59, Central Foreign Policy Files) Documentation on Fahd's visit is scheduled to be published in *Foreign Relations,* 1969–1976, volume E–9, Documents on Middle East Region; Arabian Peninsula; North Africa, 1973–1976. No specific oil proposals were discussed.

[3] Nixon was in Saudi Arabia June 14–15. According to the several memoranda of conversation from Nixon's visit, oil and energy issues were not discussed. (National Archives, Nixon Presidential Materials, NSC Files, Box 1029, Presidential/HAK Memcons, Memcons, 1 June–8 Aug 74)

2. *Saudi Arabia is the key to world oil prices.* Saudi oil production now is restricted to roughly 8.9 million barrels a day, some 1.7 million barrels a day below present capacity, which is growing. If the Saudis remove this political restriction, press forward with planned increases in capacity and production, and insist that all available Saudi oil is put on the market, oil prices will drop, probably falling substantially over the next 24 months. If, however, the Saudis were to decide to cooperate with other OPEC members to maintain or raise the price of oil, they could curtail their own production enough to successfully support high oil prices for the next three or four years. Market conditions are basically favorable to lower oil prices, but the Saudis are the swing factor; they can either permit market forces to bring down prices for several years or they can offset market forces and keep prices high.

3. *Long-run coincidence of economic interests.* In the short-run, Saudi economic interests can be equally well served by high prices and low output, or increased output at lower prices. Over time, however, the Saudis stand to lose if prices are kept too high. The Saudis must consider how much oil in the ground will be worth in coming decades, and it won't be worth very much if high short-run prices lead to production and consumption adjustments in the U.S. and other industrial countries which greatly diminish the future market for Saudi oil. Because of their vast oil reserves, they are more vulnerable to a loss of their market in the 1980's and 1990's than to overly rapid dissipation of their reserves. [2 *lines not declassified*]

From the U.S. point of view, reliable Saudi supplies of oil would make it possible to develop higher cost sources of energy more gradually. We don't want to produce expensive energy if cheaper and reliable oil imports are available. The pace and substance of Project Independence[4] is, in this sense, negotiable. A similar situation prevails in other countries. It's in no one's interest to let a worst-case world develop in the 1980's in which cheap Middle East oil stays in the ground losing value while expensive energy substitutes are being produced at high costs elsewhere in the world.

4. *Immediate oil price issues.* Due to reduced demand in oil consuming countries, market forces are creating a situation of potential oil surplus in 1974, a situation that would ordinarily lead to moderate price reductions. However, the size of this potential surplus (1.5 to 2.7 million barrels per day) is sufficiently moderate to be offset by incremental production cutbacks established by government fiat or by company practices. Such offsets would prevent oil prices from falling. Moreover, at the OPEC Conference in Quito on June 12 there will be

[4] See Document 237.

an attempt to reach agreement on adding an inflation adjustment to present agreed price levels, and to create tax methods that would permit OPEC members to tax away present high company profits. Either of these actions would serve to raise oil prices, but would eventually have to be supported by more pronounced production cutbacks.

Yamani has privately floated a new Saudi proposal which would involve auctioning two million barrels a day of Saudi oil. If this proposal is implemented so as to increase Saudi production significantly, it could put real downward pressure on prices, and be a major step in resolving the short-run oil price problem in the world. Even if other OPEC countries were to attempt to extract higher revenues through tax and inflation adjustments, Saudi production increases would keep market prices near, and probably below, present levels. Though Yamani's proposal may be opposed by some members of the Saudi Government who favor conservation, the non-confrontational character of an auction should ameliorate some of the intra-OPEC criticism that other Saudi measures might entail.

5. *Potential foreign policy benefit to the U.S.* If Saudi oil and investment policies were to be carried out with evident concern for their effects on the world economy, and this responsible behavior were seen to flow in major part from the establishment of a close political relationship between the U.S. and Saudi Arabia, the U.S. role in the world would be greatly enhanced. Other nations are obsessed with their relative vulnerability to oil market developments and the possibility that when all is said and done the U.S. will go it alone. Anything we can do to show that as a result of our influence the economic threat to other countries has been diminished would restore confidence that in economic affairs, as in security affairs, partnership with the U.S. was the only productive course. Our ability to develop a productive special relationship with Saudi Arabia would have spill-over benefits extending far beyond the bilateral interests of our two countries.

The Approach to the Saudis

This is the right time to encourage the Saudis to act to bring down short-run prices and to get assurances about Saudi supplies in the future. The political climate as a result of the Syrian front disengagement is favorable; Prince Fahd's visit precedes the scheduled OPEC meeting a week later, and gives us a chance to influence the Saudi position there; and the President's trip to the Middle East offers an opportunity for personal diplomacy with Faisal which could be very productive.

We want:

—Saudi actions to increase production now which in a soft market are likely to bring prices down;

—assurances about future Saudi production and supply policies based on our mutual political and economic interests.

Both during Fahd's visit and the President's trip we should emphasize our genuine political interest in a special relationship with the Saudis.

The issues on which we shall be dealing with them are at the heart of current worldwide economic problems—oil price and supply, investment and monetary policy. We can only have the close and confidential exchanges necessary on these subjects if we develop an atmosphere of trust among the most senior economic officials on each side (supported by a similar political structure). We must make it clear to the Saudis that we want an unusual and special relationship with them, that this is not a cosmetic bilateral arrangement with occasional attention from our cabinet-level officials.

Points to emphasize:

1. The sincerity of our interest in a durable special relationship with the Saudis embracing all areas of mutual concern—political, security, and economic.

2. Our appreciation of Saudi Arabia's economic importance to the rest of the world—Saudi oil and investment policies in the next several years will be of critical importance to the performance of the world economy.

3. Our desire to see lower oil prices—not just to benefit us, but to strengthen the political fabric of the Western community.

4. Our belief that we and the Saudis have a common interest in assuring a long-term market for oil at a reasonable price, and that this common interest can be made sufficiently clear to be taken into account when the basic elements of Project Independence are set in place later this year.

5. Our recognition that Saudi Arabia has become a major world monetary power, and our desire to achieve the same sort of close and confidential relationship with them in financial matters that we have with Germany, the UK, Japan, and other leading industrial nations.

6. Our political, security, and commercial interests in assisting the industrialization and development of Saudi Arabia, and our willingness to do so in ways and at the tempo desired by the Saudis themselves.

7. Our desire to cooperate with them in organizing productive consultations between oil producing countries and major oil consuming nations and to take their views and requirements into account in our own cooperative efforts in the Energy Coordinating Group.

Once the political framework is solidly established, Bill Simon can pick up the ball on implementation. It would be desirable during the Fahd visit to arrange a restricted meeting between the key Saudi officials and Simon, Enders, and Akins in order to have a frank and comprehensive discussion of economic issues. Such a meeting should be supra-technical and designed to identify not only the key technical is-

sues of concern to the Saudis, but also the potential for concrete results during the President's visit. Subsequent to the Fahd visit, it would then be possible to move quickly to specific recommendations for Presidential initiatives.

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354. Memorandum From James H. Critchfield, Special Assistant to the Deputy Director of Operations, Central Intelligence Agency, to the Ambassador to Iran (Helms)[1]

Washington, June 9, 1974.

SUBJECT

Conversations with Iranian Officials on Energy Matters—4–8 June 1974

1. During my visit I discussed energy matters with The Shah, with Dr. Parviz Mina of the National Iranian Oil Company and with Dr. Bagher Mostowfi, the managing director of the National Petrochemical Company. Also I had the opportunity to visit Abadan and Kharq Island as a guest of NIOC. The value of my visit was enhanced by conversations on energy-related matters with you, Jack Miklos, Bill Lehfeldt and Dave Patterson.

2. All the Iranians expressed the view that the nations of the world have not yet joined in a serious common effort to resolve the energy crisis; they view the ECG exercise as not very important and probably not relevant to what they see as the main issues. (*Comment:* Actually some of the ECG and OECD work may eventually be useful in consumer-producer talks; but I agree with their view that this is a pretty indirect approach while critical time is passing.)

3. It is my impression that the Iranian focus on the problem of resource depletion has sharpened; there seems to be a greater sense of urgency about preparing for the time when oil production will fall off sharply. Keeping prices up clearly has priority over increasing production. There seems to be agreement that they should take steps now to maximize the conversion of oil and gas to petrochemicals to achieve maximum revenue with a stretch-out in the period of high income from exported products.

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[1] Source: Central Intelligence Agency, National Intelligence Council Files, Job 80–B01495R, Box 5. Secret. Copied to Colby under a June 15 covering memorandum from Critchfield. (Ibid.)

4. Iran, like *all* OPEC members, will not have a revenue crisis if crude export levels are cut. All OPEC nations will prefer to sell less oil while attempting to maintain a rigid price structure. I detected no evidence that Iran will go for higher prices at Quito. But Iran may stimulate the others to revive some version of the Geneva Agreement in which inflation in imported products could be reflected in oil prices. I would not expect action on this at Quito[2] because the necessary research to make a case has probably not been done by OPEC or any OPEC government.

5. I made the point with Dr. Mina that world-wide production probably is outrunning consumption, that stocks are fairly high and it is likely that the majors may have to cut back selectively in liftings in the months ahead. In a sense this would be a replay of the 1967–68 situation when the Shah was pressing for an increase of about 18% in offtake with the companies arguing that growth in demand was only 6%. I asked Dr. Mina whether Iran would now, with excess revenues, be relaxed about reduced liftings if the OPEC price held. He said that they would settle for selling less while keeping the price high.

6. The Shah came on fairly strong in the need to convert to nuclear power for electric utilities as rapidly as possible, to get the American companies and the USG involved in the program and to initiate a reshaping of Iranian consumer and transportation demands to increase reliance on electricity and reduce internal Iranian use of oil and gas as fuels. The Iranians appear genuinely convinced along the Shah's line of "nobler purposes" in mankind's consumption of fossil fuels.

7. Here and in Washington there is a great deal of fuzziness about how much oil and gas Iran has. The relationship between price levels and proved reserves becomes particularly important. Both OECD and USG studies on supply and demand show that current prices will make a low demand on most OPEC production a decade ahead. [*less than 1 line not declassified*] the conclusion that the Saudis would maximize returns by limiting production to a low of 3 million bpd and a high of 8 million bpd caused consternation in Washington. In the brief exchanges I had with Iranians here, I did not get the impression that in their forward planning they have really hoisted aboard this developing consensus among the economists about the low value of a barrel of oil in 1980–90.

8. The Embassy and the Iranians appear to agree that Iran may be on the threshold of some very large non-associated gas discoveries. Dr. Mostowfi was painstakingly conservative, however, in projecting the decline of crude and gas production and the switch to petrochemical product exports. His footnote was simply that if they found more gas

[2] OPEC met in Quito June 15–17.

the time frame would be advanced into the 21st century. There seemed to be general agreement that associated gas would be consumed in reinjecture to maintain efficient reservoir practices and would not now figure in gas projects.

9. The Iranians are consistent in asserting that:

(a) The high price of oil has done a service to the world by creating financial circumstances that will force the industrialized consumer nations to give high priority to R & D in alternative sources of energy.

(b) The cost of a unit of oil or gas must be limited to the cost of alternative sources of energy.

(c) By rigidly maintaining an intolerably high price for oil, OPEC is forcing the consuming societies to urgently overhaul the existing profligate practices for consuming non-replaceable fossil fuels.

(d) The consumer nations must sit down with the OPEC nations and work out a formula relating the cost of oil and gas to the cost of other major commodities traded on the international market.

(e) The dialogue among the ECG nations is not the answer and is largely irrelevant to (a) thru (d) above.

(f) International action to halt runaway inflation is essential.

10. The Iranians do not appear to be impressed by what I described as King Faisal's genuine concern that the balance of payment deficits may weaken the European economy to the point where the radical left-wing of European Socialist Parties and the Soviet Union may make major gains that will weaken the entire free world. Faisal has been advancing this view recently in telling his aides that the new bilateral deal with the U.S. (Fahd's current trip to Washington)[3] must not be at the expense of the threatened Western Europeans.

11. If the Exxon letter[4] made an impression on the Iranians, it was apparent only in the nuances of their comments. No one attacked the companies. No one mentioned "excess profits." No one asserted that the OPEC meeting in Quito should produce a price increase. No one mentioned the Exxon letter. My comment to Mina that the companies were probably making 75 cents to $1.50 profit at various times in 1974 did not get a reaction at all.

12. Finally impressions of Abadan and Kharq Island: I saw only one American in any of the facilities at Kharq—an engineer sitting side by side with what appeared to be a competent Iranian in the control room at the petrochemical plant. The psychological consequence of OSCO as a replacement for the consortium operating and marketing company (Dutch) was observable. The Iranians involved clearly understand what

[3] See footnote 2, Document 353.

[4] Not further identified.

the Shah meant when he said it would make a difference. The capacity of Kharq Island, given the prospect for export below the projected 8 million bpd level, is probably adequate. It appears to me that Kharq is from now on only a maintenance problem, the contribution of American technology has been made. I was told that the Iranian engineer running the T-jetty control room probably gets the equivalent of $12,000 a year. Dr. Mina told me that the substitution of an Iranian for an American cuts salary costs to one-third. He emphasized that decisions to do so are not based on nationalism but on competence to assume the responsibility.

13. Finally, I could observe that a great amount of knowledge and information on Iran's energy industry and policies reaches the Embassy—and never gets to Washington. Stated otherwise, I heard a lot in Iran that I have never heard in Washington or seen in cables, dispatches etc. Conversely, we sit on a lot of information that would be helpful to the Embassy. I leave Iran determined to do something about improving communications. In the final analysis there is nothing like a visit. I am grateful for all the help you and the Embassy gave me.

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355. Minutes of the Acting Secretary of State's Principals and Regional Staff Meeting[1]

Washington, June 10, 1974, 3 p.m.

[Omitted here are the Summary of Decisions and discussion unrelated to energy.]

Mr. Sisco: Tom—next steps in energy coordination.

Mr. Enders: Joe, as you know, at the last ECG meeting, which was May 2, there was a general agreement to push ahead with something which was generally described as an integrated emergency program.[2] Nobody had a very precise blueprint of what might be involved at that time. And the next step in energy coordination is to provide that blueprint.

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[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Box 718, Secretary's Staff Meetings, 6/74. Secret. According to an attached list, the following people attended: Sisco, Brown, Sonnenfeldt, Lord, Maw, Kubisch, Stearns, Hartman, Sober, Enders, Anderson, Hyland, and Easum.

[2] See Document 352.

The ECG meets again next Monday.[3] And we have for that meeting a detailed proposal which should enable us to find out how far other countries are going to be able to follow on a U.S. lead to organize a consumers' group. Our instinct has been all along that an emergency sharing mechanism and an emergency program were the essential elements required to define a consumers group. What we are putting forward is a rather tight arrangement which is designed to be internally self-contained, would be a balance of advantages for the countries involved in the ECG. And it would not be an arrangement to share American oil in return for an agreement by the Europeans and the Japanese that there should be a consumer grouping.

There would be three main elements in the proposal. One of them is a stockpiling target for all countries, including the United States, with the understanding, however, that that target could be met by other forms of standby supplies, such as standby oil production and fuel switching, and additional conservation measures, some flexibility on that.

Secondly, there would be a package of emergency demand constraints enabling all countries to live with a short-fall of oil. This would be pre-positioned, pre-negotiated and pre-positioned.

Thirdly, there would be a mechanism for sharing available oil in the case of an emergency on the basis of the constraints implied by the stockpiling and by the emergency demand undertakings.

The way this is structured, only in the most extreme emergency, that is to say with almost all of OPEC production out, would the United States be called on to share any of its domestic production with the Europeans.

Now, this proposal, which would also protect us against a selective embargo—drafted to protect us against a selective embargo, as well as protect the group against a general embargo—is tight. It may be more than the Europeans can undertake. We still have to get full interagency agreement on it, with the chief problem likely to be OMB, which has yet to accept fully the notion that there should be an integrated emergency package.

We have an inter-agency meeting on this tomorrow and expect to be able to get out the paper to the other members of the group ad referendum by tomorrow night.[4]

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[3] June 17. The ECG met in Brussels June 17–18. Reports on the meeting, at which an ad hoc working group was set up to consider the U.S. proposal for an integrated emergency program, are in telegrams 4228 and 4283 from Brussels, June 18. (National Archives, RG 59, Central Foreign Policy Files)

[4] The paper has not been found. A preliminary version of the U.S. proposal was transmitted in telgram 124240 to the EC capitals, June 12. (Ibid.)

Mr. Sisco: How do you—and maybe Art might want to comment on this as well—Art, how do you relate this, if you do at all, to this whole EC-Arab dialogue? And what did you find in Europe in terms of whether they think this whole energy conference approach of our own is dead, in limbo, we have eased off as a result of the disengagement agreement, we are not as worried about the embargo, we are going ahead on bilateral agreements with Saudi Arabia. What do you find?

Mr. Hartman: Well, I think the more senior levels think that we have eased off. The technicians, I think, who are aware that something is coming along, and it might be proposed at the next meeting, are waiting to see what that is. And I sense that people are more interested now in consumer cooperation, if not an actual consumer group that stays in being. None of them are very interested in getting into a negotiation, at least a group negotiation. And they all think that the new French Government is going to change its position and be very interested in at least aligning its policy with the consumer group.

Mr. Sisco: Look at Schmidt—again, I mentioned it at the small meeting this morning—look at that telegram reporting Schmidt's conversation with Marty.[5] This to me said this man is talking along the lines we have been talking. I don't mean in the real formal sense, but certainly the thrust.

Mr. Lord: He always has.

Mr. Hartman: He is reporting also that Giscard[6] thinks along the same lines. I think that they are interested. I think they have some question marks in their minds, as to whether or not the package like the one that Tom is talking about is in fact going to get not just U.S. executive branch concurrence, but congressional concurrence, if it has any real obligations in it.

Mr. Sisco: Strangely enough, the very fact that the pressure has been lessened as a result of our disengagement agreement, as a result of the fact that nobody thinks that an embargo is going to be reapplied in the foreseeable future, may very well get these Europeans among other things to sit down and look at this in a little more of a depoliticized context and under less pressure.

Mr. Enders: But is this the right time?

Mr. Lord: Have we put numbers in this proposal?

Mr. Enders: We haven't made a decision as to whether—whether we get agency clearance on that. But secondly, whether it makes tacti-

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[5] Ambassador Martin J. Hillenbrand. Telegram 9084 from Bonn, June 7, reported on the Ambassador's meeting with Chancellor Helmut Schmidt. (Ibid.)

[6] Valéry Giscard d'Estaing, President of France.

cal sense to put the numbers in at this time. But the principles will be there, and they are tightly drawn.

Mr. Sisco: Tom, for my education, send it along. I would like to read it.

[Omitted here is discussion unrelated to energy.]

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356. Paper Prepared in the Office of Economic Research, Central Intelligence Agency[1]

Washington, June 28, 1974.

Impact of High Oil Prices on Inflation and Output

Summary

The sharp rise in oil prices has greatly worsened the economic outlook for the non-communist world. It has caused sharply higher rates of inflation in industrial countries while also causing a slump in industrial output and sharply reducing consumers' real incomes. Over the next year or so, output is likely to remain depressed while inflation continues at a rapid rate. In the longer term, economic growth rates will be much slower than in the past, as resources are used to reduce oil consumption rather than to expand capacity. Because of high energy prices' impact on food production and slowed productivity gains, inflation is likely to continue at a rapid rate.

In the developing countries the impact will be even more severe. Since they have little scope to reduce oil consumption or develop alternative energy sources, continued high oil prices will force them to reduce capital goods imports and slow their economic growth. For some of the poorer countries—those already facing great difficulties feeding their burgeoning populations—the impact will be particularly cruel. They have been relying upon increased fertilizer application to boost farm output, and they could face enlarged food shortages. Since world food stocks are depleted, any sizeable drop in food production could result in regional famines. If some relief is not soon forthcoming, their continued solidarity with oil producers in international forums is doubtful.

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[1] Source: Central Intelligence Agency, Office of Economic Research, Job 80–T01315A, Box 41. No classification marking. All figures and tables are attached but not printed. An attached June 28 memorandum for the record states that this report was forwarded to Treasury Secretary Simon that day.

1. The rise in oil prices since October 1973 has sharply dimmed growth prospects in the world's major industrial countries and greatly added to inflationary pressures (See Figure 1). These countries now have to pay an additional $60 billion annually for their oil imports. The contractionary impact on consumer purchasing power has been reflected in a downturn in world industrial output in recent months. The slump has been particularly marked in durable consumer goods industries (See Figure 2).

2. World industrial output probably will suffer a further severe drop in the months ahead with some countries hit harder than others. Thus far, retail sales have slumped much more sharply than output, leading to a rapid growth in business inventories in most countries (See the table). Because of the need to reduce these excessive inventories, there is a real danger of a further drop in industrial output. This would cause a further downward spiral in demand and output. Moreover, because high-priced oil will radically shift the allocation of new investment, economic growth will slow over the long run as well.

3. Higher oil prices have greatly accelerated the pace of world inflation (See Figure 3). In addition to its direct impact on consumer prices, high-priced oil has sharply boosted industrial costs and prices. This is bringing about a wage explosion in industrial countries, as workers strive to recoup real income losses. This in turn will boost prices still more, since these wage increases will be reflected in higher unit-labor costs. Productivity already has been depressed by the contractionary effect of high oil prices.

4. Burgeoning trade deficits have severely limited the options open to economic policymakers in the industrial nations. Italy and Denmark are having great difficulty financing their oil payments and have strengthened their restrictionary policies. Japan has squeezed its economy so tightly that GNP fell 5% in the first quarter of the year. Expansionary fiscal and monetary policies would stem the slump in consumer purchasing power and output. Such action, however, would also worsen balance-of-payments crises unless nations expanded in concert.

5. Financing large trade deficits is proving to be difficult and expensive, in part because of lenders' insistence on highly liquid investments. As a result, the industrial nations are all simultaneously taking steps to further restrict demand. Restrictive policies will greatly aggravate the slump in output—already the worst since the 1930s for some countries—and delay recovery.

Long-Term Effects of High Oil Prices

Growth and Energy Demand

6. The present high level of oil prices will have far-reaching consequences for the world economy. Future output growth will be much

slower than in the past. Because high oil costs will shift investment into development of alternative energy sources and energy-saving manufacturing processes, new additions to industrial capacity will be limited. Japan, for example, is planning to restrain output until late 1975—holding growth close to zero—and then planning for output rises of only 5–6% annually, compared to the 9–10% average of the past decade. In addition, the composition of consumer demand will shift away from high energy-consuming goods.

7. The result will be a slow rate of economic growth and an even slower rate of growth in energy consumption. Alternative energy sources probably will grow faster than total energy demand. World oil demand will be hard-hit and oil import demand will probably fall. Germany and France, Europe's biggest oil consumers, have developed plans to greatly reduce the future rate of growth of energy consumption. These plans also call for a much greater reliance on nuclear energy and an actual reduction in oil imports over the next decade. Because of growing North Sea and Alaskan output, import needs will fall in both the UK and the US, even if they do not restrict consumption as severely as Germany and France.

Inflation

8. The outlook for a substantial slowing in the current high rate of inflation is poor. Indeed, the next few years are likely to witness a continuation of recent trends toward both higher inflation and unemployment (See Figure 4). The outlook is particularly poor because of the impact of high energy costs on the extremely tight world food situation.

9. Agriculture, particularly in the developed countries, is highly dependent upon large amounts of energy-based inputs, especially nitrogen fertilizer. Fertilizer shortages already have contributed to higher food prices. Because of the quadrupling of oil-based fertilizer prices, food prices will have to undergo a further hefty increase if farmers are to be induced to maintain application rates and yields. Continued rapid increases in food prices, in turn, will fuel large wage demands in industry.

10. Several factors will serve to boost industrial prices as well. Because of slower capacity growth, any upturn in demand resulting from a reversal of current demand-management policies would run into capacity constraints and further increase inflationary pressures. Given the highly unionized structure of manufacturing and the current push by labor to recover losses in real income, higher wage costs will be built into future manufactured goods prices. The impact of higher wages is likely to be more severe than in the past because of reduced productivity gains, which traditionally have offset much of the rise in wage costs.

Impact on the Developing Countries

11. The impact of high oil prices on the developing countries is particularly severe. These nations have little scope for economizing on oil use without reducing production of essential goods, since only a very small amount of their consumption is frivolously consumed. The impact has been particularly cruel in those countries that have been depending upon modern fuel based inputs to boost food production. Fertilizer price rises and shortages have dimmed the crop outlook this year, as have shortages of fuel for tractors and trucks in rural areas.

12. Several of the poorer developing countries have been walking a thin line in trying to feed their burgeoning populations. Most recently they have pinned their hopes to the new high-yielding varieties, which require carefully measured and timed fertilizer applications. The recent disruption of fertilizer supplies and skyrocketing prices may help push some of those countries over that line. Because world grain stocks are at their lowest levels in the last 20 years, traditional exporters such as the US do not now have supplies to provide to avert famine if crops fall short this year.

13. The long-run impact on the developing countries will be severe even for those who do not face immediate difficulties in feeding their population. The oil price augmented slumps and inflation in the industrial countries will rebound with doubled force against the developing nations. Slower growth in the industrial countries will inevitably result in reduced demand for LDC exports of raw materials and declining raw material prices. The current efforts by many groups of raw material suppliers to emulate OPEC will probably fail, particularly if demand remains depressed for a substantial period. At the same time, inflation will continue to boost the cost of their imports of capital goods and food.

14. The result will be much slower growth and a widening of the already large gap between developing and developed nations. Although the developing countries are pressing the industrial states for more aid, it will soon become apparent to them that their plight is not likely to be significantly eased by increased lending from the industrial countries, who will continue to face great balance of payments and employment problems.

15. The result will doubtless be a growing awareness by developing nations that high oil prices must be reduced. Developing nations will soon identify the oil producers as the source of the world's economic ills, and begin to oppose them in international forums.

357. Paper Prepared in the Office of Economic Research, Central Intelligence Agency[1]

Washington, July 1, 1974.

The Buyback Issue

Background

1. Increasing producer government ownership of Western oil company operations within their borders has injected a high degree of instability into the world oil market. Arbitrary demands (unrelated to market forces) by the producer governments regarding prices for government-owned oil sold back to the companies—buyback oil—have caused prices to rise even higher than expected this year.

2. The buyback price of government oil is not an issue in most OPEC countries. Differing types of arrangements such as the production-sharing pacts in Indonesia and nationalizations in Algeria and Iraq obviate the need for buyback price discussion in those countries. Venezuela presently has no participation in the companies operations and therefore no buyback oil. These countries are affected, however, by buyback agreements in other countries because the buyback prices are taken into consideration when Algeria, Indonesia and Iraq set their sales prices and in Venezuela's case when it sets its tax reference values.

3. Iran is a special case. Tehran achieved full operational control over its industry in March 1973 and sells most of its oil back to the Consortium on a 20 year contract. Iran's price is adjustable through a "balancing margin" designed to give Tehran financial equivalency with the per barrel revenues of other Persian Gulf countries. The balancing margin was recently adjusted retroactive to 1 January 1974 to take into account the Qatar agreement for 60% government participation and a buyback price of 93% of the posted price.

4. Buyback price negotiations have been settled in Libya, Nigeria and Qatar. Libya agreed to a buyback price equivalent to 85% of the posted price for May through September 1974. Nigeria sold most of its participation oil back to the companies at 90% of the posted price during the second quarter this year. Libyan and Nigerian posted prices are substantially higher than postings in Persian Gulf countries because of

[1] Source: Central Intelligence Agency, Office of Economic Research, Job 80–T01315A, Box 41. Confidential. An attached July 1 memorandum from Walter J. McDonald, Chief, Industrial Nations Division, Office of Economic Research, to Thomas Enders, Assistant Secretary of State-Designate for Economic and Business Affairs, notes that this analysis had been prepared for Treasury Secretary Simon as Enders had requested. (Ibid.)

higher quality oil in the two countries and their transportation advantages to the major oil markets of the United States and Western Europe. The lower percentage buyback prices agreed to in Libya and Nigeria still yield per barrel oil revenues much higher than the equivalent of 93% of Persian Gulf posted prices and probably reflects posted prices that were too high in the current soft market.

5. Qatar is the only Persian Gulf country known to have a firm buyback price for 1974. The companies agreed to a buyback price of 93% of the posted price for the first half of this year subject to review quarterly.

6. Buyback prices remain unsettled in Kuwait, Saudi Arabia and Abu Dhabi.

Status of Current Negotiations

7. Kuwait has demanded that Gulf and British Petroleum pay 94% of the posted price for government oil lifted in January–May and 94.8% for June. We believe the Kuwaitis recognize their demands cannot be supported by the market but seek the high prices in large measure for domestic reasons and to a much lesser extent for international reasons. The companies have refused to meet Kuwait demands but recently, Gulf has indicated it has little choice but to accept. Acceptance of Kuwait's demands would probably lead to a re-opening of buyback negotiations in other countries and would almost certainly escalate producer demands for the remainder of 1974.

8. The companies have exhibited no compelling urgency to settle with Kuwait. Negotiations over the buyback prices have dragged on for months, leading in part to Kuwait's decision to place its total available participation oil, 1.25 million b/d, on the auction market for the second half of this year. BP and Gulf, who jointly purchase some 1 million b/d of equity oil in Kuwait, did not bid on the auction oil, apparently deciding to forego the oil rather than meet Kuwait's price. BP has indicated it is prepared to await the results of the auction, the deadline for bids was 30 June, before resuming buyback negotiations.

9. Negotiations are underway in Abu Dhabi but they appear to be concentrating on the percentage of participation ownership by the government. Abu Dhabi is likely to follow the lead of Kuwait and Saudi Arabia on buyback prices.

The Auction: A Complicating Factor

10. If Kuwait's auction is successful—the bids closed on Sunday 30 June—it would make the question of providing compensation oil to the companies moot. Presumably the purchasers of the Kuwait auction oil would largely be former Gulf/BP customers—chiefly Japan—or other oil companies who would supply those customers. Gulf/BP would lose part of their share of the market.

11. On the other hand, should the auction fail partially or completely we believe Kuwait might well cut production by the amount of oil they are unable to sell at their asking price. With world oil supply currently outpacing demand by 1.5 to 2 million b/d we believe it unlikely that even a full cutback of 1.25 million b/d would lead to shortages although it would firm up spot and auction prices.

How Could the Companies be Compensated?

12. If Gulf and BP lose access to Kuwait buyback oil they are unlikely to be able to increase their production in other countries. Other than in Kuwait, the bulk of the world's unused oil productive capacity is controlled by the governments of Libya (1 million b/d), Iraq (500,000 b/d) and Saudi Arabia (1,700,000 b/d); the official excess capacity is 700,000 b/d. We believe that Libya and Iraq probably would be willing to sell the companies additional oil but at a price as high or higher than that demanded by Kuwait.

13. The proposed Saudi auction could make additional oil available to the companies. If part of the auction oil is supplied by new oil production it could offset all or part of the Kuwaiti reduction. We see no reason why Gulf and BP could not bid on Saudi auction oil if they wished and probably at a price of 93% or less of the posted price.

Conclusions

14. We see no compelling reason for Gulf and BP to cave in to Kuwait's current demand for an increase in the price of buyback oil. They could drag out negotiations and the expected weakening of market prices could take the force out of Kuwait's demands.

15. Moreover, the companies have already decided in effect that they could do without buyback oil by not bidding for Kuwait's auction oil which is after all the buyback oil the companies have been selling.

16. Even if Kuwait cuts production by the full 1.25 million b/d up for auction there will be sufficient oil production elsewhere because supply is outrunning demand by between 1.5 and 2 million b/d.

17. Gulf and BP may lose part of their market share because they have little or no excess capacity available to them elsewhere. If the companies attempt to maintain their share of the market by buying oil from Iraq or Libya it will be high priced. The companies presumably can also bid for oil in the Saudi auction to be held later this month. The Saudi price probably will be no higher than 93% of posted prices and it could be lower.

18. In view of the above, there would seem to be no need for a consumer government scheme to replace Kuwaiti buyback oil no longer available to Gulf or BP. Moreover, such a scheme could be counterproductive. It would raise the buyback negotiations from an economic

issue to a political one. We believe that any such effort of backing the companies, which could not be kept secret, would be viewed as a confrontation by the producing countries. Even Yamani (and King Faisal) who are working to lower crude prices would object to such a consumer scheme and almost certainly would support an OPEC action to counteract it.

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358. Summary of the Council on International Economic Policy Executive Committee Meeting[1]

Washington, July 2, 1974.

[Omitted here is summary material on International Capital Markets.]

II. *Most Seriously Affected LDCs:* It was agreed that on the issues related to the LDCs most seriously affected (MSAs) by the increase in oil and other prices that:

(1) A background statement containing our assessment and approach to the problem (see attached) would be made available to all interested agencies and become the basis for U. S. action bilaterally and in the UN, World Bank, IMF, C–20 "Development Council," OECD, EEC, and other relevant forums.

(2) These problems should be examined on a case-by-case basis, and the U. S. should resist pressures in multilateral forums for overall schemes and solutions requiring special country contributions. Within the U. S., we would proceed on the established course seeking Congressional approval on the multilateral and bilateral aid programs with decisions in July–August on the FY 75 P. L. 480 program.

(3) An interagency working group would be established to monitor the changing developments affecting the MSAs and to assure that a uniform U. S. position reflecting any necessary changes is maintained in the different international forums. The work of this group would be related to and affected by the OMB (Bridgewater) group on P. L. 480.

(4) Ray Sternfeld of the CIEP and Charles Cooper of NSC would discuss organization of the group, which would include representatives

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[1] Source: National Archives, RG 429, Records of the Council on International Economic Policy, 1971–77, Records of Executive Committee Meetings 1973–74, Box 252, File 53665, July 2, 1974 Meeting. No classification marking. Submitted by Flanigan to members of the Executive Committee on July 3. A copy was sent to Cooper and Maw.

of State, Treasury, Agriculture, CIA, AID, FEA, NSC, OMB, and CEA. Names should be submitted to the CIEP Executive Secretariat (Phone: 456-2937).

[Omitted here is summary material on the U.S. Position on Expropriation and MNCs in International Forums.]

Attachment[2]

Washington, July 2, 1974.

Background Statement

Problems of Developing Countries Most Seriously Affected (MSA) by Higher Petroleum and Other Prices

There are about 25 LDCs (see annex)[3] which do not appear to be able to offset the effects of higher petroleum and other prices on their economies (particularly their balance of payments) without substantial reductions in living standards and interruptions in their economic development. The most recent USG analysis concludes that the financing problem for these MSAs is $1.0 to $1.5 billion in 1974 and 1975, probably towards the bottom of the range for 1974 and towards the top of the range in 1975. The hard core problem is thus equal to less than 10 percent of the normal capital flows from developed to developing countries, but significant for some individual countries.

The U.S. approach to the MSA problems is as follows:

(1) The dimensions and timing of dealing with the problem appears manageable.

(2) A reduction in oil and other prices is of course the preferred means, but it is unrealistic to believe that a rollback to early 1973 levels will take place. However, this reinforces the need to sustain and increase pressures on the oil exporters to provide more assistance to the MSAs on concessional terms.

(3) Donors should utilize all viable channels for providing and coordinating assistance. While the UN has a role, the U.S. does not believe that the UN can be involved in the operational management of funds provided for this effort. We expect that the Joint Ministerial

[2] The attachment is marked "Draft."

[3] The annex, "LDCs Most Seriously Affected," is attached but not printed. The countries listed in it are: Bangladesh, Cameroon, Chile, Costa Rica, Honduras, India, Ivory Coast, Kenya, Pakistan, Senegal, South Vietnam, Sri Lanka, Tanzania, Uruguay, Botswana, Cambodia, Guyana, Lesotho, Chad, Mali, Mauritania, Niger, Upper Volta, Sudan, and Swaziland.

Committee of the IMF and World Bank—"International Development Council"—originally proposed by the LDCs will become the most effective coordinating body involving the developed countries, oil exporters, and the LDCs. As a first order of priority it has the MSA problem.

(4) The U.S. response will be primarily a case-by-case approach through established channels. To support this effort, it is seeking to obtain congressional approval on the pending multilateral and bilateral aid programs and by July–August will be in a position to decide the levels of P.L. 480 programs.

(5) Further analysis is necessary on other proposed international schemes, such as the sale by the IMF of gold on the private market with profits being made available for assistance to the MSAs.

(6) Given the fast changes in world prices and other developments there will be periodic reviews of the impact on the MSA problem.

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359. Memorandum of Conversation[1]

Paris, July 4, 1974, 8:30 p.m.

SUBJECT

Conversation following Dinner hosted by French Foreign Minister Jean Sauvagnargues

PARTICIPANTS

(See Guest List attached)

[Omitted here is discussion unrelated to oil.]

Secretary: We have told all the Arabs that we favor a dialogue with Europe.

Sauvagnargues: I know that. We wish to establish a working relationship with them.

Secretary: Why as a group?

Sauvagnargues: Because it is more efficient.

Puaux: We didn't want to just talk to the oil producers.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1030, Presidential/HAK Memcons, Memcons to Feb 8, 1975. Secret; Nodis. Drafted by Hartman. The list of attendees is not attached. The meeting was held at the Quai d'Orsay.

Secretary: We have to get a balance in the Arab world. We don't talk to Syria and Egypt together.

de Courcel: They wanted to talk to us together.

Secretary: All twenty of them?

Sauvagnargues: The real question is if the Arabs raise the price of oil again it will be cataclysmic—that is the only point that we will raise on oil. We will not discuss supply problems.

Secretary: There is no way we can approach the energy problem separately. The U.S. could easily pursue a separate policy. We can't settle those problems in the abstract. I can assure you that we will put no obstacle in the way. There is no conflict between us. We do not object to EC economic cooperation with the Arabs.

Sauvagnargues: What about the energy problem?

Secretary: On energy we had thought that the ECG was the best way to organize consumer cooperation. We are flexible on organization—that can be settled later. If the producers have a cartel, why should not the consumers cooperate.

Sauvagnargues: Don't you still want a producer-consumer conference?

Secretary: Who wants it?

Sauvagnargues: How can you contain rising prices?

Secretary: If you have a consumer organization it can agree on such things as consumption restraint and emergency sharing. If we have a better organized position, we can confront the problem of prices. What we need is a coordinated approach. The reason we are going ahead with bilateral cooperative programs is to give the Arabs something they might risk losing if they interfere with oil supplies again. If all the consumers work together, this will be more effective.

Sauvagnargues: We don't want a confrontation with the producers.

Secretary: Sooner or later we will have a confrontation. We can't continue to be ransomed by those weaker states who are promoting inflation in all our countries. Out of the 40 million Arabs only 3 states have efficient civil servants. We need concerted action so that we don't act like a disorganized rabble.

Sauvagnargues: Do you think you can handle the Saudis?

Secretary: We will try.

Sauvagnargues: If they produce more we can get a lower price.

Secretary: We have made a major effort to keep our companies from bidding in the auctions. It seemed to work in Kuwait.

Sauvagnargues: Do you want the ECG to continue?

Secretary: Whether the ECG continues is not important to us. We can create another group. What we need is continuing cooperation

among consumers. We have suggested the IEP[2] and we are prepared to make an effort to have France associated with this in some way.

Sauvagnargues: I am worried by this basic approach to consumer cooperation.

Secretary: What is the alternative?

Sauvagnargues: We should try to avoid confrontation.

Secretary: This is not confrontation. We want to put ourselves in a position where we can coordinate our resistance.

Sauvagnargues: But we are more vulnerable.

Secretary: What we are talking about is emergency sharing and R & D. You benefit from these. Europe has more to gain. It is a curious fact that the oil producers have not objected to this.

Sauvagnargues: You are the United States and you can afford to antagonize the Arabs.

Secretary: I can assure you that we did not wish to enter into this theological debate. We favor a united Europe but not one that would be in a constant confrontation with us. As I pointed out in Ottawa,[3] we cannot sign a document in blood and force people to consult. In fact, most of Europe is prepared to consult.

Sauvagnargues: At least eight of the nine.

Secretary: I was too diplomatic to say this.

Sauvagnargues: This has been a totally unnecessary quarrel.

Secretary: You might have said that this was a cunning U.S. effort to dominate European energy policy but it is an objective fact that it would not be in our interest. What the West showed in October was that most countries acted as if they were rabbits paralyzed by the snake. Who are the Saudis—there as only four or five of them who understand the problem. If France had called a conference in Paris after my London speech,[4] we would have agreed. This is a systemic problem. If you go back to the 1940's, we helped Europe grow stronger. We now wish for our own interest and Europe's interest to cooperate on energy. We are about to complete the first phase of the ECG work. We are flexible on locale and the American role. We can't accept that no action is possible because it might trigger an Arab response. What we want to do is strengthen the moderate Arab group.

Sauvagnargues: What we ought to try to do is to arrange for the procedure to be adapted to the substance of the problem.

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[2] See Document 352 and footnote 3, Document 355.

[3] The NATO Ministerial Meeting was held in Ottawa June 17–19.

[4] See Document 264.

Secretary: What we have suggested does not in any way preclude a European energy policy. In fact, we would welcome the formulation of such a policy.

Sauvagnargues: I have glanced through your IEP and find some good things in it, but I believe it goes too far.

Secretary: We are open-minded on timing.

Sauvagnargues: We have to remove the suspicions from this situation.

Secretary: What we need is a report by experts.

Sauvagnargues: We also have to talk about institutions.

Brossolette: There are many doubts about what the U.S. would do for Europe in an emergency situation. If there is pressure on your oil production, would the U.S. be willing to send oil to Europe?

Secretary: No one is proposing any pressure but what if the oil producers press us?

Brossolette: What do you think we should do?

Secretary: What we have to do is avoid the kind of panic situation we ran into last October. We have to develop cooperation among consumers. Our bilateral relations are improving with the Arab countries and we hope to use those relations to keep them from taking actions against us. We are also taking steps to keep the major oil companies out of the oil auctions. The Saudis seem to welcome these actions because it will help bring the prices down. The Integrated Emergency Program should be most effective against selective embargo. There is no way that we can replace the oil if there is a total embargo. All we can hope for is a feasible amount of sharing.

Sauvagnargues: Do you expect a new embargo?

Secretary: I think that the danger is minimal. What we should really fear are price rises. The Shah is trying to drive prices up.

Sauvagnargues: Yes.

[Omitted here is discussion unrelated to oil.]

360. Memorandum of Conversation[1]

Washington, July 9, 1974, 10 a.m.

PARTICIPANTS

President Nixon
William Simon, Secretary of the Treasury
Major General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

SUBJECT

Secretary Simon's Trip to the Middle East and Europe

The President: When do you go?

Secretary Simon: Thursday morning.[2] I am going to the principal countries. State now wants me to go to Abu Dhabi. Then I go to France, Germany, and London on oil prices.

The President: The NSC paper is wrong on Israel.[3] Tell them the train has left the station. Be very hard line. Listen but do nothing. I don't want any pandering to the Israelis.

With Egypt we must be forthcoming without raising expectations too high. We must explore what they want and need and how to implement their economic programs. Be forthcoming within our limited means . . . PL–480.

With Faisal, I have raised it privately, and you can, that the oil prices can't go on. We want to explore what might be done, but they can do little if the Shah holds up the prices. Kuwait the same.

With the Europeans, be cordial. We want economic cooperation, but we will jeopardize our military security program if we don't get economic cooperation. Find out what they want. They will figure you are coming with a bag full of money, which you aren't.

Speak glowingly to Sadat of our reception. He is coming here this fall. With Israel be firm.

Secretary Simon: I had thought of discussing this with the Finance Minister and Schmidt . . .

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1030, Presidential/HAK Memcons, Memcons to Feb 8, 1975. Secret; Nodis. The meeting occurred in the Oval Office.

[2] July 11. Simon stopped in Egypt (July 16), Israel (July 16–18), Saudi Arabia (July 18–21), Kuwait (July 21–22), Germany (July 22–23), France (July 23–24), United Kingdom (July 24–25), and Bermuda (July 25–27).

[3] Not further identified.

The President: Try to see D'Estaing. The Secretary of State is not the only one who should be able to see him. Also see Wilson.[4]

Secretary Simon: Those three are tentatively on my schedule. Schmidt is a good friend. I wanted to elicit some cooperation from them and the companies with respect to the auction. This is one approach—there are other more stringent things we could do.

The President: Who are you taking?

Secretary Simon: An assistant for monetary matters. Another assistant I will leave in Saudi Arabia to work things out.

The President: We usually have trouble getting specifics from them.

Secretary Simon: I can total the aid to $1.25 billion if they will restructure themselves adequately (from all sources).

The President: The new tune with the Arabs is Arab-American friendship. We haven't promised the moon but we want hard action.

Secretary Simon: Yamani spent the weekend with me. I told him they are strengthening their enemies—the high price now helps the others, not them.

The President: It gives us incentive to develop alternatives. Tell them Project Independence doesn't mean we don't care about them, but it is important now to get prices under some control.

Secretary Simon: I will try to get a commitment from them to put their funds in long and short term securities.

The President: When you talk about long term Israeli assistance, fuzz it up. It is ridiculous to give $6 billion to them and then a little dribble more to the Arabs, especially with the Israeli attitude on negotiations. You stay out of this, say we have a special relationship, but stay hard line and stay away from figures. Say that, of course, we are talking with the Arabs, but that is better for Israel too.

You are not going to Syria?

General Scowcroft: No.

The President: Tell the Arabs we are interested in the whole Arab world—we're not just tied to the Israelis. This oil thing is very touchy—getting prices down must be done very privately. Do it quietly, explain our situation and attitudes. Tell them we need a more healthy situation.

Secretary Simon: Is it possible to put pressure on the Shah?

The President: You're not going there?

Secretary Simon: No. We thought we would let them sweat a bit while the others get the goodies.

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[4] Prime Minister Harold Wilson of the United Kingdom.

The President: He is our best friend.

Secretary Simon: He is the ringleader on oil—with Venezuela. Otherwise the prices would be down.

The President: Let them know they have a friend here. The Kuwaitis, for example, would be welcome.

Secretary Simon: Should I informally extend an invitation on your behalf?

The President: Yes, say I would look forward to seeing them at a mutually convenient time.

Secretary Simon: Kuwait is large. If they cut production it could be tough. The Shah could be right behind. It could be the same as an embargo except that storage is full. With all the states with money and nowhere to spend it, the banks and financial markets are in trouble.

Oil prices have created great instability in the international financial markets.

The President: How about the stock market?

Secretary Simon: There is fear borrowing going on.

The President: Why?

Secretary Simon: They are afraid of future inconvertibility moves and interest hikes. I talked to Lasker last night.[5] The financial markets are close to panic. There are major corporations which are unable to borrow.

The President: What's the answer?

Secretary Simon: Mine is the same—fiscal policy. Demand restraint. Taxes cut.

The President: You shouldn't even talk taxes.

Secretary Simon: I am sure the budget is a fight. Social Security is growing at a horrendous rate. With this size budget we can find swings. Take $5 billion out of Social Security. Send a bill up, say government spending has gone on long enough. Send up five bills like that. The slippage in the budget is about $10 billion, so we may be looking at $315 rather than $305. It is getting very serious and now is the time to say this is it. And it is popular—it helped Giscard and Schmidt to win.

The President: I don't mind sending up cuts.

Secretary Simon: If you sent up nine or eleven cuts and let us go up to fight for them, at least you will have tried. The alternative is inflation—a tax on us all. In the last five years 65% of the budget is welfare. And the benefits compound each year. It wouldn't be easy.

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[5] Presumably a reference to Bernard Lasker, former Chairman of the Board of Governors of the New York Stock Exchange.

361. Memorandum of Conversation[1]

Washington, July 30, 1974, 3 p.m.

PARTICIPANTS

President Nixon
William Simon, Secretary of the Treasury
Kenneth Rush, Assistant to the President
Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

[Omitted here is discussion unrelated to Simon's trip.]

President: How long were you gone?

Simon: 11 days.[2]

President: How was it received.

Simon: Outstandingly. Even where I shouldn't have been, I was—Kuwait.

President: But they still will raise the oil prices.

Simon: I am not so sure. I met with Henry before and again today.[3]

Yamani gave us an Arabian party. He still has clout with the King. The King gave him 10 million riyals. The Arabs are acting like nouveaux riches.

[Omitted here is discussion unrelated to energy.]

In my meeting with Schmidt he is very concerned with overall stability. The oil prices are a problem everywhere. Faisal says he has gone as far as he can without our help. The Shah is threatening to cut production.

President: He is our good friend, but he is playing a hard game on oil.

Simon: Faisal asks our help with the Shah. There is an internal fight in Saudi Arabia between those who want price cuts and those who wish to keep production up. Faisal really wants our help with the Shah.

In discussions with other Ministers I said Saudi Arabia has probably 150 years of production left, where Iran has only 15 years. Maybe Iran will build its industry and then when the oil runs out, they can take you and get the oil back.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1029, Presidential/HAK Memcons, Memcons, 1 June–8 Aug 74. Secret; Nodis. The meeting occurred in the Oval Office.

[2] Simon's July 31 report to the President is ibid., Box 290, Agency Files, US Treasury, Vol. V, Jan 1974.

[3] According to Kissinger's Record of Schedule, he met with Simon July 30 from 9 to 9:05 a.m. No other record of this meeting has been found.

President: We have to see what we can do. I will have to meet and talk with the Shah.

Simon: The Shah has us. No one will confront him. The producer nations are locking in the consumers and keeping them away from us. Schmidt said: "If the prices don't move down, I have to move against the companies and deal with the producers myself." This issue will ultimately require strong action by the United States.

President: Like what? This should be developed. We need discussion with you, Ken, Henry and Brent. Keep it small.

Simon: It is a terrible problem. I was not thinking so much of energy as of balance of payments. I am worried about production cuts. Thank heavens I went to Kuwait. I played pingpong.

President: Who is the real leader? Sadat?

Simon: Yes. But there is something wrong with their thinking about wanting more and more without putting their house in order.

President: We want to go all out for Egypt. Push hard for all we can get.

You didn't go to Syria?

Simon: No.

President: Asad is impressive.

Simon: The least impressive were the Saudis. The Kuwaitis have maybe more potential than Egypt.

President: Tell me about Europe. He is worried about the banks.

Simon: He is overboard on that. Maybe the misfortune of the Herzbank(?) did some good; it evidences the situation.

With Giscard and Schmidt at the top, we have greater friendliness.

President: France will be better with Giscard.

Simon: We are making progress with them on gold. If it works out I would like to jump the gun on granting gold sales.

[Omitted here is discussion unrelated to energy.]

362. Memorandum of Conversation[1]

Washington, August 3, 1974, 10 a.m.

PARTICIPANTS

Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
William Simon, Secretary of the Treasury
Arthur Burns, Chairman, Federal Reserve Board
Robert S. Ingersoll, Deputy Secretary of State
Thomas Enders, Assistant Secretary of State for Economic and Business Affairs
Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

Kissinger: You [Simon] are saying the oil price situation is unmanageable?

Simon: Yes. It will also force a massive political realignment—you can assess whether that is good or bad for us. Europe is becoming dependent on the Arabs both for oil and for money.

Kissinger: You must also know there is a real chance for another Arab-Israeli war. Are the Saudis really prepared to cooperate in getting lower prices, and how far?

Simon: If production doesn't get cut, oil prices would drop by 30%. We would consider production cuts an unfriendly act, and for Iran, we could cut military supplies.

Kissinger: The first question is who would do the confronting—the U.S., or the U.S. and Europe and Japan?

The second question is what happens after this opening round. I think Iran would be supported by Algeria and many others. If the U.S. is alone, this certainly would be the case. Boumedienne certainly is psycho on oil prices, and if it's the U.S. alone, Algeria would mount a campaign. They would carry Syria with them. In effect, the Saudis would be isolated and I don't think they could or would stand up to it.

The Europeans and Japanese could support us, stay neutral, or pick up the pieces. The Europeans could supply the Iranians with hardware. The Saudis may be preparing an ultimatum on Israel. They want to be our sole supplier so they can squeeze us when they want.

My conclusion is we have to move with enormous care—we can take on the producers, at the right moment—to disassociate Israel from the oil problem. But it must be at a time when we can't be isolated and

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1029, Presidential/HAK Memcons, Memcons, 1 June–8 Aug 1974. Secret. The meeting occurred at the Department of State. All brackets are in the original.

it can't be linked with oil. We first need to get the consumers together. Then we can do some confronting—but it will only work if we are willing to use force.

I plan to tell Fahmy that we will not stand for another oil embargo.

If all this is correct, we need to get the Europeans together and share this with them. They first will be shocked, but I see no other way to go.

I, though, am prepared to talk privately to the Shah.

Simon: I agree with you, but I don't think the Europeans will go along. They would do either your second or third option. Schmidt told me he couldn't hold off much longer going bilaterally.

Kissinger: That makes it worse. If you are right, we don't have the strength to do it alone, against the Arabs, the Europeans, the Japanese, and in a possible Israeli crisis, the USSR. Of the things I have said, Schmidt would understand and support.

Simon: I wonder.

Burns: I think he would.

Kissinger: We have to be willing to threaten force. The British, maybe. The French—Giscard will probably agree intellectually and not cooperate.

Simon: I would put Schmidt in the same category.

Kissinger: Then you are saying we will fail.

Simon: I think we have to work with the Saudis—telling them hard out what we need.

Burns: I thought our strategy in February was good: (1) Conservation, (2) Project Independence; (3) cooperation with the consumers to put pressure on the producers. I see no movement.

We are heading toward economic disaster in the industrial world. Withholding arms from Iran won't help. Getting the consumers together would work. I think the Germans would go with us. We have a firm chance with the British. The French would drag their feet but might go along after all the others do. The Japanese, I don't know. Conservation should be pushed. The tax on gas has gone up everywhere but in this country. How about hanging a tax on exports to the producing countries by all of us—on all exports?

[Kissinger takes a phone call about an Israeli/Soviet incident in the Suez mineclearing area.]

Kissinger: The Soviets may be looking for a confrontation in the next crisis.

Burns: Shouldn't we get a token force into the area?

Kissinger: We have always made it a policy to react violently when provoked.

I think we should talk to the five big consumers. The question is will they come around fast enough to influence events?

And if we have to go it alone, we first must have tried with the consumers. We must meet with the consumers at a high political level—the finance and foreign ministers.

Simon: We could do it at the September meeting.[2]

Kissinger: How about Project Independence?

All: It is collapsing.

Kissinger: Project Independence is the one thing we can do unilaterally which matters.

Simon: I can do it if I have a mandate as committee chairman.

Kissinger: I will talk to Haig. It will give us leverage.

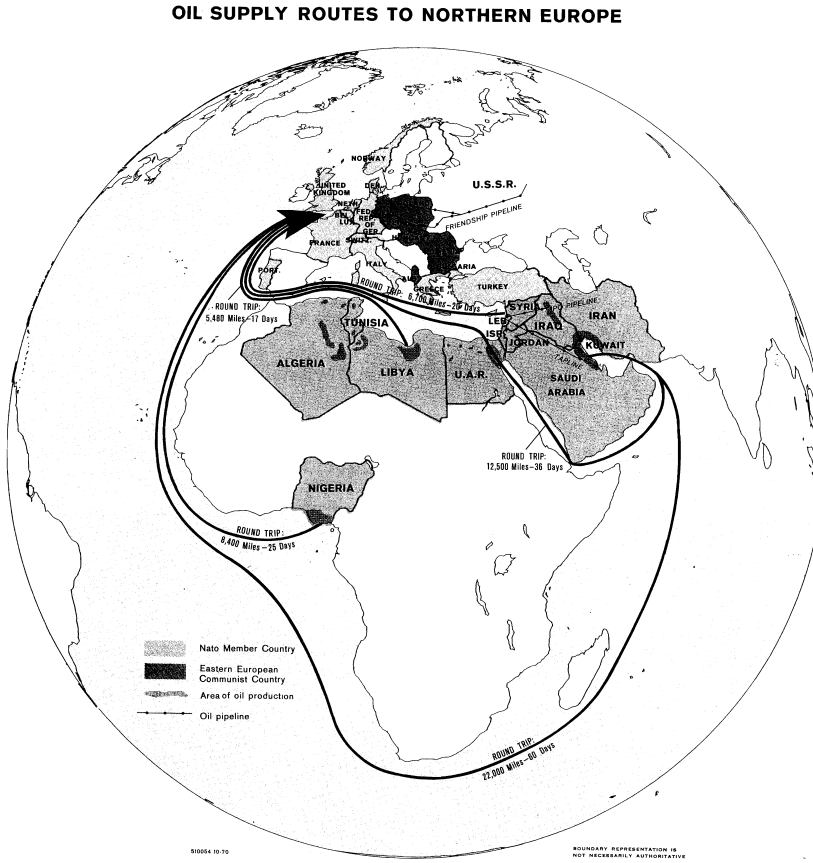
Enders: There are a number of things we can do. We can tell the companies to hold at 93%, or something fairly high, and gradually put the screws on. Having Aramco resist nationalization will help.

Ingersoll: We have to tell the companies they must risk their equities.

Enders: The other countries will pressure their companies to do the same.

[2] The ECG was scheduled to meet September 19–20 in Brussels.

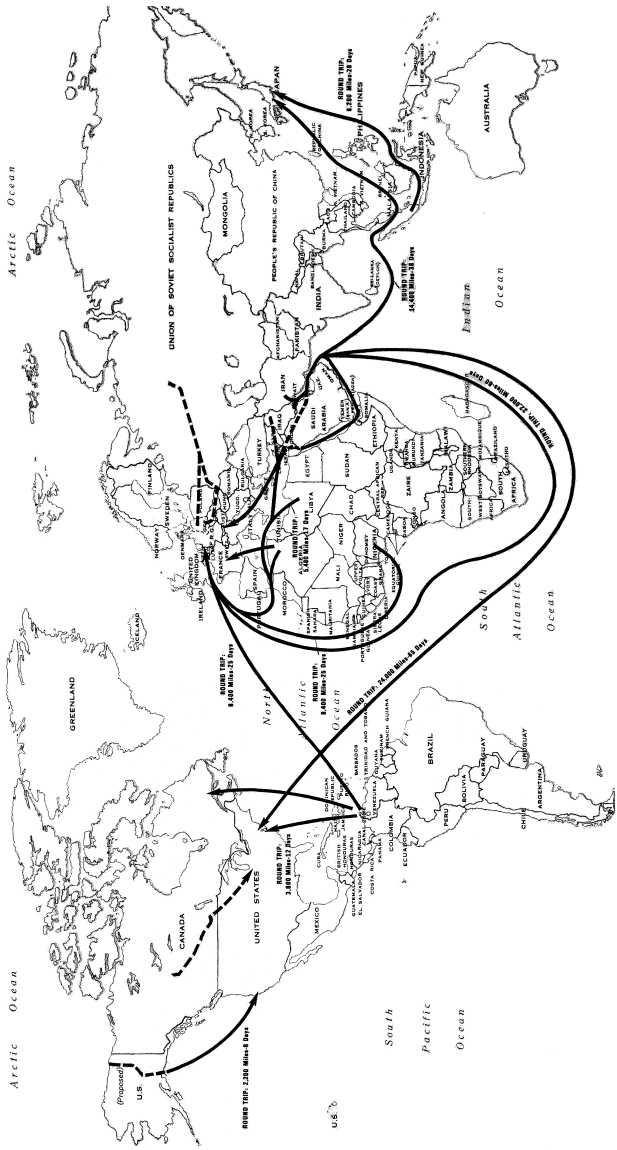
Appendix A[1]



[1] Attached to Document 61.

Appendix B[1]

Figure 5: Major Oil Trade Routes



[1] The map is attached to another copy of Document 185 in the Central Intelligence Agency, National Intelligence Council Files, Job 79–R01012A, Box 447.

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References are to document numbers